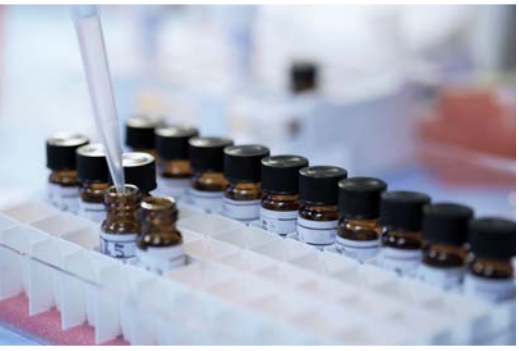
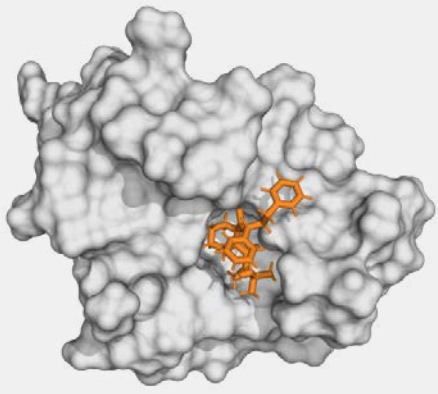
ANNUAL REPORT AND ACCOUNTS

For the year ended December 31, 2017





Verseon

Cautionary note on forward-looking statements

This report contains forward-looking statements, which are generally statements that are not historical facts. Forward-looking statements can be identified by the words "expects," "anticipates," "believes," "intends," "estimates," "plans," "will," "outlook," and similar expressions. Forward-looking statements are based on management's current plans, estimates, assumptions, and projections, and speak only as of the date they are made. We undertake no obligation to update any forward-looking statement in light of new information or future events, except as otherwise required by law. Forward-looking statements involve inherent risks and uncertainties, most of which are difficult to predict and are generally beyond our control. Actual results or outcomes may differ materially from those implied by the forward-looking statements as a result of the impact of a number of factors.

Contents

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Highlights

Anticoagulation

- ✓ Developing novel class of precision oral anticoagulants (PROACs) for long-term anticoagulant-antiplatelet combination therapy.
- ✓ First PROAC, VE-1902, successfully completed regulatory toxicology studies and is about to enter clinical trials.
- ✓ Second PROAC, VE-2851, is in preliminary toxicology studies and is expected to enter clinical trials in 2019.

Diabetic macular edema

- ✓ Developing oral DME drugs with the potential to complement or replace current eye injections.
- ✓ Candidates show efficacy in multiple *in vivo* models when administered orally.

Hereditary angioedema

- ✓ Developing oral drugs for this rare, potentially life-threatening disease.
- ✓ Candidates show efficacy in a well-established preclinical model with oral dosing.

Oncology

- ✓ Developing new anticancer agents for the treatment of multidrug resistant cancers.
- ✓ Candidates show potency against a variety of cancer cell lines and are largely unaffected by common modes of drug resistance.

Facilities development

- ✓ Occupying purpose-built research and development facility.
- ✓ Closed PACE funding for energy-related improvements.

Finance

Results for the year ended December 31, 2017:

- Total assets on the balance sheet stood at $54.2 million, compared to $69.6 million at the end of 2016.
- Cash, cash equivalents, and short-term investments stood at $11.6 million, compared to $46.9 million at the end of 2016.
- Property, equipment, buildings, and land totaled $40.7 million, compared to $22.3 million at the end of 2016.
- Research and development expenses were $15.1 million, compared to $11.5 million in 2016, primarily attributable to an acceleration of our drug programs and preparation for clinical trials.
- General and administrative expenses were $6.3 million, compared to $5.8 million in 2016.
- Non-cash expenses include stock-based compensation of $0.9 million, compared to $0.8 million in 2016, and also a currency exchange gain of $0.6 million, compared to a loss of $2.6 million in 2016.
- Net loss was $20.4 million or $0.13 per basic share, compared to a net loss of $19.5 million or $0.13 per basic share in 2016.

Post-period events:

- Closed $22.7M mortgage for our research and development facility, realizing a portion of the value created through the buildout.
- Currently evaluating a range of non-dilutive funding options linked to future revenues. This will enable us to accelerate the development of our programs through clinical trials to market, capturing their significant long-term value.

Chairman's statement

"Encouraged by last year's achievements, the Board continues to support the development of Verseon's industry-leading, proprietary computational platform along with an expansion of their drug pipeline."

Thomas A. Hecht, PhD, Chairman of the Board

Comprehensive laboratory testing continues to confirm the good preclinical profiles of Verseon's leading drug candidates and has identified multiple candidates suitable for further development in all programs. This gives the Board further confidence that Verseon's innovative, computer-driven approach can deliver compounds that differentiate themselves from current drugs and can address unmet medical needs.

The upcoming clinical trials in Verseon's anticoagulation program will provide the first opportunity for Verseon to demonstrate the potential of their drug candidates in humans. Successful completion of first-in-human studies will mark another important milestone for the company.

Encouraged by last year's achievements, the Board continues to support the development of Verseon's industry-leading proprietary computational platform along with an expansion of their drug pipeline.

During 2017, the Board and executive team have focused on strategic growth and careful allocation of resources. We are delighted to bring the entire team into Verseon's custom-built, integrated facility.

As we oversee this consolidation, the main goal of the Board is to maintain an appropriate balance between moving the discovery and development process forward and ensuring financial discipline. We continue to work with the executive team on capital management, including the potential for monetization of existing discoveries.

The dedication and hard work of Verseon's team have allowed all programs to build up momentum that we expect to carry over into 2018 and beyond. We appreciate the continued confidence of our shareholders.

Thomas A. Hecht, PhD
Chairman of the Board

Chief Executive's statement

"We have worked diligently to build a strong foundation for our platform that can roll out a steady stream of drug candidates. We look forward to sending VE-1902 into clinical trials, the first of many future clinical candidates across our pipeline."

Adityo Prakash, Chief Executive Officer

We have made significant progress across our pipeline over the past year. Most notably, our first PROAC (precision oral anticoagulant), VE-1902, completed regulatory toxicology and safety pharmacology testing as well as production of the engineering batch tablets of drug-formulated product. As recently announced, VE-1902 is now about to enter clinical trials.

In preclinical studies, we have demonstrated the distinctive profile of our PROACs combining efficacy with low bleeding risk. In particular, our studies show that PROACs do not disrupt platelet function, which may make them uniquely suited for long-term combination therapy alongside antiplatelet drugs, a large market unserved by current drugs. Our long-term clinical trial strategy is designed to highlight the suitability of the PROACs for this patient population, while the upcoming phase I study will focus on safety and use biomarkers as an initial measure of efficacy.

We have also set up the necessary infrastructure for first-in-human trials in Australia, a location that was chosen for its excellent clinical trial framework combined with targeted research incentives. We are working closely with the largest phase I unit in Australia and a well-established contract research organization to ensure the smooth execution of our trials.

A second clinical trial candidate, which shares VE-1902's distinctive preclinical profile but has a different chemotype, was also announced during this period. Preliminary *in vivo* toxicology results on this candidate have been very promising, and we expect it to advance into clinical trials in 2019.

In 2017, we announced a new rare-disease program, in which we are developing oral drugs for hereditary angioedema, a potentially life-threatening genetic disorder. We believe that our orally dosed drug candidates could have a positive impact on patients' lives who currently rely on injectable drugs.

Our diabetic macular edema (DME) and oncology programs have also made good progress. In our DME program, we are developing oral plasma kallikrein inhibitors that could complement or replace current eye injections. During 2017, we have demonstrated efficacy in multiple *in vivo* models for our DME candidates. In addition, our oncology candidates are showing promise for the treatment of multidrug resistant cancers.

We have worked diligently to build a strong foundation for our platform that can roll out a steady stream of drug candidates. We look forward to sending VE-1902 into clinical trials, the first of many future clinical candidates across our pipeline.

Adityo Prakash
Chief Executive Officer

Verseon at a glance

We are a technology-based pharmaceutical company that pairs a proprietary, computational drug discovery platform with comprehensive in-house chemistry and biology capabilities to develop novel therapeutics that are unlikely to be found with conventional methods.

Our mission: To transform the way new small-molecule drugs are developed

Industry trends are alarming. Despite large funding increases by pharmaceutical companies for drug discovery and development, truly novel medicines have become increasingly rare.

At Verseon, we believe that accurate, computer-driven drug design is the key to reversing this trend.

Verseon's computer-driven drug discovery platform

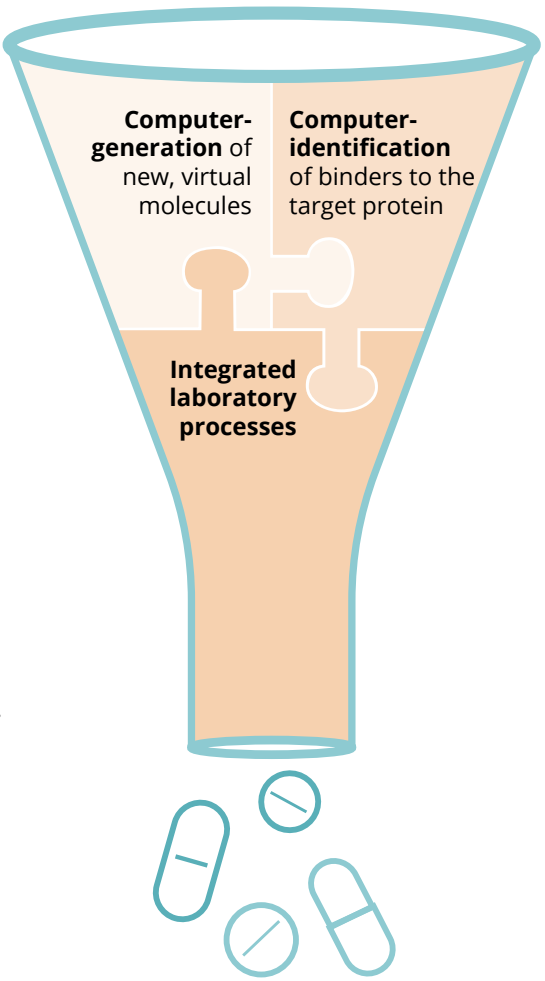
We have built a computational platform that transforms small-molecule drug discovery into a systematic, industrial process.

Our proprietary drug discovery platform allows us to discover novel drug candidates that are unlikely to be found by conventional methods and to consistently develop multiple chemically diverse candidates for clinical trials for each of our drug programs.

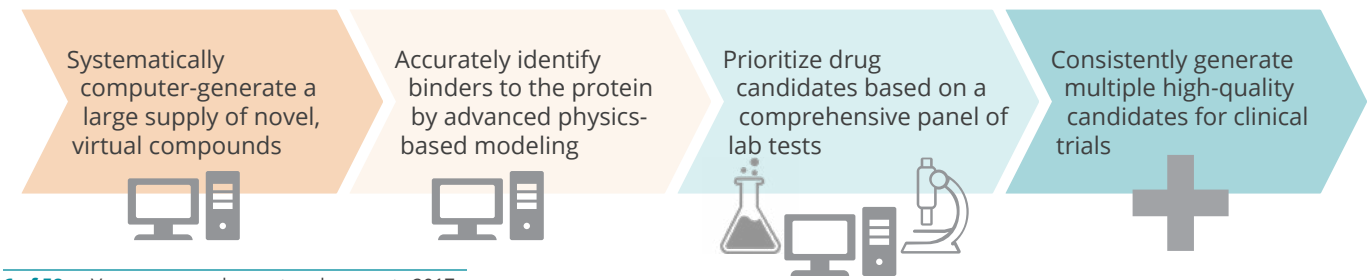
Built on an extensive medicinal chemistry knowledge base, our platform computer-generates large, virtual, chemically diverse collections of novel, synthesizable, drug-like molecules. This gives us access to chemical space that remains largely unexplored in conventional drug discovery.

From this space, we then identify potent binders to specific disease-causing proteins using advanced computational methods and focus our synthesis and biology resources on this selection of promising compounds. This process is far more efficient than the trial-and-error approach typically applied in conventional drug discovery. Computational accuracy is key to driving our efficient process and is achieved by combining proprietary advances in physics-based molecular modeling of protein-drug interactions with sophisticated optimization algorithms.

We employ a comprehensive laboratory workflow to efficiently prioritize drug candidates based on a panel of *in vitro* and *in vivo* assays. The integration of our *in silico* methods with our laboratory workflow enables us to efficiently optimize multiple chemically distinct candidates per program.



Our process:



Business review

Program highlights

- First precision anticoagulant (PROAC) candidate ready to enter clinical trials
- Second PROAC development candidate announced and expected to enter clinical trials in 2019
- Rare-disease program launched, developing oral drugs for hereditary angioedema
- Efficacy shown in multiple preclinical models for orally dosed diabetic macular edema candidates
- Oncology candidates suitable for targeting multidrug resistant cancers announced

IP update

- Six patent issuances worldwide in 2017, another three in Q1 2018
- Two issuances in Australia strengthen IP rights in this crucial jurisdiction prior to the start of clinical trials
- First medicinal-chemistry related subject matter patents issued in the US
- Continue to solidify global patent protection for our computational platform

Conferences

- BIO-Europe Spring Conference *Barcelona/Spain* – Anticoagulation
- American Chemical Society National Meeting, *San Francisco* – Anticoagulation
- BIO International Conference *San Diego* – DME, anticoagulation
- Targeting Ocular Disorders Conference *Boston* – DME
- BIO-Europe Conference *Berlin/Germany* – Oncology
- American Heart Association's Scientific Sessions, *Anaheim* – Anticoagulation
- Biotech Showcase *San Francisco* – HAE

Precision oral anticoagulants (PROACs)

"I look forward to the results of Verseon's upcoming clinical trial for VE-1902. These new precision anticoagulants have the potential to improve the standard of care for the millions of patients in need of prolonged anti-clotting therapy to reduce cardiac complications including stroke and heart attack."

Professor Keith Fox, Duke of Edinburgh Professor of Cardiology (Univ. of Edinburgh) and member of Verseon's Cardiovascular Clinical Advisory Board

We are developing potential first-in-class precision oral anticoagulants (PROACs) to treat major cardiovascular diseases. In preclinical testing, PROACs show a unique combination of efficacy with lower bleeding than current anticoagulants and, importantly, do not disrupt platelet function. This enables PROACs to more precisely modulate the coagulation cascade, making them suitable for co-administration with antiplatelet drugs, a market that is poorly served by current anticoagulants.

