Sareum Holdings plc Annual Report and Accounts 2018

Advancing our partnered and proprietary programmes

Sareum

Validated business model

Sareum's small molecule drug discovery expertise generates value and revenues by developing novel drug candidates, focused on cancer and autoimmune diseases, and licensing them to pharmaceutical and biotechnology companies. This model was successfully validated by the 2016 licence of the Chk1 inhibitor SRA737 to Sierra Oncology, Inc.

Read about our progress with TYK2/ JAK1 on page 5

Highlights

Operational highlights

- Sierra Oncology (Sierra), the licence holder advancing clinical cancer candidate SRA737, discovered by Sareum and Cancer Research UK/Institute of Cancer Research, made strong progress with its clinical development programmes for the Chk1 inhibitor in patients with advanced cancer. Preliminary phase 2 clinical data is expected to be reported by Sierra in H1 2019.
  - Phase 1/2 monotherapy trial evaluating SRA737 in patients with tumours identified to have genetic aberrations hypothesised to confer sensitivity to Chk1 inhibition, was expanded to include 145 genetically defined patients and prioritised for ovarian cancer with the addition of a further 25 patients for this indication – Phase 2 cohort expansion underway.
  - Phase 1/2 study of SRA737 in combination with low-dose gemcitabine was modified to include 80 genetically defined patients in four cancer indications, with a target cohort of high-grade serous ovarian cancer patients replacing the originally proposed urothelial (bladder) cancer patients – Phase 2 cohort expansion underway.
  - Sierra noted its plans to initiate a Phase 1b/2 combination trial of SRA737 with the orally administered PARP inhibitor, niraparib, in prostate cancer patients. The trial is expected to start in the fourth quarter of 2018.
  - Sierra generated preclinical data providing evidence of synergy between SRA737 and immune checkpoint blockade and is currently designing a clinical study for this combination.
- Sareum made good progress advancing its internal TYK2/JAK1 inhibitor programmes in autoimmune diseases and cancer.
  - A potent, selective small molecule inhibitor of TYK2/JAK1, SDC-1801, has been selected for formal preclinical development as a potential treatment for autoimmune diseases.
  - Separately, a distinct selective TYK2/JAK1 inhibitor with a profile optimised for cancer – SDC-1802 – was also nominated for preclinical development as a potential treatment for certain types of leukaemia, lymphoma and solid tumours.
  - Both molecules demonstrate high selectivity for TYK2 and JAK1 kinases (particularly over related JAK2 and JAK3), compelling activity in relevant disease models, the potential for once-daily oral dosing and a good early safety profile.
- Sareum regained worldwide rights to preclinical-stage small molecule inhibitors of Aurora and FLT3 kinases that have shown potential in acute myeloid leukaemia (AML) and other haematological cancers.
  - The Company is seeking a licence partner for this programme while it concentrates its research resources on its TYK2/JAK1 preclinical development programmes.

Financial highlights

- Sareum raised £700,000 before expenses in November 2017 through a placement of 100,000,000 new ordinary shares at 0.7p per share to progress its drug development programmes as well as for working capital purposes.
- Loss on ordinary activities (after taxation) of £1.47 million (2017: profit of £400,000).
- Cash at bank as at 30 June 2018 was £1.38 million (£2.31 million as at 30 June 2017).

visit us online:
www.sareum.com

Our website provides comprehensive information about our business, including the latest news on our drug development programmes and investor information.

At a Glance

The year under review has seen important progress made by Sierra Oncology with SRA737 and internally with the nomination of lead candidates SDC-1801 and SDC-1802 from the Company's proprietary TYK2/JAK1 programme. This progress and the increasing visibility on clinical inflection points positions the Company well to generate value for shareholders.

What we do

Sareum is a specialist drug development company delivering targeted small molecule therapeutics, to improve the treatment of cancer and autoimmune diseases. The Company generates value through licensing its candidates to international pharmaceutical and biotechnology companies at the preclinical or early clinical trials stage.

Proprietary programmes

TYK2/JAK1 kinase, targeting autoimmune diseases and cancer

TYK2 and JAK1 are members of the Janus Kinase (JAK) family of protein kinase enzymes with important roles in maintaining a healthy immune system. Both kinases have well-documented roles in pro-inflammatory responses in autoimmune diseases and tumour cell proliferation in certain cancers. Members of the JAK family are the targets of several marketed and clinical-stage drugs in both disease areas, although there are currently no marketed products with specific selectivity for TYK2/JAK1.

Autoimmune diseases

Preclinical development candidate SDC-1801, demonstrates high selectivity for TYK2 and JAK1 kinases (particularly over related JAK2 and JAK3), compelling activity in disease models of psoriasis and rheumatoid arthritis, the potential for once-daily oral dosing and a good early safety profile. Closely related molecules, including SAR-20347, have also shown good activity in models of inflammatory bowel disease and systemic lupus erythematosus (lupus). These attributes strongly support the progression of SDC-1801 into preclinical development and, pending satisfactory progress, advancement into human clinical trials, which could begin in 2020.

Cancer and cancer immunotherapy

Preclinical development candidate SDC-1802 demonstrates high selectivity for TYK2 and JAK1 kinases (particularly over related JAK2 and JAK3). SDC-1802 shows compelling efficacy in blocking cancer cell proliferation in cellular and disease models of T-cell acute lymphoblastic leukaemia (T-ALL) and B-cell lymphoma, the potential for once-daily oral dosing and a good early safety profile. In addition, Sareum has generated encouraging evidence to suggest that these molecules can function as cancer immunotherapy by modulating the host's immune system to block tumour cell proliferation in disease models of certain kidney, colon, skin and pancreatic cancers. Sareum intends to progress SDC-1802 into preclinical development and, pending satisfactory progress, into human clinical trials which could begin in 2020.

Read more on page 5

Aurora+FLT3 kinase inhibitors, targeting AML and other blood cancers

Aurora+FLT3 kinase inhibitors target two mechanisms that are considered important in the progression of certain cancer types: Aurora kinase is involved in the control of tumour cell mitosis (cell division) and FLT3 kinase over-activation is the most common mutation in AML.

Sareum has developed small molecule inhibitors of Aurora and FLT3 kinases that have shown evidence of activity in preclinical models of acute myeloid leukaemia (AML) and other haematological cancers with good tolerance of the candidate drug at the predicted therapeutic dose and no significant side effects being seen.

Read more on page 9

Partnered programme

Chk1 kinase, targeting ovarian and other genetically defined cancers

SRA737 is a potent, highly selective, orally bioavailable small molecule inhibitor of Chk1, a key regulator of important cell cycle checkpoints and central mediator of the DNA Damage Response (DDR) network. SRA737 was developed by Sareum in collaboration with the Cancer Research UK funded organisations and licensed to Sierra in September 2016 for further development and commercialisation, with Sareum eligible to receive up to $90 million in up-front and milestone payments plus sales royalties.

SRA737 is being investigated by Sierra in a broad clinical development programme targeting cancer patients with genetically defined tumours, with a focus on those of the ovaries, that harbour genomic alterations linked to increased DNA replication stress and hypothesised to be more sensitive to Chk1 inhibition.

Read more on page 6

Drug development progress this year

Progress with Chk1 kinase

October 2017
Sierra Oncology reports preclinical data at an international cancer conference, demonstrating the synergy of Chk1 inhibitor SRA737 combined with low-dose gemcitabine in disease models of bladder, colorectal and bone cancers.

February 2018
Sierra Oncology presented a programme update for SRA737 noting that:

- the target enrolment for the two ongoing clinical trials has been expanded to 200 patients across ten genetically defined cancer indications;
- in the clinical trial of SRA737 as a monotherapy, it was well tolerated in doses up to 1,000mg daily;
- the cohort expansion phase 2 stage of the SRA737 monotherapy trial is enrolling genetically defined patients in six cancer types, including a new cohort, CCNE1-driven ovarian cancer;
- in the clinical trial of SRA737 in combination with low-dose gemcitabine, the combined regimen had been very well tolerated; and
- a phase 1a/2 clinical trial of SRA737 in combination with the PARP inhibitor niraparib, targeting prostate cancer, was planned for Q4 2018.

April 2018
Sierra Oncology presents two research posters at an international cancer conference. The first shows how SRA737 is effective in disease models of PARP inhibitor resistant and CCNE1-amplified ovarian cancers; the second demonstrates that SRA737 is effective in combination with the PARP inhibitor, niraparib, against ovarian and breast cancer cell lines.

May 2018
Sierra Oncology reports that it has started the cohort expansion phase of the phase 1/2 clinical trial of SRA737 in combination with low-dose gemcitabine.

August 2018
Sierra Oncology reported that the two ongoing clinical trials of SRA737 would prioritise patient recruitment to enrol approximately 85 genetically defined ovarian cancer patients.

See our full programme updates on page 6

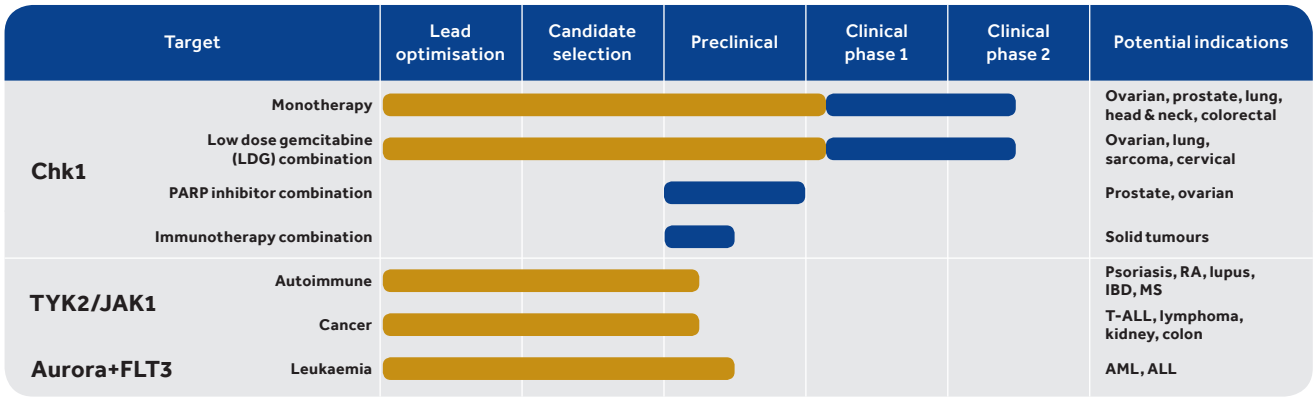
Progress with Sareum funded programmes

December 2018
Patents granted in Japan and China for Sareum's TYK2/JAK1 inhibitors.

May 2018
Sareum regains worldwide rights to its Aurora+FLT3 kinase inhibitors from Chinese collaborator Hebei Medical University Biomedical Engineering Center.

September 2018
Sareum selects TYK2/JAK1 inhibitor SDC-1801 as a preclinical development candidate for autoimmune diseases such as psoriasis, rheumatoid arthritis, inflammatory bowel disease and lupus.

Sareum selects TYK2/JAK1 inhibitor SDC-1802 as a preclinical development candidate as a targeted therapy for certain cancers, and as a cancer immunotherapy.



RA: Rheumatoid arthritis
IBD: Inflammatory bowel disease
MS: Multiple sclerosis

T-ALL: T-cell acute lymphoblastic leukaemia
AML: Acute myeloid leukaemia
ALL: Acute lymphoblastic leukaemia

Sareum development
Sierra

Chairman's Statement

"Our progress and increasing visibility on clinical inflection points positions the Company well to generate value for shareholders."

The year under review has seen important progress made by Sierra Oncology (Sierra) with SRA737, and internally with the nomination of preclinical development candidates SDC-1801 and SDC-1802 from the Company's proprietary TYK2/JAK1 programmes. This progress and the increasing visibility on clinical inflection points positions the Company well to generate value for shareholders.

The Directors are very pleased with the confidence, commitment and decisiveness Sierra is showing with SRA737 in expanding and adapting the clinical development programme based on cutting-edge science and emerging data.

Preliminary data is expected to be reported from both ongoing Phase 1/2 studies in the first half of 2019 – the SRA737 monotherapy study and the SRA737-low dose gemcitabine combination study – and a third clinical trial of SRA737 in combination with the PARP inhibitor niraparib is expected to start before the end of 2018.

Sierra remains well funded to deliver key clinical milestones with SRA737 through 2020, with $125 million cash (as at the end of June 2018).

