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Allied Minds PLC
22 March 2018

FOR IMMEDIATE RELEASE 22 March 2018

**Allied Minds plc**

("Allied Minds" or the "Group" or the "Company")

**Annual Results Release**

Allied Minds plc (LSE: ALM), an IP commercialisation company focused on early stage company creation and development within the technology and life science sectors, announces its annual results for the year ended 31 December 2017.

- Group Subsidiary Ownership Adjusted Value (GSOAV) of $395.6 million as of 22 March 2018 ($416.2 million as at 24 April 2017), reflecting the estimated ownership adjusted value of Allied Minds' investment in the group subsidiaries.
- Net cash and investments* of $169.1 million (2016: $226.1 million) of which $84.2 million (2016: $136.7 million) is held at the parent level.

  * includes funds in form of fixed income securities.
- Revenues of $5.0 million (2016: $2.7 million) mainly from non-recurring engineering (NRE) and service contracts, reflecting the early stage nature of our portfolio of subsidiary businesses.
- Net loss of $111.1 million, (2016: $128.7 million) primarily reflects G&A and R&D spending of $55.2 million and $49.0 million, respectively, to support the portfolio activities, offset, in part, by NRE revenue of $5.0 million.

**Jill Smith, President and Chief Executive Officer of Allied Minds, said:**

*"We are pleased with the progress made in 2017 in terms of both the performance and focus of the portfolio and the steps taken to ensure a higher level of discipline in how we allocate capital and operate our subsidiaries. We have secured co-investment from brand name strategic investors, strengthened our leadership teams and their accountability, and focused our origination efforts on specific areas of competitive advantage. 2018 will be another important year in which we expect to meet several key milestones. We believe the company is well positioned to realize returns for our shareholders."*

There will be a call for analysts and investors to join at 9.30 am GMT using the dial in details below:

To join via conference call please dial:

UK Dial-In Number: +44 333 300 0804

US Dial-In Number: +1 855 857 0686

PIN: 06929696#

## HIGHLIGHTS

### Investment Highlights

During 2017, an aggregate of $81.1 million was invested into new and existing subsidiary businesses, including:

- $64.5 million from subsidiary fundraisings with $35.1 million coming from third-party investment and $29.4 million from Allied Minds, to support and accelerate the development of four of the Group's existing companies: Federated Wireless; BridgeSat; HawkEye$^{360}$ and Signature Medical.
  - On 7 February 2017, HawkEye$^{360}$ completed the second closing of its $13.8 million Series A preferred funding round of $1.3 million, adding additional investors to a syndicate including Razor's Edge Ventures and a defence market leader.
  - On 5 May 2017, BridgeSat closed a $6.0 million Series A preferred funding round, including participation from Space Angels, a prominent angel investor network of experts focused on Space 2.0.
  - On 26 July 2017, Signature Medical completed a $2.5 million Series A preferred funding round, including participation from Riot Ventures and Bose Corporation.
  - On 14 September 2017, Federated Wireless announced the closing of a $42.0 million Series B preferred funding. The round was led by new investors who are key members of the shared spectrum ecosystem: Charter Communications (NASDAQ: CHTR); American Tower (NYSE: AMT); and ARRIS International plc (NASDAQ: ARRS), and by GIC, Singapore's sovereign wealth

fund. The balance of the raise was subscribed principally by Allied Minds and Woodford Investment Management (WIM).

  - On 5 October 2017, Spin Transfer Technologies, Inc. announced that it had secured $22.8 million of funding via a convertible bridge facility. Proceeds from the bridge are to be applied to fund development work of next-generation ST-MRAM. The convertible bridge was underwritten by Allied Minds with initial subscription of $12.7 million. The note was designed to bridge the company to the completion of a Series B round, targeting strategic investors. Post-period end on 11 January 2018, the company announced that existing shareholders Invesco Asset Management and Woodford Investment Management would subscribe for a combined $10.3 million of the bridge facility.