The case for a new, safer precision anticoagulant

Millions of patients worldwide suffering from arterial disease could benefit from prolonged combination therapy of an anticoagulant with one or more antiplatelet drugs (e.g., aspirin or Plavix™) to prevent stroke or heart attack. This includes patients with acute coronary syndrome and those with both non-valvular atrial fibrillation and coronary artery disease.

However, no current anticoagulant is suitable for such long-term combination therapy due to their unacceptably high bleeding risk (see box on next page).

Uniquely positioned to fill this need

In comprehensive preclinical testing, our drug candidates have demonstrated a mechanism of action distinct from current novel oral anticoagulants (NOACs). By acting through the reversible covalent inhibition of thrombin, PROACs prevent thrombus formation while leaving thrombin-mediated platelet activation almost unaffected. This may explain the significantly lower bleeding risk observed with PROACs compared to NOACs in preclinical studies.

Due to this novel profile, we believe that the PROACs are uniquely positioned to fill the need for oral anticoagulants suitable for safe long-term co-dosing alongside antiplatelet drugs. In addition, the low bleeding risk of our drugs can also benefit traditional anticoagulation patients, such as those suffering from atrial fibrillation.

VE-1902: Getting ready for the clinic

Verseon has developed multiple drug candidates that are suitable for oral dosing and have shown efficacy and low bleeding risk in a number of preclinical models.

The first PROAC development candidate, VE-1902, is on target for regulatory submission and initiation of phase I clinical trials in mid-2018. The candidate was well tolerated with wide therapeutic window in regulatory toxicology studies. VE-1902 also showed no signs of genotoxicity or QT prolongation in safety pharmacology studies.

In preclinical testing, VE-1902 also demonstrated lower renal clearance than NOACs (6% compared to 27–80%), a desirable property for the many elderly patients suffering from impaired kidney function.

VE-2851: Another PROAC for the clinic

VE-2851, our second PROAC development candidate with a different chemotype but same novel mechanism of action and same distinctive pharmacological profile, was presented to the scientific community at the American Heart Association's Scientific Sessions in November 2017.

Like VE-1902, this candidate exhibits promising pharmacokinetics, good oral bioavailability, clean *in vitro* toxicology, and low bleeding liability without disruption of platelet function in preclinical testing. Preliminary *in vivo* toxicology also looks promising. Notably, this candidate is significantly more potent than VE-1902, which may allow for lower dosing in the clinic.

Precision oral anticoagulants (PROACs)

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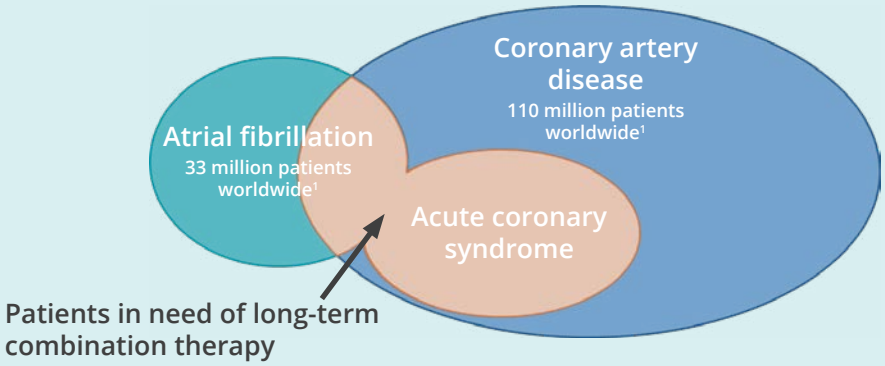
Anticoagulant-antiplatelet combination therapy: A large, unserved market



Cardiovascular diseases such as acute coronary syndrome (ACS), coronary artery disease (CAD), and atrial fibrillation (AF) affected an estimated 423 million people globally in 2015 and led to almost 18 million deaths.[1]

About 34% of the 33 million AF patients worldwide also suffer from CAD.[1] This large patient population, as well as patient with ACS, could benefit from long-term combination therapy with an anticoagulant co-administered with single or dual antiplatelet agents.

Bleeding risk—a major concern

For these patients, management of bleeding risk is a major concern that is reflected in current treatment guidelines. As conventional anticoagulants are known to have high bleeding risk, which is further elevated in combination with antiplatelet therapy, anticoagulant-antiplatelet combination therapy is not recommended beyond one year.[2]

COMPASS trial highlights potential of combination therapy

The large phase III COMPASS trial sponsored by Xarelto™-maker Bayer[3] has shown that combination therapy of aspirin with sub-therapeutic doses of the anticoagulant Xarelto™ (2.5 mg twice daily instead of 20 mg once daily) effectively decreases the incidence of heart attack and stroke in patients with ACS. However, this trial also confirmed that the risk of major bleeding events is 70% higher with Xarelto™ and aspirin compared to aspirin alone.

The COMPASS trial has demonstrated the potential of combination therapy but also highlighted the inherent bleeding liabilities of NOACs, which restricts their suitability for prolonged anticoagulant-antiplatelet combination therapy.

Verseon's PROACs may address this need

Our preclinical studies show that PROACs selectively target the coagulation cascade without disrupting platelet function. This is reflected in a substantially reduced bleeding risk of PROACs compared to NOACs.

Owing to this novel pharmacological profile, PROACs may become the first anticoagulants suitable for long-term combination therapy with a significantly reduced risk of major adverse cardiovascular events and bleeding.

[1] G. A. Roth et al., J Am. Coll. Cardio. (2017)
[2] P. Kirchhof et al., European Heart Journal (2016)
[3] J. W. Eikelboom et al., The New England Journal of Medicine (2017)

Precision oral anticoagulants (PROACs)

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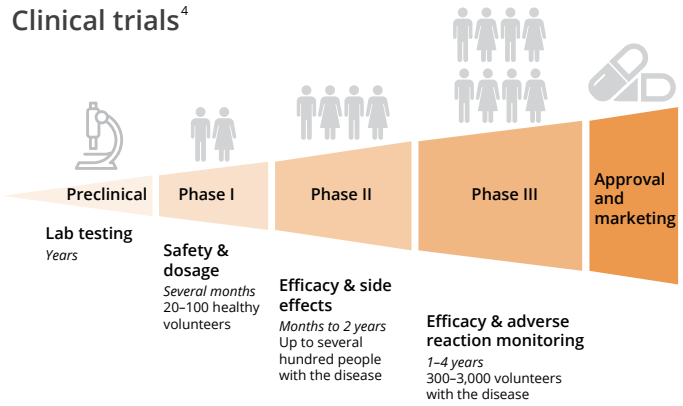


Clinical trials

Our first PROAC development candidate, VE-1902, has completed the regulatory requirements necessary for filing for clinical trials and is scheduled to enter phase I in mid-2018, upon approval by the Therapeutic Goods Administration (TGA). The second candidate, VE-2851, is expected to enter clinical trials in 2019.

The similar preclinical profiles of the two candidates will allow us to devise similar clinical trial designs for both. As initial results come in, we will then select the most promising candidate to move forward into later-stage clinical trials.

We have developed these phase I and phase II clinical trial strategies in collaboration with external consultants and our cardiovascular advisors with extensive anticoagulant clinical trial experience (see box on next page).

We have structured these clinical trials with the goal of generating compelling clinical data that demonstrates the benefits of our PROACs over existing NOACs. In particular, we will aim to show the suitability of our drugs for long-term combination therapy with antiplatelet agents, a market poorly served by current anticoagulants.

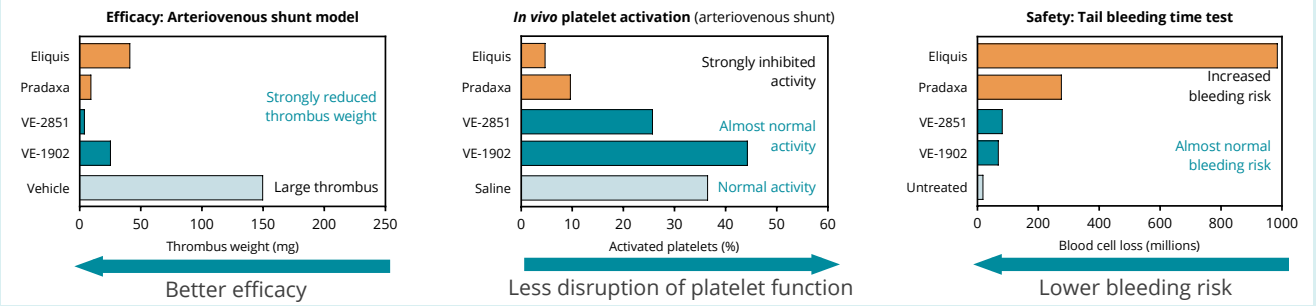
A phase I trial in healthy volunteers will serve to establish VE-1902's safety and tolerability in humans from single- and multiple-ascending doses

Preclinical profile of our PROAC candidates for clinical trials

Excellent efficacy. In efficacy models such as the arteriovenous shunt model (left), both VE-1902 and VE-2851 (teal) reduce thrombus size similar to currently marketed anticoagulants (Eliquis™, Pradaxa®) (orange).

Preserved platelet function. In the arteriovenous shunt model, only a small fraction of platelets is activatable in the presence of Eliquis™ and Pradaxa™ as a result of their strong inhibition of thrombin-mediated platelet activation (middle). In contrast, PROACs do not disrupt platelet function, resulting in almost normal platelet activation at their efficacious doses. This is further corroborated by *in vitro* platelet activation studies that show our PROACS are between 40- and 120-fold weaker inhibitors of platelet activation than NOACs.

Low bleeding risk. Preclinical safety models such as the tail bleeding time test (right) have demonstrated the strongly reduced bleeding risk of the Verseon candidates. This is indicated by reduced blood cell loss compared to the marketed anticoagulants (shown below).



Precision oral anticoagulants (PROACs)

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and also study how food affects the level and effectiveness of the drug. Biomarkers will be used to capture early indications of efficacy and to provide initial clinical confirmation of VE-1902's precision anticoagulation profile.

We are working closely with phase I unit Nucleus Networks© and full-service contract research organization CPR Pharma Services© on the conduct of the phase I study. Nucleus Networks© will provide bed space, operational staff, and sample collection and CPR Pharma Services© will contribute oversight, data management, and biostatistics.

We expect to submit our phase I application for VE-1902 to the Australian Human Research Ethics Committee (HREC) within the next few weeks and plan to initiate patient recruitment and first-in-human dosing soon after TGA approval.

[4] Based on data from www.fda.gov (2018)

Cardiovascular advisors

▶ Professor John Deanfield

British Heart Foundation Vandervell Professor of Cardiology and Director of the National Centre for Cardiovascular Disease Prevention and Outcomes (University College Hospital, London)

Professor Deanfield is a pioneer in cardiology and one of the leading investigators in cardiovascular disease. He is an author on over 500 papers and serves on numerous advisory and journal editorial boards.

▶ Professor Keith A. A. Fox

British Heart Foundation and Duke of Edinburgh Professor of Cardiology (University of Edinburgh) and one of four 'Legends in Cardiology' (American College of Cardiology and the European Society of Cardiology)

Professor Fox is an award-winning cardiologist and founding fellow of the European Society of Cardiology. He is an expert in acute coronary artery disease and has been the lead investigator on multiple novel anticoagulant trials.

▶ Professor C. Michael Gibson

Professor of Medicine (Harvard Medical School), Interventional Cardiologist and Cardiovascular Researcher (Beth Israel Deaconess Medical Center)

Professor Gibson is a distinguished clinical researcher and interventional cardiologist. He has pioneered novel measures of coronary blood flow that are widely used today and has been the lead investigator on several large antiplatelet and anticoagulant trials.

▶ Rt Hon. Professor the Lord Ajay Kakkar

Professor of Surgery (University College Hospital, London), Chairman of University College London Partners, and Director of the Thrombosis Research Institute

Lord Kakkar is a renowned expert in the prevention and treatment of venous and arterial thromboembolic disease and has been involved in phase II and pivotal phase III studies for NOACs. He is the author of over 200 scientific papers and is a life Peer in the House of Lords.

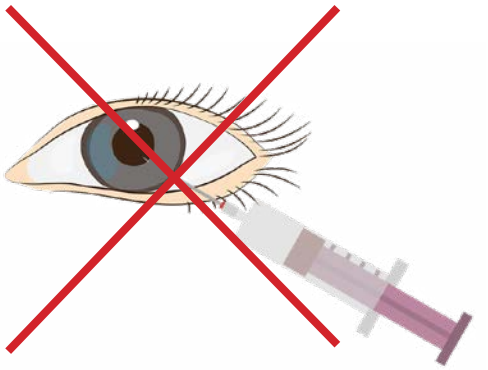
▶ Professor Gregory YH Lip

Consultant Cardiologist and Professor of Cardiovascular Medicine (University of Birmingham), member of the European Heart Rhythm Association and the ESC Thrombosis and Cardiovascular Pharmacology Committees

Professor Lip is one of the leading experts in the understanding and treatment of atrial fibrillation and was the sole cardiologist on the Thomson Reuters Science Watch list of "The World's Most Influential Scientific Minds 2014".

Oral diabetic macular edema drugs

Developing oral drug candidates for a major cause of blindness in diabetics



We are developing orally dosed drug candidates for the treatment of diabetic macular edema (DME), a major cause of blindness in chronic diabetic patients that affects about 21 million patients worldwide.[1] Our drugs have the potential to offer a compelling alternative to marketed drugs, which all require recurring injections directly in the eye.

In diabetic patients, chronically high blood sugar can weaken the blood vessels in the eye, leading to fluid leaking into the retina (edema). Over time, fluid may accumulate in the macula, the central region of the retina, which results in swelling, blurred vision, and eventually central vision loss associated with DME.

If current trends continue, researchers estimate that about one in three US adults could be suffering from diabetes by 2050,[2] leading to a sharp increase in the number of people affected by DME.

Current injectable treatments

The most widely employed current therapies for DME are recurring intravitreal injections of the biologic drugs bevacizumab (Avastin™), ranibizumab (Lucentis™), and aflibercept (Eylea™). All of these inhibit the same target pathway, vascular endothelial growth factor (VEGF), a key promoter of undesired blood vessel growth.

Corticosteroids administered as intravitreal implants such as dexamethasone (Ozurdex™) or fluocinolone acetonide (Iluvien™) have also been approved for DME. All of these therapies are associated with side effects such as eye infection, eye inflammation, increased eye pressure, glaucoma, and retinal detachments.

