

Cell Medica Limited

**Annual Report and Accounts
for the year ended 31 December 2018**

Company Number: 5620555



Company Information

Registered Number 5620555 (England and Wales)

Registered Office 1 Canal Side Studios
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London
NW1 0QG

Directors Christopher Nowers
Allan Marchington
Thomas Hecht
Annalisa Jenkins
Julia Gregory
Sam Williams (on behalf of IP2IPO
Services Limited)

Secretary Mirza Zafar Iskander Qadir

Bankers Barclays Bank plc.
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Strategic Report

Review of the business

Cell Medica Limited (the 'Company') is based in London, United Kingdom. The Company and its subsidiaries (collectively the 'Group' or 'Cell Medica') operate in the United Kingdom, the United States of America and Switzerland.

The company has a strong heritage in scientific research and drug development efforts focused on understanding how to re-direct and amplify the actions of the immune system to recognise cancer cells, counteract their evasion mechanisms and ultimately kill them. Concurrently to company efforts, the new paradigm of immuno-oncology has become established as an important modality for treating cancer, along with chemotherapy, radiation therapy, targeted therapy and surgery. Within this area of research combining chimeric antigen receptors (CARs) with T cells has led to CAR-T therapy becoming an established transformational therapy option. The first autologous CAR-T products were approved for commercial use in 2017. This autologous approach to CAR-T therapy, while clearly transformational, has been recognized as having limitations, and experts in the field have quickly concluded that an off-the-shelf (allogeneic) approach will be key to unlock the wider adoption of CAR-T therapy in larger patient groups across many tumour types. This belief comes from the fact that these off-the-shelf therapies will be simpler to produce, at lower cost and will provide therapy ready for use at the time of diagnosis, with no long manufacturing lead times required.

Within this endeavour to optimize CAR therapy Cell Medica has a clear mission to transform the lives of patients with cancer through the research and development, manufacture and eventual commercialization of innovative CAR therapies engineered using the properties of a unique subset of T cells called natural killer T (NKT) cells.

Following a full strategic review in 2018, the company adopted a clear and singular focus on the development of potentially highly differentiated CAR-NKT therapies. Cell Medica, in partnership with scientists at the pre-eminent academic research team at Baylor College of Medicine, Houston, USA, is the only company developing CAR-NKT therapy and is well placed to develop a leadership position in this exciting field. Our CAR-NKT platform harnesses the unique natural biology of NKT cells in combination with innovative CAR construct engineering. This approach has the potential to produce a robust platform on which a portfolio of off-the-shelf CAR therapies to treat patients with both haematological and solid tumours could be developed.

In 2018 Cell Medica transitioned from a pre-clinical to a clinical stage company, with the start of the first ever clinical study evaluating CAR-NKT therapy. This proof of concept study is evaluating an autologous CAR-NKT therapy for the treatment of children with relapsed or refractory neuroblastoma, who unfortunately, have a poor prognosis and currently have limited therapy options. This study will be informative regarding the potential of CAR-NKT therapy and is the precursor to the development of a wider portfolio of off-the-shelf CAR-NKT therapies.

In 2018 the company also undertook a corporate restructuring to optimize size, function and structure, and we believe we are now well positioned to pursue our ambitious goals and CAR-NKT therapy development program under the leadership of a new CEO (appointed in August 2018). As part of this restructuring, previous programs outside of our CAR-NKT focus will be brought to an appropriate conclusion. This includes our CMD-003 program which utilises Epstein-Barr Virus (EBV)-specific T cells for the treatment of lymphomas associated with EBV. Efforts to monetize non CAR-NKT assets and associated intellectual property will be explored.

Strategic Report (continued)

Review of the business (continued)

Cell Medica has attracted investment from top-tier investment firms, including IP Group, funds managed by Invesco Perpetual, and funds managed by Woodford Investment Management, as well as public funding from multiple sources including the Cancer Prevention and Research Institute of Texas ('CPRIT').

At the end of 2018 Cell Medica performed a valuation of the entire business to assess the carrying value of intangible assets and contingent liabilities on its Balance Sheet as of December 31 2018. This impairment exercise considered the present value of 17 years (2019-2035) forecasted revenues and free cash flows associated with the three products currently in our pipeline (CD19, GPC3 and BCMA). For this calculation we also assumed a 5% probability of success combined with a 25% discount rate. This calculation resulted in a £24 million impairment loss on intangibles, £3.9 million of which impacted Goodwill. This impairment result is reflective of the Cell Medica's renewed focus on a narrower portfolio of products to the CAR-NKT Allo.

The Group measures its progress using a variety of key performance indicators relevant to each programme. These include monitoring progress against programme milestones and budgets along with other measures as appropriate, such as number of patients treated in a trial and the emerging results.

Financial Highlights

For the year ended 31 December 2018, the Group recorded a loss of £47,081,000 (2017: £29,904,000), reflecting a full year of activity from the collaborations with Baylor and UCL together with a higher net finance expense in connection with the revaluation of the contingent consideration liability and intangibles. Net assets for fiscal year 2018 decreased £46,543,000 to a net liability position £5,295,000 compared to net assets of £41,248,000 in 2017. This change in net assets is principally attributed to a £55,350,000 operating loss which includes £32,961,000 of non-cash impairment charges in relation to intangible assets. Cell Medica expects continuing losses from operations as the Group finances research and clinical trials to develop its ground-breaking cell therapies.

Principal risks and uncertainties

The Group has identified the following as its principal risks and uncertainties:

- *Availability of funding:* The Group will have a continuing requirement for additional funding as it looks to develop its pipeline of platforms and products. There is a risk that such funding may not be available or, if available, could involve terms, conditions or execution challenges that may result in a delay, reduction, or cessation of the product development programmes or operations, or substantial dilution to our shareholders.
- *Product innovation:* The Group operates in an industry that is subject to rapid new product innovation. The sustainability of our business depends on finding and developing suitable products and solutions to meet the needs of customers and patients to support long-term growth and securing appropriate protection for and defending our intellectual property.
- *Success of clinical trials:* The Group's commercial viability is inextricably linked to the success of clinical trials which will demonstrate the therapeutic benefit of its cellular immunotherapies. Clinical trials may be delayed, prevented or ultimately unsuccessful, and future clinical results may

Strategic Report (continued)

Principal risks and uncertainties (continued)

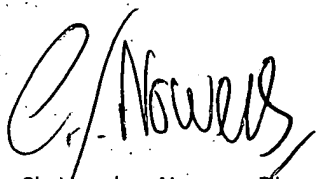
not reflect results seen in previously conducted preclinical studies and clinical trials. Even if the clinical trials are successful, they may be insufficient to support regulatory approval.

- *Operations and supply chain:* Our business depends on third-party contract research and contract manufacturing organisations; as well as internal efforts in efficient manufacturing, controlled inventory, and overall cost management. There is a risk that we are unable to deliver to the required schedule, quality or cost.
- *Talent retention and organisational change:* Our people are critical to the success of our business and we need to attract, motivate, and retain the best talent we can, not only for our current needs, but also looking ahead to the future or we risk not being able to deliver the Group's objectives.
- *Product safety, quality, regulation:* Given the nature of what we do, product safety and quality is of critical importance. National regulatory authorities enforce a complex series of laws and regulations that govern the products we manufacture and develop. They also review data supporting the safety and efficacy of such products and may also inspect for compliance with appropriate standards, including those relating to Quality Management Systems or Good Manufacturing practice regulations. A failure to meet these standards will impact on Cell Medica's reputation and on its ability to deliver successful products.

The Group has put in place policies and processes that seek to mitigate and manage these risks. These include:

- Close monitoring and forecasting of cash reserves and the availability of future financing.
- Business development efforts focused on identifying new products, partnering opportunities, and enabling technologies and solutions.
- Prioritisation and allocation of funds for research and development.
- Performance management and talent systems and processes with focus on identifying key roles and successors.
- Comprehensive product quality processes and controls from design to manufacture.

Approved by the board and signed on behalf of the board.



Christopher Nowers, Director

24 May 2019

Directors' Report

The Directors present their report with the audited financial statements of the Group and Company for the year ended 31 December 2018.

Principal activities

The principal activities of the Group in the year under review were researching, developing and manufacturing cellular immunotherapies for the treatment of cancer. The Group has a portfolio of clinical-stage and preclinical programmes through which it is developing a range of cell-based immunotherapy products.

Going concern

Cell Medica is a biotechnology company and, as with other biotechnology companies in the early stage of development, is subject to a number of risks. The Group has a history of operating losses and significant losses are expected to continue as the Group finances clinical trials to enable commercialisation of its therapies.

The financial statements have been prepared on a going concern basis, which assumes that the Group and Company will be able to meet their liabilities as they fall due for the foreseeable future.

The directors believe that, based on existing cash facilities and on their current forecasts and plans for raising additional financing, the Group and Company will have sufficient funds to meet their cash requirements for at least the next 12 months from the date of approval of the financial statements. However, there is no guarantee that attempts to raise adequate additional financing on a timely basis will be successful. If the plans for raising additional financing are unsuccessful, the directors will need to consider the best course of action for the Group and Company, which may or may not involve winding down the business.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group and Company's ability to continue as a going concern. However, the Directors are confident that it is appropriate to prepare these financial statements on the going concern basis as they have a reasonable expectation that sufficient finance will be raised. These financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

Review of the business and future developments of the Company

Refer to the Strategic Report on page 1.