- In addition to these fundraisings, $16.6 million was invested by the Group into new and other existing subsidiary businesses.

**Corporate Highlights**

- On 13 March 2017, the Company appointed Jill Smith, formerly a Non-Executive Director, as interim CEO. Jill's appointment as President and CEO was confirmed on 30 May 2017.

- On 29 June 2017, Allied Minds announced the appointment of Simon Davidson as Executive Vice President, Technology Investments.

- On 19 September 2017, Allied Minds announced the appointment of Harry Rein as an Independent Non-Executive Director.

**Financial Highlights**

- Net cash and investments* of $169.1 million (2016: $226.1 million) of which $84.2 million (2016: $136.7 million) is held at the parent level.

  * includes funds in form of fixed income securities.

- Revenues of $5.0 million (2016: $2.7 million) mainly from non-recurring engineering (NRE) and service contracts, reflecting the early stage nature of our portfolio of subsidiary businesses.

- Net loss of $111.1 million, (2016: $128.7 million) primarily reflects G&A and R&D spending of $55.2 million and $49.0 million, respectively, to support the portfolio activities, offset, in part, by NRE revenue of $5.0 million.

- Group Subsidiary Ownership Adjusted Value (GSOAV) of $395.6 million as of 22 March 2018 ($416.2 million as at 24 April 2017), reflecting the estimated ownership adjusted value of Allied Minds' investment in the group subsidiaries.

**Corporate Partnership Highlights**

- On 30 October 2017, Allied-Bristol Life Sciences, LLC, a biopharmaceutical enterprise jointly owned by Allied Minds and Bristol-Myers Squibb Company announced that it had formed a new subsidiary, ABLS IV, to enter into an alliance with Weill Cornell Medicine and an exclusive licensing agreement with Cornell University in relation to a novel class of inhibitors of immunoproteasomes.

**Selected Subsidiary Highlights**

- On 11 July 2017, Spin Transfer Technologies announced the appointment of Tom Sparkman as CEO, signalling a transition to focus on the commercial exploitation of its product differentiators. Tom is a veteran of the semiconductor industry who has held CEO and senior executive roles at Spansion, Integrated Device Technologies, and Maxim Integrated Products.

- On 12 July 2017, BridgeSat announced the appointment of Barry Matsumori, formerly a senior executive at Qualcomm, SpaceX and Virgin Galactic, as CEO. In April 2017, BridgeSat secured an agreement with The Swedish Space Corporation to install its optical ground stations in at least three ground sites and announced a partnership with York Space Systems (York) to include its optical downlink technology on York satellites delivering the Harbinger Mission for the U.S. Army.

- Federated Wireless concluded or currently is in live trials with a total of 30 partners across the spectrum sharing ecosystem, and continued to make progress towards full FCC certification expected later in 2018.

- HawkEye$^{360}$ progressed in its preparations for the Pathfinder launch scheduled for Q2 2018 and entered into revenue contracts with commercial and government entities to provide demonstrations of capabilities anticipated to be available with the Pathfinder cluster.

- Precision Biopsy completed enrolment for its ClariCore™ Cohort A trial and has delivered its algorithm for system level U.S. Food and Drug Administration (FDA) validation and verification.

- On 28 September 2017, SciFluor Life Sciences announced positive top-line results of a Phase 1/2 study of SF0166, the company's lead drug in development for the topical (eye drop) treatment of patients with Diabetic Macular Edema (DME). The Phase I/II study assessed the safety and preliminary efficacy of SF0166 in 40 evaluable patients with DME who were randomized to one of two dose strengths (2.5% and 5.0% solutions) self-administered by patients as an eye drop twice-a-day for 28 days, with a 28 day follow-up period.