Clearly there remains a need for a non-injectable DME treatment.

Potential for prophylaxis

In addition, an oral DME drug would be more convenient for ongoing prophylactic treatment to prevent the onset of DME in the steadily growing diabetic population. This market remains untapped by current therapies due to side effects and mode of administration of intravitreal injections.

Verseon candidates target plasma kallikrein

By targeting plasma kallikrein, a central mediator of the kallikrein-kinin cascade, Verseon's DME drug candidates address an underlying cause and validated target of the disease. The level and activity of plasma kallikrein are both known to be upregulated in the eyes of DME patients, which results in the activation of key inflammatory pathways and vasodilation in the retina, leading to edema and macular thickening.

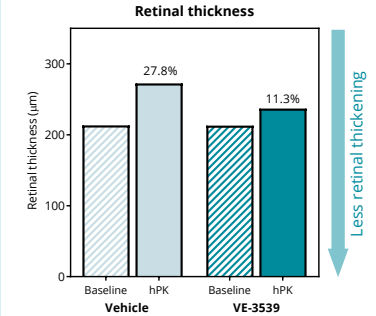
We have discovered multiple novel, small-molecule inhibitors of plasma kallikrein that show single-digit nanomolar potency, excellent

Oral efficacy: hPK model

Our drug candidates have demonstrated efficacy in an *in vivo* model using activated human plasma-kallikrein (hPK) injection to mimic the retinal thickening observed in DME patients.

In this preclinical study, either Verseon inhibitor or vehicle is administered orally two hours before hPK injection. Our data show significantly reduced retinal thickening for VE-3539 (teal) compared to vehicle (light blue) (11.3% increase over baseline compared to 27.8%).

This result highlights the potential of our drug candidates to counteract an important hallmark of DME in a preclinical setting.



Oral diabetic macular edema drugs

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selectivity against related serine proteases (>100-fold) and are suitable for oral dosing (see box on page 15).

Established efficacy in multiple preclinical models

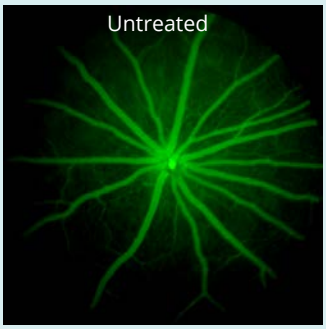
Our oral drug candidates have shown efficacy in two industry-standard preclinical models: the human plasma-kallikrein (hPK) injection and the STZ-induced retinal vascular permeability models.

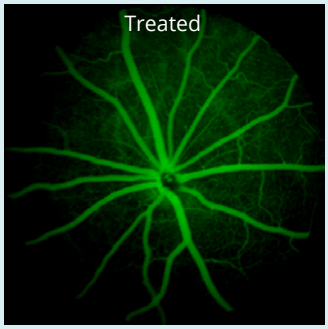
In these *in vivo* models, our drug candidates significantly reduce retinal thickening and retinal leakage, thereby counteracting several important hallmarks of DME (see boxes left and below). To the best of our knowledge, our candidates are the first orally dosed small-molecule plasma kallikrein inhibitors to demonstrate efficacy in the STZ-induced retinal vascular permeability model.

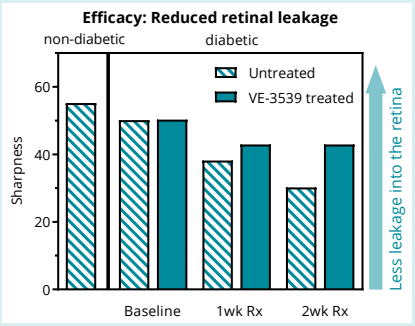
Currently, we continue to optimize and test several promising candidates with the goal to nominate the first development candidate for this program and to initiate IND-enabling studies in 2018.

[1] Diabetes Care (2012)
[2] J. P. Boyle et al., Population Health Metrics (2010)

Oral efficacy: STZ-induced retinal vascular permeability model







Our drug candidates significantly reduce retinal leakage in the streptozotocin-induced retinal vascular permeability (RVP) model, a well-established preclinical model.

In contrast to the hPK model, in which retinal thickening occurs over the course of just 24 hours, the RVP model mimics progressive leakage over an extended period of time. Diabetes is induced by streptozotocin (STZ) injection, which, over time, results in fluid leaking outside the blood vessels in the eye (retinal vascular permeability). After two weeks of disease progression, response to once-a-day oral dosing of Verseon compounds over a two-week treatment period is studied.

Fluorescein angiography (FA) is used to take images of the back of the eye, with hazy regions between the blood vessels indicating more leakage outside the capillaries and further disease progression ('Untreated').

After two weeks of oral treatment with VE-3539, reduced leakage is clearly observed in FA ('Treated').

A quantitative analysis of image sharpness vs time (bar graph right) confirms the *in vivo* efficacy of our drug candidates. While non-diabetic and diabetic cohorts show comparable leakage at the beginning of the treatment period ('non-diabetic' vs baseline), image sharpness declines steadily over the next two weeks for untreated. In contrast, sharpness, and hence retinal leakage, stabilizes close to baseline for the Verseon-treated cohort.

These preclinical results demonstrate the ability of VE-3539 to reduce retinal leakage and slow disease progression.

Oral drugs for hereditary angioedema

Developing new drugs for a rare disease

We are developing oral drugs for the treatment of hereditary angioedema (HAE), a rare genetic disease characterized by recurring episodes of swelling. These episodes can be life-threatening if they affect the airways.

A rare but serious disease

HAE is a rare autosomal-dominant disorder in which a mutation of the C1 inhibitor leads to overactivity of several serine proteases, including plasma kallikrein. This results in acute attacks of edema, which typically affect the face, limbs, or abdomen.

The disease affects an estimated 1 in every 10,000–50,000 persons[1] with a global market that is projected to grow to $3.8 billion by 2025.[2] The orphan disease status of HAE should allow for more rapid preclinical and clinical development due to reduced regulatory requirements and a well-established regulatory path.

The current standard of care

HAE therapies for both prophylaxis and management of acute attacks are available today but are limited due to their administration as subcutaneous or intravenous injections. These treatments target the disease via different mediators in the HAE pathway, including C1 esterase inhibitors, bradykinin B2 receptor antagonists, and plasma kallikrein inhibitors. Prophylactic treatments are typically injected every 3–4 days, while acute treatments are injected on-demand or at the doctor's office.

Shire's subcutaneous polypeptide plasma kallikrein inhibitor Kalbitor™, as well as the positive phase III results for Lanadelumab™, Shire's subcutaneous monoclonal antibody plasma kallikrein inhibitor, provide strong evidence that plasma kallikrein is an important target central to the HAE disease pathway (see also box below).

Plasma kallikrein has been well-validated by macromolecular therapeutics as a target for HAE and should also be amenable to small-molecule inhibition.

Verseon focuses on unmet need

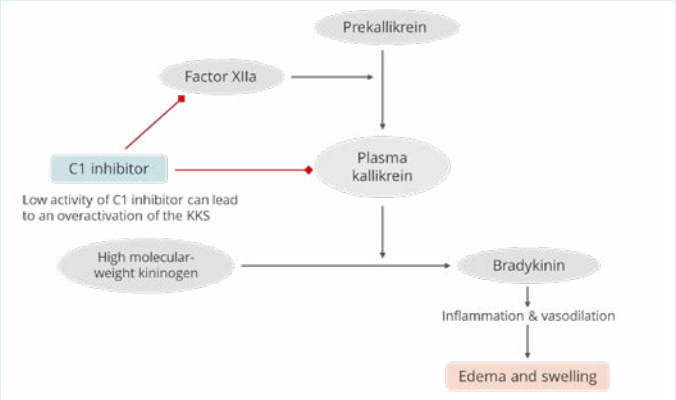
Our drug candidates are being developed for oral administration as a more convenient alternative to current injectable therapies. Oral drugs could be more affordable and are expected to have a significant positive impact on the lives of HAE patients, especially for ongoing disease prophylaxis.

Targeting plasma kallikrein

Plasma kallikrein is a serine protease central to the kallikrein-kinin system (KKS) that plays a role in inflammation, blood pressure control, coagulation, and pain.

Within the KKS, C1 inhibitor (shown in blue) is responsible for down-regulating activated coagulation factor XII (Factor XIIa) and plasma kallikrein. Insufficient levels or improperly functioning C1 inhibitor associated with HAE can result in an overactivation of the KKS, which results in inflammation and vasodilation triggered by an overproduction of the proinflammatory peptide bradykinin. Eventually, this leads to edema and swelling.

Due to its central role in the HAE pathway, plasma kallikrein is a well-validated target for HAE treatment.



Oral drugs for hereditary angioedema

(continued)

Using our computer-driven platform, we have developed a class of novel small-molecule plasma kallikrein inhibitors that are suitable for oral dosing.

Potent and selective oral drug candidates

In preclinical studies, our small-molecule inhibitors inactivate plasma kallikrein at nanomolar concentrations while being highly selective (>100-fold) against a panel of related serine proteases. In addition, they show good pharmacokinetics suitable for oral dosing (see box on the right).

Reducing edema

In addition, our drug candidates show excellent efficacy in the preclinical carrageenan-induced paw edema (CPE) model (see box below).

These results highlight the efficacy of Verseon's oral kallikrein inhibitors in treating swelling associated with HAE.

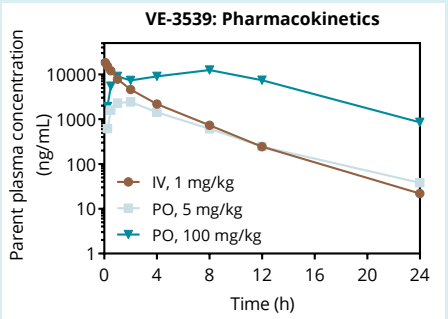
Currently, we continue to optimize a number of compounds and test them for *in vivo* efficacy.

[1] Credence Research (2018)
[2] Transparency Market Research (2018)

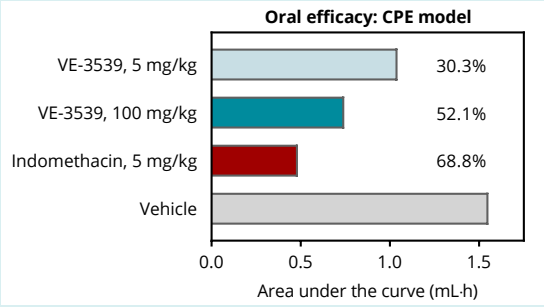
Pharmacokinetics

We have developed several small-molecule plasma kallikrein inhibitors that show pharmacokinetics suitable for oral dosing as prodrugs. As an example, the pharmacokinetic profile of VE-3539 is shown below.

The candidate shows increasing plasma concentrations and exposure at higher oral doses (5 and 100 mg/kg PO). This indicates that VE-3539 is suitable for oral dosing.



Edema reduction with Verseon's oral plasma kallikrein inhibitors



The preclinical carrageenan-induced paw edema (CPE) model mimics the swelling characteristic of HAE attacks by triggering various inflammatory pathways, including the kallikrein-kinin system. This is achieved by the injection of carrageenan, a seaweed extract widely used for food stabilization.

To counteract swelling, either Verseon compound (administered orally) or a positive control (indomethacin, a nonsteroidal anti-inflammatory administered by intraperitoneal injection) are dosed. Swelling is quantified by measuring the change in paw volume at several time points post-injection.

In this *in vivo* efficacy model, Verseon's plasma kallikrein inhibitor VE-3539 shows dose-dependent edema reduction over the course of several hours. The area under the curve (shown left) serves as a measure of total reduction of swelling over the period of maximum kallikrein activity during the experiment. Percentages shown quantify the reduction of swelling relative to vehicle.

We attribute the incomplete reduction of swelling by either indomethacin or VE-3539 to the fact that several inflammatory pathways are activated in the CPE model, a finding which has been confirmed in the literature.[3] Our compounds are designed to target only plasma kallikrein, the main pathway implicated in HAE.

These results are evidence that our small-molecule plasma kallikrein inhibitors successfully counteract swelling in preclinical testing.

[3] C. J. Morris, Methods in Molecular Biology (2003)

Targeting multidrug resistant cancers

Developing innovative chemotherapy drugs

We are advancing a novel class of anticancer agents that are effective against tumor cell lines resistant to many current chemotherapy drugs in preclinical testing.

Multidrug resistance—a major challenge for chemotherapy

A typical course of cancer therapy may include multiple chemotherapy agents administered in combination regimens, possibly as an adjunct to surgery and radiation therapy. Chemotherapy aims to disrupt cancer cell growth by killing the dividing cells. In 2016, global sales for the top five chemotherapy drugs alone were about $15 billion.[1]

Although many types of cancers are initially susceptible to chemotherapy, over time these treatments can fail as the tumor develops resistance to the administered drugs. This often means that treatment with other anticancer agents will also be less effective, limiting therapeutic options.

A common way for cancer cells to render drugs ineffective is by triggering an overproduction of transporter proteins (efflux pumps) that expel many chemicals, including chemotherapeutics, from inside cells (see box on next page). Three transporters—multidrug resistance protein 1 (MDR1), multidrug resistance-associated protein 1 (MRP1), and breast cancer resistance protein (BCRP)—are implicated in many drug resistant cancers.

Aiming to bring innovation to chemotherapy

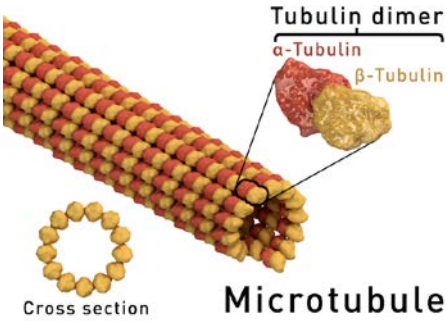
We have developed a range of novel, small-molecule anticancer drug candidates with good *in vitro* potency against a variety of cancer cell lines. Importantly, our drug candidates are largely unaffected by the overexpression of important transporters.

Inhibiting cancer cell growth

Microtubules play a critical role in the cell cycle, the process of cell division and replication. These tube-shaped polymers are involved in maintaining cell structure, providing a platform for intracellular transport, and a variety of other cellular processes (see box above).

A number of anticancer drugs currently in the market disrupt the assembly (e.g. vincristine) or disassembly (e.g. paclitaxel) of microtubules to treat cancers. These drugs interfere with mitotic cell division, which eventually leads to cell death.

