

Company no: 06182024

Pulmocide Limited

Directors' report and financial statements
for the year ended 31 March 2019

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Contents

	Page
Directors and advisers	1
Directors' report for the year ended 31 March 2019	2
Independent auditors' report to the members of Pulmocide Limited	4
Statement of comprehensive income for the year ended 31 March 2019	7
Balance sheet as at 31 March 2019	8
Statement of changes in equity for the year ended 31 March 2019	9
Notes to the financial statements for the year ended 31 March 2019	10

Directors and advisers

Directors

Ms Catherine Bingham
Dr Stephen Knight
IP2IPO Services Limited
Dr Jeanne Bolger
Dr William Garth Rapeport
Dr Peter Strong
Mr Matthew Foy
Mr Daniel Burgess

Secretary and Solicitors

Covington & Burling LLP
265 Strand
London
WC2R 1BH

Registered office

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London
WC2R 1BH

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Independent auditors

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1 Embankment Place
London
WC2N 6RH

Bankers

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United Kingdom House
180 Oxford Street
London
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Directors' report for the year ended 31 March 2019

The directors present their report and audited financial statements for the year ended 31 March 2019. The report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006 and in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102').

Principal activity

The principal activity of the Company is pharmaceutical drug research, development and commercialisation and the directors expect the Company to continue with its principal activity into the foreseeable future.

Review of business and future developments

The directors are pleased with the result for the year, which was as expected. The loss before taxation for the year was £13,955,430 (2018: £16,088,064) The directors have not recommended the payment of a dividend (2018: £nil).

Going concern

The financial statements have been prepared on a going concern basis, which the directors believe to be appropriate, as adequate funding has been secured to allow the Company to meet its obligations for at least 12 months from the date of signing these financial statements.

Directors

The following directors held office throughout the year, and up to the date of this report unless otherwise noted:

Ms Catherine Bingham

Dr Stephen Knight

Dr Jeanne Bolger

Dr William Garth Rapeport

Dr Peter Strong

Mr Matthew Foy

Mr Daniel Burgess

IP2IPO Services Limited

Directors' indemnities

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased Directors' and Officers' liability insurance in respect of itself and its directors, and maintained this throughout the year.

**Directors' report
for the year ended 31 March 2019 (continued)**

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at a Board Meeting.

Statement of directors' responsibilities in respect of the financial statements.

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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 Company and of the profit or loss of the 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 United Kingdom Accounting Standards, comprising FRS 102, have been followed, 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 Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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


Statement of disclosure to auditors

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 Company's auditors are unaware; and
- 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 Company's auditors are aware of that information.

On behalf of the board

Dr Pete Strong
Director



2 Aug 2019

Independent auditors' report to the members of Pulmocide Limited

Report on the audit of the financial statements

Opinion

In our opinion, Pulmocide Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Directors' report and financial statements (the "Annual Report"), which comprise: the Balance sheet as at 31 March 2019; the Statement of comprehensive income, the Statement 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 company 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.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

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

Independent auditors' report to the members of Pulmocide Limited(continued)

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 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.

Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' report for the year ended 31 March 2019 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 company and its environment obtained in the course of the audit, we did not identify any material misstatements in the 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 in respect of the financial statements set out on page 3, 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 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 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.

Independent auditors' report to the members of Pulmocide Limited (continued)

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

We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: prepare financial statements in accordance with the small companies regime; take advantage of the small companies exemption in preparing the Directors' report; and take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.



Andrew Barford (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
2 August 2019

**Statement of comprehensive income
for the year ended 31 March 2019**

	Note	2019 £	2018 £
Administrative expenses	4	(10,056,754)	(13,189,117)
Operating loss		(10,056,754)	(13,189,117)
Interest receivable and similar income		8,077	-
Interest payable and similar expenses	12	(3,906,753)	(2,898,947)
Loss before taxation		(13,955,430)	(16,088,064)
Tax – R&D tax credit income	7	2,133,152	3,840,573
Loss and total comprehensive loss for the financial year		<u>(11,822,278)</u>	<u>(12,247,491)</u>

All activities are in respect of continuing operations.

The accompanying notes on pages 10 to 19 are an integral part of the financial statements.

