Sareum

Sareum Holdings plc
Annual Report and Accounts 2016

Specialists in Cancer Drug Discovery and Development

Building value through drug development and licensing

Sareum's small molecule drug discovery expertise generates value and revenues by developing drug candidates, focused on cancer and autoimmune diseases, and licensing them to pharmaceutical and biotechnology companies.

Highlights

Financial highlights

- Net assets at year end were £1.86 million (2015: £1.86 million), of which £1.25 million comprised cash at bank (2015: £1.48 million), plus £0.48 million unspent investment in the Chk1 project (2015: £0.21 million).
- Loss on ordinary activities (after tax credit) of £1.05 million (2015: loss of £1.26 million).
- Successful placing in April 2016 to raise £1.1 million before expenses.
- Received £111k of the £140k funding award for TYK2 cancer studies from Innovate UK BioMedical Catalyst; the remainder received post-year end.

Operational highlights

- Chk1 clinical trials applications for two clinical trials, one as a single agent and the other in combination with standard of care chemotherapies, submitted, approved and opened at The Royal Marsden Hospital.
- TYK2 lead inhibitors show good activity in disease models of rheumatoid arthritis and colitis, and compare favourably with a marketed JAK-family kinase inhibitor.
- Appointment of Dr Stephen Parker as Non-executive Chairman.

Post-year-end highlights

- Chk1 inhibitor cancer drug candidate CCT245737 (renamed PNT737) licensed to ProNAi Therapeutics, Inc. (NASDAQ: DNAI) by co-investment partner, the CRT Pioneer Fund. Sareum will receive an upfront payment of US$1.9 million, potential future milestone payments of up to US$88.4 million, plus a share of any sales royalties, and repayment of approximately £300k in unspent funds previously invested in the collaboration.
- Successful outcome from TYK2 cancer feasibility study, part-funded by £140k award from Innovate UK BioMedical Catalyst; results support case to advance programme further.

visit us online:
www.sareum.com

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

At a Glance

Excellent progress was made in the last year culminating in a licence agreement for the Chk1 programme post-period end. We are now in a good position, both financially and with the knowledge that we have a proven strategy, to pursue our other drug candidates and expand our asset portfolio.

What we do

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

We are currently actively pursuing the following drug discovery and development programmes:

Target	Lead optimisation	Candidate selection	Preclinical	Clinical	Potential indications
Chk1 – Chemotherapy combination					Lung, pancreatic, colon
Chk1 – Single agent					AML, neuroblastoma, lymphoma
Aurora+FLT3					AML, ALL
TYK2 – Autoimmune					Psoriasis, RA, lupus, IBD, MS
TYK2 – Cancer					T-ALL, ALCL, colon

Our year

2015

July
Publication of Chk1 inhibitor cancer drug candidate in high impact scientific journal, Oncotarget.

September
Aurora+FLT3 patent grant notifications received for the US and Europe.

December
Clinical trial submissions for Chk1 inhibitor cancer drug candidate trigger £798k contribution by Sareum to fund trial costs.

2016

February
Clinical trials applications submitted for Chk1 inhibitor cancer drug candidate resulting in £200k milestone payment to Sareum.

April
Company raises £1.10 million before expenses by way of a share placing

Approval received to commence two phase 1 clinical trials for Chk1, one as a single anti-cancer agent and the other in combination with standard-of-care chemotherapies.

Drug development pipeline

Sareum's pipeline is built on the drug discovery expertise of its founders, particularly in the field of cancer.

The Company operates a collaborative and outsourced business model. All our laboratory-based research is carried out in the facilities of collaborators or third-party providers. This enables us to access drug discovery expertise throughout the world with a very flexible cost base.

Sareum focuses on developing new therapies against biochemical targets where existing preclinical or early clinical data is available. This data can give a strong indication that a therapy will disrupt a targeted biochemical process and improve patient outcomes without significant side effects. Sareum's approach is lower risk than developing therapies against entirely novel targets.

Chk1 kinase

Checkpoint kinase 1 (Chk1) is the Company's most advanced programme. Lead series compounds have shown strong potency in disease models of:

- lung, pancreatic and colon cancers in combination with chemotherapy;
- acute myeloid leukaemia (AML), B-cell lymphoma, certain breast cancers and paediatric neuroblastoma as a single agent; and
- head and neck cancers in combination with radiotherapy.

Two phase 1 clinical trials for the clinical development candidate, CCT245737, commenced at The Royal Marsden Hospital in May 2016, one as a single anti-cancer agent targeting a variety of cancers, and the other in combination with standard-of-care chemotherapies, ultimately targeting lung and pancreatic cancers. The programme has subsequently been licensed to ProNAi Therapeutics, Inc. (NASDAQ: DNAI) by co-investment partner, the CRT Pioneer Fund.

Read more on page 5

Aurora+FLT3 kinase

Our Aurora+FLT3 kinase programme is being developed in partnership with Hebei Medical University Biomedical Engineering Center. The programme targets AML and other blood cancers.

In disease models of AML, the candidate molecule demonstrates greater than 98% tumour inhibition. The molecule also has potent cell-killing activity against other cancers, particularly acute lymphoblastic leukaemia (ALL) and other blood cancers.

Read more on page 5

TYK2 kinase – autoimmune diseases

This programme is focused on developing a series of TYK2 inhibitors that can be dosed via the oral route. TYK2 inhibition is expected to be efficacious against many autoimmune and inflammatory disorders, including:

- psoriasis;
- rheumatoid arthritis;
- inflammatory bowel disease (IBD);
- multiple sclerosis; and
- lupus.

Co-development partners SRI International and Sareum are working to complete the lead optimisation phase of discovery, prior to moving into formal preclinical development. In the course of this research we have discovered advanced lead molecules such as SAR-20347, which leads to a striking decrease in symptoms in standard preclinical disease models of psoriasis, colitis and rheumatoid arthritis.

Read more on page 6

TYK2 kinase – cancer

Sareum has discovered a novel series of selective inhibitors of TYK2 from its TYK2 autoimmune disease programme, and has shown that they can prevent T-cell acute lymphoblastic leukaemia (T-ALL) cells from proliferating by causing programmed cell death.

A T-ALL disease model feasibility study, part-funded by the Innovate UK BioMedical Catalyst, showed that Sareum's compounds, dosed orally, were well tolerated and showed strong potency on a biomarker of TYK2 inhibition plus tumour size reduction of up to 80%.

Read more on page 6

May

Appointment of Dr Stephen Parker as Non-executive Chairman.

Phase 1 clinical trials for Chk1 inhibitor cancer drug candidate open at The Royal Marsden Hospital.

August

Aurora+FLT3 patent grant notifications received for China and Hong Kong.

September

Chk1 inhibitor cancer drug candidate licensed to ProNAi Therapeutics, Inc. by co-investment partner, the CRT Pioneer Fund.

October

Aurora+FLT3 patent grant notifications received for Japan and Singapore, giving Sareum approved patent protection in all the major territories.

Successful conclusion to the BioMedical Catalyst funded feasibility study for TYK2 with lead compounds showing tumour regression in a disease model of T-ALL.