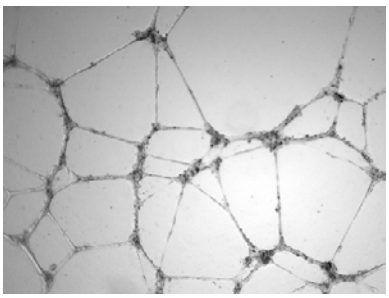
In vitro studies demonstrate that Verseon's anticancer drug candidates potently inhibit tubulin polymerization. Our tubulin inhibitors interrupt crucial cancer cell functions by inhibiting angiogenesis (blood vessel growth, bottom left) and mitosis (cell division, bottom right).



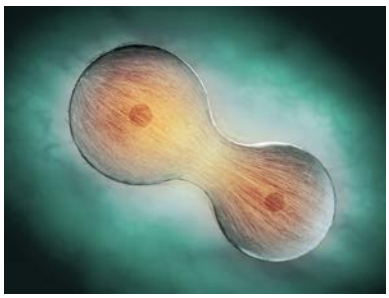
Microtubule are formed by the polymerization of α- and β-tubulin dimers and play a critical role in the cell cycle.

Our anticancer drug candidates interrupt crucial cancer cell functions by inhibiting tubulin.

Image credit: Thomas Splettstoesser (www.scistyle.com), shared under CC BY-SA 4.0



Blood vessel growth



Cell division

Targeting multidrug resistant cancers

(continued)

Targeting multidrug-resistant cancers

In functional assays, our class of anticancer drug candidates are significantly less affected by the efflux pumps MDR1, MRP1, and BCRP than many major chemotherapy agents.

Our compounds show comparable potency against wild type and cell lines resistant to other cancer drugs, while the potency of approved chemotherapy compounds such as paclitaxel, vincristine, or doxorubicin is reduced up to 4000x in the same assay (see box below).

Suitable for infusion-based chemotherapy

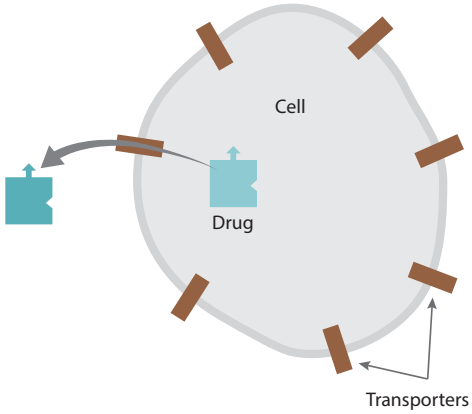
In addition, our compounds display good *in vitro* physicochemical properties as well as favorable *in vivo* pharmacokinetics suitable for use as part of standard infusion-based chemotherapy regimens.

Potential for precision second-line therapy

The ability of our novel class of tubulin inhibitors to maintain their efficacy across multiple drug-resistant cancer cell lines makes them attractive candidates for development as chemotherapy agents. In particular, a new anticancer agent that is less susceptible to major transporters could lead to more effective precision second-line therapy.

We continue to optimize several promising compounds for this program. A scale-up of the most potent compounds will allow us to perform further testing, including *in vivo* tolerability and efficacy studies.

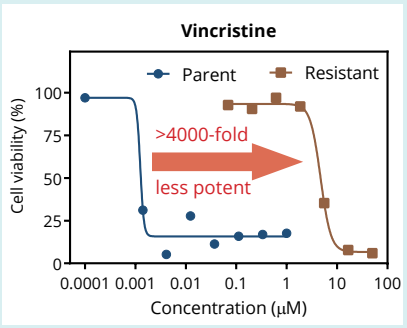
[1] www.thebalance.com/top-cancer-drugs-2663234 (accessed May 8, 2018)

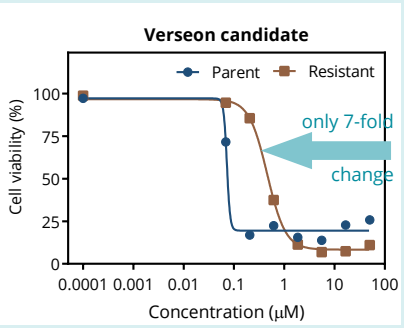


Transport proteins (brown) on the cell surface can move chemicals, including drugs, outside of the cell. This is a common mechanism for tumors to render chemotherapies ineffective.

Verseon's tubulin inhibitors are largely unaffected by common transporters in preclinical testing.

Potency in multidrug resistant cell lines





Verseon's drug candidates have been tested in preclinical *in vitro* studies on cancer cell lines resistant to common chemotherapy agents (brown) and the corresponding non-resistant parent cell lines (blue).

In studies on a cell line resistant to the chemotherapy drug vincristine (left), vincristine shows >4000-fold less potency against the resistant cell line compared to the parent. In contrast, the Verseon candidate (right) shows only a 7-fold change in potency.

Similar results have been observed in cell lines resistant to other chemotherapy agents like doxorubicin and paclitaxel.

These results demonstrate that Verseon's drug candidates maintain their potency in cell lines resistant to common marketed chemotherapy agents.

Pipeline development

Growing our portfolio of high-value disease programs

Our broad pipeline of drug programs demonstrates the ability of our proprietary, computer-driven platform to target a wide variety of challenging diseases.

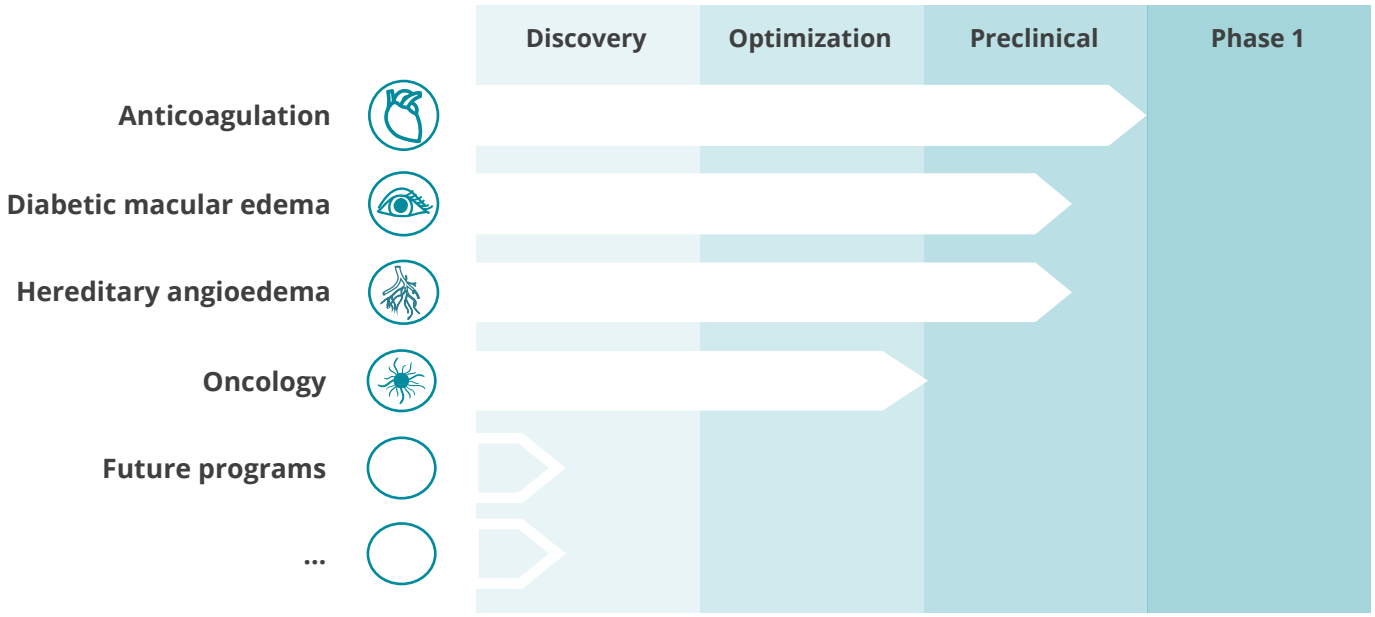
We continue to leverage the efficiency and scalability of our platform to establish a steady stream of high-quality drug programs and accelerate the development of new small-molecule drugs.

Targeting a wide range of diseases

Our disease-agnostic platform allows us to systematically pursue the many indications that are not served or poorly served by current drugs.

While chronic diseases typically involve large markets, they generally require a rigorous, time-consuming regulatory process. Acute indicates, in contrast, potentially affect smaller markets but normally allow for faster development. A mix of chronic and acute indications allows us to build a balanced portfolio of drug programs, focusing first and foremost on patient needs.

Supported by the medical experts on our advisory boards, we identify disease areas with significant market potential by factoring in disease incidence, market size, competition, and regulatory environment. In this way, we continue to grow our diverse portfolio of drug programs.



Facilities development

A state-of-the-art facility to support the development of next-generation drugs

Over the last few years, we have built-out our research and administrative facility in Fremont, CA, with a view toward consolidating our computing, chemistry, biology, and administrative functions in a single location.

Supporting the Verseon pipeline

A comprehensive buildout has allowed us to shape the building to best serve our interdisciplinary teams.

Close-knit collaboration between our computational, medicinal chemistry, and discovery biology departments, and the availability of our *in silico* methods throughout discovery and development is at the heart of Verseon's drug discovery process.

The facility also provides room for all our departments to grow as we launch additional drug programs and bring further laboratory capacities in-house.

Our chemistry and biology labs allow our scientists to perform industry-leading synthesis, testing, and biological characterization of our drug candidates. In this way, we gain closer control over the quality of our data. In addition, our lab infrastructure will allow us to reduce our reliance on contract research organizations and provides more control over timelines and budgets.

An energy-efficient building

In September 2017, we closed a Property Assessed Clean Energy (PACE) program of up to $8.65 million (subject to achievement of certain milestones), which provides financing for energy-related upgrades in this facility.

These funds will be used for building and installation of a natural gas plant and solar power panels along with other energy efficiency upgrades, all of which will allow us to significantly reduce ongoing power-related operational costs.

Leveraging value created

In June 2018, we also closed a $22.7 million mortgage for our custom-built facility, leveraging our strong balance sheet and realizing a portion of the value created through the acquisition and development of the building.

This transaction frees up operating cash while allowing us to retain ownership of our assets.

Finance review

In 2017, Verseon has continued to fund its drug programs in anticoagulation, diabetic macular edema, and oncology. In addition, a hereditary angioedema program based on orally bioavailable plasma kallikrein inhibitors was initiated.

In parallel, the Company made substantial investments in an infrastructure buildout that includes new facilities, laboratory equipment, and a high-performance computing cluster.

Results for the year ended December 31, 2017:

- Total assets on the balance sheet stood at $54.2 million, compared to $69.6 million at the end of 2016.
- Cash, cash equivalents, and short-term investments stood at $11.6 million, compared to $46.9 million at the end of 2016.
- Property, equipment, buildings and land totaled $40.7 million, compared to $22.3 million at the end of 2016.
- Research and development expenses were $15.1 million, compared to $11.5 million in 2016, primarily attributable to an acceleration of our drug programs and preparation for clinical trials.
- General and administrative expenses were $6.3 million, compared to $5.8 million in 2016.
- Non-cash expenses include stock-based compensation of $0.9 million, compared to $0.8 million in 2016, and also a currency exchange gain of $0.6 million, compared to a loss of $2.6 million in 2016.
- Net loss was $20.4 million or $0.13 per basic share, compared to a net loss of $19.5 million or $0.13 per basic share in 2016.

Capital structure

At December 31, 2017, Verseon's issued share capital consisted of 151,489,789 shares of common stock and the Company held 42,917 shares in treasury, as compared to 151,414,659 shares of common stock outstanding with no shares in treasury at December 31, 2016.

Risks and uncertainties

Research and development risks

Drug development projects are subject to numerous external influences, including economic and regulatory environments, that are outside our control.

We cannot be certain that our current or future drug development efforts will result in drug candidates that progress into human trials and subsequently into the marketplace.

The market for pharmaceuticals is highly competitive and our drug candidates may not become adopted by the medical community and may not become profitable.

Risks related to operations

We may not be able to find, attract, and retain personnel.

Unfavorable global economic conditions, natural disasters, and other factors outside our control may adversely affect us.

We rely on third parties for a portion of our scientific work as well as for manufacturing of drugs and other supplies for our clinical trials. If this work does not meet sufficient quality standards or if one of those third parties fails to live up to their obligations, operations might be negatively impacted.

Our growth may require significant capital expenditures and can experience unexpected delays that could impact various aspects of operations.

Risks related to intellectual property

Competitors may infringe upon our patents and other intellectual property and force us to defend our intellectual property by legal means.

Other companies could develop or market drug candidates with comparable treatment capabilities, reducing the market potential of our drugs.

Financial risks

Our Common Stock is settled in pound sterling, but our operations are in the United States, and, to date, we use US dollars to fund our operations. We hold funds in both currencies and are susceptible to currency fluctuations.

We have initiated clinical operations in Australia, which requires payment of vendors and contractors in Australian dollars. Currency fluctuations relating to the Australian dollar may also affect our net operating losses.

The net losses we incur may fluctuate significantly from half-year to half-year and year to year. In any particular reporting period, our operating results could be below the expectations of securities analysts or investors, which could cause the stock price to decline.

To date, we have financed our operations primarily through the sale of equity securities, convertible debt, and the mortgage loan on our freehold building signed in June 2018. The amount of our future net losses and sustainability will depend, in part, on the rate of our future expenditures and our ability to obtain funding through equity or debt financing, strategic collaborations, or out-licensing of one or more of our product candidates to potential partners.

We have not yet generated revenue and cannot be certain of securing revenue-generating agreements and profits in the future.

Risks related to securities

Even though our Common Stock is listed on AIM, a liquid market for it may not develop or be sustained.

Company operations are based in the United States, and we are incorporated under the laws of the State of Delaware, United States. Accordingly, some of the legislation in England and Wales regulating the operation of companies may not apply to us.

Governance

Board of Directors

Thomas A. Hecht, PhD
Non-Executive Chairman

Dr. Hecht has forty years of experience in business development, strategic planning, process engineering, quality management, and environmental policy. During his more than thirty years at Chevron Corporation, he served in senior positions in the United States, Australia, and South Korea. His final positions were Executive Vice President of Strategy for NWS Australia LNG and Vice President of LNG Procurement for GS Caltex in Korea. Dr. Hecht received his PhD from the California Institute of Technology.