Balance sheet as at 31 March 2019

	Note	2019 £	2018 £
Non-current assets			
Investments	8	2	2
Tangible assets	9	48,146	48,197
		<u>48,148</u>	<u>48,199</u>
Current assets			
Debtors	10	2,434,530	3,158,419
Cash at bank and in hand		5,161,431	12,958,485
		<u>7,595,961</u>	<u>16,116,904</u>
Current liabilities			
Creditors: amounts falling due within one year	11	(1,203,223)	(2,577,540)
Net current assets		<u>6,392,738</u>	<u>13,539,364</u>
Total assets less current liabilities		<u>6,440,886</u>	<u>13,587,563</u>
Non-current liabilities			
Creditors: amounts falling due after more than one year	12	(52,741,161)	(48,834,408)
Net liabilities		<u>(46,300,275)</u>	<u>(35,246,845)</u>
Capital and reserves			
Called up share capital	13	10,770	8,550
Other reserves	14	1,108,430	341,802
Accumulated losses		(47,419,475)	(35,597,197)
Total shareholders' deficit		<u>(46,300,275)</u>	<u>(35,246,845)</u>

The accompanying notes on pages 10 to 19 are an integral part of the financial statements.

The financial statements on pages 7 to 19 were prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006 and were approved by the Board on 5 July 2019.

Dr Pete Strong
Director



**Statement of changes in equity
for the year ended 31 March 2019**

	Note	Called up share capital	Other reserves	Accumulated losses	Total shareholders' deficit
		£	£	£	£
At 1 April 2017		8,550	102,473	(23,349,706)	(23,238,683)
Loss for the financial year		-	-	(12,247,491)	(12,247,491)
Share based payment charge		-	239,329	-	239,329
At 31 March 2018		8,550	341,802	(35,597,197)	(35,246,845)
At 1 April 2018					
Loss for the financial year		-	-	(11,822,278)	(11,822,278)
Share based payment charge	14	-	766,628	-	766,628
Issuance of share capital		2,220	-	-	2,220
At 31 March 2019		10,770	1,108,430	(47,419,475)	(46,300,275)

The accompanying notes on pages 10 to 19 are an integral part of the financial statements.

Notes to the financial statements for the year ended 31 March 2019

1. General Information

Pulmocide Limited (the "Company") is a private company limited by shares and incorporated and domiciled in the UK. The address of its registered office is Covington & Burling LLP, 265 Strand, London, WC2R 1BH.

The principal activity of the Company is that of a pharmaceutical drug research and development and commercialisation company.

2. Statement of Compliance

The individual financial statements of the Company have been prepared in accordance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland", and the Companies Act 2006.

3. Accounting Policies

The significant accounting policies, which have been applied consistently to all years presented, unless otherwise stated, are set out below:

Basis of preparation

The financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom.

The financial statements are presented in pounds sterling, which is the Company's functional and presentation currency.

Exemption from the preparation of consolidated financial statements

The Company has taken advantage of an available exemption from the preparation of consolidated financial statements under section 405 of Companies Act 2006, on the basis that the impact of consolidating its subsidiary undertaking, MykoTherapeutics Limited, would not be material in aggregate, to the financial statements.

MykoTherapeutics Limited is incorporated and domiciled in the UK. The address of its registered office is Covington & Burling LLP, 265 Strand, London, WC2R 1BH. MykoTherapeutics Limited, the sole wholly owned subsidiary of the Company, was dormant throughout the year and would therefore not materially impact the presentation of these financial statements.

Exemption from preparation of a statement of cash flows

The Company has taken advantage of the exemption under FRS102 paragraph 7.1(b) from the requirement to produce a statement of cash flows on the grounds that the Company is a small reporting entity.

Going concern

The financial statements have been prepared on a going concern basis, which the directors believe to be appropriate, as adequate funding has been secured to allow the Company to meet its obligations for at least 12 months from the date of signing these financial statements.

**Notes to the financial statements
for the year ended 31 March 2019 (continued)****3. Accounting Policies (continued)****Tangible assets and depreciation**

Tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided at rates calculated to write off the cost of each asset over its expected useful life, as follows:

Plant and machinery 25% and 33% per annum on cost.

Repairs, maintenance and minor inspection costs are expensed as incurred.

Employee benefits

The Company provides benefits to employees of paid holiday arrangements and a defined contribution pension plan. Holiday is paid out when taken by the employee. At each year end the cost of unused holiday is quantified and accrued in the financial year as it is considered earned by the employee over this period.

The Company operates a defined contribution plan for employees to which it pays fixed contributions into a separate entity. Once paid, the Company has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid at the period end are shown as accruals on the Balance sheet. The assets of the plan are held separately from the Company in independently administered funds.