Sareum is eligible to receive payments, which could total $88 million, plus sales royalties from the ongoing development and commercialisation of SRA737 as it advances over the coming years, and the progress reported provides added confidence to the Board that such payments will be forthcoming as milestones are achieved.

The progress of the internal and proprietary TYK2/JAK1 programmes is also very encouraging with distinct lead candidates being selected both for autoimmune diseases (SDC-1801) and cancer (SDC-1802). The potential of TYK2/JAK1 inhibitors as a treatment modality in these indications is gaining increasing clinical and commercial validation and the Board believes that the Company is entering these areas with strong candidates.

The Company is focusing its research resources on advancing these candidates through preclinical development and, pending the satisfactory progress, into human clinical trials, targeted for 2020. Our strategic goal is to generate compelling evidence for the potential of these candidates in their respective disease areas to facilitate a licensing agreement at an optimal value. In the meantime, we will continue discussions with potential licence partners for these exciting candidates.

With the clear focus on the development of SDC-1801 and SDC-1802, Sareum has decided it will commit no further funding to the Aurora+FLT3 programme and a licence partner is being sought. From a financial perspective, the Company continues to employ rigorous capital management in the development of its internal assets and its overall business.

Financial review

Sareum ended the year to 30 June 2018 with net assets of £1.6 million (2017: £2.3 million) of which £1.4 million (2017: £2.3 million) comprised cash at bank, including proceeds from a placement, which raised £700,000 before expenses in November 2017. Non-cash assets include £254,000 of R&D tax credit, which we would expect to receive as cash in Q1 2019.

Operating expenses for the period have increased to £1.7 million (2017: £1.4 million): this reflects increases in research expenditure on our TYK2/JAK1 autoimmune disease and cancer programmes.

The loss on ordinary activities (after taxation) was £1.5 million (2017: profit of £400,000), since no further milestone payments from Sierra Oncology were received during the period.

Outlook

The Directors are very pleased with the progress made across the Company's programmes during the period: with SRA737, Sierra Oncology continues to invest in the programme and expects to report preliminary clinical data and further programme expansion in the coming year; and internally, the Company expects to advance its lead candidates from the TYK2/JAK1 programme through formal preclinical development, targeting the first human trials in 2020.

The Company's strategic goal with its internal programmes is to generate compelling evidence for the potential of these candidates in their respective disease areas to facilitate a licensing agreement at an optimal value. The Directors will continue to review the potential higher value of a later-stage licensing deal versus the requirement for any extra funding.

Meanwhile, Sareum continues to engage with potential partners with a view to securing commercial licences for its proprietary assets, while exploring new research programmes from its in-house drug discovery platform, as well as external early stage opportunities that can be potentially in-licensed and progressed into the clinic.

From a financial perspective, the Company will continue to employ rigorous capital management in the development of its internal assets and its overall business.

Dr Stephen Parker
Chairman
28 September 2018

Spotlight on TYK2/JAK1

TYK2 and JAK1 are members of the Janus Kinase (JAK) family of protein kinase enzymes with important roles in maintaining a healthy immune system. Both kinases have well-documented roles in pro-inflammatory responses in autoimmune diseases and tumour cell proliferation in certain cancers. Members of the JAK family are the targets of several marketed and clinical-stage drugs in both disease areas, although there are currently no marketed products with specific selectivity for TYK2/JAK1.

Preclinical development candidate SDC-1801 selected for autoimmune diseases

The preclinical development candidate SDC-1801 was nominated from a novel series of compounds designed and identified by Sareum following a rigorous selection process.

SDC-1801 demonstrated high selectivity for TYK2 and JAK1 kinases (particularly over related JAK2 and JAK3), compelling activity in disease models of psoriasis and rheumatoid arthritis, the potential for once-daily oral dosing and a good early safety profile. Closely related molecules, including SAR-20347, have also shown good activity in models of inflammatory bowel disease and systemic lupus erythematosus (lupus). These attributes strongly support the progression of SDC-1801 into preclinical development and, pending satisfactory progress, advancement into human clinical trials, which could begin in 2020.

With SDC-1801, we have a strong candidate that exhibits potentially best-in-class features

The candidates are distinct small molecules with attractive and highly competitive profiles for development in their respective indications

Preclinical development candidate SDC-1802 selected for cancer and cancer immunotherapy

SDC-1802 shows compelling efficacy in blocking cancer cell proliferation in cellular and disease models of T-cell acute lymphoblastic leukaemia (T-ALL) and B-cell lymphoma, the potential for once-daily oral dosing and a good early safety profile. In addition, Sareum has generated encouraging evidence to suggest that these molecules can function as cancer immunotherapy by modulating the host's immune system to block tumour cell proliferation in disease models of certain kidney, colon, skin and pancreatic cancers.

Sareum intends to progress SDC-1802 into preclinical development and (pending satisfactory progress) into human clinical trials, which could begin in 2020.

"We are very pleased to have formally selected lead candidates from our TYK2/JAK1 inhibitor programme for both cancer and autoimmune diseases. The candidates are distinct small molecules with attractive and highly competitive profiles for development in their respective indications. Both candidates have produced exciting results in preclinical disease models and we believe present valuable opportunities for licensing and/or further development. Our focus is now to advance both candidates into clinical studies, which we anticipate beginning in 2020."

CEO's Statement

"TYK2 and JAK1 have emerged in recent years as important targets for new drugs with potential to treat a broad range of autoimmune diseases. This has naturally led to some serious interest from the major pharmaceutical companies, with several having their own clinical and preclinical programmes in this area."

Programme updates

SRA737 – selective checkpoint kinase 1 (Chk1) inhibitor (licensed to Sierra Oncology)

Sierra Oncology made strong progress with its clinical development programmes for SRA737 in patients with advanced cancer: ongoing trials were advanced, significantly expanded and re-prioritised for ovarian cancer based on emerging biological and clinical validation; and plans for combination studies with SRA737 and other treatment modalities were announced, aiming to broaden its clinical utility across cancer.

SRA737 is a potent, highly selective, orally bioavailable small molecule inhibitor of Chk1, a key regulator of important cell cycle checkpoints and central mediator of the DNA Damage Response (DDR) network. SRA737 was licensed to Sierra in September 2016 for development and commercialisation, with Sareum eligible to receive up to $90 million in up-front and milestone payments plus sales royalties.

SRA737 is being investigated by Sierra in a broad clinical development programme targeting cancer patients with genetically defined tumours that harbour genomic alterations linked to increased DNA replication stress and hypothesised to be more sensitive to Chk1 inhibition, with plans for additional clinical studies:

- SRA737-01 – a Phase 1/2 monotherapy trial evaluating SRA737 in genetically defined patients in six cancer indications and prioritised for ovarian cancer – Phase 2 cohort expansion is underway with preliminary data expected to be reported in the first half of 2019.
- SRA737-02 – a Phase 1/2 study of SRA737 in combination with low-dose gemcitabine in genetically defined patients in four cancer indications – Phase 2 cohort expansion is underway with preliminary data expected to be reported in the first half of 2019.
- SRA737-03 – a Phase 1b/2 combination trial of SRA737 with the orally administered PARP inhibitor, Zejula® (niraparib), in prostate cancer patients is expected to start in the fourth quarter of 2018.
- SRA737-04 – a programme to investigate potential synergy between SRA737 and immune checkpoint blockade is underway and a clinical study for this combination is being designed.

SRA737-01 – Phase 1/2 SRA737 monotherapy trial

Sierra made important progress with the SRA737-01 monotherapy study during the past 12 months and has adapted the design and focus of the study as new data provide a greater understanding of the opportunity as well as enhanced biological and clinical validation for the mechanism of action.

The dose-escalation Phase 1 study is complete with SRA737 found to be well tolerated at the selected dose. The cohort expansion Phase 2 portion is underway and enrolling genetically defined patients into indication-specific cohorts. Sierra announced, at an R&D update in February, that these Phase 2 cohorts would be expanded from eight to 20 patients across six cancer indications.

In its second quarter 2018 results update in August, Sierra further refined the study focus on high-grade serous ovarian cancer (HGSOC), supported by emerging data in the field that provides clinical validation for Chk1 inhibition in this indication. Accordingly, Sierra Oncology is prioritising the enrolment of approximately 65 genetically defined HGSOC patients into this trial (adding 25 more HGSOC patients), while continuing to enrol patients into the trial's other indications (total trial enrolment target of 145 patients).

The target indications are:

- high-grade serous ovarian cancer (HGSOC);
- CCNE1-driven HGSOC;
- castration-resistant prostate cancer (mCRPC);
- non-small cell lung cancer (NSCLC);
- head and neck squamous cell carcinoma (HNSCC) or squamous cell carcinoma of the anus (SCCA); and
- colorectal cancer (mCRC).

Sierra is also expanding the number of sites recruiting patients into the trial from three active sites (as of the third quarter of 2017) to a planned 15 active sites across the UK, to support its increased enrolment.

Owing to the amendments made to the Phase 2 portion of the study, Sierra expects to report preliminary clinical data in the first half of 2019 (previously fourth quarter of 2018).

$90M
eligible to receive up to $90M in up-front and milestone payments plus sales royalties

SRA737-02 – Phase 1/2 combination trial of SRA737 plus low dose Gemcitabine (LDG)

This trial aims to explore the effect of LDG (gemcitabine being a chemotherapy that causes replication stress and DNA damage) in potentiating the anti-tumour effect of SRA737 in patients with genetically profiled cancers. Preclinical data were presented at the AACR-NCI-EORTC congress in October 2017 supporting the principle of the combination study.

Sierra completed the Phase 1 dose-escalation phase of the study in the first half of 2018, with the SRA737+LDG combination being well tolerated. The Phase 2 cohort expansion portion is now underway. As with the monotherapy study, Sierra has expanded enrolment and prioritised recruitment for ovarian cancer. The cohort expansion phase is targeting enrolment of 80 genetically selected patients across four indications, including advanced or metastatic:

- HGSOC (replacing urothelial carcinoma);
- small cell lung cancer (SCLC);
- soft tissue sarcoma; and
- cervical/anogenital cancer.

Again, due to the amendments made to the Phase 2 part of the study, preliminary data is expected to be reported by Sierra in the first half of 2019 (previously fourth quarter of 2018).

SRA737-03 – Phase 1b/2 combination trial of SRA737 plus a PARP inhibitor

Sierra is also continuing to prepare for the planned initiation of a combination trial of SRA737 with the approved PARP inhibitor Zejula® niraparib, developed by US company Tesaro. PARP inhibitors prevent the repair of DNA damage and several have been approved as targeted treatments for cancer and other indications, including Lynparza® olaparib (AstraZeneca), Rubraca® rucaparib (Clovis Oncology) and Zejula®. Sierra presented preclinical data during its R&D update in February and in April, as a late-breaking abstract at the American Association of Cancer Research (AACR) Annual Meeting, supporting SRA737's synergistic activity in combination with a PARP inhibitor.

The multi-centre Phase 1b/2 study will evaluate this combination in subjects with metastatic castration-resistant prostate cancer (mCRPC) and is expected to initiate in the fourth quarter of 2018. The lead investigator is Professor Johann de Bono, a leading prostate cancer expert at The Institute of Cancer Research and The Royal Marsden NHS Foundation Trust in London.

SRA737-04 – combination of SRA737 with immuno-oncology agents

Sierra presented preclinical data in February providing evidence of biological synergy between SRA737 and immune checkpoint blockade, a breakthrough approach to cancer therapy that blocks the ability of the tumour cell to evade recognition and attack by the immune system. Sierra is investigating the potential of this combination approach, with further preclinical data expected to be presented in the first half of 2019, and is currently designing a clinical study.

Proprietary pipeline

Selective TYK2/JAK1 inhibitors in autoimmune diseases and cancer

Clear focus on advancement of distinct preclinical development candidates through preclinical development in autoimmune diseases and in cancer: strong candidates exhibit potentially best- and first-in-class properties, respectively, in these indications.

The majority of Sareum's focus during the period has been on undertaking the studies to enable the nomination of lead preclinical candidates from its TYK2/JAK1 programme (formerly described as the TYK2 programme) with distinct profiles optimised for development in autoimmune diseases and cancer.

TYK2 and JAK1 are members of the Janus Kinase (JAK) family of protein kinase enzymes with important roles in maintaining a healthy immune system. Both kinases have well-documented roles in pro-inflammatory responses in autoimmune diseases and tumour cell proliferation in certain cancers. Members of the JAK family are the targets of several marketed and clinical-stage drugs in both disease areas, although there are currently no marketed products with specific selectivity for TYK2/JAK1.