Directors

The Board of Directors who were in office during the year and up to the date of signing of the financial statements were:

Gregg Sando (resigned 1 August 2018)

Nigel Burns (resigned 30 April 2019)

Thomas Hecht

Annalisa Jenkins

Nigel Pitchford (resigned 28 March 2018)

Directors' Report (continued)

Andrea Ponti (resigned 28 March 2018)

Allan Marchington

Sam Williams (on behalf of IP2IPO Services Limited) (appointed 28 March 2018)

Julia Gregory (appointed 27 June 2018)

Christopher Nowers (appointed 6 August 2018)

Statement of Directors' responsibilities.

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group and the Company's auditors are unaware; and

Directors' Report (continued)

- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and the Company's auditors are aware of that information.

Independent auditors

PricewaterhouseCoopers LLP will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

Dividends

The Directors do not recommend the payment of a dividend for the year ended 31 December 2018 (2017: nil).

Financial risk management

The financial risk management and objectives of the Group and exposure of the Group to foreign currency risk, liquidity risk, interest rate risk and credit risk are set out in note 17, Financial risk management.

Research and development activity

In the year to 31 December 2018 the Group carried out research and development activity and incurred £12,458,000 (2017: £16,493,000) of cost.

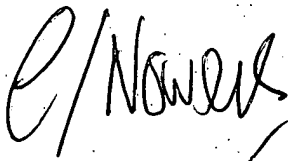
Political donations

The Group made no political donations during the year (2017: £nil).

Director's indemnity provision

The Group has purchased and maintained Directors' and Officers' liability insurance throughout both 2018 and 2017.

On behalf of the board:



Christopher Nowers, Director

24 May 2019

Independent auditors' report to the members of Cell Medica Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- Cell Medica Limited's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2018 and of the group's loss and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the consolidated and company statements of financial position as at 31 December 2018; the consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern – Group and Company

In forming our opinion on the group and company financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the group and company's ability to continue as a going concern. The Directors believe that, based on existing cash facilities and on their current forecasts and plans for raising additional financing, the Group and Company will have sufficient funds to meet their cash requirements for at least the next 12 months. However, there is no guarantee that attempts to raise adequate additional financing on a timely basis will be successful. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group and company's ability to continue as a going concern. The group and company financial statements do not include the adjustments that would result if the group and company were unable to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

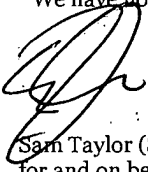
Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

Cell Medica Limited
Annual Report and Accounts for year ended 31 December 2018

- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Sam Taylor (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
27 May 2019

Consolidated Statement of Comprehensive Income

For the year ended 31 December

	Note	2018 £'000	2017 £'000
Revenue			24
Other income		343	135
Research and development expenditure		(12,458)	(16,493)
General and administration expenditure		(43,235)	(9,376)
Operating loss	4	(55,350)	(25,710)
Finance income	6	7,255	1,101
Finance expense	7	(3,697)	(11,680)
Loss before tax		(51,792)	(36,289)
Taxation	8	4,711	6,385
Loss for the year		(47,081)	(29,904)
Other comprehensive income/(expense)			
<i>Items that will not be subsequently reclassified to profit or loss:</i>			
Actuarial gain on defined benefit obligation	20	74	22
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Exchange differences on translation of foreign entities		366	(383)
Total other comprehensive expense for the year		440	(361)
Total comprehensive expense for the year		(46,641)	(30,265)

The accompanying notes on pages 14 to 46 form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

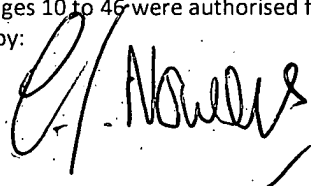
As at 31 December

	Note	2018 £'000	2017 £'000
Assets			
Non-current assets			
Property, plant and equipment	10	1,544	1,406
Intangible assets	11	10,597	43,197
Trade and other receivables	13	-	777
		<u>12,141</u>	<u>45,380</u>
Current assets			
Trade and other receivables	13	965	1,800
Current tax receivable		3,454	4,576
Cash and cash equivalents	14	12,146	28,254
		<u>16,565</u>	<u>34,630</u>
Total assets		<u>28,706</u>	<u>80,010</u>
Liabilities			
Current liabilities			
Trade and other payables	15	(3,290)	(3,090)
Provisions	16	-	(150)
		<u>(3,290)</u>	<u>(3,240)</u>
Non-current liabilities			
Trade and other payables	15	(29,274)	(32,712)
Provisions	16	-	(101)
Defined benefit pension liability	20	(219)	(261)
Deferred tax provision	18	(1,218)	(2,448)
		<u>(30,711)</u>	<u>(35,522)</u>
Total liabilities		<u>(34,001)</u>	<u>(38,762)</u>
Net (liabilities)/assets		<u>(5,295)</u>	<u>41,248</u>
Equity			
Share capital	19	2,023	2,023
Share premium		124,033	124,033
Accumulated losses		(134,432)	(87,425)
Foreign currency translation reserve		974	608
Share-based payment reserve		2,107	2,009
Total (deficit)/equity		<u>(5,295)</u>	<u>41,248</u>

The accompanying notes on pages 14 to 46 form an integral part of these consolidated financial statements.

The financial statements on pages 10 to 46 were authorised for issue by the Board of Directors on 24 May 2019 and were signed on its behalf by:

Christopher Nowers, Director



Consolidated Statement of Changes in Equity

For the year ended 31 December

		Share capital	Share premium	Accumulated losses	Foreign currency translation reserve	Share- based payments reserve	Total
	Note	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2017		1,393	79,770	(57,543)	991	1,080	25,691
Loss for the year		-	-	(29,904)	-	-	(29,904)
Other comprehensive income/(expense) for the year:							
Actuarial gain on defined benefit obligation	20	-	-	22	-	-	22
Foreign exchange movements		-	-	-	(383)	-	(383)
Total comprehensive expense for the year		-	-	(29,882)	(383)	-	(30,265)
Share-based payments	21	-	-	-	-	929	929
Issue of ordinary share capital	19	-	-	-	-	-	-
Issue of preference share capital	19	630	44,263	-	-	-	44,893
Balance at 31 December 2017		2,023	124,033	(87,425)	608	2,009	41,248
Loss for the year		-	-	(47,081)	-	-	(47,081)
Other comprehensive income/(expense) for the year:							
Actuarial gain on defined benefit obligation	20	-	-	74	-	-	74
Foreign exchange movements		-	-	-	366	-	366
Total comprehensive expense for the year		-	-	(47,007)	366	-	(46,641)
Share-based payments	21	-	-	-	-	98	98
Issue of preference share capital	19	-	-	-	-	-	-
Balance at 31 December 2018		2,023	124,033	(134,432)	974	2,107	(5,295)

The accompanying notes on pages 14 to 46 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December

	Note	2018 £'000	2017 £'000
Cash flow from operating activities			
Loss before tax		(51,792)	(36,289)
<i>Adjustments for:</i>			
Depreciation	10	616	546
Gain on disposal of plant and equipment; and intangibles	4	(2)	(63)
Foreign exchange (gains)/losses		(281)	433
Share-based payments expense	21	98	929
Defined benefit pension scheme service and administrative costs	20	59	2
Impairment of goodwill and intangibles	11	32,961	-
Finance income	6	(7,255)	(1,101)
Finance expense	7	3,697	11,680
<i>Working capital movements:</i>			
Decrease in inventories		-	85
Decrease in trade and other receivables		1,612	861
Decrease) in trade and other payables		(51)	(2,227)
Cash outflow from operations		(20,338)	(25,144)
Interest received		143	19
Interest paid		-	(8)
Income tax received		4,543	2,806
Defined benefit scheme contributions	20	(41)	(49)
Net cash outflow from operating activities		(15,693)	(22,376)
Cash flow from investing activities			
Purchase of property, plant and equipment		(795)	(540)
Proceeds from Disposals		31	71
Business combinations – cash paid net of cash acquired with businesses	12	-	(1,483)
Net cash outflow from investing activities		(764)	(1,952)
Net cash from financing activities			
Issue of ordinary shares	19	-	-
Issue of preference shares	19	-	44,893
Net cash inflow from financing activities		-	44,893
Net (decrease)/increase in cash and cash equivalents		(16,457)	20,565
Cash and cash equivalents at 1 January		28,254	8,189
Effects of exchange rate changes		349	(500)
Cash and cash equivalents at 31 December	14	12,146	28,254

The accompanying notes on pages 14 to 46 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS'), interpretations issued by the International Financial Reporting Standards Interpretations Committee and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The Consolidated Financial Statements have been prepared on a going concern basis and under the historical cost convention as modified by the revaluation of certain financial liabilities. The presentation currency used is sterling. A summary of the more significant accounting policies applied is set out in note 2.

These accounting policies are consistent with those applied in the last annual report and accounts, as amended to reflect the adoption of new standards, amendments and interpretations which become effective in the year. During 2018 amendments to IFRS 2 Share-based payments, IFRS 9 Financial instruments, IFRS 15 Revenue from contracts with customers and IFRS IC 22 Foreign currency transactions and advance consideration became effective for the first time for the Group's 31 December 2018 consolidated financial statements. These amendments have not had a significant impact on the Groups consolidated financial statements.

Amendments to existing standards and new standards which may apply to the Group in future accounting periods include:

		Effective periods beginning on or after 1 January 2019
IFRS 16	Leases	

Based on the assessment to date and on the Group's current operations these amendments are not expected to have significant impact on the Group's financial statements. The Group is expected to recognise lease obligation and corresponding right of use asset on the balance sheet in relation to the lease commitments currently disclosed in note 22 for the group and note 10 for the company.