Chairman's Statement

> "The progress made in the last year validates the business model to pursue multiple drug development programmes and affirms our ability to grow the value of these assets in order to make them attractive to potential licensees and commercial partners."

Dr Stephen Parker
Non-executive Chairman

In my first statement as Non-executive Chairman of Sareum, I am very pleased to report on a year of considerable progress, which has culminated in the licensing of Chk1 by our co-investment partners to ProNAi Therapeutics, Inc., a well funded US clinical stage drug development company. The progress made validates the business model to pursue multiple drug development programmes and affirms the team's ability to grow the value of these assets in order to make them attractive to potential licensees and commercial partners.

The most advanced programme, Chk1, achieved a series of significant milestones, which led to the approval of two clinical trials to commence towards the end of the period. These were officially opened at The Royal Marsden Hospital in May 2016. Discussions with potential licensees continued throughout the year with the Company's first licensing deal signed by our co-development partner, the CRT Pioneer Fund, at the end of September.

Preclinical development of the Aurora+FLT3 candidate, with Chinese partner Hebei Medical University Biomedical Engineering Center, has had to overcome a number of challenges which have resulted in delays to the project. With these believed to have been largely resolved, preclinical studies are now expected to complete in the latter part of 2017.

The two TYK2 programmes targeting autoimmune diseases and the blood cancer T-ALL continue their progression through preclinical studies. A feasibility study, supported with a £140k grant from the Innovate UK BioMedical Catalyst, was concluded successfully having shown tumour regression in a disease model of T-ALL, opening the programme for further investigation. Given the wide potential for our TYK2 programmes, we continue to seek a commercial partner to share the ongoing research costs with a view to licensing the programme at a later stage of development.

Board changes

I succeeded Dr Paul Harper as Chairman of the Company on 17 May 2016. I would like to thank Dr Harper for his invaluable contribution to the Company during his twelve year tenure as Non-executive Chairman. During his time with Sareum, Dr Harper helped to define the direction and strategy of the Company which allowed considerable value to be built into our multiple programmes through their progression towards, and into, early clinical development.

Financial review

The Company ended the year with net assets of £1.86 million (2015: £1.86 million) of which £1.25 million comprised cash at bank, and £0.48 million unspent in the Chk1 project account (2015: £0.21 million).

The loss on ordinary activities after taxation for the year was £1.05 million (2015: loss of £1.26 million) including £332k as our share of the expenditure on the Chk1 programme during the course of the year. In April 2016, the Company raised £1.10 million, before expenses, through a share placing to progress our drug development programmes as well as to provide working capital. In addition to this, £111k of a £140k funding award was received for TYK2 cancer studies from Innovate UK BioMedical Catalyst, with the remainder received post-year end.

Following the licensing of Chk1 to ProNAi Therapeutics, we have received £900k of the £1.50 million upfront payments. The remaining £600k plus the unspent co-investment funds, estimated at approximately £300k, are expected to be received in the near future.

Outlook

The ongoing development of our most advanced asset, Chk1, is now being conducted by ProNAi. In addition to the upfront payments noted above, Sareum is entitled to receive further milestone payments of up to US$88.4 million over the course of the drug candidate's development, registration and commercialisation, plus a 27.5% share of high single to low double-digit royalties on future sales. We are also encouraged by ProNAi's stated intention to expand the development of the programme into the United States, with broader clinical studies.

Sareum is now in a strong position to continue to pursue the three assets that remain under its control and explore new potential autoimmune and anti-cancer drug candidates, either from its own kinase library or by in-licensing early stage discoveries from external sources.

We look forward to reporting on our progress over the coming year.

Dr Stephen Parker
Chairman
1 November 2016

Research Update

"Having successfully licensed the Chk1 programme our focus will be on advancing the three research programmes that remain under our control. Each of these assets have shown strong potency and good tolerance in the respective studies that have taken place so far."

Dr Tim Mitchell
Chief Executive Officer

Checkpoint kinase 1 (Chk1)

Working with our co-investment partner, the CRT Pioneer Fund, clinical trial applications were prepared in the first half of the financial year for two clinical trials in cancer patients, one with CCT245737 as a single anti-cancer agent targeting a variety of cancers, and the other in combination with standard-of-care chemotherapies, ultimately targeting lung and pancreatic cancers.

Clinical trial applications were submitted at the beginning of February 2016 triggering a £200k success milestone payment from Cancer Research Technology Ltd to Sareum. With permission granted in April by The MHRA to conduct trials, these were opened at The Royal Marsden Hospital in May 2016.

Meanwhile, data on the candidate were published and described in the leading scientific journals Oncotarget (July 2015) and the Journal of Medicinal Chemistry (May 2016). Data on an earlier lead compound, showing encouraging results against certain aggressive breast cancer cell types and improving the efficacy of chemoradiotherapy in a head and neck cancer disease model, were also published during the period.

It was this progress that enabled our collaboration partner to secure a licence agreement for the Chk1 programme, including drug candidate CCT245737 (now renamed PNT737), with ProNAi Therapeutics, Inc. post-year end. ProNAi benefits from a world-class oncology development team and is well capitalised, and we believe these studies and the ongoing development strategy for this drug are in excellent hands. With plans to expand the programme into the US we will continue to monitor and report on progress.

Aurora+FLT3 kinases

Our Aurora+FLT3 candidate molecule, targeting acute myeloid leukaemia, is being developed in collaboration with our Chinese partner, Hebei Medical University Biomedical Engineering Center (HMUBEC).

Having overcome difficulties in synthesising sufficient compound material for toxicology studies, the programme has faced further significant challenges in the formulation and administration of the compound. We believe these have been largely overcome, but this has resulted in further delays to the project. As a result we now expect to complete the toxicology and safety pharmacology studies by H2 2017.

During the period and post-period end, our intellectual property was strengthened by notifications of patents granted in Europe, the US, China, Hong Kong, Singapore and Japan. As a result, Sareum now has approved patent protection in all the major territories for this programme.

Research Update continued

TYK2 kinase – autoimmune and inflammatory disorders

Our autoimmune and inflammatory disorders programme, with co-development partner SRI International, is developing a series of orally bioavailable inhibitors of TYK2, a member of the Janus kinase (JAK) family of kinases. JAK-family kinases are the targets of several marketed and clinical stage drugs for cancer and autoimmune diseases, although none of these specifically target TYK2, giving us a potentially unique position in this area.

We have previously reported the discovery of our initial lead candidate SAR-20347, which has shown that, when dosed orally, it can significantly decrease psoriasis pathology in a disease model as well as demonstrating strong efficacy in a standard model of rheumatoid arthritis.

Building on the rheumatoid arthritis data package, we have synthesised further analogues of SAR-20347 and carried out studies on disease models of ulcerative colitis. These compounds show good activity in standard models of both diseases and compare favourably with a marketed JAK-family kinase inhibitor.

The next steps are to complete the optimisation of the molecule and to validate our candidate in other models of autoimmune diseases including inflammatory bowel disease and multiple sclerosis. In addition, Sareum's co-development partner has secured a US government grant award of approximately US$360k to carry out research to evaluate our TYK2 inhibitors as a possible strategy for treating lupus. Lupus is a complex and poorly understood autoimmune disease mainly suffered by women that affects many parts of the body; its symptoms can range from mild to debilitating and even life threatening.