During September 2018, Sareum announced that it had nominated lead preclinical candidates from its programme in both autoimmune diseases and cancers. In each case, the candidates, known as SDC-1801 and SDC-1802, were selected from a novel series of compounds designed and identified by Sareum following a rigorous process, and that demonstrate potentially best- or first-in-class potential with the following characteristics:

2
phase 1/2 clinical trials in progress – prioritising ovarian cancer patients

CEO's Statement continued

Proprietary pipeline continued

Selective TYK2/JAK1 inhibitors in autoimmune diseases and cancer continued

- proprietary small molecules that are potent and selective for TYK2 and JAK1 kinases (avoiding JAK2 and JAK3, which have known negative side-effect issues);
- compelling activity in relevant disease models;
- suitable for once or twice daily oral dosing;
- good toxicological profile (in assays to date); and
- straightforward synthesis.

Sareum has prioritised its resources towards the development of these two candidates through preclinical studies towards first clinical studies, targeted for 2020. The Company is developing its TYK2/JAK1 programmes with the intention of generating compelling preclinical and potentially early clinical data, the basis of which will define the timing and future development and partnering strategy for these candidates.

Sareum has an ongoing co-development agreement with SRI International (Menlo Park, CA, USA) to develop TYK2/JAK1 inhibitors in autoimmune diseases and retains commercialisation rights for these and other TYK2/JAK1 inhibitors with profiles optimised for oncology and immuno-oncology applications.

SDC-1801 – autoimmune diseases

SDC-1801 will undergo a series of toxicology and other preclinical studies over the coming 12-18 months in preparation for first human clinical trials in healthy volunteers. The molecule has already shown compelling activity in disease models of psoriasis and rheumatoid arthritis, while closely related molecules (including a previously reported advanced lead, SAR-20347), have also shown good activity in models of inflammatory bowel disease and systemic lupus erythematosus (lupus).

Sareum believes SDC-1801 represents a strong candidate entering an area of increasing industry interest with substantial clinical validation. The Company's view has been formed based on the progress of molecules in clinical development by Bristol-Myers Squibb (BMS-986165; TYK2/JAK1 inhibitor) and Pfizer (PF-06700841; TYK2/JAK1 inhibitor) in psoriasis and other autoimmune diseases, which has been promising but also shown signals that suggest there is an opportunity for a molecule with best-in-class properties.

Furthermore, several licensing deals for preclinical and clinical-stage assets have been completed recently in the sector with highly attractive economic terms, such as:

- TD-1473 (a pan-JAK inhibitor) – licensed by Janssen from Theravance (2018) at the end of Phase 1 studies for $100 million cash up-front, up to $900 million in milestone payments, plus royalties.*
- Filgotinib (JAK1 inhibitor) – licensed by Gilead from Galapagos (2015) at the end of Phase 2 trials for $300 million cash and $425 million equity investment up-front, up to $1.350 million in milestone payments, plus 20%+ royalties.*
- Undisclosed TYK2/JAK1 inhibitor (plus other assets) – Celgene formed an alliance with Nimbus Therapeutics (2017) in preclinical stage for undisclosed up-front and milestone payments.

Approved products targeting the JAK family with blockbuster sales potential, despite warnings based on side effects related to JAK2/JAK3 activity, include:

- Xeljanz® tofacitinib (Pfizer) (JAK1/JAK3 inhibitor) – approved for rheumatoid and psoriatic arthritis and ulcerative colitis, with 2017 sales of $1.35 billion*, despite black box warnings for serious infections and lymphoma.
- Olumiant® baricitinib (Eli Lilly) (JAK1/JAK2 inhibitor) – approved from rheumatoid arthritis, with expected peak sales of approximately $1 billion*, but with black box warnings for serious infections, lymphoma and thrombosis.
- Jakafi® ruxolitinib (Incyte/Novartis) – approved for myelofibrosis and polycythemia vera (a type of blood cancer) with 2017 sales of $1.1 billion* despite warnings of infections and low blood cell counts.

The scale of the deals and sales delivered/forecast for these candidates and products targeting TYK2/JAK1 and related JAK family members gives Sareum confidence in the exciting, high value market opportunity for SDC-1801.

* Sources include company information and analyst consensus as reported in BioWorld "FDA approves Lilly and Incyte's baricitinib for second-line RA treatment" 4 June 2018.

SDC-1802 – cancer

As with SDC-1801, Sareum's lead candidate for cancer indications is set to undergo preclinical development in preparation for human clinical studies targeted for 2020.

In previous studies, Sareum has seen compelling activity of SDC-1802 and related molecules in disease models of:

- blood cancers dependent on TYK2/STAT pathway signalling – T-cell acute lymphoblastic leukaemia (T-ALL) and B-cell lymphoma;
- solid tumours dependent on TYK2/JAK1-dependent interleukin signalling – kidney and colon cancers; and
- solid tumours via local immune system modulation – kidney, colon, pancreas and skin cancers.

The Company's findings across all these indications are also supported by strong evidence in the literature.

Furthermore, the Company is continuing to study the effect of combining TYK2/JAK1 inhibition with immune checkpoint inhibitors and with chemotherapies, an area of considerable industry activity and potential value.

As noted above, Sareum retains commercialisation rights to SDC-1802 and other TYK2/JAK1 inhibitors optimised for oncology and immuno-oncology applications. SDC-1802 also has the potential to act as a back-up molecule for autoimmune indications.

Aurora+FLT3 inhibitors

Global rights regained to preclinical candidates and new licensing partner is being sought for further development.

Aurora+FLT3 kinase inhibitors target two mechanisms that are considered important in the progression of certain cancer types: Aurora kinase is involved in the control of tumour cell mitosis (cell division), and FLT3 kinase over-activation is the most common mutation in AML.

Sareum has developed small molecule inhibitors of Aurora and FLT3 kinases that have shown evidence of activity in preclinical models of acute myeloid leukaemia (AML) and other haematological cancers with good tolerance of the candidate drug at the predicted therapeutic dose, and no significant side effects being seen.

In May, the Company announced it had regained worldwide rights to these molecules from Hebei Medical University Biomedical Engineering Center (HMUBEC), a pharmaceutical R&D group based in China that has been conducting preclinical development activities.

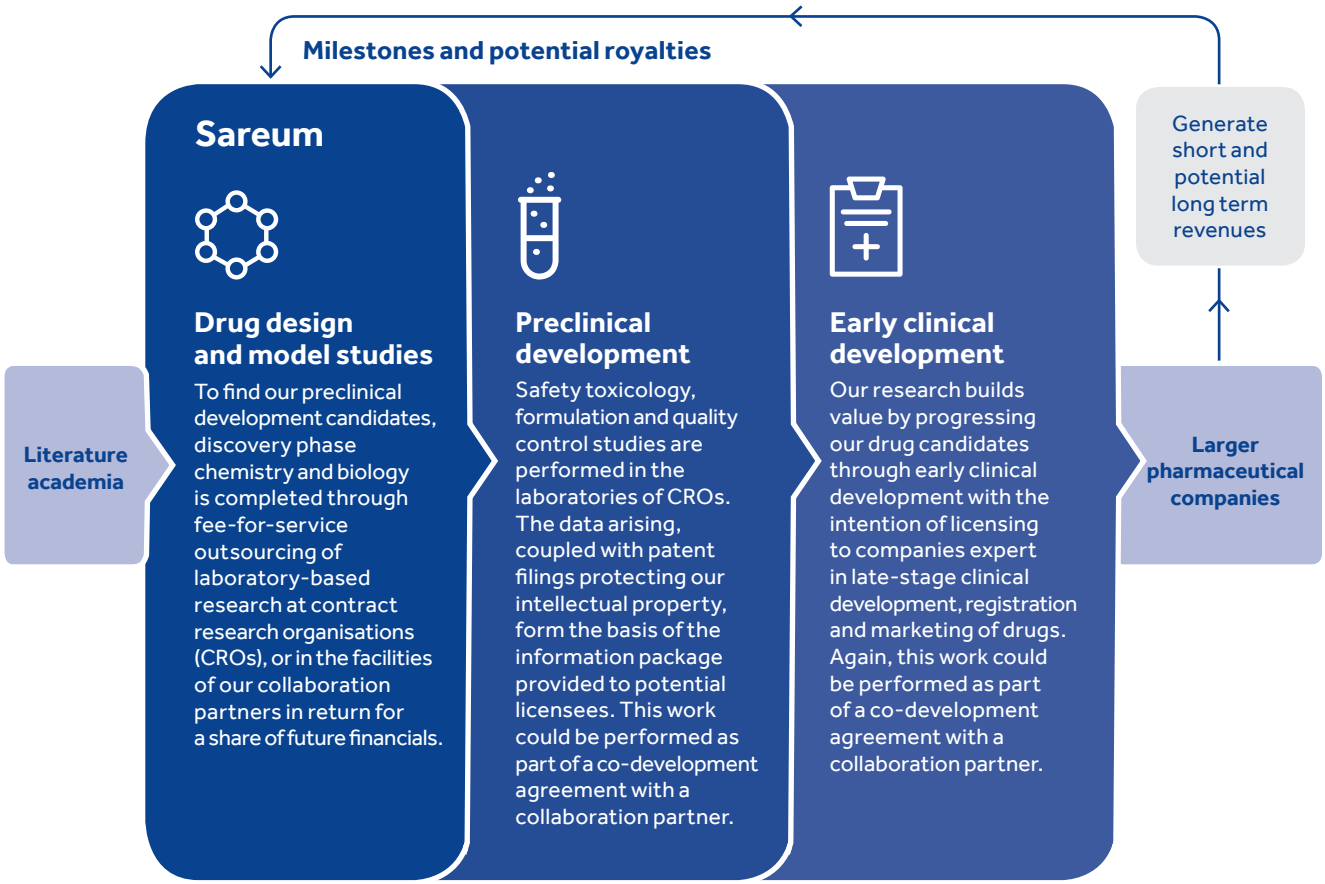
With the nomination of lead TYK2/JAK1 candidates, Sareum has decided to focus its resources on the development of these two candidates. The company will seek a licence partner for Aurora+FLT3 while it concentrates its resources on its preclinical development programmes.

Dr Tim Mitchell
Chief Executive Officer
28 September 2018

"Sareum believes SDC-1801 represents a strong candidate entering an area of increasing industry interest with substantial clinical validation."

Business Model

Sareum operates a lean business model to deliver the most productive return for our research spend. Our research builds value by progressing our drug candidates through early clinical development and generates revenues by licensing them to pharmaceutical company partners.



Our key strengths

Drug development expertise

The executive directors, Dr Tim Mitchell (CEO) and Dr John Reader (CSO) have over 50 years' drug development experience between them. This has been key in the development of potentially best in class drug candidates such as SRA737 and SDC-1801. Sareum's drug discovery platform, SKIL® (Sareum Kinase Inhibitor Library) has the ability to identify new compounds targeting kinases for use against cancer, autoimmune disease and other therapeutic areas.

Outsourced research model

Sareum operates an outsourced research model. Its laboratory-based research is undertaken via a worldwide network of collaborators and research providers. This reduces the high capital cost of running in-house laboratories, minimises ongoing development risks and provides access to best-in-class expertise for its programmes.

Co-development collaborations

Sareum's co-development collaborations with world-class research institutes provide access to expertise and the ability to progress several programmes simultaneously whilst reducing research costs. Typically, Sareum offsets a share of future licence income and ongoing royalties in exchange for research funding, use of facilities and access to expertise.

Our Markets

Sareum discovers and develops innovative drug candidates aimed at cancers and autoimmune diseases. Our drug development programmes aim to improve outcomes for patients with serious medical conditions and where current therapies are inadequate.

Licensing our products

Once we have established the efficacy and safety of our drug candidates in preclinical and early clinical studies, we seek to license the products to larger pharmaceutical and biotechnology companies.

These organisations are ideally suited to conduct the later-stage clinical trials and marketing activities required to successfully commercialise a drug. The licence deals typically include an up-front payment, milestone payments for successful achievement of specific clinical, regulatory and sales milestones, plus royalty payments on drug sales. Increasingly larger licence deal payments are achieved when drug candidates are licensed at later stages of their development.

Larger pharmaceutical companies seek in-licensing deals to strengthen their existing product portfolios. In-licensing can accelerate development timelines, fill gaps in development pipelines and enable access to novel products. Over half of the late-stage clinical pipeline compounds of pharmaceutical companies are now externally sourced.*

* McKinsey & Co, 2010.