- On 16 October 2017, Spin Transfer Technologies and Tokyo Electron Ltd. announced that they signed an agreement for a collaborative engineering program for next-generation Static Random-Access Memory (SRAM) and Dynamic Random-Access Memory (DRAM)-class Spin-Torque Magnetoresistive Random-Access Memory (ST-MRAM) devices.

- On 18 December 2017, SciFluor announced positive top-line results of a Phase I/II trial studying the treatment of 'Wet' Age-Related Macular Degeneration patients with SF0166, the company's lead eye drop drug for back of the eye diseases. The double masked Phase I/II study assessed the safety, tolerability and preliminary efficacy of SF0166 in 42 evaluable subjects with neovascular (wet) AMD who were randomised 1:1 to self-administer an eye drop containing either a 2.5% or a 5% solution of SF0166 twice-a-day for 28 days.

- Post-period end on 17 January 2018, Allied Minds announced that it had completed the sale of Percipient Networks to WatchGuard Technologies, Inc.

**Outlook for Top Six Subsidiaries**

Highlighted below are the key operational management objectives for 2018 across the top six subsidiaries. In addition, several of these subsidiaries aim to secure additional funding in the course of 2018. It is in the nature of early stage company creation and development that business plans need to adapt dynamically in response to changing circumstances. Where this becomes necessary we will provide an update on materially revised plans.

| Subsidiary | 2018 Key Operational Management Objectives |
|---|---|
| BridgeSat | · Successfully demonstrate end-to-end service: Network Operations Centre (NOC), at least one ground station, and customer pathfinder(s)<br>· Sign 2+ customer agreements; build strong commercial revenue backlog |
| Federated Wireless | · FCC certification<br>· Support multiple customer launches and realise commercial revenue<br>· Build out national availability of Environmental Sensing Capability (ESC) network to meet customer requirements |
| HawkEye360 | · Successfully launch Pathfinder satellite cluster<br>· Launch Marine Domain Awareness (MDA) products and realise commercial revenue |
| Precision Biopsy | · Gain CE Mark<br>· Complete Cohort B trial |
| SciFluor | · Initiate at least one Phase II trial for SF0166<br>· Complete in-life Investigational New Drug (IND) enabling study for one new asset |
| Spin Transfer Technologies | · Successfully demonstrate the advantages of the Spin Polarizer and Endurance Engine<br>· Sign 2+ customer/partner agreements |

**Board and Management Highlights**

Following Jill Smith's appointment as President and CEO, vacating her previous Non-executive Directorship, the Board appointed Harry Rein as a Non-executive Director in August 2017. Harry brings extensive experience from the venture capital sector, most recently serving as General Partner for 10 years at Foundation Medical Partners (Foundation), an early stage venture capital firm focused on the healthcare sector. Prior to Foundation, Harry served as Founder and Managing Partner at Canaan Partners (Canaan). Harry was responsible for life sciences investments at both Foundation and Canaan. Earlier in his career Harry was President and CEO of GE Venture Capital Corporation, having joined General Electric Company in 1979.

In July, Simon Davidson was appointed Executive Vice President, Technology Investments. In this role Simon has lead responsibility for the origination of new technology investments and plays an important role in the oversight of our existing technology subsidiaries. Simon has 25 years' experience in the technology sector and joins Allied Minds from In-Q-Tel, where he was a Managing Partner of the US-based strategic investor that identifies and partners with start-up companies that develop innovative technologies for the US intelligence community.

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In compliance with Listing Rule 9.6.3, the following documents will be submitted to the National Storage Mechanism and will shortly be available for inspection at www.morningstar.co.uk/uk/NSM:

• Annual Report and Accounts for the year ended 31 December 2017; and

• Notice of 2018 Annual General Meeting.

Printed copies of these documents together with the Form of Proxy will be posted to shareholders shortly. Copies will also be available shortly on the Investor Relations section of the Company's website at http://investors.alliedminds.com/reports-and-presentations.