Use of estimates and assumptions

The preparation of the consolidated financial statements requires the Group to make estimates and judgements that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. In particular, significant judgement is required in the use of estimates and assumptions in determining the recoverable amount on the group's cash generating units, in assessing the fair value of financial liabilities held at fair value, and in assessing the share-based payments charge. Additional detail on these areas is provided in the relevant accounting policy in note 1 and in notes 11, 15 and 21.

Notes to the Consolidated Financial Statements (continued)

1. Basis of preparation (continued)

Going concern

Cell Medica is a biotechnology company and, as with other biotechnology companies in the early stage of development, is subject to a number of risks. The Group has a history of operating losses and significant losses are expected to continue as the Group finances clinical trials to enable commercialisation of its therapies.

The financial statements have been prepared on a going concern basis, which assumes that the Group and Company will be able to meet their liabilities as they fall due for the foreseeable future.

The directors believe that, based on existing cash facilities and on their current forecasts and plans for raising additional financing, the Group and Company will have sufficient funds to meet their cash requirements for at least the next 12 months from the date of approval of the financial statements. However, there is no guarantee that attempts to raise adequate additional financing on a timely basis will be successful. If the plans for raising additional financing are unsuccessful, the directors will need to consider the best course of action for the Group and Company which may or may not involve winding down the business.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group and Company's ability to continue as a going concern. However, the Directors are confident that it is appropriate to prepare these financial statements on the going concern basis as they have a reasonable expectation that sufficient finance will be raised. These financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

2 Significant accounting policies

a. Basis of consolidation

The consolidated financial statements include the Company and its subsidiaries. There are no interests in joint arrangements or associates nor are there any non-controlling interests.

All intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

Subsidiaries

A subsidiary is an entity which the Company controls. That is when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date on which control is transferred to or acquired by the Group. They are deconsolidated from the date that control ceases.

b. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made.

Notes to the Consolidated Financial Statements (continued)

2 Significant accounting policies (continued)

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Revenue from the sale of manufactured products is recognised when the products have been successfully manufactured and the significant risks and rewards of ownership have passed to the buyer, usually on delivery of the products to a healthcare institution. There is no history of returns.

c. Grant income

Grant income is recognised where there is reasonable assurance that the grant will be received and there is compliance with all attached conditions. When the grant relates to an expense item, it is recognised over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

d. Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Deferred tax

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the Consolidated Statement of Financial Position differs from its tax base, except for differences arising on:

- The initial recognition of goodwill;
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit; and
- Investments in subsidiaries where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised. The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax is provided, using the liability method, on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

e. Research and development

All internal research and development expenditure is expensed in the period in which it is incurred until it meets the measurement and recognition criteria in IAS-38 Intangible Assets.

Notes to the Consolidated Financial Statements (continued)

2 Significant accounting policies (continued)

Due to the regulatory environment in which the Group operates, it is not considered probable that future economic benefit will flow to the Group until after a product has received regulatory approval. The Group currently has no internal research and development expenditure which meets the criteria for capitalisation.

f. Investment in Subsidiaries

Investments in wholly owned subsidiaries are shown at cost less impairment.

g. Property, Plant and equipment

Plant and equipment is stated at cost, net of depreciation and provision for impairment. Depreciation is calculated to write off the cost of plant and equipment to its' estimated residual value on a straight-line basis over its' expected useful life as follows:

Laboratory equipment	4 years
Computer and office equipment	3 years
Furniture and fittings	4 years

h. Intangible assets

In-process research and development and other intangible assets

Intangible assets may be developed internally through our research and development programmes, acquired as part of a business combination or purchased.

Internally developed intangible assets are recognised in accordance with our accounting policy on research and development expenditure. Intangible assets acquired as part of a business combination are recognised at their acquisition date fair value, separately from goodwill. Purchased intangible assets are recognised at cost.

In-process research and development acquired as part of a business combination or purchased is recognised in accordance with IAS 38 Intangible Assets even if the asset has not yet received regulatory approval. All subsequent research and development expenditure is expensed as incurred in accordance with our accounting policy on research and development expenditure.

Intangible assets which have been put into use are amortised over their estimated useful life; intangible assets, such as in-process research and development, which have not been put into use are not amortised. Amortising assets are tested for impairment where there is an indicator of impairment. Non-amortising assets are tested for impairment at least annually or more frequently where there is an indicator of impairment:

Goodwill

Goodwill arising on business combinations is carried at cost less accumulated impairment losses. Goodwill is assessed for impairment on an annual basis.

Notes to the Consolidated Financial Statements (continued)

2. Significant accounting policies (continued)

i. Inventories

Inventories are the consumables used in the production process and are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first in, first out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

j. Business combination

Business combinations are accounted for in accordance with IFRS 3 Business Combinations using the acquisition method of accounting. The consideration for an acquisition is the total of the fair values of the assets transferred, the liabilities incurred, and the equity interests issued by the Group. The consideration includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Costs associated with the acquisition are expensed as incurred. Identifiable assets and liabilities, including contingent liabilities that are possible but not probable, assumed in a business combination are measured initially at their fair values at the acquisition date. Acquired contingent liabilities are subsequently measured at the higher of the initial amount less, if appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue or the amount that would be recognised in accordance with IAS 37 until settled, cancelled or expired. Goodwill arising on an acquisition is the excess of the consideration over the fair value of the identifiable assets and liabilities acquired. Where the fair value of the identifiable assets and liabilities acquired exceeds the consideration this difference is recognised in the income statement at the date of the acquisition.

k. Impairment of assets

The Group's assets are reviewed at each balance sheet date to determine whether events or changes in circumstances exist that indicate that their carrying amount may not be recoverable. If such an indication exists, the asset is tested for impairment. Goodwill and intangible assets that are not subject to amortisation are tested annually for impairment.

When an asset is tested for impairment the Group makes an estimate of the asset's recoverable amount and compares it to the carrying amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount with an impairment loss being recognised as an expense in General and administration expenditure.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or group of assets.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have

Notes to the Consolidated Financial Statements (continued)

2 Significant accounting policies (continued)

been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Consolidated Statement of Comprehensive Income. No impairment reversals are permitted to be recognised on goodwill.

l. Fair value

The Group is required to disclose information on all assets and liabilities reported at fair value that enables an assessment of the inputs used in determining the reported fair values. The fair value hierarchy prioritises valuation inputs based on the observable nature of those inputs. The fair value hierarchy applies only to the valuation inputs used in determining the reported fair value of the investments and is not a measure of the investment credit quality. The hierarchy defines three levels of valuation inputs:

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

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs that reflect the Company's own assumptions about the assumptions market participants would use in pricing the asset or liability

m. Receivables

Trade and other receivables are recorded initially at fair value and are subsequently measured at cost less recovered value (in current assets such as cash or the reduction of a current liability). Receivables are classified as current assets, except for those with a maturity exceeding twelve months at the reporting date.

n. Financial liabilities at amortised cost

Financial liabilities at amortised cost are recognised initially at fair value and subsequently measured at amortised cost. Financial liabilities are recognised on the transaction date, which is the date of becoming party to the contractual provisions of the instrument. Financial liabilities are derecognised when our contractual obligations are discharged, cancelled or expire.

o. Financial liabilities at fair value through profit and loss

Financial liabilities at fair value through profit and loss include contingent consideration and contingent liabilities acquired in business combinations and the price protection for Baylor preference shares. In accordance with IFRS 9, financial liabilities at fair value through profit or loss are initially recognised at fair value with subsequent changes to the fair value recognised in the consolidated statement of comprehensive income within the finance expense/income line. Transaction costs are recognised immediately in the Consolidated statement of comprehensive income.

p. Share capital

Ordinary shares are classified as equity. Preference shares are classified as equity or as a liability

Notes to the Consolidated Financial Statements (continued)

2 Significant accounting policies (continued)

depending on their nature. All the Group's preference shares are classified as equity as detailed in note 19. Incremental costs directly attributable to the issuance of new ordinary shares or preference shares are recognised as a deduction from share premium in equity.

q. Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits with banks with original maturities of 3 months or less.

r. Leases

Leases in which a significant portion of the risks and rewards of the ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease. The Group does not have any leases which are not operating leases.

s. Pensions

The Group operates both defined contribution and defined benefit pension schemes.

Contributions into the Group's defined contribution schemes are recognised as an operating cost in the income statement as incurred.

The Company operates a defined benefit pension scheme in Switzerland in accordance with the Swiss law on Pensions. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of the plan assets. Current and past service costs are recognised in the statement of comprehensive income and reflects the increase in the defined benefit obligation resulting from service in the current year, benefit changes, curtailments and settlements. Net Interest is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. The cost is included in employee benefit expense in the statement of comprehensive income. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

t. Share-based payments

The Company has issued options over ordinary shares to employees. The cost of granting share options is recognised through the income statement with reference to the fair value of the equity instrument, assessed at the date of grant using an option pricing model. This cost is charged to the income statement over the vesting period of the awards. All awards are accounted for as equity settled with the credit entry being taken directly to equity. For awards with non-market related criteria, the charge is reversed if it is expected that the performance criteria will not be met.

Notes to the Consolidated Financial Statements (continued)

2 Significant accounting policies (continued)

u. Foreign currencies

Assets and liabilities of subsidiaries that have a functional currency different from the Group's presentation currency (pound sterling) are translated at the closing rate at the date of each statement of financial position presented. Income, expenses and cash flows are translated at the average exchange rates for the period. All resulting exchange differences are recognised in other comprehensive income.