Outlook

Chk1 licence partner Sierra Oncology expects to report preliminary phase 2 clinical data from the two ongoing clinical trials at an international cancer conference in H1 2019. In addition, it plans to initiate a third clinical trial in Q4 2018.

Internally, Sareum plans to advance SDC-1801 and SDC-1802, the two lead candidates from its TYK2/JAK1 programme, through preclinical studies, with the goal of conducting first clinical studies in 2020.

Our strategic goal

Our strategic goal is to generate compelling evidence for the potential of our drug candidates in their respective disease areas in order to facilitate licensing agreements at optimal value. Sareum continues to engage with potential partners with a view to securing commercial licences for its proprietary assets, while exploring new research programmes from its in-house drug discovery platform.

Our Strategy

Sareum's strategy is to develop novel, targeted drug candidates to late preclinical or early clinical stages before licensing these products to pharmaceutical company partners.

1 Pursue multiple programmes

- Increase potential success rate
- Mitigate development risk

2018 updates

Chk1 inhibitor SRA737 continues to progress through trials in two clinical scenarios targeting ten cancer types.

In the TYK2/JAK1 programme, two distinct lead candidates have been selected for preclinical development: SDC-1801 for autoimmune diseases and SDC-1802 for cancer and cancer immunotherapy.

Chk1 licence partner Sierra Oncology expects to initiate a third clinical trial in Q4 2018, and is investigating a fourth scenario (combination with cancer immunotherapy) in preclinical studies.

2019 objectives

Internally, we plan to progress SDC-1801 and SDC-1802 through preclinical studies during 2019.

2 Seek collaboration partners

- Spread financial cost and risk
- Access specialist development expertise

2018 updates

TYK2/JAK1 collaboration partner SRI International has been focusing on assessing Sareum's TYK2/JAK1 inhibitors in disease models of lupus and reported encouraging preliminary data in September 2017.

The collaboration with Hebei Medical University Biomedical Engineering Center on the Aurora+FLT3 programme was terminated in May 2018.

2019 objectives

We will continue to utilise the expertise at SRI International as required to progress the TYK2/JAK1 inhibitor programmes.

Key Performance Indicators (KPIs)

The Directors use the following KPIs as a measure of the Group's performance:

R&D spend

£1.04 million

2018	**£1.04 million**
2017	£1.00 million
2016	£0.89 million

Sareum undertakes research and development on its cancer and autoimmune disease programmes. The investment in R&D in 2018 showed a modest increase over the prior year, in line with management expectations.

3 Develop programmes to preclinical/early clinical development

- Minimise ongoing development risk
- Move up the value chain
- Potential for higher deal values

2018 updates

Chk1 inhibitor SRA737 continues to progress through phase 2 trials in two clinical scenarios targeting ten cancer types.

In the TYK2/JAK1 programme distinct lead candidates were selected both for autoimmune diseases (SDC-1801) and cancer/cancer immunotherapy (SDC-1802).

2019 objectives

Chk1 licence partner Sierra Oncology expects to report preliminary phase 2 clinical trial data at an international cancer conference in H1 2019.

Sareum plans to progress SDC-1801 and SDC-1802 through preclinical studies during 2019.

4 License drug candidates to pharmaceutical company partners

- Generate short and potential long term revenues through up-front and milestone payments and royalties
- Validate research and define value of assets
- Progress drug candidates through clinical development and commercialisation

2018 updates

Chk1 licence partner Sierra Oncology has made good progress with the clinical development of SRA737, towards the events that will trigger further milestone payments.

We continue our discussions on our TYK2/JAK1 and Aurora+FLT3 programmes with potential licence partners.

2019 objectives

We will continue to generate the data required to facilitate licence agreements at optimal value, and continue to engage with potential partners to secure these licence deals.

Profit/(loss) on ordinary activities

£(1.47) million

2018	**£(1.47) million**
2017	£0.40 million
2016	£(1.05) million

The Company's management aims to minimise Group overheads through a low cost base and a lean operating model. In contrast to last year, where a maiden profit resulted from payments received from the Chk1 licence agreement with Sierra Oncology, no further licence payments were received and thus a loss is reported for the period.

Cash at bank

£1.38 million

2018	**£1.38 million**
2017	£2.30 million
2016	£1.25 million

Sareum requires cash for working capital purposes and to advance its development programmes. The Company's low cost base ensures that funds are used in the most efficient way possible. In November 2017, a share placing raised £700,000 (before expenses).

Risk Management and Principal Risks

Principal risks and uncertainties

The Board has primary responsibility for ensuring the Group's risks are properly understood, quantified and appropriately managed, but it looks to the Audit Committee to provide assurance on risk management processes and controls. The Audit Committee and the Board review the Group's risk register. The actions proposed and taken by management to mitigate risk and to reduce the likelihood and impact of the risks faced by the business are considered regularly and are deemed satisfactory.

The principal risks and uncertainties of the business and how they are managed are set out in the table below.

Risk management

The Board has established a risk register relating to the Company's business. At least twice a year, it meets to consider the appropriateness of the risks identified and the mitigating action taken by management on a risk by risk basis focusing on those deemed most critical.

Risk management framework

Risk	Description and mitigation	Risk change	Link to strategy
Financial	The principal financial risks are the ability to raise sufficient funds to support the Company through to profitability and failure to secure licensing agreements. The Company's low cost base ensures that funds are used in the most efficient way. Sareum has historically raised the majority of its funds from investors largely from the private client broker and wealth management networks and this continues to be an option. The Chk1 licence deal demonstrates the ability for licence deals to be achieved.	— No change in risk.	1, 2, 3, 4
Research and development	There are a number of risks in developing drug candidates due to a long and complex development process. Any programme must undergo extensive research to get to preclinical or clinical stage. This process takes several years and is very costly. R&D programmes can fail at any point. We undertake extensive early research and create a dossier of information that enables us and our advisers to evaluate the potential of a candidate before we seek to progress to preclinical or clinical phases. We also seek collaboration partners whose own due diligence reaffirms our assessment of a candidate's potential.	↓ We believe that the progression of SRA737 into phase 2 studies and the progression of SDC-1801 and SDC-1802 into preclinical development have decreased our R&D risk.	1, 2, 3, 4

Key: Risk has decreased | Risk has increased | No change in risk

Risk	Description and mitigation	Risk change	Link to strategy
Intellectual property	Our ability to stop others exploiting our intellectual property, without first obtaining a licence, is critical to our long term success. Therefore, we file patent applications in the patent offices of the major commercial territories. To obtain patent protection, our inventions must be considered novel, inventive and useful. However, some, or all, of the patent offices may reject or seek to modify our patent applications. Intellectual property protection is fundamental to our strategy of developing novel drug candidates and underpins our R&D programmes and we invest appropriately in this area. We are exploiting our SKIL platform, which already has a strong patent position through a number of granted and pending applications. IP considerations form a crucial part of due diligence when we are assessing in-licensing opportunities.	No change in risk.	**1, 3, 4**
Collaboration	Working with third parties carries a risk of loss of control on progress and can lead to research delays. This can increase Sareum's own financial commitment as a result of continued spend on fixed costs during a delay and potential additional financial contributions required in order to progress a programme. We work closely with our partners to anticipate and plan around any likely delays. Collaboration contracts clearly outline responsibilities and key milestones as well as cost, licensing and revenue sharing.	We believe termination of the co-development agreement with HMUBEC on the Aurora+FLT3 programme reduces the risks associated with collaboration.	**1, 2**
Competition	There always remains the possibility that a similar drug is being developed by a competitor that demonstrates greater efficacy or a better safety profile. Alternatively, a similar drug in development may conclude a licensing deal or reach a later stage of development before we are able to, thus reducing the likelihood of Sareum securing a licensing agreement. The management and advisory boards gather as much information as possible on competitive products and programmes. Progress and key milestones are monitored to understand how these may affect our own programmes. Sareum also pursues more than one development programme in order to mitigate the overall risk to the Company.	We believe there is a decreased risk from competition since Genentech has ceased further development of its Chk1 inhibitor, GDC-0575. Also, BMS and Pfizer have recently presented clinical data on their TYK2 and TYK2/JAK1 inhibitors, indicating that there are opportunities for a best-in-class product.	**1, 3, 4**

Governance

Directors and Company Information

Stephen Parker DPhil
Non-executive Chairman

Key Skills
Dr Stephen Parker, aged 60, has a career in the healthcare and pharma sector that spans over 30 years, including 10 years in the City in advisory roles. He has sector corporate finance experience having been an investment banker focusing on pharma and biotechnology with Barings, Warburg and Apax Partners and has previously held roles as a partner at Celtic Pharma and Chief Financial Officer of Oxford GlycoSciences. Stephen is also currently a non-executive director at Silence Therapeutics plc.

Committee Responsibilities
Audit & Risk, Remuneration

Other appointments
Stephen is a non-executive director of Silence Therapeutics plc and a director of Sp2 Consulting Limited.

Tim Mitchell PhD
Founder and CEO

Key Skills
Dr Tim Mitchell, aged 58, has over 30 years' experience in the industry with key management and business expertise gained from his positions at Cambridge Discovery Chemistry Ltd and his roles at Millennium Pharmaceuticals Research and Development Ltd as a member of the management team and in forming the integrated Structure-Based Discovery department. As Director of the Millennium Structure-Based Discovery department, Tim was responsible for global provision of protein structure and high throughput chemical synthesis for Millennium as well as for local computational chemistry, informatics and automation capabilities. Prior to that, he was Director of Computational Chemistry at Cambridge Discovery Chemistry Ltd and a team leader in the Computational and Structural Sciences department at SmithKline Beecham Pharmaceuticals. Tim has a PhD in computational chemistry and a BSc in chemistry.

Committee Responsibilities
Audit and Risk

Other appointments
None

John Reader PhD
Founder and CSO

Key Skills
Dr John Reader, aged 51, has over 25 years' experience within the industry and was formerly Associate Director, Chemical Technologies at Millennium Pharmaceuticals Research and Development Ltd, prior to which he worked with Pharmacopeia Inc. and Cambridge Discovery Chemistry Ltd in the provision of high throughput chemistry services to external and internal clients. John has extensive experience of leading large research teams and in the invention and application of new technologies to the drug discovery process, with an excellent track record of delivering successful projects to clients and has authored or co-authored many patents and publications. The majority of patents granted to John cover composition of matter discovered in the multiple projects in which he has worked, with further patents covering technological innovations in the field. John is a member of the EPSRC Peer Review College and has a PhD in chemistry and a BSc in applied chemistry.

Responsibilities
None

Other appointments
None

Directors:
T Mitchell PhD
J Reader PhD
S Parker DPhil

Secretary:
T Bunn FCMA

Registered office:
Unit 2a, Langford Arch
London Road
Pampisford
Cambridge
Cambridgeshire
CB22 3FX

Registered number:
05147578 (England and Wales)

Auditor:
Shipleys LLP
Chartered Accountants
and Statutory Auditors
10 Orange Street
Haymarket
London
WC2H 7DQ

Group Strategic Report

for the Year Ended 30 June 2018

The Directors present their strategic report of the Company and the Group for the year ended 30 June 2018.

Principal activities

The principal activities of the Company in the year under review were those of a holding company. The principal activity of the Group is the discovery and development of new therapeutic drugs by a combination of skills in biology, computational chemistry and medicinal chemistry.

Review of business

The loss for the year was £1,469,521 and at 30 June 2018 cash and cash equivalents amounted to £1,375,275.

The Group raised a total of £700,000, before expenses, by way of a placing in November 2017. The funds raised will be used to progress the Group's drug development programmes as well as for working capital purposes.

Throughout the period under review the Group continued to develop its drug discovery programmes using outsourced biology and chemistry resources as well as exploring commercial opportunities with potential partners. In the future the Group will continue to build value from its in-house research and development by seeking to advance and commercialise its drug discovery programmes.

In 2016 the Group announced that its co-investment partner, the CRT Pioneer Fund, had licensed the rights to the Chk1 project to Sierra Oncology, Inc. Under the terms of the agreement an up-front payment of US$7.0 million and an additional fee of US$2.0 million (following the successful transfer of the two ongoing phase 1 clinical trials to Sierra) were received by the co-investment partner. Additional payments of up to US$319.5 million may become payable upon achievement of certain milestones and Sierra will pay royalties on the net sales of any product successfully developed. Sareum is entitled to receive 27.5% of these payments.

Principal risks and uncertainties

The principal risks facing the Group are the following:

- the drug discovery programmes undertaken may fail due to fundamental scientific uncertainty;
- the Group may not complete sufficient commercial partnerships to create a sustainable business; and
- it may not be possible to raise sufficient funding to support the Company through to sustained profitability.