Robert W. Karr, MD
Non-Executive Director

Dr. Karr has broad expertise in drug discovery and development, clinical trials, as well as investor relations and partnering efforts. During his extensive career in the pharmaceutical and biotech industry, he has held various senior executive positions at Idera Pharmaceuticals, Pfizer, and Warner-Lambert, including Senior Vice President of R&D at Pfizer and Chief Scientific Officer at Tioma Therapeutics. Dr. Karr completed his internship, residency, and fellowship at the Washington University School of Medicine and held a faculty position at University Iowa College of Medicine.

Grover Wickersham
Non-Executive Director

Mr. Wickersham has over forty years of experience in corporate law and finance. He is a founder and the Vice Chairman of S&W Seed, a US publicly traded agricultural company. He is the Chairman of the Board of Trustees of the mutual funds of Fisher Investments and the general partner of Glenbrook Capital, a partnership that invests in emerging growth companies. He served with the US Securities & Exchange Commission as Staff Attorney in Washington, DC, and as an SEC Branch Chief in Los Angeles. He received his AB from the University of California, Berkeley, his MBA from the Harvard Business School, and his JD from the University of California, Hasting College of the Law, and is a practicing member of the California State Bar.

Adityo Prakash
Chief Executive Officer

Prior to founding Verseon, Mr. Prakash was co-founder and CEO of Pulsent Corporation. He grew the company over five years and was instrumental in bringing Pulsent's video compression and signal processing technology to the marketplace. He is also an inventor on 38 patents. Mr. Prakash received his BS in Mathematics and Physics from the California Institute of Technology.

Eniko Fodor
Chief Operating & Chief Financial Officer

Prior to founding Verseon, Ms. Fodor co-founded Pulsent Corporation where she was the Chief Operating Officer. She played a pivotal role in growing the company and developing highly effective operating, marketing, and intellectual property strategies. She is also an inventor on 23 patents. Ms. Fodor received her BS in Physics from Universitatea Bolyai in Romania.

Directors' report

The Directors of the Company present their report and audited financial statements for the year ended December 31, 2017.

Principal activity

Verseon is an emerging pharmaceutical company. Its proprietary platform is capable of modeling interactions between a protein and a drug molecule with precision sufficient for designing new drug candidates. Verseon has been leveraging its drug discovery technology to seed a growing portfolio of programs targeting diverse disease areas, currently consisting of anticoagulation, diabetic macular edema, hereditary angioedema, and oncology.

Verseon plans to expand its pipeline of drug discovery programs to a multitude of disease areas.

Dividends

The Directors do not recommend the payment of a dividend in the current year. No dividends were paid in prior years.

Employee involvement

The Company's policy is to encourage employee involvement at all levels, as it believes that this is essential for the success of the business.

Directors and their interests

The Directors during the year and up to the date of this report are as follows:

Executive

- Adityo Prakash
- Eniko Fodor

Non-executive

- Thomas Hecht, PhD
- Robert Karr, MD (appointed on October 19, 2017)
- Grover Wickersham
- Alastair Cade (resigned on September 25, 2017)

Directors' interests in shares are shown in the Compensation Committee report.

Advisers

Nominated adviser and joint broker

- Cenkos Securities plc

  6.7.8 Tokenhouse Yard
  London EC2R 7AS
  UK

Joint broker

- Cantor Fitzgerald Europe

  One Churchill Place
  Canary Wharf
  London E14 5RB
  UK

Auditor

- Deloitte LLP

  Abbots House
  Abbey St
  Reading RG1 3BD
  UK

Deloitte LLP has expressed willingness to continue in office as auditor.

Registrars

- Computershare Investor Services (Jersey) Limited

  Queensway House
  Hilgrove Street
  St Helier JE1 1ES
  Jersey

This report was approved by the Board on June 25, 2018.

Eniko Fodor
Executive Director

Governance report

Principles of good corporate governance

Verseon is committed to high standards of corporate governance. The Directors recognize the importance of good governance and comply with the provisions of the Corporate Governance Code for Small to Mid-Sized Quoted Companies, published from time to time by the Quoted Companies Alliance, to the extent that they believe it is appropriate in light of the size, stage of development, and resources of the Company.

As the Company grows, it will regularly review the extent of its corporate governance practices and procedures.

Application of principles

Board of Directors

The Board consists of a Non-Executive Chairman, two Executive Directors, and two Non-Executive Directors.

The Board is responsible for overall Company strategy, acquisition and divestment policy, approval of the budget, approval of major commercial contracts and capital expenditure projects, and consideration of significant operational and financial matters. The Board monitors the exposure to key business risks and reviews the progress of the Company toward achievement of its budgets and forecasts. This is achieved by the close involvement of the Executive Directors in the day-to-day running of the business and by regular reports submitted to and considered at meetings of the Board and subcommittees. The Board also considers employee issues, key appointments, and compliance with relevant legislation.

The Board has both an Audit Committee and a Compensation Committee. The Board does not consider it necessary to constitute a separate Nominations Committee, and all members of the Board are consulted on the potential appointment of a new Director or a company secretary.

All Directors are able to take independent professional advice in relation to their duties, if necessary, at the Company's expense.

The Board is divided into three classes, as nearly equal in number as possible, designated Class I, Class II, and Class III. Class I Directors Thomas Hecht and Grover Wickersham were reelected at the 2016 annual general meeting to a three-year term expiring at the Company's annual general meeting in 2019. Class II Director Robert Karr is serving a term expiring at the Company's annual general meeting in 2020. Class III Directors Adityo Prakash and Eniko Fodor are serving a term expiring at the Company's annual general meeting in 2018.

Relationship with shareholders

The Board attaches high importance to maintaining good relationships with all shareholders. The Company intends to have regular meetings and communications with shareholders to keep them updated on the Company's performance, strategy, management, and Board membership.

On behalf the Board

Thomas A. Hecht, PhD
Chairman

June 25, 2018

Compensation report

Compensation Committee

Along with the Board, the Compensation Committee is responsible for monitoring and providing advice on the framework and broad policy for compensation of executive management, including any compensation benefits and payments, taking into account all factors it deems necessary; determining the compensation of Executive Directors, including compensation benefits and payments; reviewing the design of all share incentive plans for approval by the Board and Stockholders; and ensuring that all provisions regarding disclosure of compensation are clear and transparent.

The Compensation Committee comprises Thomas Hecht, who acts as the Chairman of the committee, and Robert Karr. The Compensation Committee meets as and when necessary but at least once a year.

Compensation policy

The Company's policy on executive compensation is intended to attract and retain high-quality executives by paying competitive compensation packages relevant to each executive's role, experience, and the external market. The packages include a basic salary, benefits, and stock options.

Directors' compensation

In 2017, Mr. Cade received his compensation in the amount of $43.5 thousand in cash as compared to $60 thousand in 2016. In addition, the Company engaged Chaka Investments UK Limited, where Mr. Cade is the director, to provide consulting service for an aggregated amount of $0.1 million in 2017, as compared to $0.2 million in 2016.

In 2017, Dr. Hecht received his compensation in from of a combination of Restricted Stock Units (RSU) and $11 thousand in cash. In 2016, Dr. Hecht received his compensation in the form of RSU. In 2017, he was granted RSU for 36,144 shares of Common Stock, compared to 28,037 in 2016. A total of 32,091 RSU vested in 2017, compared to 22,665 in 2016. 18,072 RSU of the total vested in 2017 were admitted to AIM in January 2018.

In 2017, Dr. Karr received his compensation in the form of Restricted Stock Units (RSU). In 2017, he was granted RSU for 36,144 shares of Common Stock. 6,024 RSU vested in 2017 that were admitted to AIM in January 2018.

In 2017, Mr. Wickersham received his compensation in the form of $30 thousand in cash. In 2016, he received his compensation in the form of $50 thousand in cash and a grant of RSU for 15,463 shares of Common Stock. A total of 15,463 RSU vested in 2017, compared to 0 in 2016.

The employment agreements with Mr. Prakash and Ms. Fodor provide each of them an annual salary of $0.3 million and, at the discretion of the Board, a performance bonus. The agreements contain provisions setting forth severance benefits upon termination depending on whether employment is terminated with or without cause, with or without good reason or upon death or disability. The agreements include a proprietary information and inventions agreement relating to confidentiality of the Company's proprietary information and the assignment of inventions and intellectual property. In 2017, Mr. Prakash and Ms. Fodor were each granted 400,000 options that vest over three years. For the years ended December 31, 2017 and 2016, total annual salary earned by Mr. Prakash and Ms. Fodor was $0.3 million each.

Directors' interests

The Directors who held office at the date of this report had the following beneficial interests in the Common Stock of the Company at the date of this report:

Name	Number of Shares
Eniko Fodor	31,008,486
Thomas Hecht	45,328
Robert Karr	185,264
Adityo Prakash	31,528,281
Grover Wickersham	15,463

On behalf of the Compensation Committee

Thomas Hecht
Chairman, Compensation Committee

June 25, 2018

Audit Committee report

Role and responsibilities

The Audit Committee (the "Committee") is responsible for ensuring that the financial performance of the Company is properly monitored and reported. The Committee reviews the independence and objectivity of the external auditor each year. The Committee also reviews the adequacy of the Company's internal controls, accounting policies, and financial reporting, and provides a forum through which the Company's external auditor reports to the Non-Executive Directors.

Membership and meetings

The Committee comprises Grover Wickersham, who acts as the Committee Chairman, and Thomas Hecht. The Committee has specific terms of reference that deal with its authority and duties. It meets at least three times a year, with the Executive Directors and the external auditor attending by invitation.

The Board has decided that the size of the Company does not justify a dedicated internal audit function. This position will be reviewed as the Company's activities increase.

Financial reporting

The Committee shall monitor the integrity of the financial statements of the Company, including its annual and interim reports, interim management statements, preliminary results announcements, and any other formal announcement relating to the Company's financial performance. It will review significant financial reporting issues and judgments they may contain. The Committee shall also review summary financial statements and any financial information contained in certain other documents, such as announcements of a price-sensitive nature.

The Committee shall review and challenge where necessary:

- The Company's accounting standards and the consistency of, and any changes to, accounting policies both on a year-to-year basis and across the Company.
- The methods used to account for significant or unusual transactions where different approaches are possible.
- The appropriateness of any estimates and judgments in the Company's financial reporting, while taking into account the views of the independent auditor.
- The clarity of disclosure in the Company's financial reports and the context in which statements are made.
- All material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as they relate to the audit and risk management).

Internal control and risk management

The Board has overall responsibility for ensuring that the Company has processes to identify, evaluate, and manage key risks. The system is designed to manage and minimize risk of failure to achieve the Company's strategic objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The Directors consider that the present system of internal control is sufficient for the needs of the Company and adequately addresses the risks to which the Company is perceived to be exposed.

On behalf of the Audit Committee

Grover Wickersham
Chairman, Audit Committee

June 25, 2018

Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

The AIM Rules require the Directors to prepare financial statements for each financial year. Under those rules, the Directors have elected to prepare the financial statements in accordance with United States Generally Accepted Accounting Practice ("US GAAP").

The Directors believe that the accounts should not be approved unless the Directors are satisfied that the accounts give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable, and understandable information, and
- provide additional disclosures when compliance with the specific requirements in US GAAP are insufficient to enable users to understand the impact of particular transactions, other events, and conditions on the Company's financial position and financial performance.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with US GAAP and the AIM Rules. They are also responsible for safeguarding the assets of the Company 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. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that to the best of their knowledge the financial statements, prepared in accordance with US GAAP, give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Company.

Financial statements

Financial statements

Independent auditor's report to the Directors of Verseon Corporation

Report on the audit of the non-statutory financial statements

Opinion

In our opinion the non-statutory financial statements:

- present fairly, in all material respects, the state of the group's affairs as of December 31, 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with accounting principles generally accepted in the United State of America.

We have audited the non-statutory financial statements of Verseon Corporation and its subsidiaries (together the 'group') which comprise:

- the Consolidated balance sheets;
- the Consolidated statements of operations and comprehensive loss;
- the Consolidated statements of cash flows;
- the Consolidated statements of stockholders' equity; and
- the related notes A to E.

The financial reporting framework that has been applied in their preparation is accounting principles generally accepted in the United States of America ("US GAAP").

Basis for opinion

We conducted our non-statutory 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 non-statutory 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 non-statutory financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, 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.

Summary of our audit approach

The key audit matters that we identified in the current year were related to the accounting treatment of share based payment arrangements, the valuation and allocation of costs relating to the new premises within the VRH1 LLC subsidiary, and the classification of PACE finance obtained in the year.

The materiality that we used in the current year was $0.75 million which was determined based on a blend of multiple of benchmarks including total expenses, total assets and net assets.

We have performed full scope audits on all entities within the group; Verseon Corporation, Nirog Therapeutics LLC and VRH1 LLC. There have been no significant changes in our audit approach to that performed in the prior period.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the non-statutory financial statements is not appropriate; or
- the directors have not disclosed in the non-statutory financial statements any identified material uncertainties that may cast significant doubt about the group'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 non-statutory financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the non-statutory financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included 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 non-statutory financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report to the Directors of Verseon Corporation
(continued)

Key audit matter	How the scope of our audit responded to the key audit matter	Key observations
Share based payment arrangements The group has a number of stock options, warrants and restricted stock units granted to participants. The accounting treatment and supporting grant date fair value calculations are inherently complex. We identified a key audit matter in respect of the significant volatility rate applied within the Black Scholes fair value models. This requires significant management judgement and is a potential area for misstatement due to fraud. Management have applied a rate of 75% to awards granted prior to the May 2015 initial public offering (IPO) and 50% to ones granted after this date, as set out in footnote E 16 to the financial statements.	Our work in respect of assessing the volatility rate applied included the following: ► Evaluated the design and implementation of controls surrounding management's review of the volatility rate applied; ► For a sample of current year grants, assessed whether the rate is being applied correctly within the fair value model; ► Calculated the actual volatility of the group share price since the May 2015 IPO to establish the impact on the fair value and current period expense; ► Considered the reasonableness of the rate taking into account the life cycle of the group and the expected changes to the business over the vesting period of schemes granted during the year; and ► Obtained share price data from comparative companies to further assess the rate applied and the impact on the current period expense.	From our work performed, we are satisfied that the volatility rates applied in the models to value share based payment arrangements are appropriate.
Allocation of costs relating to the new premises Within the company's subsidiary, VRH1 LLC, the construction of the new building and premises was finalized during the period. Costs capitalised in the year amounted to $17.5m taking the total construction costs capitalised to date to $29.6m as set out in footnote E 3 to the financial statements. Due to level of amounts being incurred in the period we consider the valuation and allocation of costs to represent a potential area of material risk of misstatement, resultant from non-adherence to the capitalisation criteria under US GAAP.	Our work in respect of assessing the allocation of costs capitalised on the new premises included: ► Evaluated the design and implementation of controls surrounding management's review of costs capitalised; ► Tested a sample of costs capitalised into Property and equipment, assessing their nature against the specific capitalisation criteria set out in US GAAP; ► Tested a sample of costs expensed to the Consolidated statement of operations to assess whether these were allocated correctly; and ► Made inquiries and obtained evidence from management over constructor contract changes in the period to assess the reasonableness of capitalised costs.	From our procedures performed, we are satisfied that the costs capitalised relating to the new premises are appropriate under US GAAP.
Classification of PACE finance Due to the limited accounting guidance under US GAAP, judgement is required as to the classification of the Property Assessed Clean Energy (PACE) finance facility in the financial statements, as set out in footnote E 6 to the financial statements. We identified a key audit matter in respect of the classification and understandability of PACE finance in the statement of financial position and statement of profit and loss respectfully due to the unusual nature of the finance.	Our work in respect of assessing the classification of PACE finance included: ► Evaluated the design and implementation of controls surrounding management's review of PACE classification; ► Reviewed US GAAP in order to determine whether the accounting treatment of the finance was appropriate under US GAAP; ► Reviewed the disclosures with respect to this matter to assess whether they comply with US GAAP.	From our procedures performed, we are satisfied that the classification of the finance within the financial statements is appropriate.