At entity level, transactions in currencies other than an entities functional currency are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the year-end date. All differences are taken to profit or loss for the year except where these relate to loans to foreign subsidiary entities considered to be part of the net investment in those entities in which case these amounts are recorded through other comprehensive income.

3. Employee benefit expense

The monthly average number of employees of the Group, including Executive Directors, during the year was:

	2018	2017
	No.	No.
Research and development	32	42
General and administration	28	27
Average number of employees	60	69
Their aggregate remuneration comprised:	2018	2017
	£'000	£'000
Wages and Salaries	6,906	6,843
Social security costs	827	801
Other pension costs (note 20)	286	247
Share-based payments (note 21)	98	929
	8,117	8,820

The key management of the Group comprises the Executive and Non-Executive Directors of Cell Medica. These persons have authority and responsibility for planning, directing and controlling the activities of the Group.

Directors' emoluments	2018	2017
	£'000	£'000
Salaries	605	461
Compensation for loss of office	424	-
Other pension costs	11	12
Share-based payments	257	320
	1,297	793

Notes to the Consolidated Financial Statements (continued)

3. Employee benefit expense (continued)

The highest paid Director received emoluments totalling £858,259 during 2018 (2017: £638,000), this included £424,000 compensation for loss of office. The highest paid director did not exercise any share options in the year and their emoluments include contributions of £7,488 (2017: £12,000) into a defined contribution pension scheme.

Directors' emoluments exclude a benefit in kind in respect of historical tax liabilities which was paid in January 2018 and totalled £43,084.

4. Operating loss

The operating loss is stated after charging/(crediting):

	2018	2017
	£'000	£'000
Employee related expense (note 3)	8,117	8,820
Dominant TCR impairment (note 11)	8,877	-
CAR-NKT impairment (note 11)	24,084	-
Depreciation of property, plant and equipment (note 10)	616	546
Operating lease rentals – land and buildings	514	992
Gain on sale of plant and equipment	(2)	(63)
Exchange differences (gains)/losses	(281)	433

5. Auditors' remuneration

	2018	2017
	£'000	£'000
<i>Audit services:</i>		
Fees payable to the Group's auditors and its associates for:		
The audit of the Company and consolidated financial statements	48	81
The audit of the Company's subsidiaries	17	29
Tax compliance in relation to employee share options	5	-
Total fees	70	110

Notes to the Consolidated Financial Statements (continued)

6. Finance income

	2018	2017
	£'000	£'000
Bank interest	143	19
Gain on revaluation of contingent consideration held at fair value (note 15)	3,659	-
Gain on revaluation of contingent liabilities held at fair value (note 15)	3,453	-
Gain on revaluation of derivative financial instrument (note 15)	-	1,082
	<u>7,255</u>	<u>1,101</u>

7. Finance expense

	2018	2017
	£'000	£'000
Defined benefit pension scheme - net interest expense	2	2
Other interest expense	7	8
Provision for bad debt	14	-
Loss on revaluation of derivative financial instrument	3,674	-
Loss on revaluation of contingent consideration held at fair value (note 15)	-	11,670
	<u>3,697</u>	<u>11,680</u>

8. Taxation

	2018	2017
	£'000	£'000
Tax in respect of current year	3,456	4,403
Release of deferred tax (note 18)	1,290	-
Reversal of over accrual of 2017 R&D tax credit	(33)	-
Adjustments for prior years	(2)	1,982
Current tax credit	<u>4,711</u>	<u>6,385</u>

The tax credit is lower (2017: lower) than the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are reconciled below:

Notes to the Consolidated Financial Statements (continued)

8. Taxation (continued)

	2018	2017
	£'000	£'000
Loss before tax	(51,792)	(36,289)
Loss on ordinary activities multiplied by the average standard rate of corporation tax in the UK of 19% (2017: 19.25%)	(9,840)	(6,986)
<i>Effects of:</i>		
Fixed asset differences	-	3
Expenses not deductible for tax	1,309	1,832
Research and development tax credit	(2,367)	(1,843)
Adjustments for prior year	(2)	(1,982)
Reversal of over accrual of 2017 R&D tax credit	33	-
Release of deferred tax (note 18)	(1,290)	-
Unrelieved tax losses and other deductions arising in the year	7,446	2,700
Utilised losses brought forward	-	(109)
Tax Credit	<u>(4,711)</u>	<u>(6,385)</u>

Notes to the Consolidated Financial Statements (continued)

9. Investment in Subsidiaries

In accordance with section 409 of the Companies Act 2006, a full list of subsidiaries is given below. All companies are 100% owned and the share capital disclosed comprises ordinary shares directly held by Cell Medica.

Company	Principal activities	Country of incorporation	Class	Percentage held	Address
Cell Medica TCR Limited	Immunotherapy products	United Kingdom	Ordinary	100%	1 Canal Side Studios, 8-14 St Pancras Way, London, NW1 0QG
Cell Medica Inc.	Immunotherapy products	USA	Ordinary	100%	7501 Fannin St., Ste. 840 Houston, Texas 77054
Cell Medica GmbH	Immunotherapy products	Germany	Ordinary	100%	c/o Audit, Tax and Consulting Services GmbH Friedrichstrabe 100 10117 Berlin
Cell Medica Switzerland AG	Immunotherapy products	Switzerland	Ordinary	100%	Wagistrasse 27 CH-8952 Schlieren/ Zürich

Notes to the Consolidated Financial Statements (continued)

10. Property, Plant and Equipment

	Laboratory equipment	Computer and office equipment	Furniture and Fittings	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2017	1,810	259	213	2,282
Additions	437	20	83	540
Disposals	(13)	(4)	-	(17)
Foreign exchange movements	(42)	(19)	(7)	(68)
At 31 December 2017	<u>2,192</u>	<u>256</u>	<u>289</u>	<u>2,737</u>
Additions	755	27	12	794
Disposals	(98)	-	-	(98)
Foreign exchange movements	110	13	10	133
At 31 December 2018	<u>2,959</u>	<u>296</u>	<u>311</u>	<u>3,566</u>
Accumulated depreciation				
At 1 January 2017	607	112	97	816
Charge for year	425	72	49	546
Disposals	(5)	(4)	-	(9)
Foreign exchange movements	(10)	(9)	(3)	(22)
At 31 December 2017	<u>1,017</u>	<u>171</u>	<u>143</u>	<u>1,331</u>
Charge for year	505	56	55	616
Disposals	(70)	-	-	(70)
Foreign exchange movements	129	10	6	145
At 31 December 2018	<u>1,581</u>	<u>237</u>	<u>204</u>	<u>2,022</u>
Net Book Value				
At 31 December 2018	<u>1,378</u>	<u>59</u>	<u>107</u>	<u>1,544</u>
At 31 December 2017	<u>1,175</u>	<u>85</u>	<u>146</u>	<u>1,406</u>

Notes to the Consolidated Financial Statements (continued)

11. Intangible assets

	Goodwill	In-process research and development	Total
	£'000	£'000	£'000
Cost			
At 1 January 2017	3,895	30,763	34,658
Business combinations:			
Cell Medica TCR (note 12)	1,290	7,587	8,877
Foreign exchange movements	(68)	(270)	(338)
At 31 December 2017	5,117	38,080	43,197
Impairments:			
Dominant TCR impairment (note 12)	(1,290)	(7,587)	(8,877)
CAR NKT impairment	(3,902)	(20,182)	(24,084)
Foreign exchange movements	75	286	361
At 31 December 2018	(5,117)	(27,483)	(32,600)
Net Book Value			
At 31 December 2018	-	10,597	10,597
At 31 December 2017	5,117	38,080	43,197

For internal reporting and impairment testing purposes, goodwill has been allocated to Dominant TCR and CAR NKT cash-generating units which are the two cash-generating units ('CGU') for performing impairment testing of the goodwill and the in-process research and development intangible assets.

The group has suspended and currently does not intend to further develop its dominant TCR program. The Group's CITADEL and CIVIC trials for its CMD-003 product ended in 2018, and the final clinical study reports will be completed in early 2019. CMD-003 utilises Epstein-Barr Virus (EBV)-specific T cells for the treatment of lymphomas associated with EBV. While the data from the trials were positive, the Group has decided to prioritize what it believes to be the higher value and contemporary off-the-shelf CAR-NKT platform. While the directors are exploring options to realise the value of CMD-003 product, including possible out-licensing, the recoverability of any value in regard to this technology remains highly uncertain and as such the full goodwill and In-process research and development costs have been written off.

In regard to the CAR NKT technology, the Group has determined the recoverable amount of the CGU based on a value in use calculation. The value in use was calculated using a 17-year (2019 through 2035) discounted cash flow forecast with cash flows beyond this period using a terminal negative growth rate of 10.0%. Because of the early stage of development of these assets and the length of time taken for the typical developmental, regulatory and commercialisation process, a forecast period of longer than five years is appropriate. A 10.0% negative growth rate is

Notes to the Consolidated Financial Statements (continued)

11. Intangible assets (continued)

assumed post patent expiry in line with industry expectations and taking into consideration the potential for competitors' entry into the market with products similar to Cell Medica's CAR NKT products. The cash flow forecast assumes only CAR products, including CD19, GPC3 and BCMA as this reflects Cell Medica's renewed strategic focus. The cash flow forecasts are based on assumptions about the timing of the development of products, a 5% probability of success of those products, associated costs to complete, capital expenditures and revenues. Assumptions were made based on internal development plans approved by management and external market industry data. As a result of these assumptions, the recoverable value of Cell Medica's equity was calculated at £7.3 million. Compared to the book value of £31.3 million, we experienced an impairment loss of £24.08 million. This impairment result is reflective of the Cell Medica's renewed focus on a narrower portfolio of products to the CAR-NKT Allo. Significant changes to any of the key inputs could have a material effect (increase or decrease) on the recoverable amount.