The Directors acknowledge that there is uncertainty concerning the outcome of the UK's negotiations to exit the EU but do not currently consider that this represents a significant risk to the Group's prospects.

The Directors address these uncertainties by reviewing reports on scientific progress, business development and financial status at the monthly Board meetings and implementing alternative plans to reduce the risks if these are considered necessary.

Key performance indicators

The Directors consider cash and spending on research and development to be the Group's key performance indicators. A budget is approved by the Board at the beginning of each financial year and performance is regularly monitored against budget with significant variances investigated.

Future outlook

The Group will continue to progress its development programmes and, in particular, the TYK2/JAK1 cancer and autoimmune projects will be advanced through preclinical development into phase 1 clinical trials. The TYK2/JAK1 inhibitor, targeting autoimmune diseases, is being progressed in conjunction with SRI International. The Company does not intend to invest further in its Aurora + FLT3 programme. Commercially, significant licensing deals will be sought to realise the high value inherent in the Group's technology.

On behalf of the Board:

T Bunn FCMA
Secretary
28 September 2018

Report of the Directors
for the Year Ended 30 June 2018

The Directors present their report with the financial statements of the Company and the Group for the year ended 30 June 2018.

Directors
The Directors shown below have held office during the whole of the period from 1 July 2017 to the date of this report.

T Mitchell PhD

J Reader PhD

S Parker DPhil

Dividends
No dividends will be distributed for the year ended 30 June 2018.

Research and development
The Group undertakes research and development on its cancer research programmes. The costs relating to this, which have been written off during the year, amounted to £1,035,708 (2017: £1,002,342).

Financial instruments
Details regarding the Group's use of financial instruments and their associated risks are given in note 16 to the consolidated financial statements.

Statement of Directors' responsibilities
The Directors are responsible for preparing the Group Strategic report, the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions.

Statement as to disclosure of information to auditor
So far as the Directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Group's auditor is unaware, and each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

On behalf of the Board:

T Bunn FCMA
Secretary
28 September 2018

Corporate Governance Report

Introduction

The new Quoted Companies Alliance Corporate Governance Code (QCA Code) makes clear it is the prime responsibility of the Chairman to ensure the Company applies the QCA Code to the best advantage of all stakeholders.

Sareum Holdings plc is an established operation with a clear business model and growth strategy. Our objective is to deliver targeted small molecule therapeutics to treat cancer and autoimmune diseases. We seek to build value through licensing its candidates to international pharmaceutical and biotechnology companies at the preclinical or early clinical trials stage. Applying the appropriate corporate governance practices can only help achieve our goals.

A requirement of the Code is to highlight any areas where we are not in compliance and to provide our reasons why not.

The first area of non-compliance is that Dr Stephen Parker, Non-executive Chairman, is a beneficiary under the Company's share option scheme.

Participation by Non-executive Directors in share-based incentive arrangements, while against the provisions of the Code, is common for companies with shares quoted on AIM. Stephen provides the Company with a wealth of industry and corporate finance experience. His participation in the share option scheme provides him with upside at no cash cost to the Company as the value of the Company increases.

The arrangement suits the Company and Stephen and we do not currently intend to amend this arrangement.

The second area of non-compliance is that Board Committees currently, in one case, include an Executive Director and, in another, comprise a sole Non-executive Director.

Dr Stephen Parker, Non-executive Chairman, is the Remuneration Committee, with Stephen having no say on his own arrangements. Where contentious issues arise, the Chairman involves both the Company's NOMAD and broker in order to ensure both compliance and a market-responsive outcome.

Dr Tim Mitchell, CEO, is a member of the Audit and Risk Committee. Sareum Holdings plc is a small company with only one Non-executive Director (the Chairman) and two Executive Directors (the CEO and CSO). To form workable committees of three or more there has to be some deviation from the Code, unless we are to incur the cost of extra Non-executive Directors purely to achieve compliance. The Company is, however, actively seeking to increase its Board size, seeking, in particular, to gain a Chairman of the Audit and Risk Committee.

We trust that the results of our efforts to date provide stakeholders with access to the information they need and the confidence that the Board holds corporate governance compliance in the highest regard.

Dr Stephen Parker
Non-executive Chairman

Principle 1 – Establish a strategy and business model which promote long term value for shareholders

Our goals:

As a public company we are focused on delivering value for our shareholders as well as new medicines to treat patients with unmet medical needs.

Our goals are to build value by progressing our research programmes through early clinical development and generate revenues by licensing them to pharmaceutical company partners.

Vision:

The Company's vision is, over the longer term, to build a rich pipeline of clinical-stage medicines with licence deals that produce self-sustaining revenues. Such medicines could have been discovered in house or be in-licensed.

Purpose:

The Company exists to discover and develop innovative drug candidates as new therapies for cancers and autoimmune diseases. Our drug development programmes aim to improve outcomes for patients with serious medical conditions and where current therapies are inadequate.

Strategy:

Our strategy is to develop programmes to the early clinical stages to take advantage of the higher asset values associated with licensing programmes at these stages, but without us incurring the cost and risk of conducting late-stage clinical trials.

By achieving the above, we fully expect to increase shareholder value.

For our approach to strategy and the benefits of our strategic priorities, please see Our Strategy on pages 12 and 13 of this Annual Report.

For key challenges and how they will be addressed, please see Risk Management and Principal Risks on pages 14 and 15 of this Annual Report.

Principle 2 – Seek to understand and meet shareholder needs and expectations

Sareum is committed to open communication with all its shareholders.

Copies of the Annual Report and Accounts are issued to all shareholders who have requested them and copies are available on Sareum's website (www.sareum.com). Our interim results are also made available on the Company's website. We make full use of our website to provide information to shareholders and other interested parties.

Shareholders are given the opportunity to raise questions at the Annual General Meeting and the Directors are available after the meeting for further discussion with shareholders. In compliance with best practice, the numbers of proxy votes (for, against and vote withheld) lodged on each resolution will be declared at all future general meetings and subsequently announced.

The CEO is primarily responsible for updating the market with developments. Meetings via the Company's broker are offered to investment institutions and private client brokers to discuss progress and financial performance immediately after the full year and interim results announcements. All the Directors are available for these meetings if requested. Feedback from these meetings is requested by the broker and provided to the Board to ensure the Directors have a balanced understanding of the issues and concerns of current and potential future shareholders. This feedback is discussed at subsequent Board meetings and actions are taken as appropriate. Trading updates and press releases are issued as appropriate. Sareum also uses its Twitter account, @sareumplc, to share non-price-sensitive information related to its research and other activities to interested parties.

Principle 3 – Take into account wider stakeholder and social responsibilities and their implications for long term success

The Company regards its shareholders, employees, collaborators, potential licence partners, suppliers and advisers as its key stakeholders.

Management prioritises its relationships with collaborators and suppliers and effort is directed to ensuring they are managed appropriately. Regular reviews are undertaken to ensure any issues are addressed promptly.

The Executive Directors are in regular dialogue with collaborators and potential licence partners regarding the data requirements for a drug licence package. Feedback from these discussions is fed into future development plans as part of an ongoing process.

The Company's internal stakeholders are its employees. The Group is committed to employment policies which follow best practice, based on equal opportunities for all employees, irrespective of sex, gender reassignment, race, disability, sexual orientation, pregnancy and/or maternity, marital or civil partner status, religion or belief or age.

Principle 4 – Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Board has established a risk register relating to the Company's business. At least twice a year, it meets to consider the appropriateness of the risks identified and the mitigating action taken by management on a risk by risk basis focusing on those deemed most critical.

For further details of the Company's approach to risk and its management, please refer to the Principal risks section of the Strategic report and to the Report of the independent auditor in the Governance section of this Annual Report and Accounts as well as those detailed in Principle 1 of this corporate governance statement.

Principle 5 – Maintain the Board as a well-functioning, balanced team led by the Chair

The Board, chaired by Dr Stephen Parker, comprises two Executive Directors and one Non-executive Director and is supported by the Company Secretary. It oversees and implements the Company's corporate governance programme. As Chairman, Stephen is responsible for the Company's approach to corporate governance and the application of the principles of the QCA Code. Dr Stephen Parker is currently the Company's sole independent Director.

Further details pertaining to the Board and the roles carried out by each member are set out in the Governance section of the Annual Report and Accounts.

Each Board member commits sufficient time to fulfil their duties and obligations to the Board and the Company. They attend monthly Board meetings and join ad hoc Board calls and offer availability for consultation when needed.

Detailed Board packs include information on business, technical and financial performance and are circulated ahead of Board meetings. Key issues are highlighted and explained, providing Board members with sufficient information to enable a relevant discussion in the Board meeting.

The Board is supported by its Audit Committee and its Remuneration Committee. The number of Board and Committee meetings held throughout the course of the financial year and further details of these Committees are set out in the Governance section of the Annual Report and Accounts.

The attendance record of Board members at Board meetings during the last year is as follows:

Dr Stephen Parker	11/11
Dr Tim Mitchell	11/11
Dr John Reader	11/11

Principle 6 – Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities

The Governance report included in this Annual Report and Accounts identifies each member of the Board and describes the relevant experience, skills and qualities they bring. The Chairman believes that, as a whole, the Board has a suitable mix of skills and competencies covering all essential disciplines bringing a balanced perspective that is beneficial both strategically and operationally and will enable the Company to deliver its strategy. The Company is, however, looking to build on those skills through selective appointments.

The Board consists of two Executive Directors and one Non-executive Director, ranging in age from 51 to 60 years old. The biographies of the Directors can be obtained from the Company's website at www.sareum.com/about-us/management.

The nature of the Company's business requires the directors to keep their skillset up to date. The Directors attend training courses and conferences as appropriate in order to do this.

In addition to the support provided by the Company's retained professional advisers (Nomad, broker, investor relations, lawyers, auditor), external consultants have been engaged to advise on a number of matters including research and development strategy and intellectual property management.

Principle 7 – Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

Board performance effectiveness process

The assessment of the Board's performance has to date been largely focused on the achievement of the Company's strategic and financial objectives.

Corporate Governance Report continued

Principle 7 – Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement continued

Board performance effectiveness process continued

Each Executive Board member is subject to an annual review by the Remuneration Committee based on the performance of the Group as a whole and their personal contribution. The outcome of these reviews feeds directly into the award of salary increases, bonuses and share options. It is proposed that the Company also adopts annual evaluation for Non-executive Director performance, although there is no current intention that such Non-executive Directors receive regular bonus payments.

The performance of the Board as a whole may be judged in part by the attainment of financial measures including profit/loss for the year, research and development expenditure and cash at bank.

Succession planning and Board appointments

The Board meets as and when necessary to consider the appointment of new Executive and Non-executive Directors and the Board takes responsibility for succession planning. Board members all have appropriate notice periods so that if a Board member indicates his/her intention to step down, there is sufficient time to appoint a replacement, whether internal or external.

Each Director is required to offer themselves for re-election at least once every three years as per the Company's Articles of Association. The CEO and CSO are currently the longest serving Board members, having been appointed in 2004.

Board appointments are made after consultation with advisers including the Nomad who undertakes due diligence on all new potential Board candidates.

Principle 8 – Promote a corporate culture that is based on ethical values and behaviours

Sareum is a small, motivated team of professional people who operate to high standards. These standards include a commitment to best practice in meeting the Company's social responsibilities.

The Company is committed to employment policies which follow best practice, based on equal opportunities for all employees, irrespective of sex, gender reassignment, race, disability, sexual orientation, pregnancy and/or maternity, marital or civil partner status, religion or belief or age.

In line with best practice, health and safety matters are discussed at each Board meeting. The Company's environment and health and safety policies are as follows:

Environment

Sareum disposes of its waste products using reputable agents. The Company's landlord provides these agents to enable it to recycle its waste as appropriate.

Health and safety

The Company is proactive in considering the safety of staff, visitors and the public. It has had no notifiable safety incidents during the year and no working days were lost due to accidents.

Principle 9 – Maintain governance structures and processes that are fit for purpose and support good decision making by the Board

The Executive members of the Board have overall responsibility for managing the day-to-day operations of the Company and the Board as a whole is responsible for monitoring performance against the Company's goals and objectives. The Chairman chairs the meeting, business and operational, technical and financial reports are provided by the CEO, CSO and Company Secretary respectively, discussed by the Board and actions, as appropriate, are minuted and taken. Decisions concerning the day-to-day running of the Company are taken by the Executive team (and reported to the Board as appropriate), whilst decisions regarding strategic matters are taken at Board level. The Corporate governance report in this Annual Report and Accounts sets outs individual Board members' specific responsibilities.