TYK2 kinase – cancer

On 17 June 2015, Sareum announced that it had received notification from Innovate UK for a Biomedical Catalyst funding award of £140k to explore TYK2 inhibition as a potential strategy to prevent the spread of and/or to combat resistance to treatment for T-ALL, a type of leukaemia that predominantly affects children and adolescents.

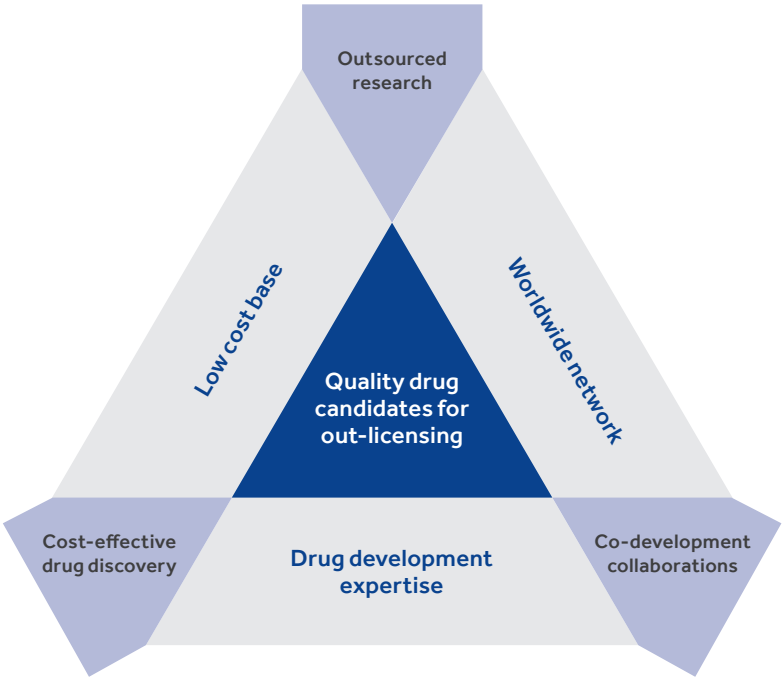
The project was concluded successfully in August 2016, with lead compounds showing significant tumour regressions of up to 80%. Additionally, the compounds, dosed orally, were found to be well tolerated, presented good exposure to plasma and tumour tissue, and showed a dose-dependent effect on a biomarker of TYK2 inhibition.

Following on from these positive results, we will now be working toward completing the optimisation of the molecule and looking to demonstrate its efficacy in further cancer models. In order to support these investigations, we will be submitting new grant funding applications.

Dr Tim Mitchell
Chief Executive Officer
1 November 2016

Business Model

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



Cost-effective drug discovery

Sareum ensures its research spend yields the most productive return. This is accomplished by undertaking its laboratory-based research and development activities through co-development collaborations and third-party research providers. From this Sareum builds a dossier of data on the performance and safety of candidate drug compounds, coupled with patent filings to protect the intellectual property. This forms the basis of the information package provided to potential licensees. A small in-house team ensures the management and advisory board are able to make effective and efficient decisions to progress programmes as quickly as possible.

Co-development collaborations

Sareum's co-development collaborations with world-class research institutes provide access to expertise and the ability to progress a number of programmes simultaneously by reducing research costs. Our co-development collaborations in China and the USA also give us valuable presence in these markets. Each collaboration agreement is different. Typically, however, Sareum offsets a share of future licence income and ongoing royalties in exchange for research funding, use of facilities and access to expertise.

Outsourced research

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

Drug development expertise

Sareum generates value by developing a strong pipeline of candidate drugs. To date this has been done through its drug discovery platform, SKIL® (Sareum Kinase Inhibitor Library), where new compounds targeting cancer and autoimmune diseases are identified. The Company is also looking to access potential drug candidates from external sources, particularly where its skill and expertise can add substantial value to the development programme.

Low cost base

The Company maintains a low cost base by having a small in-house team, outsourcing as many functions as possible and entering into collaboration agreements with third parties. These collaborations ensure Sareum benefits from the potential upside of future licensing deals without carrying the full cost required to progress its development programmes to later stages.

Worldwide network

As a consequence of its virtual research model, Sareum is able to access a worldwide network of experts. It selects the best-in-class research providers and individuals to progress its programmes. The Company works with laboratories and individuals based across Europe, the USA and China, which also provides access to these markets for potential licensing deals.

Our Strategy

Sareum's strategy is to develop programmes to late preclinical or early clinical stages to take advantage of the higher asset values associated with licensing programmes at these stages.

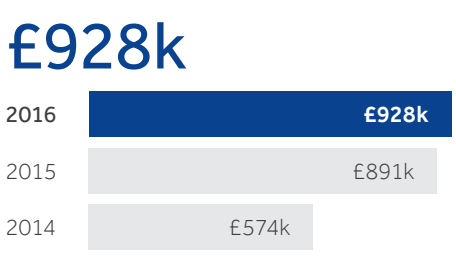
Approach	Benefit
Pursue multiple programmes	• Increase potential success rate • Mitigate development risk
Seek collaboration partners	• Spread financial cost and risk • Access specialist research expertise
Develop programmes to preclinical/ early clinical development	• Minimise ongoing development risk • Move up value chain • Potential for higher deal values
License drug candidates to pharmaceutical company partners	• Generate short and potential long term revenues through upfront and milestone payments and royalties • Validate research and define value of assets • Progress drug candidates through clinical development and commercialisation

Key Performance Indicators

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

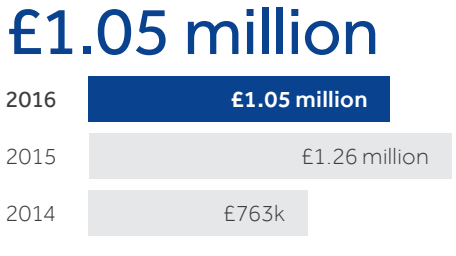
Research and development

Sareum undertakes research and development on its cancer and autoimmune disease programmes. The investment in R&D 2016 was similar to the prior year in line with management expectations.



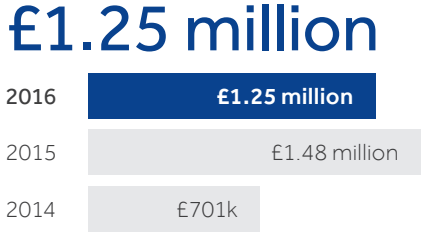
Loss on ordinary activities

The Company management aims to minimise the loss to the Group through a low cost base and a lean operating model. The loss this year reduced partly as a result of research funding from Innovate UK BioMedical Catalyst for the TYK2 cancer feasibility study.



Cash at bank

Sareum requires cash for working capital purposes and to advance its development programmes. The Company's low cost base ensures that funds are used in the most efficient way possible. The decrease in cash is primarily the result of the fund raising that took place during the year being offset by our commitment to the Chk1 programme. Approximately £300k in unspent co-investment funds, is expected to be repaid in the near future, following the licensing of Chk1 to ProNAi Therapeutics, Inc..