Independent auditor's report to the Directors of Verseon Corporation
(continued)

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 the scope of our audit work and in evaluating the results of our work.

We determined materiality to be $0.75m for the group, and $0.74m for the company which is determined based on a blend of multiple of benchmarks including total expenses, total assets and net assets.

Total expenses and asset related benchmarks have been chosen as the basis for materiality as this is the measure by which stakeholders and the market assess the progress of the group in its research activities.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $0.04m, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the group and its environment and assessing the risks of material misstatement at the group level. All subsidiaries are managed from the company's head office in Fremont, California and subject to a common control environment. All audit work was performed by the group engagement team which included visiting the group's US headquarters.

Based on that assessment, we have performed full scope audits for all three entities within the group structure; Verseon Corporation, Nirog Therapeutics LLC and VRH1 LLC. Our audit work on these entities was executed at levels of materiality applicable to each individual company ranging from $0.29m to $0.74m which were lower than group materiality. At the parent entity level we also tested the consolidation process including assessment of all entries posted at that stage.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the non-statutory financial statements and our auditor's report thereon.

Our opinion on the non-statutory financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the non-statutory financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the non-statutory financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the non-statutory financial statements or a material misstatement of the other information. 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 respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the non-statutory financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the non-statutory financial statements, the directors are responsible for assessing the group'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 company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report to the Directors of Verseon Corporation
(continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the non-statutory financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report 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 non-statutory financial statements.

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

Use of our report

This report is made solely to the company's Directors, as a body, in accordance with our engagement letter dated 18 May 2018, and to comply with the AIM listing rules. Our audit work has been undertaken so that we might state to the company's Directors those matters we are required to state to them in an auditor's report 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 Directors as a body, for our audit work, for this report, or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Simon Olsen.

Deloitte LLP
Reading
United Kingdom

June 25, 2018

Consolidated balance sheets

As of December 31, 2017 and 2016

(US $'000, except share amounts and par values)	Note	December 31, 2017	December 31, 2016
Assets			
Current assets			
Cash and cash equivalents	1	3,290	29,225
Short-term investments	1	8,327	17,643
Prepaid expenses and other current assets	2	1,810	370
Total current assets		**13,427**	**47,238**
Buildings and land, net	3	38,314	20,938
Property and equipment, net	3	2,414	1,388
Total assets		**54,155**	**69,564**
Liabilities and stockholders' equity			
Current liabilities			
Accounts payable		4,466	2,067
Accrued liabilities	5	1,902	2,550
Total current liabilities		**6,368**	**4,617**
Long-term liabilities			
Long-term debts	6	2,572	—
Total liabilities		**8,940**	**4,617**
Commitments and contingencies	12		
Stockholders' equity	13		
Common stock—$0.001 par value, 300,000,000 shares authorized as of December 31, 2017 and 2016, respectively, 151,489,789 and 151,414,659 shares issued and outstanding (exclusive of stock held in Treasury of 42,917 and 0) as of December 31, 2017 and 2016, respectively.		152	151
Additional paid-in capital		137,560	136,646
Additional paid-in capital—Treasury		(11)	—
Loan receivable from stockholders		(15,087)	(14,830)
Accumulated deficit		(81,114)	(60,728)
Accumulated other comprehensive loss		(5)	(5)
Total stockholders' equity		**41,495**	**61,234**
Non-controlling interests in subsidiaries	4	3,720	3,713
Total equity		**45,215**	**64,947**
Total liabilities and stockholders' equity		**54,155**	**69,564**

See accompanying notes to consolidated financial statements.

These financial statements were approved by the Board of Directors on June 25, 2018 and signed on its behalf by:

Adityo Prakash
Chief Executive Officer

Consolidated statements of operations and comprehensive loss

For the years ended December 31, 2017 and 2016

(US $'000, except share and per share amounts)	Note	For the year ended December 31, 2017	2016
Operating expenses			
Research and development expenses		15,104	11,510
General and administrative expenses		6,329	5,828
Total operating expenses		**21,433**	**17,338**
Operating loss		**(21,433)**	**(17,338)**
Interest expense		—	(3)
Interest income		483	460
Currency exchange gain (loss)		562	(2,606)
Loss before income taxes		**(20,388)**	**(19,487)**
Income tax provision	7	—	—
Net loss		**(20,388)**	**(19,487)**
Net loss attributable to non-controlling interests		2	5
Net loss attributable to Verseon Corporation		**(20,386)**	**(19,482)**
Net loss		(20,388)	(19,487)
Unrealized gains on available-for-sale securities		—	31
Total comprehensive loss		**(20,388)**	**(19,456)**
Comprehensive loss attributable to non-controlling interests		(2)	(5)
Comprehensive loss attributable to Verseon Corporation		**(20,386)**	**(19,451)**
Net loss attributable to Verseon Corporation common stockholders per share—basic and diluted	8	(0.13)	(0.13)
Weighted-average shares of stock outstanding used in computing net loss per share—basic and diluted		151,436,635	151,339,342

See accompanying notes to consolidated financial statements.

Consolidated statements of cash flows

For the years ended December 31, 2017 and 2016

(US $'000)	For the year ended December 31, 2017	2016
Cash flows from operating activities		
Net loss	(20,388)	(19,487)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	506	298
Currency exchange (gain) loss from re-measurement	(562)	2,612
Stock-based compensation expense	897	767
Interest earned from loan receivable from stockholders	(313)	(294)
Changes in assets and liabilities		
Increase in prepaid expenses and other current assets	(1,438)	(202)
Increase in accounts payable	1,311	86
Increase in accrued liabilities	690	79
Net cash used in operating activities	**(19,297)**	**(16,141)**
Cash flows from investing activities		
Purchases of property and equipment	(19,159)	(9,895)
Purchases of available-for-sale securities investments	(21,545)	(28,665)
Maturities of available-for-sale securities investments	26,729	44,712
Sales of available-for-sale securities investments	4,133	250
Net cash (used in) provided by investing activities	**(9,842)**	**6,402**
Cash flows from financing activities		
Proceeds from exercise of stock options and warrants	17	31
Proceeds from PACE financing	2,572	—
Proceeds from issuance of equity in Nirog	9	—
Repayment of promissory note from stockholders	44	—
Repayment of debt	—	(219)
Net cash provided by (used in) financing activities	**2,642**	**(188)**
Net decrease in cash and cash equivalents	**(26,497)**	**(9,927)**
Effect of currency exchange rate changes	**562**	**(2,612)**
Cash and cash equivalents at the beginning of the period	**29,225**	**41,764**
Cash and cash equivalents at the end of the period	**3,290**	**29,225**

Consolidated statements of cash flows

For the years ended December 31, 2017 and 2016 (continued)

(US $'000)	Note	For the year ended December 31, 2017	2016
Supplemental disclosure of non-cash investing and financing activities			
Purchases of property and equipment under accounts payable and accrued liabilities		2,641	2,890

Interest payment was $0 thousand in 2017 and $83 thousand in 2016.
No income taxes were paid in 2017 and 2016.

See accompanying notes to consolidated financial statements.

Consolidated statements of stockholders' equity

For the years ended December 31, 2017 and 2016

(US $'000)	Common Stock at par value	Additional paid-in capital	Treasury Stock APIC	Loan receivable from stock-holders	Accumu-lated deficit	Other compre-hensive gain (loss)	Stock-holders' equity (deficit)	Non-con-trolling interest	Total stock-holders' equity (deficit)
Balance at December 31, 2015	**151**	**135,808**	**—**	**(14,541)**	**(41,246)**	**(36)**	**80,136**	**3,718**	**83,854**
Exercise of stock options and warrants—Common Stock	*	31	—	—	—	—	31	—	31
Issuance of shares from Restricted Stock Units	*	*	—	—	—	—	*	—	*
Loans to stockholders	—	—	—	(289)	—	—	(289)	—	(289)
Stock-based compensation	—	807	—	—	—	—	807	—	807
Net loss	—	—	—	—	(19,487)	—	(19,487)	—	(19,487)
Net loss attributable to non-controlling interests	—	—	—	—	5	—	5	(5)	—
Other comprehensive gain	—	—	—	—	—	31	31	—	31
Balance at December 31, 2016	**151**	**136,646**	**—**	**(14,830)**	**(60,728)**	**(5)**	**61,234**	**3,713**	**64,947**
Exercise of stock options and warrants—Common Stock	*	17	—	—	—	—	17	—	17
Issuance of shares from Restricted Stock Units	1	—	—	—	—	—	1	—	1
Loans to stockholders	—	—	(11)	(257)	—	—	(268)	—	(268)
Stock-based compensation	—	897	—	—	—	—	897	—	897
Investment in Nirog	—	—	—	—	—	—	—	9	9
Net loss	—	—	—	—	(20,388)	—	(20,388)	—	(20,388)
Net loss attributable to non-controlling interests	—	—	—	—	2	—	2	(2)	—
Balance at December 31, 2017	**152**	**137,560**	**(11)**	**(15,087)**	**(81,114)**	**(5)**	**41,495**	**3,720**	**45,215**

* Amount less than $1,000 and insignificant after rounding.

See accompanying notes to the consolidated financial statements.

Consolidated statements of stockholders' equity

For the years ended December 31, 2017 and 2016 (continued)

(Shares)	Common Stock	Total shares outstanding
Balance at December 31, 2015	**150,878,815**	**150,878,815**
Exercise of stock options and warrants—Common Stock	476,166	476,166
Issuance of shares from Restricted Stock Units	59,678	59,678
Balance at December 31, 2016	**151,414,659**	**151,414,659**
Exercise of stock options and warrants—Common Stock	71,065	71,065
Issuance of shares from Restricted Stock Units	46,982	46,982
Treasury Stock	(42,917)	(42,917)
Balance at December 31, 2017	**151,489,789**	**151,489,789**

See accompanying notes to the consolidated financial statements.

Notes to consolidated financial statements

A. Basis of presentation

The consolidated financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The financial information is presented in United States Dollars ("$"). All intercompany accounts and transactions have been eliminated in consolidation.

The accounting policies applied are consistent with those that were applied to the consolidated financial statements for the year ended December 31, 2016.

B. History and organization of the Company

The Company was established as Verseon LLC on July 18, 2002 in the state of Delaware. In August 2007, the Company incorporated as a general corporation in the state of Delaware. The Company is headquartered in Fremont, California. It completed its initial public offering ("IPO") on May 7, 2015 on the Alternative Investment Market ("AIM") of the London Stock Exchange.

The Company has formed Verseon India Private Limited ("VIPL") together with a Mauritius based private equity investor. VIPL was incorporated in Andhra Pradesh, India in March 2006 to manage and maintain the Company's supercomputing cluster. The Company has since closed this operation in 2009 and is in the process of dissolving the legal entity.

Nirog Therapeutics LLC ("Nirog") was formed on September 23, 2009 as a Delaware limited liability company. Nirog was established as a vehicle to fund the research and development of the Company's anticoagulation program and the Company owned 79.9% and 76.8% of Nirog as of December 31, 2017 and 2016, respectively.

In August 2015, the Company acquired a property in Fremont, California with approximately 85,000 square feet of office and laboratory space for $8.7 million through its wholly owned subsidiary, VRH1 LLC, in the state of California. The redeveloped facility will house the Company's drug discovery and development operations as well as the corporate headquarters.

On October 13, 2017, VCR1, a wholly owned subsidiary of Verseon, was incorporated in Australia. VCR1 conducts clinical trials on behalf of Verseon.

These consolidated financial statements have been prepared on a going concern basis, which assumes the realization of assets and settlement of liabilities in the normal course of business. The Company is financed substantially through equity funding, upon which the company is reliant to fund its operations until positive cash flow is generated from ongoing business operations. A successful public offering was made on May 7, 2015 and as such the Company has secured the financing it requires to continue in operational existence for the foreseeable future. The Company has arranged additional financing in the amount of $22.7 million secured against the facility as disclosed in the subsequent events. As such, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of no less than 12 months from the date of signing these consolidated financial statements. Thus, the Directors continue to adopt the going concern basis of preparation.

These consolidated financial statements do not include any adjustments to the carrying value or classification of recorded asset amounts and carrying value or classification of liabilities that might be necessary, should the Company be unable to continue as a going concern.

C. Description of business

Verseon is an emerging pharmaceutical company that uses a proprietary platform to design and develop new drug candidates. Verseon has created a proprietary computational platform that can model molecular interactions with sufficient accuracy to drive the drug discovery process. For any disease program, the platform first generates vast numbers of novel drug-like, synthesizable compounds which are then computationally tested against a disease-causing protein to identify the best binders, i.e., drug candidates that could potentially treat the disease. These computationally designed candidates are synthesized and sent through a series of disease specific *in vitro* and *in vivo* tests to identify the best candidates for clinical testing in humans. The Verseon process is disease agnostic and can systematically yield drug candidates that cannot be found with other current methods.