Share based payments

The Company operates an employee share scheme, whereby options are granted to employees to purchase shares in the Company. In accordance with the requirements of FRS 102, the fair value of these options is recorded in the Statement of comprehensive income over the period to which the associated employee's service relates.

The Company has also granted share options to non employees to purchase shares in the Company. In accordance with the requirements of FRS 102, the fair value of these options is recorded in the Statement of comprehensive income over the period to which the individual's provide services to the Company.

At the end of each reporting period, the Company revises its estimate of the number of options that are expected to vest and recognises the impact of any revision to original estimates in the Statement of comprehensive income, with a corresponding adjustment to equity. When the options are exercised, the company will issue new shares and the proceeds received, net of any directly attributable transactions costs, will be credited to share capital (nominal value) and share premium.

Leases

Costs in respect of operating leases are charged to the Statement of comprehensive income on a straight line basis over the lease term. For the lease with Imperial White City Incubator Ltd an introductory 25% discount was received for the first 12 months of the lease ending 31 January 2018. This discount is to be credited to the Statement of comprehensive income to reduce the lease expense, on a straight line basis over the period of the lease. No other discounts or incentives are received on current operating leases.

**Notes to the financial statements
for the year ended 31 March 2019 (continued)****Research and development**

Research and development costs are expensed in the period they are incurred.

Share Capital and other reserves

Ordinary shares are classified as equity. Other reserves represent the cumulative cost of the share option plan in place for employees of the company.

Debtors

Short term debtors are measured at transaction price, less any impairment.

Creditors

Short term creditors are measured at transaction price.

Cash at bank and in hand

Cash and cash equivalents includes cash in hand and deposits held at call with banks.

Research and development tax credit

Research and development tax credits are calculated based on actual reported expenditures in relation to given qualifying projects. An assessment is performed and filed with HMRC annually.

The accounting policy is to account for these tax credits on an accruals basis.

Investments in subsidiaries

Investments in subsidiary undertakings are stated at cost less any provision for impairment.

Preference shares

The Company's preference shares are accounted for as a compound instrument with the value of the voluntary conversion option (whereby the shareholder can convert their preference shares into ordinary share capital) recognised as equity. On the date of issue of these preference shares, this voluntary conversion option is estimated to have no value to the shareholders. The full value of this compound instrument has therefore been accounted for as a liability, in accordance with FRS 102. The equity component is not subsequently re-measured.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the Balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the Balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the Balance sheet date. Deferred tax is measured on a non-discounted basis.

Notes to the financial statements for the year ended 31 March 2019 (continued)

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Share based payment charge

The Company's employees have been granted share options by the Company. In accordance with the requirements of FRS 102, the related share based payment expense is expensed to the Statement of comprehensive income over the period to which the associated employee's service relates.

The cost of these share options is dependent on a number of judgments, primarily the estimated fair value at grant date of each option and the proportion of employees for whom options are expected to vest in full. Management estimates these factors in determining the aggregate cost of each share option grant. The assumptions underlying these judgments reflect historical experience and current trends.

Management does not consider there to be any other critical accounting judgements, estimates or assumptions that have a significant risk to the carrying amount of assets and liabilities in the next financial year.

4. Operating loss

Operating loss is stated after charging:

	2019	2018
	£	£
Staff costs (note 5)	2,396,930	1,845,276
Depreciation (note 9)	24,461	63,087
Research and development costs	7,149,927	10,584,520
Professional fees	118,808	171,249
Office and administration costs	210,631	384,686
Operating lease rentals	122,497	111,299
Auditors' remuneration		
- Audit	18,500	15,450
- Tax Services	15,000	13,550
	<u>10,056,754</u>	<u>13,189,117</u>

Notes to the financial statements for the year ended 31 March 2019 (continued)

5. Staff costs

	2019	2018
	£	£
Staff costs		
Wages and salaries	1,418,855	1,400,617
Social security costs	182,565	177,223
Share based payments (note 14)	766,628	239,329
Pension costs	28,882	28,107
	<u>2,396,930</u>	<u>1,845,276</u>

	2019	2018
	£	£
Directors' emoluments		
Salaries and fees	510,830	446,643
Social security costs	68,386	59,886
	<u>579,216</u>	<u>506,529</u>

There are no directors for whom retirement benefits are accruing under money purchase or defined benefit pension schemes.