Risks and Risk Management

Risk	Description	Mitigation	Risk change
Financial	The principal financial risks are the ability to raise sufficient funds to support the Company through to profitability and failure to secure licensing agreements.	The Company's low cost base ensures that funds are used in the most efficient way. Sareum has historically raised the majority of its funds from investors via licensed brokers and this continues to be an option.	Decreased risk
Research and development	There are a number of risks in developing drug candidates due to a long and complex development process. Any programme must undergo extensive research to get to preclinical or clinical stage. This process takes several years and is very costly. Preclinical development focuses on safety and can fail at any point.	We undertake extensive early research and create a dossier of information that enables us and our advisers to evaluate the potential of a candidate before we seek to progress to preclinical or clinical phases. We also seek collaboration partners whose own due diligence reaffirms our assessment of a candidate's potential.	No change
Intellectual property	Our ability to stop others exploiting our intellectual property, without first obtaining a licence, is critical to our long term success. Therefore, we file patent applications in the patent offices of the major commercial territories. To obtain patent protection, our inventions must be considered novel, inventive and useful. However, some, or all, of the patent offices may reject or seek to modify our patent applications.	Intellectual property protection is fundamental to our strategy of developing novel drug candidates and underpins our R&D programmes and we invest appropriately in this area. We are exploiting our SKIL platform, which already has a strong patent position through a number of granted and pending applications. Our Chk1 project is likewise supported by several granted and pending applications. IP considerations form a crucial part of due diligence when we are assessing in-licensing opportunities.	Decreased risk
Collaboration	Working with third parties carries a risk of loss of control on progress and can lead to research delays. This can increase Sareum's own financial commitment as a result of continued spend on fixed costs during a delay and potential additional financial contributions required in order to progress a programme.	We work closely with our partners to anticipate and plan around any likely delays. Collaboration contracts clearly outline responsibilities and key milestones as well as cost, licensing and revenue sharing.	No change
Competition	There always remains the possibility that a similar drug is being developed by a competitor that demonstrates greater efficacy or a better safety profile. Alternatively, a similar drug in development may conclude a licensing deal or reach a later stage of development before we are able to, thus reducing the likelihood of Sareum securing a licensing agreement.	The management and advisory boards gather as much information as possible on competitive products and programmes. Progress and key milestones are monitored to understand how these may affect our own programmes. Sareum also pursues more than one development programme in order to mitigate the overall risk to the Company.	Increased risk

Directors and Company Information

Stephen Parker DPhil
Non-executive Chairman

Dr Stephen Parker, aged 58, has a career in the healthcare and pharma sector that spans over 30 years, including six years in the City in advisory roles. He has sector corporate finance experience having been an investment banker focusing on pharma and biotechnology with Barings, Warburg and Apax Partners and has previously held roles as a partner at Celtic Pharma and Chief Financial Officer of Oxford GlycoSciences. Stephen also currently holds the position of Chairman at Silence Therapeutics plc.

Tim Mitchell PhD
Founder and CEO

Dr Tim Mitchell, aged 56, has over 25 years' experience in the industry with key management and business expertise gained from his positions at Cambridge Discovery Chemistry Ltd and his roles at Millennium Pharmaceuticals Research and Development Ltd as a member of the management team and in forming the integrated Structure-Based Discovery department. As Director of the Millennium Structure-Based Discovery department, Tim was responsible for global provision of protein structure and high throughput chemical synthesis for Millennium as well as for local computational chemistry, informatics and automation capabilities. Prior to that, he was Director of computational chemistry at Cambridge Discovery Chemistry Ltd and a team leader in the Computational and Structural Sciences department at SmithKline Beecham Pharmaceuticals. Tim has a PhD in computational chemistry and a BSc in chemistry.

John Reader PhD
Founder and CSO

Dr John Reader, aged 49, has over 20 years' experience within the industry and was formerly Associate Director, Chemical Technologies at Millennium Pharmaceuticals Research and Development Ltd, prior to which he worked with Pharmacopeia Inc. and Cambridge Discovery Chemistry Ltd in the provision of high throughput chemistry services to external and internal clients. John has extensive experience of leading large research teams and in the invention and application of new technologies to the drug discovery process, with an excellent track record of delivering successful projects to clients and has authored or co-authored many patents and publications. The majority of patents granted to John cover composition of matter discovered in the multiple projects in which he has worked, with further patents covering technological innovations in the field. John is a member of the EPSRC Peer Review College and has a PhD in chemistry and a BSc in applied chemistry.

Directors
T Mitchell PhD
J Reader PhD
S Parker DPhil

Secretary
T Bunn FCMA

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

Registered number
05147578 (England and Wales)

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

Group Strategic Report
for the Year Ended 30 June 2016

The Directors present the Strategic Report of the Company and the Group for the year ended 30 June 2016.

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

Review of business
The loss for the year was £1,048,118 and at 30 June 2016 cash and cash equivalents amounted to £1,252,595.

The Group raised a total of £1.1 million, before expenses, by way of a placing in April 2016. The funds raised will be used to progress the Group's drug development programmes as well as for working capital purposes.

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

Principal risks and uncertainties
The principal risks facing the Group are the following:

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

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

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

Future outlook
On 27 September 2016 the Group announced that its co-investment partner, the CRT Pioneer Fund, had licensed the rights to the Chk1 project to ProNAi Therapeutics, Inc. Under the terms of the agreement an immediate upfront payment of US$7.0 million is due to the co-investment partners and an additional fee of up to US$2.0 million will be payable upon the successful transfer of the two ongoing Phase 1 clinical trials to ProNAi. Additional payments of up to US$319.5 million may become payable upon achievement of certain milestones and ProNAi will pay royalties on the net sales of any product successfully developed. The Group is entitled to receive 27.5% of these payments and will also receive a refund amounting to an estimated £300k in unspent investment funds.

The Group will continue to develop its oncology programmes and, in particular, the Aurora+FLT3 project will be advanced through preclinical development into Phase 1 clinical trials. The TYK2 inhibitor, targeting autoimmune diseases, will also be progressed in conjunction with SRI International. Commercially, significant licensing deals will be sought to realise the high value inherent in the Group's technology.

On behalf of the Board:

T Bunn FCMA
Secretary
1 November 2016

Report of the Directors

for the Year Ended 30 June 2016

The Directors present their report with the financial statements of the Company and the Group for the year ended 30 June 2016.

Directors

The Directors shown below have held office during the whole of the period from 1 July 2015 to the date of this report:

T Mitchell PhD

J Reader PhD

Changes in Directors holding office are as follows:

P Harper PhD – resigned 11 May 2016

S Parker DPhil – appointed 17 May 2016

Dividends

No dividends will be distributed for the year ended 30 June 2016.

Research and development

The Group undertakes research and development on its cancer research programmes. The costs relating to this, which have been written off during the year, amounted to £927,644 (2015: £891,156).

Financial instruments

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

Statement of Directors' responsibilities

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and 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 and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Statement as to disclosure of information to auditor

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

On behalf of the Board:

T Bunn FCMA
Secretary
1 November 2016

Corporate Governance Report

Introduction
Sareum Holdings plc was listed on AIM on 11 October 2004. Although the rules of AIM do not require the Company to comply with the Combined Code on Corporate Governance (the Code), the Company fully supports the principles set out in the Code and will attempt to comply wherever possible, given the resources available to the Company. Details are provided below of how the Company applies the Code.