Notes to consolidated financial statements
(continued)

D. Summary of significant accounting policies

a. Basis of preparation and principles of consolidation: The accompanying consolidated financial statements include the accounts of the Company, consolidated with the accounts of all of its subsidiaries and affiliates in which the Company holds a controlling financial interest as of the financial statement date. These consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The financial information is presented in United States Dollars ("$"). All intercompany amounts have been eliminated.

b. Use of estimates: The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as on the date of the financial statements and the reported amount of revenues and expenses during the reported period. Actual results could differ materially from those estimates.

c. Revenue recognition: The Company has not earned revenue from the sale of its new drug candidates. Revenue will be recognized when persuasive evidence of an agreement exists, delivery of service occurs, the sales price is fixed, or determinable and collectability is reasonably assured.

d. Research and development expenses: The Company's research and development expenses include, but are not limited to, wages and related benefits, including stock-based compensation, facilities, supplies, external services, and other expenses that are directly related to its research and development activities. Research and development costs are expensed as they occur. When payments for research and development services are made prior to the services being rendered, those amounts are recorded as prepaid assets on the consolidated balance sheet and are expensed as the services are provided. For the years ended December 31, 2017 and 2016, research and development expenses were $15.1 million and $11.5 million, respectively.

e. Foreign currency: The Company records foreign currency transaction gains and losses, realized and unrealized, and foreign exchange gains and losses due to re-measurement of monetary assets and liabilities denominated in foreign currency as currency exchange gains or losses in the consolidated statements of operations and comprehensive loss. The Company recorded a gain of $0.6 million in 2017 as compared to a loss of $2.6 million in 2016.

f. Cash equivalents and investments: The Company considers investments in highly liquid instruments that are purchased with original maturities of three months or less to be cash equivalents. The Company limits its concentration of risk by diversifying its investments among a variety of issuers. All investments are classified as available for sale and are recorded at fair value based on quoted prices in active markets or based upon other observable inputs, with unrealized gains and losses excluded from earnings and reported in other comprehensive loss. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Realized gains and losses and declines in fair value that are deemed to be other than temporary are reflected in the consolidated statement of operations. The cost of securities sold is based on the specific-identification method.

g. Fair value of financial instruments: The carrying amounts of certain of the Company's financial instruments, including cash equivalents and short-term investments, approximate their fair value. Fair value is considered to be the price at which an asset could be exchanged or a liability transferred in an orderly transaction between knowledgeable, willing parties in the principal or most advantageous market for the asset or liability. Where available, fair value is based on or derived from observable market prices or other observable inputs. Where observable prices or inputs are not available, valuation models are applied. The valuation techniques involve estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity.

h. Concentration of credit risk: The Company invests in a variety of financial instruments and, by its policy, limits the amount of credit exposure with any one issuer, industry or geographic area.

i. **Property and equipment, net:** Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives. The estimated useful lives of assets are as follows:

	Estimated useful life
Computer and peripherals	2 years
Lab equipment	5 years
Office equipment	5 years
Furniture and fittings	5 years
Building	20 years

j. **Impairment of long-lived assets:** The Company reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. An impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use of an asset are less than its carrying amount. The impairment loss would be based on the excess of the carrying value of the impaired asset over its respective fair value. To date, the Company has not recorded any impairment losses.

k. **Income taxes:** Income taxes are accounted for under the asset and liability method.

   i. **Current income taxes:** The Company assesses its current income tax expense based upon the taxes due in each of its operating tax jurisdictions, which are comprised of the U.S. and India. The Company has its Indian subsidiary, VIPL, which is dormant and not incurring any taxes. The Company is located in the United States with all of its operating expenses occurring within this tax jurisdiction. Payments of advance taxes and income taxes payable in the same tax jurisdictions are offset.

   ii. **Deferred income taxes:** Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial information carrying amounts of assets and liabilities and their respective tax basis, operating loss carry forwards, and tax credits. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the Consolidated Statements of Operations in the period of change.

   Uncertain tax positions are recognized using the more-likely-than-not threshold determined solely based on technical merits that the tax positions will be sustained upon examination by a taxing authority that has full knowledge of all relevant information. Tax positions that meet the recognition threshold are measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement.

l. **Property Assessed Clean Energy ("PACE") program:** Under the terms of the PACE agreement, the amounts received are repayable as property tax assessments made over the 25-year term of the agreement. In the event that the property is sold, the obligation to pay such amounts transfers to the purchaser. The Company has recorded the amount received as a liability.

m. **Net loss per share**: In accordance with the provisions of ASC Topic 260, "Earnings per Share", basic loss per share is computed by dividing the net loss attributable to stockholders of the Company by the weighted average number of shares outstanding during the period. Diluted earnings per share are computed on the basis of the weighted average number of common and dilutive common equivalent shares outstanding during the period. Potentially dilutive shares are excluded when the effect would be to increase diluted earnings per share or reduce diluted losses per share. The following potentially dilutive securities were excluded from the calculation of diluted net loss per share due to their anti-dilutive effect:

	Year ended December 31,	
	2017	2016
Options to purchase Common Stock	3,111,109	1,990,825
Warrants to purchase Common Stock	2,331,408	2,351,965
Restricted Stock Units	101,663	76,357
Total	**5,544,180**	**4,419,147**

n. Stock-based compensation: The Company accounts for stock-based compensation using the Black-Scholes pricing model to determine the fair value of stock option and warrant grants. The stock-based compensation cost is generally recognized over the vesting period of the equity grant. For grants to employees, the cost is recognized over the requisite service period.

The Black-Scholes option-pricing model requires the use of highly subjective and complex assumptions, including the expected stock-price volatility, the expected term of the grants, risk-free interest rate, and expected dividends, which play a significant role in determining the fair value of stock-based awards. As sufficient trading history does not yet exist for our Common Stock, our estimate of the expected stock-price volatility is based on various factors including the volatility of the shares of comparable publicly traded companies in the industry. The expected term of the grants is based on the vesting date and the contractual term. The risk-free interest rate is based on the U.S. Treasury yield for a term consistent with the expected term of the grants. The Company has no history or expectation of paying dividends on its Common Stock.

Total stock-based compensation expense recognized associated with stock options, warrants and restricted stock units was as follows:

	Year ended December 31,	
(US $'000)	2017	2016
Research and development	453	330
General and administrative	444	437
Total *	**897**	**767**

* Net of $40 thousand in 2016 to reverse liabilities accrued in 2015.

o. Recently issued accounting standards: In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities", which eliminates the requirement for public companies to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. Additionally, the standard requires public entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. Furthermore, the standard requires presentation of financial assets and liabilities by measurement category and form of financial asset on the balance sheet or accompanying notes to the financial statements. The standard will be effective for the fiscal year 2018 and annual periods and interim periods thereafter. The Company is currently evaluating the impact of adoption on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)", which establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. It requires lessees to recognize the lease assets and lease liabilities that arise from leases in the statement of financial position and to disclose qualitative and quantitative information about lease transactions, such as information about variable lease payments and options to renew and terminate leases. The new standard will be effective for the fiscal year 2019 and annual periods and interim periods thereafter. The Company is currently evaluating the impact of adoption on the consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments- Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments", which aims to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. It replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The standard is effective for the fiscal year 2020 and annual periods and interim periods thereafter. Early adoption is permitted. The Company is currently evaluating the impact of adopting this guidance on its consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09 (ASC Topic 718), "Stock Compensation: Scope of Modification Accounting". The amendments in this ASU provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The Company is required to adopt the guidance in the first quarter of fiscal year 2019. Early adoption is permitted. The Company is in the process of assessing the impact of this ASU on its consolidated interim report.

Only the updates that the Company believes are relevant to its operations have been included here.

Notes to consolidated financial statements
(continued)

E. Notes to financial information

1. Cash, cash equivalents, and short term investments

The amortized cost and fair value of cash equivalents and investments at December 31, 2017 and 2016 were as follows:

	December 31, 2017		
(US $'000)	Amortized cost	Gross unrealized losses	Fair value
Certificate of deposits	4,080	—	4,080
Municipal securities	910	—	910
Government sponsored agencies	3,337	—	3,337
Total available-for-sale securities	**8,327**	**—**	**8,327**
Classified as:			
Cash equivalents *			—
Short-term investments			8,327
Long-term investments			—
Total available-for-sale securities			**8,327**

	December 31, 2016		
(US $'000)	Amortized cost	Gross unrealized losses	Fair value
Money market fund	12,797	—	12,797
Certificate of deposits	6,069	—	6,069
Municipal securities	4,211	(2)	4,209
Government sponsored agencies	6,720	(3)	6,717
Commercial paper	4,398	—	4,398
Corporate securities	1,000	—	1,000
Total available-for-sale securities	**35,195**	**(5)**	**35,190**
Classified as:			
Cash equivalents *			17,547
Short-term investments			17,643
Long-term investments			—
Total available-for-sale securities			**35,190**

* Cash and cash equivalents at December 31, 2017 of $3,290 thousand comprises cash of $3,290 thousand and cash equivalents of $0 thousand, as compared to cash and cash equivalents of $29,225 thousand at December 31, 2016, which comprises cash of $11,678 thousand and cash equivalents of $17,547 thousand.

The Company invested the funds raised from the IPO in May 2015 with liquidity that is sufficient to meet its operating and investment cash requirements as well as to preserve principal. All available-for-sale securities held as of December 31, 2017 and 2016 had contractual maturities of less than two years and high quality investment grade ratings. Realized gains on available-for-sale securities for the year ended December 31, 2017 were $163 thousand and were recorded as interest income, as compared to the realized gains on available-for-sale securities of $146 thousand for the year ended December 31, 2016.

In accordance with the guidance of Accounting Standards Codification ("ASC") Top 820, "Fair Value Measurement", fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

The Company's financial assets and liabilities subject to fair value measurements on a recurring basis and the level of inputs used in such measurements are as follows as of December 31, 2017 and 2016:

(US $'000)	December 31, 2017			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Certificate of deposits	—	4,080	—	4,080
Municipal bonds	—	910	—	910
Government sponsored agencies	—	3,337	—	3,337
Total	**—**	**8,327**	**—**	**8,327**

(US $'000)	December 31, 2016			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Money market fund	12,797	—	—	12,797
Certificate of deposits	—	6,069	—	6,069
Municipal bonds	—	4,209	—	4,209
Government sponsored agencies	—	6,717	—	6,717
Commercial paper	—	4,398	—	4,398
Corporate debt securities	—	1,000	—	1,000
Total	**12,797**	**22,393**	**—**	**35,190**

Notes to consolidated financial statements
(continued)

2. Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of:

	December 31,	
(US $'000)	2017	2016
Prepaid expenses and other current assets:		
Equipment related deposits	928	171
Facilities related deposits	418	—
Operating lease(s) related deposits	56	56
Equipment maintenances and software licenses	91	54
Insurance premium	42	42
Other	275	47
Prepaid expenses and other current assets	**1,810**	**370**

3. Property and equipment, net

Property and equipment, net consist of:

	December 31,	
(US $'000)	2017	2016
Land and building	38,314	20,938
Other property and equipment:		
Lab equipment	2,328	1,401
Office equipment	4	4
Computer and peripherals	867	362
Furniture and fittings	226	126
Total	**3,425**	**1,893**
Less: Accumulated depreciation	(1,011)	(505)
Property and equipment, net	**2,414**	**1,388**

Depreciation expense was $0.5 million and $0.3 million for the years ended December 31, 2017 and 2016, respectively.

4. Nirog

The consolidated financial statements presented include the financial position and performance of Nirog Therapeutics LLC ("Nirog"), a Delaware limited liability company. Nirog was established in September 2009 as a vehicle to fund the research and development of the Company's anticoagulation program. The Company has been investing in Nirog and as a consequence owned 79.9% and 76.8% of the outstanding equity of Nirog as of December 31, 2017 and 2016, respectively.

5. Accrued liabilities

Accrued liabilities consist of:

(US $'000)	December 31, 2017	2016
Professional services—audit	91	95
Professional services—other	402	243
Facility buildout	668	1,587
Legal services	84	74
Vacation accrual	534	421
Various operating accruals	123	130
Total accrued liabilities	**1,902**	**2,550**

6. Debts

In September 2017, VRH1 secured financing for energy-related upgrades to its property via the Property Assessed Clean Energy (PACE) program in the amount of up to $8.65 million subject to achievement of certain milestones. PACE is a state-legislated framework providing long-term financing for energy efficiency, renewable energy, and water conservation projects that is repaid through property assessments. PACE is non-recourse financing that is also non-accelerating and transferable upon property sale. The financing carries a fixed 6.50% interest for 25 years and the term of the property assessment is 25 years. These funds will be used for building and installation of a natural gas plant and solar power panels along with other energy efficiency upgrades, all of which will allow the Company to significantly reduce its ongoing power-related operational costs. As of December 31, 2017, based on milestones achieved to date, the Company had received a payment of $2.6 million, which is net of charges incurred of $0.4 million, which will be amortized over the life of the loan.

7. Income taxes

The Company did not record a federal or state current or deferred income tax provision or benefit for the years ended December 31, 2017 and 2016 due to the losses incurred in the corresponding periods, as well as the Company's continued maintenance of full valuation allowance against its net deferred tax assets. The Company's income tax provision of $nil in said periods represents an effective tax rate of 0%.

At December 31, 2017, the Company had federal and state Net Operating Loss ("NOL") carry forwards of approximately $53.8 million and $33.3 million, respectively, which expire at various dates through 2037 if not utilized. At December 31, 2017 the Company had federal and state research credit carry forwards that totaled $2.0 million and $1.6 million, respectively, which expire at various dates through 2037 if not utilized.

During the year ended December 31, 2017, the only change in the balance of gross uncertain tax benefits was an increase of $0.5 million related to current year and prior year tax positions. At December 31, 2017, the balance of gross uncertain tax benefits was $1.2 million as compared to $0.7 million as of December 31, 2016. All of the unrecognized tax benefits would, if recognized, reduce the Company's annual effective tax rate. The Company currently has a full valuation allowance against its net deferred tax assets which would impact the timing of the effective tax benefit should any of the uncertain tax positions be favorably settled in the future.

The components of the Deferred Tax Assets were calculated using the federal statutory income tax rate of 21% and 34% and the state statutory income tax rate of 7% and 6% for 2017 and 2016 respectively. The Company's deferred tax assets differ from deferred income tax assets computed by applying the federal statutory income tax rate of 34% to the loss before income taxes principally due to the effect of (i) stock based compensation expenses of $0.9 million (2016: $0.8 million) for which there is no associated income tax deduction; (ii) losses in Nirog not attributable to the Company; and (iii) the effect of losses incurred by the Company for which the potential deferred tax asset has a full valuation allowance.