The roles of the Audit and Risk Committee and the Remuneration and Nomination Committees are set out in the Corporate governance section of the Company's website at www.sareum.com/investors/corporate-governance as well as in the Corporate governance report in this Annual Report and Accounts. The appropriateness of the Company's governance structures will be reviewed as the Company evolves.

Principle 10 – Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

The Company maintains a regular dialogue with stakeholders including shareholders to enable interested parties to make informed decisions about the Company and its performance. The Board believes that transparency in its dealings offers a level of comfort to stakeholders and an understanding that their views will be listened to.

The Board already discloses the result of general meetings by way of announcement and discloses the proxy voting numbers to those attending the meetings. In future, in the event that a significant portion of voters have voted against a resolution, an explanation of what actions it intends to take to understand the reasons behind the vote will be included.

The roles and responsibilities of the Committees supporting the Board, and the work undertaken by them, are set out in the Corporate governance report of the Annual Report and Accounts.

Remuneration Committee Report

Dr Stephen Parker
Non-executive Chairman

The Company recognises and seeks to follow the Guidance for Smaller Quoted Companies on the Combined Code issued by the Quoted Companies Alliance in August 2004, and seeks to comply with this Code so far as is practicable and appropriate for a company of its size and nature.

Key responsibilities
The Remuneration Committee of the Board is responsible for considering staff and Directors' remuneration packages and makes its recommendations to the Board.

Members
Dr Stephen Parker

Introduction
The Company recognises and seeks to follow the Guidance for Smaller Quoted Companies on the Combined Code issued by the Quoted Companies Alliance in August 2004, and seeks to comply with this Code so far as is practicable and appropriate for a company of its size and nature. Companies trading on AIM are not required to provide a formal remuneration report. However, in line with current best practice, this report provides information to enable a greater level of understanding as to how remuneration is determined by the Board.

The Remuneration Committee of the Board is responsible for considering staff and Directors' remuneration packages and makes its recommendations to the Board. The Committee currently comprises Dr Stephen Parker, Non-executive Chairman. It meets at least once a year to review salaries and share option schemes for the Directors.

Remuneration policy
Remuneration packages are designed to be competitive and to reward above average performance. At present, Executive Directors receive salary, death-in-service benefit, critical illness and medical cover and a pension contribution.

Executive Directors' service contracts
The two full-time Executive Directors have executive service agreements with the Company dated 7 July 2004. The service agreements are subject to termination upon six months' notice being given by either party and are subject to standard terms in the event of termination.

For the year from 1 July 2017 a Directors' bonus scheme was in effect to reward the Directors based on performance targets that build shareholder value.

Pensions
The Group does not have a pension scheme but makes contributions to Executive Directors' personal pension schemes amounting to 6.375% of annual salary. In addition, the Executive Directors contribute to their pension schemes via salary sacrifice, and the National Insurance savings made by the Group as a result of this arrangement are added to the Group's contributions.

Share option schemes
In setting up share option schemes for staff, the Committee took into account the recommendations of shareholder bodies, such as those of the insurance companies, on the number of options to issue and the criteria for vesting. It approved the following share incentive arrangements for staff:

- an Inland Revenue approved (EMI) share option scheme (approved scheme); and
- an unapproved share option scheme (unapproved scheme), identical to the approved scheme.

Remuneration Committee Report continued

Non-executive Directors

The Non-executive Chairman entered into a letter of engagement dated 13 May 2016. Members may request copies of the letter by sending a stamped addressed envelope to the Company Secretary. The appointment can be terminated by either party giving six months' notice.

The interests in the share option schemes of the Directors who served during the year were as follows:

Share option table

Director	Share scheme	Exercise price pence	As at 1 July 2017 No.	Granted during the year No.	Lapsed during the year	**As at 30 June 2018 No.**
Dr T Mitchell	EMI	0.25	6,400,000	—	—	**6,400,000**
Dr T Mitchell	EMI	0.26	6,153,846	—	—	**6,153,846**
Dr T Mitchell	EMI	1.2	2,566,666	—	—	**2,566,666**
Dr T Mitchell	EMI	0.6	4,752,000	—	—	**4,752,000**
Dr T Mitchell	EMI	0.425	7,198,353	—	—	**7,198,353**
Dr T Mitchell	EMI	0.59	5,340,862	—	—	**5,340,862**
Dr T Mitchell	EMI	0.80	6,250,000	—	—	**6,250,000**
Dr T Mitchell	EMI	1.20	3,125,000	—	—	**3,125,000**
Dr T Mitchell	EMI	1.60	3,125,000	—	—	**3,125,000**
Dr T Mitchell	Unapproved	0.825	—	9,548,844	—	**9,548,844**
Dr T Mitchell	Unapproved	1.2375	—	4,774,422	—	**4,774,422**
Dr T Mitchell	Unapproved	1.65	—	4,774,421	—	**4,774,421**
Dr J Reader	EMI	0.25	6,400,000	—	—	**6,400,000**
Dr J Reader	EMI	0.26	6,153,846	—	—	**6,153,846**
Dr J Reader	EMI	1.2	2,566,666	—	—	**2,566,666**
Dr J Reader	EMI	0.6	4,752,000	—	—	**4,752,000**
Dr J Reader	EMI	0.425	7,198,353	—	—	**7,198,353**
Dr J Reader	EMI	0.59	5,340,862	—	—	**5,340,862**
Dr J Reader	EMI	0.80	6,250,000	—	—	**6,250,000**
Dr J Reader	EMI	1.20	3,125,000	—	—	**3,125,000**
Dr J Reader	EMI	1.60	3,125,000	—	—	**3,125,000**
Dr J Reader	Unapproved	0.825	—	9,548,844	—	**9,548,844**
Dr J Reader	Unapproved	1.2375	—	4,774,422	—	**4,774,422**
Dr J Reader	Unapproved	1.65	—	4,774,421	—	**4,774,421**
Dr S Parker	Unapproved	0.80	5,000,000	—	—	**5,000,000**
Dr S Parker	Unapproved	1.20	2,500,000	—	—	**2,500,000**
Dr S Parker	Unapproved	1.60	2,500,000	—	—	**2,500,000**
Dr S Parker	Unapproved	0.825	—	3,272,728	—	**3,272,728**
Dr S Parker	Unapproved	1.2375	—	1,636,364	—	**1,636,364**
Dr S Parker	Unapproved	1.65	—	1,636,363	—	**1,636,363**

The market price of the shares at 30 June 2018 was 0.838 pence and the range during the year was 0.725 pence to 1.075 pence.

Directors' remuneration table

	Salary £	Bonus £	Healthcare £	Emoluments £	Pension £	**Total 2018 £**	Total 2017 £
Executive Directors							
Dr T Mitchell	161,495	15,000	1,481	177,976	12,970	**190,946**	181,797
Dr J Reader	161,495	15,000	1,019	177,514	15,708	**193,222**	197,988
Non-executive Directors							
Dr S Parker	55,350	—	—	55,350	—	**55,350**	46,500
Total	378,340	30,000	2,500	410,840	28,678	**439,518**	426,285

Financial statements

Report of the Independent Auditor

to the Members of Sareum Holdings plc

Opinion

We have audited the financial statements of Sareum Holdings plc (the parent company) and its subsidiaries (the Group) for the year ended 30 June 2018 which comprise the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Company balance sheet, the Consolidated statement of changes in equity, the Company statement of changes in equity, the Consolidated cash flow statement, the Company cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 June 2018 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Risk	How the scope of our audit responded to the risk
Management override of controls Journals can be posted that significantly alter the financial statements.	We examined journals posted around the year end, specifically focusing on areas which are more easily manipulated such as accruals, prepayments, bank reconciliations and tax.
Going concern There is a risk that the Company is not a going concern.	We made enquiries with the Directors regarding how they have assessed going concern. We have reviewed projections and disclosed accordingly.
Fraud in revenue recognition There is a risk that revenue is materially understated due to fraud.	With no income being reported in the year, potential sources of income were reviewed to ensure no evidence of material understatement. We concluded that no evidence of fraud or other understatement was identified.
Accounting estimates Potential risk of inappropriate accounting estimates giving rise to misstatement in the accounts.	Accruals were agreed to expected costs and supporting documentation and other areas were examined to identify any potential accounting estimates.
Risk of material misstatement within related party transactions There is the risk that related party transactions are potentially incomplete or materially misstated.	Correspondence, including Board minutes, and accounting records were reviewed for evidence of material related party transactions and it is considered that all relevant items have been disclosed.
Disclosures There is a risk of incorrect or incomplete disclosures in the financial statements.	The financial statements have been reviewed and checks have been undertaken to ensure all material disclosure requirements have been met.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning and in the scope of our audit work and in evaluating the results of our work.

We determine materiality for the Group to be £46,884 and this financial benchmark, which has been used throughout the audit, was determined by way of a standard formula being applied to key financial results and balances presented in the financial statements. Where considered relevant the materiality is further adjusted to suit the specific area risk profile of the Company.

Other information

The Directors are responsible for the other information. The other information comprises the information in the Group strategic report and the Report of the Directors, but does not include the financial statements or the Report of the auditor thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Group strategic report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Group strategic report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Group strategic report or the Report of the Directors.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 19, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a Report of the auditor that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our Report of the auditor.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in a Report of the auditor and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stewart Jell (Senior Statutory Auditor)
for and on behalf of Shipleys LLP
Chartered Accountants and Statutory Auditors
10 Orange Street
Haymarket
London
WC2H 7DQ
28 September 2018

Consolidated Statement of Comprehensive Income

for the Year Ended 30 June 2018

	Notes	2018 £	2017 £
Continuing operations			
Revenue		**—**	—
Other operating income		**—**	19,996
Administrative expenses		**(1,709,699)**	(1,445,792)
Share of (loss)/profit of associates		**(12,264)**	1,775,725
Operating (loss)/profit		**(1,721,963)**	349,929
Finance income	5	**3,745**	2,991
(Loss)/profit before income tax	6	**(1,718,218)**	352,920
Income tax	7	**248,697**	47,423
(Loss)/profit for the year		**(1,469,521)**	400,343
Total comprehensive (expense)/income for the year		**(1,469,521)**	400,343
(Loss)/profit attributable to:			
Owners of the parent		**(1,469,521)**	400,343
Total comprehensive (expense)/income attributable to:			
Owners of the parent		**(1,469,521)**	400,343
Earnings per share expressed in pence per share:	9		
Basic		**(0.05)p**	0.015p
Diluted		**(0.05)p**	0.015p

The notes form part of these financial statements.

Consolidated Balance Sheet

as at 30 June 2018

	Notes	2018 £	2017 £
Assets			
Non-current assets			
Property, plant and equipment	10	**8,000**	13,333
Investment in associates	11	**41,375**	53,639
		49,375	66,972
Current assets			
Trade and other receivables	12	**137,832**	80,434
Tax receivable		**253,562**	48,230
Cash and cash equivalents	13	**1,375,275**	2,305,509
		1,766,669	2,434,173
Liabilities			
Current liabilities			
Trade and other payables	14	**183,455**	155,534
Net current assets		**1,583,214**	2,278,639
Net assets		**1,632,589**	2,345,611
Shareholders' equity			
Called up share capital	17	**686,305**	661,305
Share premium	18	**12,395,744**	11,765,111
Share-based compensation reserve	18	**292,811**	191,945
Merger reserve	18	**27**	27
Retained earnings	18	**(11,742,298)**	(10,272,777)
Total equity		**1,632,589**	2,345,611

The financial statements were approved by the Board of Directors on 28 September 2018 and were signed on its behalf by:

T Mitchell PhD
Director

The notes form part of these financial statements.

Company Balance Sheet

as at 30 June 2018

	Notes	2018 £	2017 £
Assets			
Non-current assets			
Investments	11	**30,000**	30,000
		30,000	30,000
Current assets			
Trade and other receivables	12	**—**	—
Liabilities			
Current liabilities		**—**	—
Net assets		**30,000**	30,000
Shareholders' equity			
Called up share capital	17	**686,305**	661,305
Share premium	18	**12,395,744**	11,765,111
Share-based compensation reserve	18	**292,811**	191,945
Retained earnings	18	**(13,344,860)**	(12,588,361)
Total equity		**30,000**	30,000

The financial statements were approved by the Board of Directors on 28 September 2018 and were signed on its behalf by:

T Mitchell PhD
Director

The notes form part of these financial statements.