The 2018 Annual General Meeting will be held at 11.00 am BST on 23 May 2018 at the offices of DLA Piper UK LLP, 3 Noble Street, London EC2V 7EE, United Kingdom.

**For more information, please contact**:

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Further information on Allied Minds is available on our website: www.alliedminds.com

**Notes**

*(i) Nature of announcement*

This Annual Results Release was approved by the directors on 22 March 2018. The financial information set out in this Annual Results Release does not constitute the Company's statutory accounts for the years ended 31 December 2017 or 2016 but is derived from those accounts. Statutory accounts for the year ended 31 December 2016 have been filed with the Registrar of Companies. Statutory accounts for 2017 will be delivered to the registrar of companies in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The text of the Auditor's report can be found in the Company's full Annual Report and Accounts for the year ended 31 December 2017 (2017 Annual Report).

*(ii) Forward looking statements*

This Annual Results Release and the 2017 Annual Report contain statements that are or may be forward-looking statements, including statements that relate to the Company's future prospects, developments and strategies. The forward-looking statements are based on current expectations and are subject to known and unknown risks and uncertainties that could cause actual results, performance and achievements to differ materially from current expectations, including, but not limited to, those risks and uncertainties described in the risk management section of the 2017 Annual Report. These forward-looking statements are based on assumptions regarding the present and future business strategies of the Company and the environment in which it will operate in the future. Each forward-looking statement speaks only as at the date of this Annual Results Release. Except as required by law, regulatory requirement, the Listing Rules and the Disclosure and Transparency Rules, neither the Company nor any other party intends to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise.

***2017 Annual Report and Accounts***

**STRATEGIC REPORT**

**Chairman's Report**

I am pleased to present this Annual Report to shareholders for the financial year ended 31 December 2017, which was a critical period in Allied Minds' development.

In March 2017 the Board appointed Jill Smith as President and Chief Executive Officer (CEO). Jill's extensive leadership experience, including most recently as CEO of DigitalGlobe where she led the business to growth and a successful IPO, is well-aligned with our overarching priorities at Allied Minds: to deliver shareholder returns by driving commercialisation and monetisations at our key subsidiaries, and building a growth engine of new investments. The substantial and decisive actions undertaken since her appointment position the Group well to deliver against these priorities.

In the first half of the year, the decision was made to rationalise the portfolio of subsidiary companies. This was completed after careful review of the capital requirements, competitive position and market opportunities facing each company. Since then, capital and management resources have been redirected to the most promising subsidiary businesses in the portfolio. Greater discipline is being exerted in the management and support of the portfolio, through more effective boards and greater accountability and transparency. The result is that our subsidiary businesses are operating with substantially greater focus, energy and urgency and are well-positioned to achieve the goals set.

After a year of focusing primarily on driving value from the existing portfolio, in 2018 we look forward to returning to opportunities to build and support new businesses. The same discipline brought to company operations is being applied to our new investment strategy. It is designed to seek out technology and innovations aligned to investment theses that are grounded in Allied Minds' depth of experience and access, in particular with medical institutions and federal laboratories, and working in regulated industries and with the US Government.

Together with the Board, I am satisfied that as a result of actions undertaken in 2017 to rationalise the portfolio, improve capital allocation and operational discipline and bring renewed focus on commercialisation and monetisation, Allied Minds is in a stronger position today than it has ever been.

Non-Executive Director Rick Davis will retire and not seek re-election at the AGM to be held in May 2018 after completing over seven years of service to the Company. We have greatly appreciated his dedication, experience, wealth of knowledge and insights he brought to Board deliberations over his years of service on the Board.

Finally, I would like to thank our shareholders for their continued support and our management team and staff for their hard work and commitment.