The Board
The Board of Directors comprises two Executive Directors and one independent Non-executive Director, the Chairman.

The Board generally meets monthly and receives reports covering finance, compliance, business development, safety, operations and science together with any other material deemed necessary for the Board to discharge its duties. It is the Board's responsibility to review and approve the Group's strategy, budgets, staff recruitment, major items of expenditure and acquisitions.

Under the Articles of Association, all Directors must offer themselves for re-election at least once every three years. One third of the Directors retire by rotation at every AGM and are eligible for re-appointment.

Board Committees
The Board has established an Audit Committee and a Remuneration Committee with written terms of delegated responsibilities. The terms of reference are as close to the model terms of the Institute of Chartered Secretaries and Administrators as is possible for a Board with one independent Non-executive Director. The terms of reference of the Committees are published on the Company's website: www.sareum.com.

Audit Committee
The Audit Committee currently comprises Dr Stephen Parker, Non-executive Chairman, and Dr Tim Mitchell, CEO. It is scheduled to meet twice a year. It is the Audit Committee's role to provide formal and transparent arrangements covering the financial reporting and internal control requirements of the Code, whilst maintaining an appropriate relationship with the independent auditor of the Group.

Remuneration Committee
The Remuneration Committee currently comprises Dr Stephen Parker, Non-executive Chairman. It meets at least once a year. It is the Remuneration Committee's role to establish a formal and transparent policy on executive remuneration and to set remuneration packages for individual Directors. The Committee also ensures that recommendations made by the Executive Directors on staff remuneration are appropriate and fair from a shareholder's perspective. Further information on the work of the Committee can be found on page 14.

Shareholder relations
The Company meets with its institutional shareholders and analysts as appropriate and uses the AGM to encourage communication with shareholders. In addition, the Company issues the Annual Report and Accounts, Interim Statement and press releases as well as using its website (www.sareum.com) to provide further information to shareholders.

Internal control and risk management
The Board is responsible for the systems of internal control and for reviewing their effectiveness. The internal controls are designed to manage rather than eliminate risk and provide reasonable but not absolute assurance against material misstatement or loss. The Audit Committee reviews the effectiveness of these systems annually. This it does primarily by discussions with the external auditor and by considering the risks potentially affecting the Group.

The Group does not have an internal audit function since the administrative function is very small. Instead there is a detailed Director review and authorisation of transactions. The annual audit by the Group's auditor, which tests a sample of transactions, did not highlight any significant system improvements in order to reduce risks.

A comprehensive budgeting process is completed once a year and is reviewed and approved by the Board. The Group's results, compared with the budget, are reported to the Board on a monthly basis and discussed in detail.

The Group maintains appropriate insurance cover in respect of actions taken against the Executive Directors because of their roles, as well as against material loss or claims against the Group. The insured values and types of cover are comprehensively reviewed on a periodic basis.

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

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

Employees
Sareum is committed to a policy of equal opportunities in the recruitment, engagement and treatment of its staff.

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

Remuneration Committee Report

Introduction

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

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

Remuneration policy

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

Executive Directors' service contracts

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

For the year from 1 July 2015 a Directors' bonus scheme was, in effect, to reward the Directors based on performance targets that build shareholder value.

Pensions

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

Share option schemes

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

- an Inland Revenue approved (EMI) share option scheme (approved scheme); and
- an unapproved share option scheme (unapproved scheme), identical to the approved scheme but for part-time staff who do not fulfil the EMI employment criteria.

Non-executive Directors

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

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

Director	Share scheme	Exercise price pence	As at 1 July 2015 No.	Granted during the year No.	Lapsed during the year	**As at 30 June 2016 No.**
Dr Tim Mitchell	EMI	0.25	6,400,000	—	—	**6,400,000**
Dr Tim Mitchell	EMI	0.26	6,153,846	—	—	**6,153,846**
Dr Tim Mitchell	EMI	1.2	2,566,666	—	—	**2,566,666**
Dr Tim Mitchell	EMI	0.6	4,752,000	—	—	**4,752,000**
Dr Tim Mitchell	EMI	0.425	7,198,353	—	—	**7,198,353**
Dr Tim Mitchell	EMI	0.59	—	5,340,862	—	**5,340,862**
Dr John Reader	EMI	0.25	6,400,000	—	—	**6,400,000**
Dr John Reader	EMI	0.26	6,153,846	—	—	**6,153,846**
Dr John Reader	EMI	1.2	2,566,666	—	—	**2,566,666**
Dr John Reader	EMI	0.6	4,752,000	—	—	**4,752,000**
Dr John Reader	EMI	0.425	7,198,353	—	—	**7,198,353**
Dr John Reader	EMI	0.59	—	5,340,862	—	**5,340,862**
Dr Paul Harper	Unapproved	0.6	810,000	—	—	**810,000**
Dr Paul Harper	Unapproved	0.425	1,227,059	—	—	**1,227,059**
Dr Paul Harper	Unapproved	0.59	—	910,396	—	**910,396**

The market price of the shares at 30 June 2016 was 0.78 pence and the range during the year was 0.18 pence to 0.94 pence.

Directors' remuneration

Details of Directors' remuneration for the year to 30 June 2016 are set out below:

	Salary £	Bonus £	Healthcare £	Emoluments £	Pension £	**Total 2016 £**	Total 2015 £
Executive Directors							
Dr TJ Mitchell	103,507	—	1,083	104,590	8,027	**112,617**	107,023
Dr JC Reader	103,507	—	865	104,372	8,598	**112,970**	107,471
Non-executive Directors							
Dr PB Harper	25,741	—	—	25,741	—	**25,741**	16,791
Dr SB Parker	4,479	—	—	4,479	—	**4,479**	—
Total	237,234	—	1,948	239,182	16,625	**255,807**	231,285

Financial statements

Report of the Independent Auditor

to the Members of Sareum Holdings plc

We have audited the financial statements of Sareum Holdings plc for the year ended 30 June 2016, which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Cash Flow Statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and auditor

As explained more fully in the statement of Directors' responsibilities set out on page 12, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Group Strategic Report and the Report of the Directors to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 30 June 2016 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Group Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

Stewart Jell
(Senior Statutory Auditor)
for and on behalf of Shipleys LLP
Chartered Accountants and Statutory Auditors
10 Orange Street
Haymarket
London WC2H 7DQ
1 November 2016

Consolidated Statement of Comprehensive Income

for the Year Ended 30 June 2016

	Notes	2016 £	2015 £
Continuing operations			
Revenue		**—**	—
Other operating income		**122,599**	—
Administrative expenses		**(995,770)**	(811,878)
Share of loss of associates	3	**(331,871)**	(496,989)
Operating loss		**(1,205,042)**	(1,308,867)
Finance expense	4	**—**	(135,348)
Finance income		**4,359**	2,997
Loss before income tax	5	**(1,200,683)**	(1,441,218)
Income tax	6	**152,565**	185,850
Loss for the year		**(1,048,118)**	(1,255,368)
Total comprehensive expense for the year		**(1,048,118)**	(1,255,368)
Loss attributable to:			
Owners of the parent		**(1,048,118)**	(1,255,368)
Total comprehensive income attributable to:			
Owners of the parent		**(1,048,118)**	(1,255,368)
Loss per share expressed in pence per share	8		
Basic and diluted loss from continuing operations		**(0.04)p**	(0.06)p

The notes form part of these financial statements.