Notes to consolidated financial statements
(continued)

The components of the deferred tax assets are as follows:

	December 31,	
(US $'000)	**2017**	**2016**
Deferred tax assets:		
Net operating loss carry forwards	15,129	13,346
R&D credit carry forwards	2,507	1,293
Depreciation and amortization—property and equipment	127	117
Accruals and reserves	150	170
Total deferred tax assets	**17,913**	**14,926**
Less valuation allowance	(17,913)	(14,926)
Total	**—**	**—**

Based on available objective evidence, management believes it is likely that the deferred tax assets will not be realized. Accordingly, the Company has provided a full valuation allowance against its net deferred tax assets at December 31, 2017 and 2016.

The Tax Reform Act of 1986 limits the use of net operating loss carry forwards in certain situations where changes occur in the stock ownership of the Company. In the event that the Company has had a change in ownership, utilization of net operating loss carry forwards would be limited.

The tax years 2007 to 2017 remain open to regular examination of their income tax returns and other related tax-fillings by the Internal Revenue Service and state tax authorities. There are no prior or current year tax returns under audit by tax authorities, and management is not aware of any impending audits.

The net impact of the corporate tax rate reduction resulting from the Tax Cuts and Jobs Act of 2017 was a reduction in gross deferred tax asset of $4.2 million.

8. Net loss per share

Basic net loss per share is computed by dividing net loss by the average number of shares outstanding each period. The Company calculates the dilutive effects of both the warrants and stock options utilizing the treasury stock method. All warrants and options were anti-dilutive in all the periods presented. The weighted average shares for basic earnings per share calculation consists of the following:

	2017	**2016**
Weighted average shares—basic	151,436,635	151,339,342

The components of basic and diluted earnings per share were as follows:

	2017	**2016**
Net loss attributable to Verseon Corporation	$(20,388,000)	$(19,482,000)
Average outstanding shares		
Basic	151,436,635	151,339,342
Diluted *	151,436,635	151,339,342
Net loss per share		
Basic	$(0.13)	$(0.13)
Diluted *	$(0.13)	$(0.13)

* Diluted earnings per share are the same as basic earnings per share since the impact of the dilutive instruments on earnings per share is anti-dilutive.

Notes to consolidated financial statements
(continued)

9. Segment reporting

ASC Topic 280 "Segment reporting" establishes standards for the way that public business enterprises report information about business segments and related disclosures about products and services, geographical areas, and major customers.

The Chief Executive Officer ("CEO") of the Company has been identified as the Chief Operating Decision Maker as defined by ASC Topic 280. The CEO of the Company allocates resources based upon information related to its one operating segment, pharmaceutical research, based in the United States. Accordingly, the Company has concluded they have one reportable segment.

10. Concentration of credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk principally consist of cash, cash equivalents, short-term and long-term investments.

All cash, cash equivalents, and marketable securities investments are held in the United States and United Kingdom as of December 31, 2017 and 2016. All marketable securities investments as of December 31, 2017 had high quality investment grade ratings. At times, cash balances may exceed federally insured amounts and potentially subject the Company to a concentration of credit risk. To limit the credit risk, the Company invests its excess cash primarily in high quality securities such as money market funds. Management believes that no significant concentration of credit risk exists with respect to these cash and marketable securities investment balances because of its assessment of the credit worthiness and financial viability of the respective financial institutions.

11. Related-party transactions

Ms. Fodor purchased 6,000 shares of Common Stock in September 2016 from the market for $13 thousand.

"Loan receivable from stockholders" refers to employees and consultants of the Company who purchased their shares through the issuance of promissory notes by the Company. Total loan receivable from stockholders at December 31, 2017 and 2016 were $15.1 million and $14.8 million, respectively.

One of Nirog Therapeutics' Board member Ronald Kass exercised Nirog 7,812 Preferred B2 Warrants (previously granted before January 2017), exercised 6,513 Verseon Common Warrants and 14,044 Verseon Class Z Warrants.

12. Commitments and contingencies

Operating leases

Rental expense for operating leases amounted to $0.9 million and $0.8 million for the years ended December 31, 2017 and 2016, respectively. The operating lease for the biology laboratory is cancellable with a three-month advance notice period, the chemistry laboratory is cancellable with a one-month advance notice period. The headquarters lease is cancellable at the end of the renewal period annually and ran from August 1 through July 31.

The table sets out the Company's non-cancellable operating lease commitments at each of the balance sheet dates stated, which are due within one year:

(US $'000)	2017	2016
Lease for headquarters	—	83
Lease for laboratories	52	52
Total obligation	**52**	**135**

Legal proceedings

The Company has no ongoing legal proceedings nor is it aware of any potential legal proceedings.

13. Stockholder's equity

As of December 31, 2017 and 2016, the Company had 151,489,789 shares and 151,414,659 shares of Common Stock outstanding, not including 42,917 shares and 0 shares in treasury, for the respective years, and no shares of Preferred Stock outstanding.

2015 Equity incentive plan

In April 2015, the Company adopted the Verseon Corporation 2015 Equity Incentive Plan (the "2015 Plan"). The 2015 Plan provides for the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance units, performance shares, cash-based awards, and other stock-based awards to non-employee directors, officers, employees, advisors, consultants, and independent contractors. An aggregate of 15,000,000 shares of Common Stock was initially available for grant pursuant to awards under the 2015 Plan. The 2015 Plan contains a provision that provides annual increases in the number of Common Stock available for delivery pursuant to awards on each January 1st beginning January 1, 2016, and ending on (and including) January 1, 2025. Such annual increase equals to 2% of the total shares of Common Stock outstanding on December 31st of the preceding calendar year; provided that the Board decides, prior to the first day of any calendar year, that there will be no increase or a lesser increase for such calendar year. In September 2015, the plan was amended to limit the annual increase of incentive stock option shares available for grant to a maximum of 3,000,000 shares. A total of 17,760,825 shares and 16,420,666 shares were available for grant under the 2015 Plan as of December 31, 2017 and 2016, respectively.

Loan receivable from stockholders

The Company issued promissory notes to employees and consultants to purchase shares of the Company's stock and recorded them as "Loan receivable from stockholders." Total loan receivable from stockholders at December 31, 2017 and 2016 were $15.1 million and $14.8 million, respectively.

14. Restricted Stock Units (RSU)

In 2015, the Company began issuing RSU to certain employees and consultants under the 2015 Plan. The RSU are valued at the closing price of the Company's Common Stock on the date of grant. The restricted stock unit activity for the year ended December 31, 2017 and 2016 is summarized as follows:

	Shares	Weighted average grant date fair value per share ($)
Awarded and unvested at December 31, 2015	**78,647**	**3.41**
Granted in 2016	57,388	2.27
Vested in 2016	(59,678)	3.00
Awarded and unvested at December 31, 2016	**76,357**	**2.87**
Granted in 2017	72,288	1.66
Vested in 2017	(71,078) *	2.25
Awarded and unvested at December 31, 2017	**77,567**	**2.32**

A total of $0.1 million and $0.2 million was recorded as stock-based compensation expenses in 2017 and 2016 respectively for RSU granted. As of December 31, 2017, there was $0.2 million of unrecognized compensation expense associated with unvested RSUs, which is expected to be recognized over a weighted-average period of 1.4 years as compared to $0.2 million of unrecognized compensation expense associated with unvested RSU with a weighted-average period of 1.7 years in 2016.

* Includes 24,096 shares vested in 2017 that were admitted to AIM in January 2018.

15. Warrants

In April 2015, all outstanding warrants were amended to be exercisable for shares of the Company's Common Stock from Class A, Class B Preferred Stock, and Class Z Common Stock. There was no Class C Preferred Stock outstanding. Common Warrants and Common Z Warrants are exercisable into one share of Common Stock. Preferred A Warrants and Preferred B Warrants are exercisable into two shares of Common Stock.

A total of $0.1 million was recorded as stock-based compensation expenses in each of 2017 and 2016 for warrants.

A total of 21,052 Preferred A Warrants was outstanding and exercisable at December 31, 2017 at a weighted-average exercise price of $0.95 per share and with weighted-average remaining life of 4.2 years. There was no Preferred A Warrant activity in 2016 and 2017. A total of 71,302 Preferred B Warrants was outstanding and exercisable at December 31, 2017 at a weighted-average exercise price of $2.54 per share and with weighted-average remaining life of 1 years. There was no Preferred B Warrant activity in 2016 and 2017.

The following is a summary of the status of the Company's outstanding stock warrants as of December 31, 2017 and 2016 and changes that occurred during each time period:

	Number of Common Warrants	Weighted-average exercise price ($)	Weighted-average remaining life (Years)
Outstanding at December 31, 2015	**1,890,713**	**3.59**	**4.3**
Outstanding at December 31, 2016	**1,890,713**	**3.59**	**3.3**
Exercised in 2017	(6,513)	—	—
Outstanding at December 31, 2017	**1,884,200**	**3.59**	**2.3**
Exercisable at December 31, 2017	**1,771,700**	**3.62**	**2.3**

	Number of Common Z Warrants	Weighted-average exercise price ($)	Weighted-average remaining life (Years)
Outstanding at December 31, 2015	**732,660**	**0.14**	**2.3**
Exercised in 2016	(456,116)	0.09	—
Outstanding at December 31, 2016	**276,544**	**0.22**	**2.9**
Exercised in 2017	(14,044)	0.23	—
Outstanding and exercisable at December 31, 2017	**262,500**	**0.22**	**2.0**

Nirog

Nirog did not issue any warrants during the years ended December 31, 2017 and 2016. There were no Common Z Warrants or Preferred A Warrants outstanding as of December 31, 2017 and 2016.

A total of 47,447 Preferred B2 Warrants was outstanding and exercisable at December 31, 2017 at a weighted-average exercise price of $0.80 per share and with weighted-average remaining life of 1.0 years. In 2017, 7,812 Preferred B2 Warrants were exercised with a weighted-average exercise price of $0.80, respectively. In 2017, 2,468 Preferred B2 Warrants were cancelled. There was no Preferred B2 Warrant activity in 2016. A total of 102,128 Preferred C1 Warrants was outstanding and exercisable at December 31, 2017 at a weighted-average exercise price of $0.90 per share and with weighted-average remaining life of 1.1 years. There was no Preferred C1 Warrant activity in 2016 and 2017. A total of 5,250 Preferred C2 Warrants was outstanding and exercisable at December 31, 2017 at a weighted-average exercise price of $1.00 per share and with weighted-average remaining life of 1.4 years. There was no Preferred C2 Warrant activity in 2017 and 2016.

On December 31, 2017, Nirog appointed Ronald Kass as a Director. Nirog did not issue any warrants during the years ended December 31, 2017 and 2016. There were no Common Z Warrants or Preferred A Warrants outstanding as of December 31, 2017 and 2016.

16. Stock options and stock grants

Verseon

The activity in the Company's option grants during the years 2016 and 2017 are set out in the table below:

	Number of options	Weighted-average exercise price ($)	Weighted-average remaining life (Years)
Outstanding at December 31, 2015	**1,517,375**	**2.29**	**9.4**
Granted in 2016	658,000	2.34	10.0
Exercised in 2016	(20,050)	0.26	—
Cancelled in 2016	(164,500)	2.44	—
Outstanding at December 31, 2016	**1,990,825**	**2.31**	**8.7**
Granted in 2017	2,269,665	1.90	9.62
Exercised in 2017	(50,508)	0.25	—
Cancelled in 2017	(1,098,963)	2.00	—
Outstanding at December 31, 2017	**3,111,019**	**2.13**	**9.07**
Exercisable at December 31, 2017	**1,042,829**	**2.30**	**8.8**

In 2017 and 2016, stock based compensation expense for stock options was $0.4 million and $0.5 million, respectively. The weighted average grant date fair value of the Common Stock options granted in 2017 was $0.89 per share, as compared to $1.13 per share in 2016.

For details of the variables used by the Company in the Black-Scholes option pricing model for the years December 31, 2017 and 2016, see the following table:

	Year ended December 31,	
	2017	2016
Expected volatility	50%	50%
Expected dividend yields	0%	0%
Expected risk-free interest rate	1.95%–2.1%	1.2%–1.7%
Expected life of options	5–6 years	5–6 years

Nirog

The Nirog Unit Option Plan provides for both incentive and non-qualified unit options. Unit option grants generally vest over a two-year period from the unit option grant date. In December 2017, Nirog adopted a new Stock Option Plan and 5,000,000 shares were allocated. No options were issued in 2017 and 2016.

As of December 31, 2017, there were 5,130,667 unit options available for grant.

17. Subsequent events

On June 13, 2018, VRH1 a wholly owned subsidiary of Verseon, closed a $22.7 million financing (the "Financing") with MCREIF SubREIT LLC (t/a Money 360) secured on the Company's custom-built research, development, and operations facility in Fremont, California (the "Facility"). Of the total amount of the Financing, $21.7 million has been received on closing, with an additional $1 million available to be drawn at a future date for facilities-related expenses.

The Financing is an interest-only mortgage facility which carries an annual interest rate of 8.0% and is repayable after 24 months, with an option to extend for up to a further 12 months. The documentation entered into in relation to the Financing contains customary financial covenants and is based on a loan-to-value of approximately 50%. The proceeds of the Financing will be used for Verseon's drug programs and operations.

Company information

Directors

Thomas A. Hecht, PhD	(Non-Executive Chairman)
Robert W. Karr, MD	(Non-Executive Director)
Grover Wickersham	(Non-Executive Director)
Adityo Prakash	(Chief Executive Officer)
Eniko Fodor	(Chief Operating Officer and Chief Financial Officer)

Headquarters

47071 Bayside Parkway
Fremont, CA 94538, USA
Tel: +1 (510) 225 9000
Fax: +1 (510) 225 9001

Auditors

Deloitte LLP
Abbots House
Abbey St
Reading RG1 3BD, UK

NOMAD and joint broker

Cenkos Securities plc
6.7.8 Tokenhouse Yard
London EC2R 7AS, UK

Joint broker

Cantor Fitzgerald Europe
One Churchill Place
London E14 5RB, UK

Public relations advisors

Buchanan Communications Ltd
107 Cheapside
London EC2V 6DN, UK

Vane Percy & Roberts
Robert Denholm House
Bletchingley Road
Nutfield RH1 4HW, UK

www.verseon.com