Highest paid director

The highest paid director's emoluments were as follows:

	2019	2018
	£	£
Salary	291,154	283,500
Social security costs	39,017	37,966
	<u>330,171</u>	<u>321,466</u>

6. Employee information

The average monthly number of persons (including directors) employed by the Company during the year was 10 (2018:11):

	2019	2018
	Number	Number
By activity		
Management and administrative	4	4
Research and development	6	7
	<u>10</u>	<u>11</u>

Notes to the financial statements for the year ended 31 March 2019 (continued)

7. Tax R&D tax credit income

	2019	2018
	£	£
Current tax	<u>2,133,152</u>	<u>3,840,573</u>

The standard rate of current tax for the year, based on UK standard rate of corporation tax is 19% (2018: 19%). The tax charge for the year differs (2018: differs) from the standard rate for the reasons outlined in the reconciliation below:

	2019	2018
	£	£
Loss before taxation	<u>(13,955,430)</u>	(16,088,064)
Loss before taxation multiplied by standard rate of corporation tax in the UK of 19% (2018: 19%)	<u>(2,651,532)</u>	(3,056,732)
Unrelieved tax loss arising in the year	2,651,532	3,056,732
R&D tax credit income	<u>2,133,152</u>	<u>3,840,573</u>
Tax credit for the year	<u>2,133,152</u>	<u>3,840,573</u>

The Company has an unrecognised cumulative deferred tax asset of £10,372,331 (2018: £7,720,799) in relation to unutilised trading losses carried forward, which has not been recognised due to uncertainty about the timing of future profits. The Company also has an unrecognised deferred tax asset of £168,303 (2018: £62,175) on unexercised staff share options.

8. Investments

Movements in non-current investments

	£	£
Cost or valuation		
At 1 April 2018 and 31 March 2019	<u>2</u>	<u>2</u>

Subsidiary holding

MykoTherapeutics Limited, incorporated in England (registration number 9360719) is a dormant company. It has issued 2 share ordinary shares of £1 each, which are 100% held by Pulmocide Limited.

Notes to the financial statements for the year ended 31 March 2019 (continued)

9. Tangible assets

	Plant and machinery £
Cost or valuation	
At 1 April 2018	322,029
Additions	24,410
At 31 March 2019	<u>346,439</u>
Accumulated depreciation	
At 1 April 2018	273,832
Charge for the year	24,461
At 31 March 2019	<u>298,293</u>
Net book value	
At 31 March 2018	48,197
At 31 March 2019	<u>48,146</u>

10. Debtors

	2019 £	2018 £
Other debtors	299,690	469,812
Taxation	1,979,722	2,628,000
Prepayments	155,118	60,607
	<u>2,434,530</u>	<u>3,158,419</u>

11. Creditors: amounts falling due within one year

	2019 £	2018 £
Trade creditors	665,963	1,825,608
Taxation and social security	187,493	47,476
Accruals	349,767	704,456
	<u>1,203,223</u>	<u>2,577,540</u>

Notes to the financial statements for the year ended 31 March 2019 (continued)

12. Creditors: amounts falling due after more than one year

	2019	2018
	£	£
Preference Shares	<u>52,741,161</u>	<u>48,834,408</u>

On a return of capital, liquidation or sale of the entire issued share capital of the Company, the preference shareholders have priority over all classes of shares. The authorised, allotted, called up and fully paid 37,873,016 (2018: 37,873,016) Preference A shares and Preference B shares of £0.01 each have the same voting rights attached as the ordinary share capital.

Both Preference A shares and Preference B shares carry an 8% per annum preferred dividend. When there are distributable profits with which to pay it, this dividend is payable in priority to payment of any other dividend.

The Company's preference shares are accounted for as a compound instrument with the value of the voluntary conversion option (whereby the shareholder can convert their preference shares into ordinary share capital) recognised as equity. On the date of issue of these preference shares, this voluntary conversion option is estimated to have no value to the shareholders. The full value of this compound instrument has therefore been accounted for as a liability, in accordance with FRS 102. The equity component is not subsequently re-measured.

The preference share liability at 31 March 2019 is £10,741,161 (2018: £6,834,408). Whilst it was not legally permissible for the Company to pay this dividend at the time, due to insufficient distributable reserves, this does not negate the Company's liability.

A preferred dividend expense of £3,906,753 has been accrued in respect of the year ended 31 March 2019 (2018: £2,898,947).