Consolidated Balance Sheet

as at 30 June 2016

	Notes	2016 £	2015 £
Assets			
Non-current assets			
Intangible assets	9	**—**	—
Property, plant and equipment	10	**1,322**	3,087
Investments	11	**475,038**	209,808
		476,360	212,895
Current assets			
Trade and other receivables	12	**79,288**	51,366
Tax receivable		**154,840**	186,297
Cash and cash equivalents	13	**1,252,595**	1,480,044
		1,486,723	1,717,707
Liabilities			
Current liabilities			
Trade and other payables	14	**99,551**	67,443
Net current assets		**1,387,172**	1,650,264
Net assets		**1,863,532**	1,863,159
Shareholders' equity			
Called up share capital	17	**661,305**	621,859
Share premium	18	**11,765,111**	10,761,261
Share-based compensation reserve	18	**110,209**	105,014
Merger reserve	18	**27**	27
Retained earnings	18	**(10,673,120)**	(9,625,002)
Total equity		**1,863,532**	1,863,159

The financial statements were approved by the Board of Directors on 1 November 2016 and were signed on its behalf by:

T Mitchell PhD
Director

The notes form part of these financial statements.

Company Balance Sheet

as at 30 June 2016

	Notes	2016 £	2015 £
Assets			
Non-current assets			
Investments	11	**30,000**	30,000
Current assets			
Trade and other receivables	12	**—**	—
Liabilities			
Current liabilities		**—**	—
Net assets		**30,000**	30,000
Shareholders' equity			
Called up share capital	17	**661,305**	621,859
Share premium	18	**11,765,111**	10,761,261
Share-based compensation reserve	18	**110,209**	105,014
Retained earnings	18	**(12,506,625)**	(11,458,134)
Total equity		**30,000**	30,000

The financial statements were approved by the Board of Directors on 1 November 2016 and were signed on its behalf by:

T Mitchell PhD
Director

The notes form part of these financial statements.

Consolidated Statement of Changes in Equity

for the Year Ended 30 June 2016

	Called up share capital £	Retained earnings £	Share premium £
Balance at 1 July 2014	477,509	(8,369,634)	9,549,595
Changes in equity			
Issue of share capital	144,350	—	1,211,666
Total comprehensive expense	—	(1,255,368)	—
Share-based compensation	—	—	—
Balance at 30 June 2015	621,859	(9,625,002)	10,761,261
Changes in equity			
Issue of share capital	39,446	—	1,003,850
Total comprehensive expense	—	(1,048,118)	—
Share-based compensation	—	—	—
Balance at 30 June 2016	**661,305**	**(10,673,120)**	**11,765,111**

	Share-based compensation reserve £	Merger reserve £	Total equity £
Balance at 1 July 2014	64,976	27	1,722,473
Changes in equity			
Issue of share capital	—	—	1,356,016
Total comprehensive expense	—	—	(1,255,368)
Share-based compensation	40,038	—	40,038
Balance at 30 June 2015	105,014	27	1,863,159
Changes in equity			
Issue of share capital	—	—	1,043,296
Total comprehensive expense	—	—	(1,048,118)
Share-based compensation	5,195	—	5,195
Balance at 30 June 2016	**110,209**	**27**	**1,863,532**

Company Statement of Changes in Equity

for the Year Ended 30 June 2016

	Called up share capital £	Retained earnings £	Share premium £	Share-based compensation reserve £	Total equity £
Balance at 1 July 2014	477,509	(9,862,080)	9,549,595	64,976	230,000
Changes in equity					
Issue of share capital	144,350	—	1,211,666	—	1,356,016
Total comprehensive expense	—	(1,596,054)	—	—	(1,596,054)
Share-based compensation	—	—	—	40,038	40,038
Balance at 30 June 2015	621,859	(11,458,134)	10,761,261	105,014	30,000
Changes in equity					
Issue of share capital	39,446	—	1,003,850	—	1,043,296
Total comprehensive expense	—	(1,048,491)	—	—	(1,048,491)
Share-based compensation	—	—	—	5,195	5,195
Balance at 30 June 2016	**661,305**	**(12,506,625)**	**11,765,111**	**110,209**	**30,000**

The notes form part of these financial statements.

Consolidated Cash Flow Statement

for the Year Ended 30 June 2016

	Notes	2016 £	2015 £
Cash flows from operating activities			
Cash generated from operations	24	**(862,025)**	(720,026)
Tax received		**184,022**	75,787
Net cash outflow from operating activities		**(678,003)**	(644,239)
Cash flows from investing activities			
Purchase of fixed asset investments		**(597,101)**	—
Equity swap arrangement		**—**	64,652
Interest received		**4,359**	2,997
Net cash (outflow)/inflow from investing activities		**(592,742)**	67,649
Cash flows from financing activities			
Share issue		**39,446**	144,350
Share premium on share issue		**1,003,850**	1,211,666
Net cash inflow from financing activities		**1,043,296**	1,356,016
Increase in cash and cash equivalents		**(227,449)**	779,426
Cash and cash equivalents at beginning of year	25	**1,480,044**	700,618
Cash and cash equivalents at end of year	25	**1,252,595**	1,480,044

Company Cash Flow Statement

for the Year Ended 30 June 2016

	Notes	2016 £	2015 £
Cash flows from operating activities			
Cash generated from operations	24	**(1,043,296)**	(1,420,668)
Net cash outflow from operating activities		**(1,043,296)**	(1,420,668)
Cash flows from investing activities			
Equity swap arrangement		**—**	64,652
Net cash inflow from investing activities		**—**	64,652
Cash flows from financing activities			
Share issue		**39,446**	144,350
Share premium on share issue		**1,003,850**	1,211,666
Net cash inflow from financing activities		**1,043,296**	1,356,016
Increase in cash and cash equivalents		**—**	—
Cash and cash equivalents at beginning of year	25	**—**	—
Cash and cash equivalents at end of year	25	**—**	—

The notes form part of these financial statements.

Notes to the Consolidated Financial Statements

for the Year Ended 30 June 2016

1. Basis of preparation

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

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

Going concern

The Directors estimate that the cash held by the Group, together with payments to be received as a result of the licensing agreement with ProNAi Therapeutics, Inc. described in the Strategic Report, will be sufficient to support the current level of activities for the foreseeable future. Therefore, the financial statements have been prepared on a going concern basis.

Basis of consolidation

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

2. Accounting policies

The principal accounting policies applied are set out below.

Amortisation of intangibles

Amortisation is calculated so as to write off the cost of an asset over the useful economic life of that asset as follows:

Intellectual property – straight line over five years

Property, plant and equipment

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

Fixtures and computers – straight line over three or four years

Financial instruments

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

Cash and cash equivalents

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

Taxation

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

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

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

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

Research and development

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

Operating lease agreements

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

Pension contributions

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

Employee share scheme

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

Notes to the Consolidated Financial Statements continued

for the Year Ended 30 June 2016

2. Accounting policies continued

Revenue recognition

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

Investment in Associates

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The amendment to IAS 27 'Separate financial statements' (revised 2014), allowing investments in associates to be accounted for under the equity method in separate financial statements, has been adopted early.