The following are the key assumptions in the calculation of value in use for the CGU:

- Discount rate: A 25% pre-tax rate has been used, which reflects the current market assessment of the time value of money and the risks specific to the CGU;
- Probability of success to market: A average rate of 5% has been used for all indication, which reflects risks common in the industry and stage of development; and
- Development timing: A range of 7 to 8 years to develop products has been used, depending on stage in the development cycle and based on forecasts approved by management.

12. Business combinations

Catapult Therapy TCR Limited

On 12 May 2017 Cell Medica acquired 100% of the issued share capital of Catapult Therapy TCR Limited, subsequently renamed Cell Medica TCR Limited ("Cell Medica TCR" or "CM TCR") for cash consideration of £800,000. CM TCR was set up by CGT Catapult, UCL Business and Imperial Innovations for the development of the WT1 T cell receptor cell therapy discovered through research at University College London and Imperial College London. CM TCR holds the In-Process Research and Development assets associated with this development activity including the ongoing phase I clinical trial and clinical trial data:

The fair value of consideration for the purposes of the Group's financial statements has been assessed as the £800,000 cash paid for the shares plus the fair value of potential future payments due under certain contractual arrangements between CM TCR and its former shareholders, which has been assessed at £2,654,000, giving total consideration of £3,454,000.

Notes to the Consolidated Financial Statements (continued)

12. Business combinations (continued)

The amounts of contingent consideration are as follows:

- in cash upon realisation of specified development, regulatory and cumulative net sales milestones for products which are under license agreements: a maximum of £32 million for a first generation product or a maximum of £16 million for a second generation product; and
- in cash for royalties on net sales of licensed products. Royalty ranges are all in the single digits.

The acquisition date fair value of the contingent consideration has been assessed as £1,834,000 using a discounted cash flow model. Subsequent changes to the fair value will be recognised in the consolidated statement of comprehensive income. Changes in fair values reflect changes to assumptions regarding probabilities of successful achievement of related milestone and royalty payments, the timing in which the milestones are expected to be achieved or the royalty payments made and the discount rate used to estimate the fair value of the obligation.

The company may also pay additional cash for royalties on net sales of licensed products and upon realisation of specified development, regulatory and cumulative net sales milestones of licensed products under certain contractual arrangements in place in CM TCR at the acquisition date. The acquisition date fair value of the contingent liability in relation to these payments has been assessed as £3,453,000 using a discounted cash flow model.

The in-process research and development intangible asset represents the value of the consideration plus the contingent consideration to be paid which represents additional payments under the license and assignment agreement and the contingent liability reflecting potential future royalties that may become due, and other liabilities on the acquisition balance sheet.

The goodwill of £1,290,000 arising from the acquisition is attributable to the deferred tax liability of the intangible assets. None of the goodwill recognised is deductible for tax purposes.

In mid-2018, a decision was made by the directors to suspend the WT1-TCR clinical trial program. The program was then moved back into a preclinical phase and has not been further pursued by the company. Consequently, the contingent liabilities and contingent consideration have been released. The in-process research and development intangible assets and goodwill arising out of this acquisition have been impaired as per note 11.

The fair value of assets and liabilities at acquisition compared to balances in 2018 after impairment adjustments is set out in the table below:

Notes to the Consolidated Financial Statements (continued)

12. Business combinations (continued)

	Acquisition £'000	Dec 2018 £'000
Assets		
Intangible assets – in process research and development	7,587	-
Total assets	7,587	-
Liabilities		
Trade and other payables	(180)	(1,356)
Contingent liability	(3,453)	-
Provisions	(500)	-
Deferred tax provision	(1,290)	-
Total liabilities	(5,423)	(1,356)
Net assets	2,164	(1,356)
Fair value of consideration	3,454	-
Goodwill recognised on acquisition	1,290	-

During the year, the acquired business contributed £nil to the revenue (2017: £nil) of the Group and £727,000 (2017: £356,000) to the operating loss of the Group.

13. Trade and other receivables

	31 December 2018 £'000	31 December 2017 £'000
<i>Non-current trade and other receivables</i>		
Other receivables	-	327
Prepayments	-	450
	-	777
<i>Current trade and other receivables</i>		
Other receivables	496	877
VAT receivable	139	228
Prepayments	330	695
	965	1,800

Notes to the Consolidated Financial Statements (continued)

14. Cash and cash equivalents

	31 December 2018 £'000	31 December 2017 £'000
Cash at bank and in hand	12,146	28,254

15. Trade and other payables

	31 December 2018 £'000	31 December 2017 £'000
<i>Current trade and other payables</i>		
Trade payables	174	370
Employee related and other taxes	110	129
Deferred consideration	-	137
Accruals	3,006	2,454
	<u>3,290</u>	<u>3,090</u>
<i>Non-current trade and other payables</i>		
Baylor price protection mechanism	10,974	7,300
Baylor contingent consideration	18,300	19,300
Cell Medica TCR contingent consideration	-	2,659
Cell Medica TCR contingent liability	-	3,453
	<u>29,274</u>	<u>32,712</u>

The price protection for preference shares issued in conjunction with the Baylor business combination is a contractual obligation conditional on the future value of those preference shares. The value of the price protection changes in response to the value of Cell Medica shares and meets the definition under IFRS 9 – Financial Instruments, to be accounted for as a derivative financial liability and is accounted for at fair value. Subsequent movements in the fair value are recorded in the consolidated statement of comprehensive income. The price protection liability is valued using a Monte-Carlo approach to simulate different exit scenarios. This is a level 3 fair value measurement. Key inputs include the current value of a share and volatility. As at 31 December the current value of a share was assessed in line with the methodologies. The volatility was assessed as 70%. During the year a loss of £3,674,000 has been recorded in the Group's loss for the year within finance expense. Significant changes to any of the key inputs could have material (increase or decrease) in the fair value of the liability.

The contingent consideration issued in conjunction with the Baylor business combination is held at fair value through profit or loss. The consideration is based on a number of outputs which are uncertain. The fair value is assessed based on expectations of these outputs at the balance sheet date and by discounting those obligations back to the balance sheet date. This is a level 3 fair

Notes to the Consolidated Financial Statements (continued)

15. Trade and other payables (continued)

value financial measurement. The key unobservable inputs are the probability of success of a product, the time to develop products, the royalty rate that will apply to revenues from the product, the discount rate and the relevant milestone payments. Details of the assumptions on development time, discount rate and the probability of success are in line with the assumption disclosed in note 11 except for the probability of success for the first patient in pivotal clinical trial which has been set at 100%. Details of the potential payments are as per below:

- in cash upon realisation of specified milestones for technologies which are under license agreements: up to US\$20,000,000 upon dosing of first patient in first pivotal clinical trial; up to US\$50,000,000 upon approval by the U.S. Food and Drug Administration or the European Medicines Agency of the first Biological License Application or Marketing Authorisation Application; up to US\$35,000,000 upon completion of the first calendar year in which net sales exceed US\$250,000,000; up to US\$50,000,000 upon completion of the first calendar year in which net sales exceed US\$500,000,000; and up to US\$75,000,000 upon completion of the first calendar year in which net sales exceed US\$1.5 billion; and
- in cash for royalties on net sales of licensed products. Royalty ranges are all in the single digits.

During the year a gain of £1,000,000 has been recorded in the Group's loss for the year within finance income. Significant changes to any of the key inputs could have material effect (increase or decrease) on the fair value of the liability.

The contingent consideration and contingent liability in relation to CM TCR have been released as detailed in note 12.

The table below reconciles the opening and closing balances for these level 3 fair value measurements.

	2018	2017
	£'000	£'000
At 1 January	32,712	16,837
Recognition of CM TCR contingent consideration (note 12)	-	1,834
Recognition of CM TCR contingent liability (note 12)	-	3,453
Change in fair value	(3,438)	10,588
At 31 December	<u>29,274</u>	<u>32,712</u>

Notes to the Consolidated Financial Statements (continued)

16. Provisions

	Onerous leases £'000	Other £'000	Total £'000
Cost	251	-	251
At 1 January	251	-	251
Released	(251)	-	(251)
At 31 December	<u>-</u>	<u>-</u>	<u>-</u>

Split as:	2018 £'000	2017 £'000
Cost		
Less than one year	-	150
Greater than one year	-	101
At 31 December	<u>-</u>	<u>251</u>

17. Financial risk management

The board has responsibility for determining the Group's financial risk management objectives and policies. The Group is exposed to a variety of financial risks arising from the Group's operations including liquidity risk, market risk and credit risk.

i. Liquidity risk

Liquidity risk is the risk the Group will not be able to meet its future payment obligations when financial liabilities fall due or be able to fund its ongoing operations. The Group has a history of operating losses and significant losses are expected to continue as the Group finances clinical trials to enable commercialisation of its therapies. The Group manages its operating cash flow through its budgeting and forecasting processes and uses these to identify its future funding requirements. The Group will continue to rely on further equity or other financing to continue to meet its future operating needs. Since inception the Group has used equity to finance its operations.