Consolidated Statement of Changes in Equity

for the Year Ended 30 June 2018

	Called up share capital £	Retained earnings £	Share premium £
Balance at 1 July 2016	661,305	(10,673,120)	11,765,111
Changes in equity			
Total comprehensive income	—	400,343	—
Share-based compensation	—	—	—
Balance at 30 June 2017	661,305	(10,272,777)	11,765,111
Changes in equity			
Issue of share capital	25,000	—	630,633
Total comprehensive expense	—	(1,469,521)	—
Share-based compensation	—	—	—
Balance at 30 June 2018	**686,305**	**(11,742,298)**	**12,395,744**

	Share-based compensation reserve £	Merger reserve £	Total equity £
Balance at 1 July 2016	110,209	27	1,863,532
Changes in equity			
Total comprehensive income	—	—	400,343
Share-based compensation	81,736	—	81,736
Balance at 30 June 2017	191,945	27	2,345,611
Changes in equity			
Issue of share capital	—	—	655,633
Total comprehensive expense	—	—	(1,469,521)
Share-based compensation	100,866	—	100,866
Balance at 30 June 2018	**292,811**	**27**	**1,632,589**

Company Statement of Changes in Equity

for the Year Ended 30 June 2018

	Called up share capital £	Share-based retained earnings £	Share premium £	Share-based compensation reserve £	Total equity £
Balance at 1 July 2016	661,305	(12,506,625)	11,765,111	110,209	30,000
Changes in equity					
Total comprehensive expense	—	(81,736)	—	—	(81,736)
Share-based compensation	—	—	—	81,736	81,736
Balance at 30 June 2017	661,305	(12,588,361)	11,765,111	191,945	30,000
Changes in equity					
Issue of share capital	25,000	—	630,633	—	655,633
Total comprehensive expense	—	(756,499)	—	—	(756,499)
Share-based compensation	—	—	—	100,866	100,866
Balance at 30 June 2018	**686,305**	**(13,344,860)**	**12,395,744**	**292,811**	**30,000**

The notes form part of these financial statements.

Consolidated Cash Flow Statement

for the Year Ended 30 June 2018

	Notes	2018 £	2017 £
Cash flows from operating activities			
Cash generated from operations	24	**(1,635,688)**	689,837
Tax received		**43,365**	154,033
Net cash (outflow)/inflow from operating activities		**(1,592,323)**	843,870
Cash flows from investing activities			
Purchase of tangible fixed assets		**—**	(16,000)
Repayment of investment funds		**—**	228,977
Interest received		**3,745**	2,991
Net cash inflow from investing activities		**3,745**	215,968
Cash flows from financing activities			
Loan repayment by Director		**2,711**	—
Loan to Director		**—**	(6,924)
Share issue		**25,000**	—
Share premium on share issue		**630,633**	—
Net cash inflow/(outflow) from financing activities		**658,344**	(6,924)
(Decrease)/increase in cash and cash equivalents		**(930,234)**	1,052,914
Cash and cash equivalents at beginning of year	25	**2,305,509**	1,252,595
Cash and cash equivalents at end of year	25	**1,375,275**	2,305,509

Company Cash Flow Statement

for the Year Ended 30 June 2018

	Notes	2018 £	2017 £
Cash flows from operating activities			
Cash generated from operations	24	**(655,633)**	—
Net cash outflow from operating activities		**(655,633)**	—
Cash flows from financing activities			
Share issue		**25,000**	—
Share premium on share issue		**630,633**	—
Net cash inflow from financing activities		**655,633**	—
Increase in cash and cash equivalents		**—**	—
Cash and cash equivalents at beginning of year	25	**—**	—
Cash and cash equivalents at end of year	25	**—**	—

The notes form part of these financial statements.

Notes to the Consolidated Financial Statements

for the Year Ended 30 June 2018

1. Basis of preparation

The consolidated financial statements of Sareum Holdings plc and its subsidiaries (the Group) have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted for use in the European Union, with IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

IFRS comprise standards and interpretations approved by the IASB. IFRS as adopted by the European Union differ in certain respects from IFRS as issued by the IASB. However, consolidated financial statements for the financial years presented would be no different had IFRS as issued by the IASB been applied. References to IFRS hereafter should be construed as references to IFRS as adopted by the European Union.

Going concern

The Directors anticipate that Sareum Holdings plc, the Company, will secure equity-based financing sufficient to support the Group for the foreseeable future. Sareum Holdings plc has a track record over a number of years in raising such finance which underpins the Directors' confidence that sufficient finance can be raised. In the event that insufficient funds are raised, and in the absence of further milestone payments from the Chk1 project or other licensing income, planned expenditure would be reduced so that the existing cash reserves would last for the foreseeable future, being not less than one year from date of these financial statements. For this reason the financial statements have been prepared on a going concern basis.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 30 June each year. Control is achieved where the Company has the power to govern the financial and operating policies of another entity or business, so as to obtain benefits from its activities. The consolidated financial statements present the results of the Company and its subsidiaries (the Group) as if they formed a single entity. Inter-company transactions and balances between Group companies are eliminated on consolidation.

2. Statutory information

Sareum Holdings plc is a public limited company, registered in England and Wales. The Company's registered number and registered office address can be found on the Directors and Company Information page.

3. Accounting policies

The principal accounting policies applied are set out below.

Property, plant and equipment

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life:

Motor vehicles	–	straight line over three years
Fixtures and computers	–	straight line over three or four years

Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to insignificant risk of change in value.

Taxation

Current taxes are based on the results shown in the financial statements and are calculated according to local tax rules, using tax rates enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exception:

Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on the tax rates and laws enacted or substantively enacted at the balance sheet date.

Research and development

Expenditure on research and development is written off in the year in which it is incurred.

Operating lease agreements

Rentals applicable to operating leases where substantially all the benefits and risks of ownership remain with the lessor are charged against profits on a straight-line basis over the period of the lease.

Pension contributions

The Group does not operate a pension scheme for the benefit of its employees but instead makes contributions to their personal pension policies. The contributions due for the period are charged to the profit and loss account.

Notes to the Consolidated Financial Statements continued

for the Year Ended 30 June 2018

3. Accounting policies continued

Employee share scheme

The Group has in place a share option scheme for employees, which allows them to acquire shares in the Company. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value of options granted is recognised as an expense spread over the estimated vesting period of the options granted. Fair value is measured using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted.

Revenue recognition

Revenue is measured as the fair value of the consideration received or receivable in the normal course of business, net of discounts, VAT and other sales-related taxes and is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow to the Company. Grant income is recognised as earned based on contractual conditions, generally as expenses are incurred.

Investment in associates

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Investments in associates are accounted for using the equity method, whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the associate's net assets with recognition in the profit and loss of the share of the associate's profit or loss.

Critical accounting estimates and areas of judgement

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions that have the most significant effects on the carrying amounts of the assets and liabilities in the financial information are considered to be research and development costs and equity-settled share-based payments.

Accounting standards and interpretations not applied

At the date of authorisation of these financial statements, the following standards and interpretations relevant to the Group that have not been applied in these financial statements were in issue but not yet effective:

Standard		Effective for accounting periods starting on or after
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
	Annual Improvements to IFRS 2014–2016 Cycle	1 January 2018
IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
IFRS 16	Leases	1 January 2019

The Directors anticipate that the adoption of these standards and interpretations in future years will have no material impact on the financial statements of the Group.

No standards or interpretations adopted in the year had any material impact on the financial statements of the Group.

4. Employees and Directors

	2018 £	2017 £
Wages and salaries	**412,300**	405,656
Social security costs	**43,758**	44,232
Other pension costs	**28,678**	22,172
	484,736	472,060

The average number of employees during the year was as follows:

	2018	2017
Office and management	**1**	1
Research	**1**	1
	2	2

	2018 £	2017 £
Directors' remuneration	**410,840**	404,113
Directors' pension contributions to money purchase schemes	**28,678**	22,172

4. Employees and Directors continued

The number of Directors to whom retirement benefits were accruing was as follows:

	2018	2017
Money purchase schemes	**2**	2

Information regarding the highest paid Director is as follows:

	2018 £	2017 £
Emoluments, etc.	**177,976**	186,591
Pension contributions to money purchase schemes	**12,970**	11,397

The Directors comprise the key management personnel of the Group.

5. Net finance income

	2018 £	2017 £
Finance income:		
Deposit account interest	**3,745**	2,991

6. (Loss)/profit before income tax

The loss before income tax (2017: profit before income tax) is stated after charging:

	2018 £	2017 £
Other operating leases	**13,902**	11,210
Depreciation – owned assets	**5,333**	3,989
Research and development	**1,035,708**	1,002,342
Auditor's remuneration – see analysis below	**13,100**	13,915

The share of (loss)/profit of associates is made up of:

	2018 £	2017 £
Share of income of associates	**—**	1,968,147
Share of costs of associates	**(12,264)**	(192,422)
Share of (loss)/profit of associates	**(12,264)**	1,775,725

The analysis of auditor's remuneration is as follows:

	2018 £	2017 £
Fees payable to the Company's auditor for the audit of the annual accounts		
Audit of the Company	**4,500**	4,500
Audit of subsidiaries	**7,300**	7,300
Total audit fees	**11,800**	11,800
Fees payable to the Company's auditor for other services		
Taxation services	**1,300**	1,300
Other assurance services	**—**	815
Total fees payable to the Company's auditor	**13,100**	13,915

7. Income tax

	2018 £	2017 £
Current tax:		
UK corporation tax credit on profits/losses of the period	**(252,534)**	(47,423)
Adjustments recognised in the current year in relation to the current tax of prior years	**3,837**	—
Tax credit to the income statement	**(248,697)**	(47,423)

Notes to the Consolidated Financial Statements continued

for the Year Ended 30 June 2018

7. Income tax continued

The credit for the year can be reconciled to the accounting loss as follows:

	2018 £	2017 £
Loss before tax	**(1,718,218)**	352,920
At average rate of 19% (2017: 19.75%)	**(326,461)**	69,702
Effects of:		
Capital allowances more/(less) than depreciation	**699**	(161)
Other timing differences	**55**	435
Unutilised tax losses	**181,835**	45,445
Losses surrendered for research and development tax credits (less uplift)	**143,872**	(115,421)
Research and development tax credits claimed	**(252,534)**	(47,423)
Prior year adjustments	**3,837**	—
Actual current tax credit in the year	**(248,697)**	(47,423)

The tax rate of 19% used above for the 2018 reconciliation (2017: 19.75%) is the average corporation tax rate applicable in the United Kingdom.

8. Loss of parent company

As permitted by Section 408 of the Companies Act 2006, the Statement of comprehensive income of the parent company is not presented as part of these financial statements. The parent company's loss for the financial year was £756,499 (2017: £81,736).

The loss represents costs of £186,086 (2017: £148,365) associated with the Company's obligations to maintain its AIM listing, the share-based compensation adjustment of £100,866 (2017: £81,736) and an increase in the provision of £469,547 (2017: reduced provision of £148,365) for impairment of amounts owed by Group undertakings.

9. (Loss)/profit per share

The calculation of (loss)/profit per share is based on the following data:

Basic (loss)/profit per share:

	2018	2017
(Loss)/profit on ordinary activities after tax	**£(1,469,521)**	£400,343
Weighted average number of shares	**2,705,771,933**	2,645,223,988
Basic (loss)/profit per share	**(0.05)p**	0.015p

Diluted profit per share:

	2017
Profit on ordinary activities after tax	£400,345
Weighted average number of shares and share options	2,741,309,965
Basic profit per share	0.015p

As the Group generated a loss for the year to 30 June 2018, there was no dilutive effect in respect of share options.

10. Property, plant and equipment

Group	Motor vehicles £	Fixtures and computers £	Total £
Cost			
At 1 July 2017 and 30 June 2018	**16,000**	**9,894**	**25,894**
Depreciation			
At 1 July 2017	2,667	9,894	12,561
Charge for year	5,333	—	5,333
At 30 June 2018	**8,000**	**9,894**	**17,894**
Net book value			
At 30 June 2018	**8,000**	**—**	**8,000**
At 30 June 2017	13,333	—	13,333

11. Investments in associates

Group	Interest in associates £
Cost	
At 1 July 2017 and 30 June 2018	**1,138,125**
Impairment	
At 1 July 2017	1,084,486
Impairment for year	12,264
At 30 June 2018	**1,096,750**
Net book value	
At 30 June 2018	**41,375**
At 30 June 2017	53,639

Interest in joint venture

The Investment in Associates represents the investment by the Group in the partnership with the Cancer Research Technology Pioneer Fund to advance the Chk1 programme. The associate has been accounted for using the equity method in the consolidated financial statements. Sareum's interest in the associate partnership is 27.5%. As at 30 June 2018 the partnership had net assets of £157,474 (2017: £200,464) and had incurred cumulative losses of £515,746 (2017: £472,756).