Critical accounting estimates and areas of judgement

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

Accounting standards and interpretations not applied

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

Standard		Effective for accounting periods starting on or after
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11	1 January 2016
IAS 1	Presentation of Financial Statements – Amendments to IAS 1	1 January 2016
IAS 16 and 38	Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38	1 January 2016
IAS 27	Equity Method in Separate Financial Statements – Amendments to IAS 27	1 January 2016
Annual Improvements to IFRS – 2012–2014 Cycle		1 January 2016

The amendment to IAS 27 'Separate financial statements' (revised 2014), allowing investments in associates to be accounted for under the equity method in separate financial statements, has been adopted early.

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

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

3. Employees and Directors

	2016 £	2015 £
Wages and salaries	**240,835**	217,334
Social security costs	**20,556**	17,925
Other pension costs	**16,625**	15,781
	278,016	251,040

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

	2016	2015
Office and management	**1**	1
Research	**1**	1
	2	2

	2016 £	2015 £
Directors' remuneration	**230,231**	215,504
Directors' pension contributions to money purchase schemes	**16,625**	15,781
Compensation to Director for loss of office	**8,952**	—

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

	2016	2015
Money purchase schemes	**2**	2

3. Employees and Directors continued

Information regarding the highest paid Director is as follows:

	2016 £	2015 £
Emoluments, etc.	**104,591**	99,425
Pension contributions to money purchase schemes	**8,027**	7,598

The Directors comprise the key management personnel of the Group.

4. Net finance income

	2016 £	2015 £
Finance income:		
Deposit account interest	**4,359**	2,997
Finance costs:		
Loss on settlement of swap facility	**—**	135,348
Net finance income/(costs)	**4,359**	(132,351)

5. Loss before income tax

The loss before income tax is stated after charging:

	2016 £	2015 £
Other operating leases	**11,185**	10,936
Depreciation – owned assets	**1,765**	1,765
Research and development	**927,644**	891,156
Auditor's remuneration – see analysis below	**14,300**	12,300

The analysis of auditor's remuneration is as follows:

	2016 £	2015 £
Fees payable to the Company's auditor for the audit of the annual accounts:		
Audit of the Company	**4,200**	4,200
Audit of subsidiaries	**6,800**	6,800
Total audit fees	**11,000**	11,000
Fees payable to the Company's auditor for other services:		
Taxation services	**1,300**	1,300
Other assurance services	**2,000**	—
Total fees payable to the Company's auditor	**14,300**	12,300

6. Income tax

	2016 £	2015 £
Current tax:		
UK corporation tax credit on losses of the period	**(151,526)**	(185,850)
Adjustments recognised in the current year in relation to the current tax of prior years	**(1,039)**	—
Tax credit to the Income Statement	**(152,565)**	(185,850)

Notes to the Consolidated Financial Statements continued

for the Year Ended 30 June 2016

6. Income tax continued

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

	2016 £	2015 £
Loss before tax	**(1,200,683)**	(1,441,218)
At standard rate of 20% (2015: 20%)	**(240,137)**	(288,243)
Effects of:		
Capital allowances in excess of depreciation	**12**	(63)
Unutilised tax losses	**149,255**	174,375
Losses surrendered for research and development tax credits (less uplift)	**90,870**	113,931
Research and development tax credits claimed	**(151,526)**	(185,850)
Prior year adjustments	**(1,039)**	—
Actual current tax credit in the year	**(152,565)**	(185,850)

7. Loss of parent company

As permitted by Section 408 of the Companies Act 2006, the statement of comprehensive income of the parent company is not presented as part of these financial statements. The parent company's loss for the financial year was £1,048,491 (2015: £1,596,054).

The loss represents costs of £128,244 (2015: £118,544) associated with the Company's obligations to maintain its AIM listing, the share-based compensation adjustment of £5,195 (2015: £40,038), the loss on settlement of the swap facility of £nil (2015: £135,348) and a provision of £915,052 (2015: £1,302,124) for impairment of amounts owed by Group undertakings.

8. Loss per share

The calculation of loss per share is based on the following data:

	2016	2015
Loss on ordinary activities after tax	**£(1,048,118)**	£(1,255,368)
Weighted average number of shares for basic loss per share	**2,524,944,713**	1,941,676,629
Basic and diluted loss per share	**(0.04)p**	(0.06)p

As the Group has generated a loss for the period, there is no dilutive effect in respect of share options.

9. Intangible assets

Group	Intellectual property £
Cost	
At 1 July 2015 and **30 June 2016**	**2,953**
Amortisation	
At 1 July 2015 and **30 June 2016**	**2,953**
Net book value	
At 30 June 2016	**—**
At 30 June 2015	—

10. Property, plant and equipment

Group	Fixtures and computers £
Cost	
At 1 July 2015 and **30 June 2016**	**9,894**
Depreciation	
At 1 July 2015	6,807
Charge for the year	1,765
At 30 June 2016	**8,572**
Net book value	
At 30 June 2016	**1,322**
At 30 June 2015	3,087

11. Investments

Group	Interest in associates £
Cost	
At 1 July 2015	770,000
Additions	597,101
At 30 June 2016	**1,367,101**
Impairment	
At 1 July 2015	560,192
Impairment for the year	331,871
At 30 June 2016	**892,063**
Net book value	
At 30 June 2016	**475,038**
At 30 June 2015	209,808

Interest in joint venture

The investment in associates represents the investment by the Group in the partnership with the CRT Pioneer Fund to advance the Chk1 programme. The associate has been accounted for using the equity method in the consolidated financial statements. Sareum's interest in the associate partnership is 27.5% and it has a seat on the joint research committee. As at 30 June 2016 the partnership had net assets of £1,731,051 (2015: £762,937) and had incurred cumulative losses of £4,068,949 (2015: £2,137,063). The additional investment of £597,101 is made up of £797,500 paid into the partnership, less a milestone payment amounting to £200,399 received from Cancer Research Technology Ltd.

Company	Shares in Group undertakings £
Cost	
At 1 July 2015 and **30 June 2016**	**30,000**
Net book value	
At 30 June 2016	**30,000**
At 30 June 2015	30,000

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

12. Trade and other receivables

	Group	
	2016 £	2015 £
Current:		
VAT	**15,159**	10,639
Prepayments and accrued income	**64,129**	40,727
	79,288	51,366

	Company	
	2016 £	2015 £
Current:		
Amounts owed by Group undertakings	**10,969,673**	10,054,621
Provision for impairment	**(10,969,673)**	(10,054,621)
	—	—

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

Notes to the Consolidated Financial Statements continued

for the Year Ended 30 June 2016

13. Cash and cash equivalents

	Group	
	2016 £	2015 £
Bank deposit account	**1,245,707**	1,469,023
Bank accounts	**6,888**	11,021
	1,252,595	1,480,044

14. Trade and other payables

	Group	
	2016 £	2015 £
Current:		
Trade creditors	**72,180**	35,523
Social security and other taxes	**8,519**	6,976
Other creditors	**3,512**	3,410
Accrued expenses	**15,340**	21,534
	99,551	67,443

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

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

15. Leasing agreements

	Non-cancellable operating leases	
Group	**2016 £**	2015 £
Within one year	**11,100**	11,100
Between one and five years	**5,550**	16,650
	16,650	27,750

The outstanding commitments represent rental payments due under the lease for the Group's office premises which expires in December 2017. The lease does not include any onerous restriction of the Group's activities.