The table below set out the maturity analysis of the Group's financial liabilities based on the undiscounted contractual obligations to make payments. Where payment obligations are in foreign currencies, the spot exchange rate at the balance sheet date is used.

Notes to the Consolidated Financial Statements (continued)

17. Financial risk management (continued)

	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
At 31 December 2018	£'000	£'000	£'000	£'000
Current; Trade and other payables	3,290	-	-	3,290
Non-Current; Other payables	-	31,380	686,843	718,223
At 31 December 2017	£'000	£'000	£'000	£'000
Current; Trade and other payables	2,953	-	-	2,953
Non-Current; Other payables	1,840	10,973	118,451	131,264
	4,793	10,973	118,451	134,217

The maturity profile of other payables reflects the undiscounted cash flows from the assessment of the fair value of those liabilities as assessed at 31 December 2017 (see note 15).

ii. Market risk

Foreign currency risk

Foreign exchange risk arises when transactions or recognised assets or liabilities are denominated in a functional currency other than sterling. The Group's exposure principally arises when funding is received in sterling and expenditure is denominated in other currencies.

The Group's policy is to review its funding arrangements and foreign currency commitments for the period ahead and to consider and implement appropriate strategies to mitigate the risks identified. The Group principally looks to hedge its cash flow position, not its balance sheet position, as this is where the Directors consider its principal exposure to be.

The table summarises the Group's Consolidated Statement of Financial Position exposure to foreign currency risk as at 31 December:

	2018	2017	2018	2017	2018	2017
	\$'000	\$'000	€'000	€'000	CHF'000	CHF'000
Net assets/(liabilities)	5,179	(21,042)	284	1,196	8,858	9,058

Notes to the Consolidated Financial Statements (continued)

17. Financial risk management (continued)

The following table indicates the impact of a 10% change in foreign exchange rate on the net assets at the reporting date.

	2018		2017	
	+10% £'000	-10% £'000	+10% £'000	-10% £'000
Consolidated Statement of Financial Position exposure	1,036	(1,266)	(695)	849

The following foreign exchange rates apply to the Group's foreign exchange risk as at 31 December:

	2018	2017	2018	2017	2018	2017
	USD	USD	EUR	EUR	CHF	CHF
Exchange rate	1.273	1.351	1.113	1.127	1.253	1.318

iii. Credit risk

Credit risk is the risk of financial loss if a counterparty fails to meet an obligation under a contract. The Group's credit risk arises primarily on its cash deposits. Credit risk is managed on a Group basis. The Group's policy is to deposit cash with financial institutions with a credit rating of A or above.

Notes to the Consolidated Financial Statements (continued)

17. Financial risk management (continued)

Classification of financial assets and liabilities

Financial assets

Group	31 December 2018	
	Financial assets measured at amortised cost £'000	Total £'000
Assets per Consolidated Statement of Financial Position		
Trade and other receivables	496	496
Cash and cash equivalents	12,146	12,146
Total	12,642	12,642

Group	31 December 2017	
	Financial assets measured at amortised cost (2017 loans and receivables) £'000	Total £'000
Assets per Consolidated Statement of Financial Position		
Trade and other receivables	1,206	1,206
Cash and cash equivalents	28,254	28,254
Total	29,460	29,460

Notes to the Consolidated Financial Statements (continued)

17. Financial risk management (continued)

<i>Financial liabilities</i>	31 December 2018		
	Liabilities at fair value through profit and loss	Other financial liabilities at amortised cost	Total
Group	£'000	£'000	£'000
Liabilities per Consolidated Statement of Financial Position			
Other payables	29,274		29,274
Trade and other payables	-	3,290	3,290
Total	29,274	3,290	32,564

	31 December 2017		
	Liabilities at fair value through profit and loss	Other financial liabilities at amortised cost	Total
Group	£'000	£'000	£'000
Liabilities per Consolidated Statement of Financial Position			
Other payables	29,259	3,453	32,712
Trade and other payables	-	2,953	2,953
Total	29,259	6,406	35,665

Capital structure

The Group's objectives when managing capital are to ensure Cell Medica has adequate funds to continue as a going concern and to fund the ongoing plans of the business. To date the Group has been primarily financed through equity.

Notes to the Consolidated Financial Statements (continued)

18. Deferred tax provision

Movements in the provision for deferred tax:

	In-process research and development
Cost	£'000
At 1 January 2017	1,214
Business combinations (note 12)	1,290
Foreign exchange movements	(56)
At 31 December 2017	<u>2,448</u>
Release of deferred tax	(1,290)
Foreign exchange movements	60
At 31 December 2018	<u>1,218</u>

At 31 December 2018, the Group had unrecognised deferred tax assets of £21,600,000 (2017: £16,700,000) for surplus tax losses carried forward. In accordance with the requirements of IAS 12 Income Taxes, the deferred tax asset has not been recognised in the Group financial statements due to uncertainty over the level of profits that will be available in the Group in future periods.

Notes to the Consolidated Financial Statements (continued)

19. Share Capital

	31 December 2018		31 December 2017	
	number of shares 000	£000	number of shares 000	£000
Ordinary shares of 10p each authorised, issued and fully paid				
At 1 January	2,800	280	2,800	280
Issued	-	-	-	-
At 31 December	<u>2,800</u>	<u>280</u>	<u>2,800</u>	<u>280</u>
A preference shares of 10p each authorised, issued and fully paid				
At 1 January and 31 December	<u>3,687</u>	<u>369</u>	<u>3,687</u>	<u>369</u>
B preference shares of 10p each authorised, issued and fully paid				
At 1 January	6,993	699	6,993	699
Issued	-	-	-	-
At 31 December	<u>6,993</u>	<u>699</u>	<u>6,993</u>	<u>699</u>
C preference shares of 10p each authorised, issued and fully paid				
At 1 January	6,294	630	-	-
Issued	-	-	6,294	630
At 31 December	<u>6,294</u>	<u>630</u>	<u>6,294</u>	<u>630</u>
BCM preference shares of 10p each authorised, issued and fully paid				
At 1 January	451	45	451	45
Issued	-	-	-	-
At 31 December	<u>451</u>	<u>45</u>	<u>451</u>	<u>45</u>
Total at 31 December	<u>20,225</u>	<u>2,023</u>	<u>20,225</u>	<u>2,023</u>

The C, B, A and BCM preference shares are convertible to ordinary shares at the option of the holder of the preference shares only and not at the option of the company. Preference shares cannot be redeemed for cash. As such they are accounted for as equity.

Each ordinary and preference share entitles the holder to one vote and each share is entitled pari passu

Notes to the Consolidated Financial Statements (continued)

19. Share Capital (continued)

to dividend payments.

On a liquidation event, the assets of the Group remaining after the payment of its liabilities shall be applied and distributed to C preference shareholders first, then B preference shareholders, then A preference shareholders, then BCM preference shareholders, and then ordinary shareholders subsequently, before any excess is distributed evenly amongst all classes.

20. Pensions

Defined contribution pension schemes

The Group operates a defined contribution pension plan in the United Kingdom which covers the employees of Cell Medica Limited. During 2018, the company made contributions into the scheme of £286,000 (2017: £245,000).

Defined benefit pension schemes

The Group operates a pension plan in Switzerland which covers the employees of Cell Medica Switzerland AG and qualifies as a defined benefit pension scheme under IAS19. The pension plan provides benefits on retirement, death or long-term disability. Swiss law requires minimum pension contributions equal to a percentage of salary and contributions are made equally by the employee and the employer. Accumulated contributions are required to be increased by a minimum rate each year (2018: 1.0%, 2017: 1.0%). The accumulated capital (minimum contributions and accumulated savings) must be converted to a retirement pension using a minimum rate (2018: 6.2%, 2017: 6.8%). In case of underfunding, the Pension Board shall introduce appropriate remedial measures in cooperation with the actuarial expert.

The amounts recognised in the Consolidated statement of financial position at 31 December are determined as follows:

	31 December 2018 £'000	31 December 2017 £'000
Present value of obligation	1,310	1,165
Fair value of plan assets	(1,091)	(904)
Net pension liability	<u>219</u>	<u>261</u>

Notes to the Consolidated Financial Statements (continued)

20. Pensions (continued)

The movement in the net pension liability from 1 January 2018 to 31 December 2018 is analysed as follows:

	Present value of obligation £'000	Fair value of plan assets £'000	Total £'000
At 1 January 2018	1,165	(904)	261
Current service cost	58	-	58
Interest expense/(income)	9	(7)	2
Administration costs, excluding cost for managing plan assets	1	-	1
	<u>68</u>	<u>(7)</u>	<u>61</u>
Remeasurements:			
Experience gains	(47)	-	(47)
Return on plan assets, excluding amounts included in interest	-	(27)	(27)
Gain from change in financial assumptions	-	-	-
	<u>(47)</u>	<u>(27)</u>	<u>(74)</u>
Contributions:			
Employer	-	(41)	(41)
Plan participants	41	(41)	-
Benefits paid/deposited	22	(22)	-
	<u>63</u>	<u>(104)</u>	<u>(41)</u>
Foreign exchange movements	61	(49)	12
At 31 December 2018	<u>1,310</u>	<u>(1,091)</u>	<u>219</u>

As at 31 December 2018, the present value of the defined benefit obligation was comprised of £1,144,000 relating to active employees and £166,000 relating to members in retirement.