13. Called up share capital

	2019	2018
	£	£
Authorised		
8,000,000 (2018: 8,000,000) Ordinary Shares of £0.01 (2018: £0.01) each	80,000	80,000
Allotted, called up and fully paid		
Ordinary Shares	<u>10,770</u>	<u>8,550</u>

On a return of capital, liquidation or sale of the entire issued share capital of the Company, the preference shareholders have priority over all classes of shares.

The authorised, allotted, called up and fully paid 37,873,016 (2018: 37,873,016) £0.01 Preference Shares have the same voting rights attached as the ordinary share capital. In total, 37,873,016 (2018: 37,873,016) Preference Shares are authorised.

Preference Shares have been accounted for as a liability, please refer to note 13.

Notes to the financial statements for the year ended 31 March 2019 (continued)

14. Share based payments

The Company operates an equity-settled share based compensation plan that is established under the Enterprise Management Initiative ("EMI"), for certain employees as consideration for equity option instruments (share options) of the Company. The options are granted with a fixed exercise price and are exercisable either when the holder ceases to be an employee of the Company or 4 years after the grant date. Employees are required to remain in employment with the Company for 4 years from the grant date for the options to vest in full.

The Company operates an equity-settled share based compensation plan for certain non employees. The options are granted with a fixed exercise price and are exercisable 4 years after the grant date. Non employees are required to continue to provide services to the Company for 4 years from the grant date for the options to vest in full.

The fair value of employee and non employee services received in exchange for the grant of options is expensed on an equity basis over the period to which the associated employee's or non employee's service relates, based on the Company's estimate of the number of shares that will eventually vest and the value of the options as at the date of grant.

The reconciliation of share option movements over the year is shown below:

	2019		2018	
	Options Number	Exercise Price £	Options Number	Exercise Price £
Outstanding options at 1 April	6,519,000	£0.01	3,975,000	£0.01
Granted	-	£0.01	2,544,000	£0.01
Exercised	(222,000)	£0.01	-	£0.01
Lapsed	(2,000)	£0.01	-	£0.01
Outstanding options at 31 March	6,295,000	£0.01	6,519,000	£0.01
Exercisable options at 31 March	5,306,643	£0.01	3,791,012	£0.01

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. The fair value per option at date of grant was calculated as £0.01 for share options granted on each of 3 April 2014, 8 December 2014 and 28 January 2015, £0.50 for those options granted on 14 November 2016, after discounting their value and £0.50 for those options granted on 4 December 2017 and 26 March 2018 applying the same discounting of their value for the lack of marketability and lack of control associated with ordinary shares in the company. All options have an expected life of 4 years. The share based payment charge recognised in the Statement of comprehensive income for the year was £766,628 (2018: £239,329).

Notes to the financial statements for the year ended 31 March 2019 (continued)

15. Operating lease commitments

At 31 March 2019 the Company had annual commitments under non-cancellable land and building operating leases for each of the following periods:

	2019	2018
	£	£
Not later than one year	<u>122,000</u>	<u>114,657</u>

The total operating lease expense for the current year was £122,497 (2018: £119,709).

16. Related party transactions

The Company is controlled by Johnson & Johnson Innovation – JJDC Inc, F-Prime Healthcare Fund III LLP, SV Life Sciences Fund V LP, Touchstone Innovations Business LLP, IP2IPO Services Limited and S.R.One, Ltd.

Transactions during the year included;

Board expenses totalling £27,389 (2018: £8,118) were charged by Mr D Burgess, £320 (2018: nil) by IP2IPO Services Limited and £379 (2018: £100) by S.R.One, Ltd

Rental fees and related service costs totalling £61,035 (2018: £59,340) by Imperial White City Incubator Limited, £60,716 (2018: £83,223) by Imperial Innovations Limited, £4,375 (2018: £8,750) by Imperial College Consultants Ltd and £76,463 (2018: £67,869) was charged by Imperial College London for a research collaboration, internet, postage and Occupational Health services.

Mr D Burgess was paid non executive director fees of £40,224 (2018: £41,902), Dr D Armstrong James was paid consultancy fees and expenses totalling £1,250 (2018: £2,888) and Exro Pharma Solutions Ltd was paid consultancy fees and expenses totalling £21,404 (2018: £23,954).

17. Ultimate controlling party

As at 31 March 2019 the Company is considered by the directors to have no ultimate controlling party.

18. Subsequent events

The drawdown of the final milestone investment funds of £5,000,000 completed on 9 July 2019, and the subsidiary MykoTherapeutics Limited was dissolved at Companies House in May 2019.