Company	Shares in Group undertakings £
Cost	
At 1 July 2017 and 30 June 2018	**30,000**
Net book value	
At 30 June 2018	**30,000**
At 30 June 2017	30,000

At the balance sheet date the Company owned 100% of the issued ordinary share capital of Sareum Limited (the subsidiary). The subsidiary is included within the consolidated financial statements of Sareum Holdings plc.

12. Trade and other receivables

	Group	
	2018 £	2017 £
Current:		
Directors' loan accounts	**4,213**	6,924
VAT	**20,959**	16,513
Prepayments and accrued income	**112,660**	56,997
	137,832	80,434

	Company	
	2018 £	2017 £
Non-current:		
Amounts owed by Group undertakings	**11,290,854**	10,821,308
Provision for impairment	**(11,290,854)**	(10,821,308)
	—	—

The inter-company loan is considered a short term recoverable as it attracts no interest and has no contractual repayment terms. The Directors have considered the recoverability of the inter-company balance and have made provision for the full value of the debt.

Notes to the Consolidated Financial Statements continued

for the Year Ended 30 June 2018

13. Cash and cash equivalents

	Group	
	2018 £	2017 £
Bank deposit account	**1,368,687**	2,296,439
Bank accounts	**6,588**	9,070
	1,375,275	2,305,509

14. Trade and other payables

	Group	
	2018 £	2017 £
Current:		
Trade creditors	**143,618**	118,370
Social security and other taxes	**15,234**	13,722
Other creditors	**5,999**	5,714
Accrued expenses	**18,604**	17,728
	183,455	155,534

The Company has no creditors outstanding at the year end date.

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit term agreed with suppliers is 30 days and payment is generally made within the agreed terms.

15. Leasing agreements

Minimum lease payments fall due as follows:

	Non-cancellable operating leases	
Group	**2018 £**	2017 £
Within one year	**13,614**	5,550
Between one and five years	**20,724**	—
	34,338	5,550

The outstanding commitments include rental payments due under the lease for the Group's office premises which expires in December 2020. The lease does not include any onerous restriction of the Group's activities.

Company

The Company had no lease commitments at 30 June 2018.

16. Financial instruments

The Group's principal financial instruments are trade and other receivables, trade and other payables and cash. The main purpose of these financial instruments is to finance the Group's ongoing operational requirements. The Group does not trade in derivative financial instruments.

The major financial risks faced by the Group, which remained unchanged throughout the year, are interest rate risk, foreign exchange risk and liquidity risk.

Policies for the management of these risks are shown below and have been consistently applied.

Market risks

Interest rate risk

The Group is exposed to interest rate risk as cash balances in excess of immediate needs are placed on short term deposit. The Group seeks to optimise the interest rates received by continuously monitoring those available.

Foreign exchange risk

The Group's activities expose it to fluctuations in the exchange rate for the Euro and the US dollar.

Funds are maintained in Sterling and foreign currency is acquired on the basis of committed expenditure.

The value of the Group's financial instruments is not considered to be materially sensitive to the above risks and therefore no sensitivity analysis has been provided.

Non-market risks

Liquidity risk

The Board has responsibility for reducing exposure to liquidity risk and ensures that adequate funds are available to meet anticipated requirements from existing operations by a process of continual monitoring.

17. Called up share capital

Allotted, issued and fully paid:

Number	Class	Nominal value	2018 £	2017 £
2,745,223,988 (2017: 2,645,223,988)	Ordinary shares	0.025p	**686,305**	661,305

The ordinary shares carry equal rights in respect of voting at a general meeting of shareholders, payment of dividends and return of assets in the event of a winding up.

In November 2017, 100,000,000 ordinary shares of 0.025 pence were issued at 0.7 pence per share.

Details of share options granted can be found in note 23 to the financial statements, Share-based payment transactions.

18. Reserves

Reserve	Description and purpose
Share capital	Amount of the contributions made by shareholders in return for the issue of shares.
Share premium	Amount subscribed for share capital in excess of nominal value.
Merger reserve	Premium on shares issued in consideration of the acquisition of subsidiaries.
Retained earnings	Cumulative net gains and losses recognised in the Consolidated and the Company balance sheet.
Share-based compensation reserve	Cumulative fair value of share options granted and recognised as an expense in the income statement.

Details of movements in each reserve are set out in the Consolidated statement of changes in equity.

19. Pension commitments

The Group makes contributions to its employees' own personal pension schemes. The contributions for the period of £28,678 (2017: £22,172) are charged to the profit and loss account. At the balance sheet date contributions of £5,994 (2017: £5,708) were owed and are included in creditors.

20. Contingent liabilities

There are no contingent liabilities (2017: £nil).

21. Related party disclosures

Disclosure regarding the remuneration of key management personnel is given in note 4, Employees and Directors.

Transactions between the Company and its subsidiary, Sareum Limited, which is a related party, have been eliminated on consolidation. The ultimate holding company of the Group is Sareum Holdings plc.

During the year, Sareum Holdings plc continued to provide an interest-free loan to Sareum Limited, further details of which can be found in note 12 to the financial statements.

22. Reconciliation of movements in shareholders' funds

	Group	
	2018 £	2017 £
(Loss)/profit for the financial year	**(1,469,521)**	400,343
Issue of share capital	**655,633**	—
Share-based compensation reserve	**100,866**	81,736
Net (reduction)/addition to shareholders' funds	**(713,022)**	482,079
Opening shareholders' funds	**2,345,611**	1,863,532
Closing shareholders' funds	**1,632,589**	2,345,611

	Company	
	2018 £	2017 £
Loss for the financial year	**(756,499)**	(81,736)
Issue of share capital	**655,633**	—
Share-based compensation reserve	**100,866**	81,736
Opening shareholders' funds	**30,000**	30,000
Closing shareholders' funds	**30,000**	30,000

Notes to the Consolidated Financial Statements continued

for the Year Ended 30 June 2018

23. Share-based payment transactions

The Group operates a share option scheme under the Enterprise Management Incentive Scheme (EMI) for employees of the Group and it also operates an unapproved share option scheme. If the options under either scheme remain unexercised after a period of ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

Details of the share options outstanding during the year are as follows:

	2018		2017	
	Number of share options	**Weighted average exercise price (in pence)**	Number of share options	Weighted average exercise price (in pence)
Outstanding at beginning of period	**112,770,909**	**0.680**	77,770,909	0.492
Granted during the period	**44,740,929**	**0.882**	35,000,000	0.909
Forfeited during the period	**2,947,455**	**0.524**	—	—
Exercised during the period	**—**	**—**	—	—
Expired during the period	**—**	**—**	—	—
Outstanding at end of period	**154,564,283**	**0.815**	112,770,909	0.680
Exercisable at end of period	**135,461,706**	**0.848**	89,824,044	0.706

The options outstanding at 30 June 2018 had a weighted average remaining contractual life of six years and ten months (30 June 2017: six years and nine months). The options outstanding but not exercisable at 30 June 2018 and 30 June 2017 vest subject to pre-determined performance criteria.

Fair value calculation

Fair value was estimated using the Black-Scholes model. The key data and assumptions used were:

Date of grant	Dec 2017	Dec 2016	Mar 2016	Nov 2014	Dec 2013	Mar 2012	Dec 2010	Dec 2009
Share price – pence	0.825	0.75	0.59	0.45	0.5	1.2	0.25	0.25
Exercise price – pence	*	*	0.59	0.425	0.6	1.2	0.26	0.25
Volatility	50%	50%	50%	50%	50%	50%	50%	83%
Time until maturity – years	three	three	three	three	three	three	three	three
Risk-free rate of interest	1%	1%	1%	1%	1%	1%	1%	1%
Expected dividend yield	nil	nil	nil	nil	nil	nil	nil	nil

* The share options that were granted in December 2016 were issued with exercise prices of 0.8 pence, 1.2 pence and 1.6 pence. Options that were granted in December 2017 were issued with exercise prices of 0.825 pence, 1.2375 pence and 1.65 pence.

Volatility for the options granted in December 2017, December 2016, March 2016, November 2014, December 2013, March 2012 and December 2010 is based on share price performance for companies operating in a similar field. Volatility for the options granted in December 2009 is calculated using the Group's historical share price data and is the annual volatility at 30 June 2010.

The weighted average fair value of the share options at 30 June 2018 was 0.194 pence per share (2017: 0.184 pence per share). A fair value charge of £100,866 has been provided in the year (2017: £81,736).

24. Reconciliation of (loss)/profit before income tax to cash generated from operations

	Group	
	2018 £	2017 £
(Loss)/profit before income tax	**(1,718,218)**	352,920
Depreciation charges	**5,333**	3,989
Share-based compensation	**100,866**	81,736
Share of costs of associates	**12,264**	192,422
Finance income	**(3,745)**	(2,991)
	(1,603,500)	628,076
(Increase)/decrease in trade and other receivables	**(60,109)**	5,778
Increase in trade and other payables	**27,921**	55,983
Cash (used in)/generated from operations	**(1,635,688)**	689,837

24. Reconciliation of (loss)/profit before income tax to cash generated from operations continued

	Company	
	2018 £	2017 £
Loss before income tax	**(756,499)**	(81,736)
Impairment provision	**469,546**	(148,365)
Share-based compensation	**100,866**	81,736
	(186,087)	(148,365)
(Increase)/decrease in trade and other receivables	**(469,546)**	148,365
Cash used in operations	**(655,633)**	—

25. Cash and cash equivalents

The amounts disclosed on the Cash flow statements in respect of cash and cash equivalents are in respect of these balance sheet amounts:

	Group		Company	
Year ended 30 June 2018	**30 June 2018 £**	1 July 2017 £	**30 June 2018 £**	1 July 2017 £
Cash and cash equivalents	**1,375,275**	2,305,509	**—**	—

Year ended 30 June 2017	30 June 2017 £	1 July 2016 £	30 June 2017 £	1 July 2016 £
Cash and cash equivalents	2,305,509	1,252,595	—	—

26. Capital risk management

The Group manages its capital to ensure that the Group and its subsidiary company will be able to continue as going concerns.

The capital structure of the Group consists of equity, comprising issued share capital and reserves as disclosed in notes 17 and 18, and cash and cash equivalents.

27. Deferred tax

No provision has been made in the Group's accounts and the amounts not provided for at the end of the year are as follows:

	2018 £	2017 £
Excess of depreciation on fixed assets over taxation allowances claimed	**(2,153)**	(1,454)
Tax losses available	**(1,288,005)**	(1,106,170)
	(1,290,158)	(1,107,624)

A potential deferred tax asset of £1,290,158 has not been recognised, as there remains a significant degree of uncertainty that the Group will make sufficient profits in the foreseeable future to justify recognition. The deferred tax asset would be recognised should sufficient profits be generated in the future against which it may be recovered.

Consolidated Income Statement Summaries

for the Year Ended 30 June 2018

	2018 £	2017 £
Other operating income		
Grant income	**—**	19,996
	—	19,996
Administrative expenses		
Establishment costs		
Rent	**13,902**	11,210
Rates and water	**—**	1,633
Insurance	**6,045**	5,636
Service charge	**1,170**	3,745
Depreciation of tangible fixed assets		
Motor vehicles	**5,333**	2,667
Computer equipment	**—**	1,322
Administrative expenses		
Directors' salaries	**408,340**	401,846
Directors' pension contributions	**28,678**	22,172
Wages	**3,960**	3,810
Social security	**43,758**	44,232
Other staff-related costs	**25,867**	24,396
Telephone	**3,242**	2,021
Post and stationery	**1,343**	1,664
Travelling	**17,972**	18,571
Motor expenses	**550**	927
Marketing	**134**	39
Computer expenses	**14,651**	13,744
Repairs and renewals	**344**	—
Laboratory expenses	**282**	254
Outside R&D services	**745,922**	502,476
Legal, professional and consultancy	**286,107**	300,651
Subscriptions	**810**	405
Bank charges	**422**	631
Sundry expenses	**1**	4
Share-based compensation	**100,866**	81,736
Share of loss/(profit) of associates	**12,264**	(1,775,725)
	1,721,963	(329,933)
Finance income		
Deposit account interest	**3,745**	2,991
	3,745	2,991

This page does not form part of the statutory financial statements.

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