Notes to the Consolidated Financial Statements (continued)

20. Pensions (continued)

The movement in the net pension liability from 1 January 2017 to 31 December 2017 is analysed as follows:

	Present value of obligation £'000	Fair value of plan assets £'000	Total £'000
At 1 January 2017	1,356	(1,016)	340
Current service cost	58	-	58
Past service cost	(57)	-	(57)
Interest expense/(income)	9	(7)	2
Administration costs, excluding cost for managing plan assets	1	-	1
	<u>11</u>	<u>(7)</u>	<u>4</u>
Remeasurements:			
Experience gains	(46)	-	(46)
Return on plan assets, excluding amounts included in interest	-	24	24
Gain from change in financial assumptions	-	-	-
	<u>(46)</u>	<u>24</u>	<u>(22)</u>
Contributions:			
Employer	-	(49)	(49)
Plan participants	49	(49)	-
Benefits paid/deposited	(146)	146	-
	<u>(97)</u>	<u>48</u>	<u>(49)</u>
Foreign exchange movements	(59)	47	(12)
At 31 December 2017	<u>1,165</u>	<u>(904)</u>	<u>261</u>

As at 31 December 2017, the present value of the defined benefit obligation was comprised of approximately £993,000 relating to active employees and £172,000 relating to members in retirement.

The significant actuarial assumptions were as follows:

	2018	2017
Discount rate	1.1%	0.7%
Inflation	1.0%	1.0%
Salary growth rate	1.5%	1.5%
Interest rate on retirement savings capital	1.1%	1.0%

Notes to the Consolidated Financial Statements (continued)

20. Pensions (continued)

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics in Switzerland.

As at 31 December 2018, the sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

Assumption	Change in assumption	Impact on defined benefit obligation	
		Increase in assumption	Decrease in assumption
Discount rate	0.25%	-4.23%	+4.62%
Salary growth rate	0.25%	+0.97%	-0.97%
Interest rate on retirement savings capital	0.25%	+1.79%	-1.74%
Life expectancy	1 year	+1.44%	-1.45%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

As at 31 December 2018, the weighted average duration of defined benefit obligations is 17.5 years (2017: 18.6 years). Expected employer contributions for the year ending 31 December 2019 are £58,000.

21. Share-based payments

Equity-settled share option schemes

The fair value of options granted during the year was £0.25. Given the fair value of options granted was deemed immaterial by the directors the assumptions behind the calculations have not been disclosed.

Options over 1,640,545 (2017: 1,373,168) ordinary shares have been issued to staff members under share option schemes in the year ended 31 December 2018.

Under the rules of the share option schemes, options vest over periods ranging from zero to three years from the commencement of the vesting period, provided the holder remains in service.

Notes to the Consolidated Financial Statements (continued)

21. Share-based payments (continued)

Details of the number of share options and the weighted average exercise price ('WAEP') outstanding are as follows:

	2018		2017	
	Number of options	WAEP £	Number of options	WAEP £
Outstanding at 1 January	2,506,742	2.15	1,261,314	2.04
Granted	1,640,545	1.82	1,423,168	2.25
Exercised	-	-	-	-
Lapsed	(606,013)	2.15	(177,740)	2.10
Outstanding at 31 December	<u>3,541,274</u>	<u>2.00</u>	<u>2,506,742</u>	<u>2.15</u>
Exercisable at the end of the year	<u>2,020,125</u>	<u>2.08</u>	<u>1,369,314</u>	<u>2.08</u>

The following table summarised the range of exercise prices for the share options:

	Number of shares	Weighted average, remaining life contractual years £
31 December 2018		
Exercise price		
£1.67	1,225,545	10
£1.90	502,069	4
£2.25	1,813,660	7
	<u>3,541,274</u>	
31 December 2017		
Exercise price		
£1.90	677,712	5
£2.25	1,829,030	9
	<u>2,506,742</u>	

The total expense arising in the year for share-based payment transactions is £98,000 (2017: £929,000).

Notes to the Consolidated Financial Statements (continued)

22. Leasing commitments

The Group's total commitments under non-cancellable operating leases are as follows:

	Land and Buildings	
	31 December 2018 £'000	31 December 2017 £'000
Leases which expire falling due		
Before 1 year	638	526
Between 2 - 5 years	503	842
	<u>1,141</u>	<u>1,368</u>

The Group leases a number of facilities under operating leases. These include:

Location	Type of space
London	Laboratory and office
Houston	Laboratory and office
Zürich	Laboratory

23. Related party transactions

The Group consider key management to comprise Executive Directors and Non-Executive Directors. The remuneration of key management is disclosed in Note 3, Employee Benefit Expense. Members of key management participate in the Company's share option programme (see note 20).

Touchstone Innovations Businesses LLP is a significant shareholder in Cell Medica and are considered to be a related party. During 2017 Cell Medica acquired Cell Medica TCR Limited (formerly Catapult Therapy TCR Limited) (see note 12). Touchstone Innovations Businesses LLP owned 10.8% of the share capital of Cell Medica TCR Limited, and Cell Medica acquired this for £86,400. Cell Medica TCR Limited is licensee under a head licence agreement where Imperial Innovations Limited (a company controlled by the same parent company as Touchstone Innovations Businesses LLP) is one of the licensors. During 2018 Cell Medica TCR Limited paid £30,000 to Imperial Innovations Limited under the terms of this licence. Future payments are due on the achievement of milestones or as royalties on future sales.

24. Commitments

In 2017, as a result of the acquisition of Cell Medica TCR Limited (see note 12), Cell Medica become party to certain agreements linked to the future performance of its products targeting WT1:

- Under the terms of a head licence agreement with UCL Business and Imperial Innovations for the WT1 TCR, the Group would have to make payments to the licensors contingent upon the achievement of future milestones along with royalties on future revenues.
- Under the terms of an assignment and licence agreement with Catapult under which the Group

Notes to the Consolidated Financial Statements (continued)

24. Commitments (continued)

accesses, together with the licence above, the in-process research and development of the WT1 product, the Group would have to make payments to Catapult contingent upon the achievement of future milestones along with royalties on future revenues.

The group does not intend to further develop the technologies acquired through the acquisition of Cell Medica TCR Limited and therefore it is expected that these commitments will not materialise.

In 2016 Cell Medica entered into a sponsored research agreement with University College London (UCL) and UCL Business plc (UCLB), and a simultaneous option and license agreement with UCLB. Under the agreements, Cell Medica would fund early-stage research and development with an exclusive option to license all products within the collaboration. If the Group licenses any technology under the option and license agreement, it would be required to make additional payments in cash upon realisation of specified milestones and for royalties on net sales of licensed products. Under the sponsored research agreement, the Group has agreed to pay up to maximum of £1 million per annum for three years. The Group is able to exit this agreement by giving 6 months notice. In December 2018, Cell Medica served a formal notice to terminate the sponsored research agreement (effective 20 June 2019) on UCL and UCLB because the company no longer believes this partnership is in its strategic interest.

Under a 2010 licensing agreement, Cell Medica pays Baylor an annual maintenance fee of \$10,000. The maintenance fee is payable until such time as the Group introduces a licensed CMD-003 EBV related product to a commercial market. Once commercialised, the Group is also obligated to pay Baylor a royalty on net sales for the specified licensed products. The Group is also obligated to make milestone payments to Baylor which are payable upon agreed regulatory approval milestones. It is important to note that future payments of this maintenance fee is highly unlikely because Cell Medica has discontinued any investment in research and development of the CMD-003 EBV product.

25. Ultimate Controlling Party

In the opinion of the Directors, there is no ultimate controlling party.

26. Subsequent events

There are no subsequent events

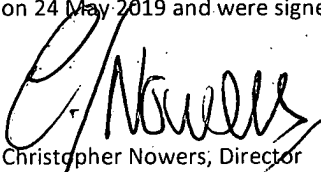
Company Statement of Financial Position

As at 31 December

	Note	2018 £'000	2017 £'000
Assets			
Non-current assets			
Investments in subsidiaries	4	9,581	21,758
Property, Plant and equipment	5	666	279
Intangible assets	6	3,318	27,402
Other receivables	7	-	450
		<u>13,565</u>	<u>49,889</u>
Current assets			
Current tax receivable		3,454	4,478
Trade and other receivables	7	493	2,215
Cash and cash equivalent		11,617	27,742
		<u>15,564</u>	<u>34,435</u>
Total assets		<u>29,129</u>	<u>84,324</u>
Liabilities			
Current liabilities			
Trade and other payables	8	(5,150)	(3,068)
Non-current liabilities			
Other payables	8	(29,274)	(27,562)
Total liabilities		<u>(34,424)</u>	<u>(30,630)</u>
Net (liabilities)/assets		<u>(5,295)</u>	<u>53,694</u>
Equity			
Share capital		2,023	2,023
Share premium		124,033	124,033
Accumulated losses		(133,458)	(74,371)
Share-based payment reserve		2,107	2,009
Total equity		<u>(5,295)</u>	<u>53,694</u>

For the year ended 31 December 2018 the company recorded a loss of £59,087,000 (2017: £35,267,000).