Company

The Company had no lease commitments at 30 June 2016.

16. Financial instruments

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

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

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

Market risks

INTEREST RATE RISK

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

FOREIGN EXCHANGE RISK

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

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

The Group's results are not considered to be materially sensitive to the above risks and therefore no sensitivity analysis has been provided.

Non-market risks

LIQUIDITY RISK

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

17. Called up share capital

Allotted, issued and fully paid:

Number	Class	Nominal value	2016 £	2015 £
2,645,223,988 (2015: 2,487,438,273)	Ordinary shares	0.025p	**661,305**	621,859

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

In April 2016, 157,785,715 Ordinary shares of 0.025 pence were issued at 0.7 pence per share.

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

18. Reserves

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

Details of movements in each reserve are set out in the Consolidated Statement of Changes in Equity.

19. Pension commitments

The Group makes contributions to its employees' own personal pension schemes. The contributions for the period of £16,625 (2015: £15,781) are charged to the profit and loss account. At the balance sheet date contributions of £3,507 (2015: £3,404) were owed and are included in creditors.

20. Contingent liabilities

There are no contingent liabilities (2015: £nil).

21. Related party disclosures

Disclosure regarding the remuneration of key management personnel is given in note 3, Employees and Directors.

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

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

22. Reconciliation of movements in shareholders' funds

	Group	
	2016 £	2015 £
Loss for the financial year	**(1,048,118)**	(1,255,368)
Issue of share capital	**1,043,296**	1,356,016
Share-based compensation reserve	**5,195**	40,038
Net addition to shareholders' funds	**373**	140,686
Opening shareholders' funds	**1,863,159**	1,722,473
Closing shareholders' funds	**1,863,532**	1,863,159

	Company	
	2016 £	2015 £
Loss for the financial year	**(1,048,491)**	(1,596,054)
Issue of share capital	**1,043,296**	1,356,016
Share-based compensation reserve	**5,195**	40,038
Net addition/(reduction) to shareholders' funds	**—**	(200,000)
Opening shareholders' funds	**30,000**	230,000
Closing shareholders' funds	**30,000**	30,000

Notes to the Consolidated Financial Statements continued

for the Year Ended 30 June 2016

23. Share-based payment transactions

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

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

	2016		2015	
	Number of share options	**Weighted average exercise price pence**	Number of share options	Weighted average exercise price pence
Outstanding at the beginning of the period	**66,178,789**	**0.474**	50,555,024	0.490
Granted during the period	**11,592,120**	**0.590**	15,623,765	0.425
Forfeited during the period	**—**	**—**	—	—
Exercised during the period	**—**	**—**	—	—
Expired during the period	**—**	**—**	—	—
Outstanding at the end of the period	**77,770,909**	**0.492**	66,178,789	0.474
Exercisable at the end of the period	**54,824,044**	**0.455**	39,653,725	0.442

The options outstanding at 30 June 2016 had a weighted average remaining contractual life of six years and six months (30 June 2015: six years and eleven months). The options outstanding but not exercisable at 30 June 2016 and 30 June 2015 vest subject to pre-determined performance criteria.

Fair value calculation

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

Date of grant	Mar 2016	Nov 2014	Dec 2013	Mar 2012	Dec 2010	Dec 2009
Share price – pence	0.590	0.450	0.500	1.20	0.250	0.250
Exercise price – pence	0.590	0.425	0.600	1.20	0.260	0.250
Volatility	50%	50%	50%	50%	50%	83%
Time until maturity – years	three	three	three	three	three	three
Risk free rate of interest	1%	1%	1%	1%	1%	1%
Expected dividend yield	nil	nil	nil	nil	nil	nil

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

The weighted average fair value of the share options at 30 June 2016 was 0.184 pence per share (2015: 0.166 pence per share). A fair value charge of £5,195 has been provided in the year (2015: £40,038).

24. Reconciliation of loss before income tax to cash generated from operations

	Group	
	2016 £	2015 £
Loss before income tax	**(1,200,683)**	(1,441,218)
Depreciation charges	**1,765**	1,765
Share-based compensation	**5,195**	40,038
Share of loss of associate	**331,871**	496,988
Finance costs	**—**	135,348
Finance income	**(4,359)**	(2,997)
	(866,211)	(770,076)
(Increase)/decrease in trade and other receivables	**(27,922)**	48,417
Increase in trade and other payables	**32,108**	1,633
Cash used in operations	**(862,025)**	(720,026)

24. Reconciliation of loss before income tax to cash generated from operations continued

	Company	
	2016 £	2015 £
Loss before income tax	**(1,048,491)**	(1,596,054)
Impairment provision	**915,052**	1,302,124
Share-based compensation	**5,195**	40,038
Finance costs	**—**	135,348
	(128,244)	(118,544)
Increase in trade and other receivables	**(915,052)**	(1,302,124)
Cash used in operations	**(1,043,296)**	(1,420,668)

25. Cash and cash equivalents

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

	Group		Company	
Year ended 30 June 2016	**30 June 2016 £**	1 July 2015 £	**30 June 2016 £**	1 July 2015 £
Cash and cash equivalents	**1,252,595**	1,480,044	**—**	—

	Group		Company	
Year ended 30 June 2015	30 June 2015 £	1 July 2014 £	30 June 2015 £	1 July 2014 £
Cash and cash equivalents	1,480,044	700,618	—	—

26. Capital risk management

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

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

27. Deferred tax

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

	2016 £	2015 £
Excess of depreciation on fixed assets over taxation allowances claimed	**(1,289)**	(1,277)
Tax losses available	**(1,273,099)**	(1,124,785)
	(1,274,388)	(1,126,062)

A potential deferred tax asset of £1,274,388 has not been recognised, as there is significant uncertainty that the Group will make sufficient profits in the foreseeable future to justify recognition. The deferred tax asset would be recognised should sufficient profits be generated in the future against which it may be recovered.

Company Information

Directors
T Mitchell PhD
J Reader PhD
S Parker DPhil

Secretary
T Bunn FCMA

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

Registered number
05147578 (England and Wales)

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

Joint broker
Hybridan LLP
20 Ironmonger Lane
London EC2V 8EP

Corporate solicitors
Taylor Vinters
Merlin Place
Milton Road
Cambridge CB4 0DP

Nominated adviser and joint broker
WH Ireland Limited
24 Martin Lane
London EC4R 0DR

Registrars
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham BR3 4TU

consultancy, design and production by
designportfolio
design-portfolio.co.uk @WeAre_DP

Design Portfolio is committed to planting trees for every corporate communications project, in association with Trees for Cities.

Sareum

Sareum Holdings plc
Unit 2a, Langford Arch
London Road
Pampisford
Cambridge
Cambridgeshire CB22 3FX