The financial statements of the Company on pages 47 to 55 were authorised for issue by the Board of Directors on 24 May 2019 and were signed on its behalf by


Christopher Nowers, Director

Company Statement of Changes in Equity

For the year ended 31 December

	Share capital	Share premium	Accumulated losses	Share- based payments reserve	Total
Note	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2017	1,393	79,770	(39,104)	1,080	43,139
Loss for the year	-	-	(35,267)	-	(35,267)
Total comprehensive loss for the year	-	-	(35,267)	-	(35,267)
Issue of ordinary share capital	-	-	-	-	-
Issue of preference share capital	630	44,263	-	-	44,893
Share-based payments	-	-	-	929	929
Balance at 31 December 2017	2,023	124,033	(74,371)	2,009	53,694
Loss for the year	-	-	(59,087)	-	(59,087)
Total comprehensive loss for the year	-	-	(59,087)	-	(59,087)
Issue of ordinary share capital	-	-	-	-	-
Issue of preference share capital	-	-	-	-	-
Share-based payments	-	-	-	98	98
Balance at 31 December 2018	2,023	124,033	(133,458)	2,107	(5,295)

Notes to the Company Financial Statements (continued)

Notes to the Company Financial Statements

1. Basis of Preparation

Cell Medica Limited (the 'Company') is a private company limited by shares, incorporated and domiciled in the United Kingdom. The principal activities of the Company in the year under review were researching, developing and manufacturing cellular immunotherapies for the treatment of cancer. The Company has a portfolio of clinical-stage and preclinical programmes through which it is developing a range of cell-based immunotherapy products.

Result for the year

As permitted by Section 408(4) of the Companies Act 2006, the Company has not presented its own profit and loss account. Losses for the year totalled £59,087,000 (2017: 35,267,000).

The annual financial statements of Cell Medica Limited (the Company financial statements) have been prepared in accordance with Financial Reporting Standard 100 Application of Financial Reporting Requirements ('FRS 100') and Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'). The financial statements have been prepared under the historical cost convention, and in accordance with the Companies Act 2006.

In preparing these financial statements the Company has taken advantage of certain disclosure exemptions from the requirements of IFRS conferred by FRS 101. Therefore, these financial statements do not include:

- The requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment
- The requirements of IFRS 7 Financial Instruments: Disclosures, provided that equivalent disclosures are included in the consolidated financial statements of the Group in which the entity is consolidated.
- The requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement, provided that equivalent disclosures are included in the consolidated financial statements of the Group in which the entity is consolidated.
- The requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of paragraph 79(a)(iv) of IAS 1;
- The requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements. For accounting periods beginning before 1 January 2013, paragraphs 38A, 38B, 38C, 38D, 40A, 40B, 40C and 40D of IAS 1 (effective 1 January 2013) should be replaced with paragraphs 39 and 40 of IAS 1 (effective 1 January 2009).
- The requirements of IAS 7 Statement of Cash Flows.
- The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.
- The requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures.
- The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a Group, provided that any subsidiary which is

Notes to the Company Financial Statements (continued)

1. Basis of Preparation (continued)

a party to the transaction is wholly owned by such a member.

The financial information for the Company has been prepared on the same basis as the consolidated financial statements, applying identical accounting policies as outlined throughout the Notes to the Consolidated Financial Statements except Goodwill arising from business combinations which is regarded as having an indefinite useful economic life and in accordance with FRS101, is not amortised but is subject to annual tests for impairment. This represents a departure, for the purpose of giving a true and fair view, from the requirements of schedule 4:21 of the Companies Act 2006, which requires goodwill to be amortised.

Use of estimates and assumptions

The preparation of the financial statements requires the Company to make estimates and judgements that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. In particular, significant judgement is required in the use of estimates and assumptions in determining the recoverable amount on the company's investments in subsidiaries. Additional detail on this area is provided in note 4.

Going concern

Please refer to Note 1 of the consolidated financial statements for the directors' assessment of the basis of preparation which is applicable to the group and company.

2. Employee Benefit Expense

The monthly average number of employees of the Company, including Executive Directors, during the year was:

	2018	2017
	No.	No.
Research and development	9	10
General and administration	22	22
Average number of employees	31	32

Their aggregate remuneration comprised:

	2018	2017
	£'000	£'000
Wages and salaries	3,173	2,918
Social security costs	364	341
Other pension costs	123	154
Share-based payments expense	(30)	644
	3,630	4,057

Notes to the Company Financial Statements (continued)

2. Employee Benefit Expense (continued)

The Directors are of the opinion that the key management of the Company comprises the Executive and Non-Executive Directors of Cell Medica. These persons have authority and responsibility for planning, directing and controlling the activities of the entity.

Directors' emoluments

Directors' emoluments of the Company are the same as the Groups and can be found in Note 3 to the Group Accounts.

3. Auditors' Remuneration

During the year the Company obtained the following services from the Company's auditors, PricewaterhouseCoopers LLP.

	2018 £'000	2017 £'000
<i>Audit services:</i>		
Fees payable to the Company's auditors and its associates for the audit of the Company accounts	37	62

In accordance with SI 2008/489 the company has not disclosed the fees payable to the company's auditor for 'Other services' as this information is included in the consolidated financial statements of Cell Medica Limited.

4. Investments in subsidiaries

In accordance with section 409 of the Companies Act 2006, a listing of all entities invested in by the Group is provided in the notes to the consolidated financial statements.

	31 December 2018 £'000	31 December 2017 £'000
Cost		
At 1 January	21,758	25,900
Additions	196	1086
Impairments	(12,373)	(5,228)
At 31 December	<u>9,581</u>	<u>21,758</u>

The additions in 2018 relate to additional investments in the Company's subsidiary entities. The additions in 2017 relate to the acquisition of Cell Medica TCR Limited and additional investments in the Company's subsidiary entities.

In 2018 an impairment was made against the investment in subsidiary Cell Medica TCR Limited as the dominant TCR business is no longer the focus of the business. An impairment was also made against

Notes to the Company Financial Statements (continued)**4. Investments in subsidiaries (continued)**

Cell Medica Inc and Cell Medica Switzerland AG to reduce the carrying value of the CAR NKT CGU to its recoverable amount. The assumptions used for the purpose of this assessment are consistent with those disclosed in note 11 to the consolidated financial statements. In 2017 an impairment was made against the investment in the subsidiary in Germany.

5. Property, plant and Equipment

	Laboratory equipment	Computer and office equipment	Furniture and Fittings	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2017	267	114	185	566
Additions	149	4	0	153
Disposals	-	-	(3)	(3)
At 31 December 2017	416	118	182	716
Additions	595	11	-	606
Disposals	(2)	-	-	(2)
At 31 December 2018	1,009	129	182	1,320
Accumulated depreciation				
At 1 January 2017	199	67	71	337
Charge for year	42	28	30	100
Disposals	-	-	-	-
At 31 December 2017	241	95	101	437
Charge for year	170	17	32	219
Disposals	(2)	-	-	(2)
At 31 December 2018	409	112	133	654
Net Book Value				
At 31 December 2018	600	17	49	666
At 31 December 2017	175	23	81	279

Notes to the Company Financial Statements (continued)

6. Intangible assets

	Goodwill	In-process research and development	Total
	£'000	£'000	£'000
Cost			
At 1 January 2017	2,421	24,981	27,402
Business combinations	-	-	-
At 31 December 2017	2,421	24,981	27,402
Impairment	(2,421)	(21,663)	(24,084)
At 31 December 2018	-	3,318	3,318
Net Book Value			
At 31 December 2018	-	3,318	3,318
At 31 December 2017	2,421	24,981	27,402

Further information on the Intangible assets of the Company can be found in Note 11 to the Group Accounts.

7. Trade and other receivables

	31 December 2018 £'000	31 December 2017 £'000
<i>Current trade and other receivables</i>		
Amounts due from Group undertakings	-	1,219
Other receivables	127	225
VAT receivable	99	125
Prepayments	267	646
	493	2,215
<i>Non-Current trade and other receivables</i>		
Prepayments	-	450
	-	450

Amounts due from Group undertakings are typically unsecured, due on demand and interest is charged at rates as per intercompany loan agreements.

Notes to the Company Financial Statements (continued)**8. Trade and other payables**

	31 December 2018 £'000	31 December 2017 £'000
<i>Current trade and other payables</i>		
Trade Payables	34	87
Amounts payable to group undertakings	3,221	2,000
Social security and other taxes	79	101
Accruals	1,816	880
	<u>5,150</u>	<u>3,068</u>
<i>Non-Current trade and other payables</i>		
Baylor price protection mechanism	10,974	7,300
Baylor contingent consideration	18,300	19,300
Cell Medica TCR Limited guarantee	-	962
	<u>29,274</u>	<u>27,562</u>

Amounts owed due to Group undertakings are typically unsecured, due on demand and interest is charged at rates as per intercompany loan agreements.

9. Financial instruments

The company has no financial assets measured at fair value through profit or loss.

The company has the following financial liabilities measured at fair value through profit or loss:

	31 December 2018 £'000	31 December 2017 £'000
Baylor price protection mechanism	10,974	7,300
Baylor contingent consideration	18,300	19,300
	<u>29,274</u>	<u>26,600</u>

Further information on the Financial Instruments of the Company can be found in Note 15 to the Group Accounts.

Notes to the Company Financial Statements (continued)

10. Leasing commitments

The Company's total commitments under non-cancellable operating leases are as follows:

	Land and Buildings	
	31 December 2018 £'000	31 December 2017 £'000
Falling due:		
Before 1 year	376	168
Between 1 - 5 years	98	210
	<u>474</u>	<u>378</u>

The Company leases a number of facilities under operating leases. These include:

Location	Type of space
London – Canal Side Studios	Office
London - Royal Free Hospital	Laboratory
Stevenage	Laboratory

11. Related party transactions

Further information on the related party transactions of the Company can be found in Note 9 and Note 23 to the Group Accounts.

12. Ultimate Controlling Party

In the opinion of the Directors, there is no ultimate controlling party.

13. Subsequent events

There are no subsequent events.