**Peter Dolan**
***Chairman***

22 March 2018

**CEO's Report**

Shortly after my appointment in March 2017 we set out three key strategic priorities critical to enhancing our capital allocation discipline:

- Earlier and broader syndication of our subsidiaries, focusing on strategic investors, where we see scope for valuable validation and acceleration or de-risking of the path to commercialisation and monetisation;
- Strengthened leadership, governance and accountability at our subsidiary businesses, including changes in personnel where required, additional Board and advisory Board members, and clearer accountability for tangible milestone delivery; and
- A transition to thematic investing, focusing on theses and areas of competitive advantage, and on deeper relationships with a smaller number of research institutions aligned to these areas.

The actions undertaken across our investment, syndication and operating activities have been consistent with these priorities.

We completed subsidiary funding rounds in 2017 for HawkEye$^{360}$, BridgeSat, Federated Wireless and Signature Medical that each included external strategic investors. As financial, strategic or commercial co-investors, they offer both validation of the respective company's business model and expand and/or de-risk the path to commercialisation.

We made good progress against a majority of the management objectives set for 2017, and I would like to recognise the teams for their accomplishments. Further, we strengthened leadership at several of our subsidiaries, including the appointment of two new CEOs, Tom Sparkman at Spin Transfer and Barry Matsumori at BridgeSat.

The addition of representatives from the strategic investors to the respective boards, and experienced non-executive directors to others have enhanced governance and strategic insight.

In terms of new opportunities, we have focused our origination activities around theses or areas of competitive advantage, and sourcing on a more selective group of university and federal laboratories, and medical institutions with expertise in these areas, in addition to leveraging our own strong networks. As part of this enhanced focus, we are expanding the types of new investments we make, to consider both majority and minority investments at seed or Series A rounds where the opportunity is aligned to one of our theses and where we can leverage our experience and network.

Simon Davidson joined the team in June as Executive Vice President, Technology Investments, bringing extensive experience working with federal laboratories and government customers. He is driving focus on areas including space, connectivity and data, all of which leverage expertise and access derived from our current portfolio and team. Omar Amirana, MD, Senior Vice President, Life Sciences Investments, has focused on investment theses revolving around proprietary minimally-invasive solutions for procedures with a clear reimbursement path that reduce morbidity, mortality and costs. We are largely focused in areas where adoption can be dramatic such as interventional cardiology, electrophysiology, neuroradiology, pulmonology, and gastroenterology.

2017 was a year in which we focused on strengthening and repositioning the current portfolio. In 2018, we will continue to build on the strategic priorities identified with a view to focusing on two drivers of shareholder returns:

- Accelerate the path to commercialisation/monetisation at our top six companies, and nurture progress at our earlier stage companies; and
- Grow our new opportunity platform by increasing the number of high quality new investments.

Given the disruptive innovations and significant market opportunities our subsidiaries face and the steps we have taken to strengthen and focus operations, we believe that our portfolio holds the potential to deliver premium exit valuations and attractive returns to our shareholders. We believe each of our top six subsidiaries has strong sources of sustainable competitive advantage, including via patent portfolios which were markedly strengthened in 2017. The highly capable, experienced management teams have the necessary mix of technical and commercial skills, and have a clear line of sight to the critical goals and inflection points necessary to drive value and maximise exit optionality. Strategic, commercial and financial co-investors have validated the business plans and opportunities for those companies and provided invaluable support for the management teams.

I look forward to 2018 as a year in which we consolidate the hard work undertaken in 2017 and deliver further demonstrable progress against our objectives. I would like to thank our shareholders, our employees and our partners and customers for their ongoing support.

**Jill Smith**
***President and Chief Executive Officer***

22 March 2018

**Company Overview**

**The Opportunity**

The US is the world's largest market for research and development (R&D) investment, with more than $125.0 billion in annual spending by the US federal government, resulting in thousands of US patent applications per annum. However, despite having established technology transfer processes designed to commercialise this intellectual property, only a relatively small number of patents per year are licensed, and only a small fraction progress to the next stage of development. Likewise, corporations have large areas of R&D output which may not align with their core strategy and target markets but could be refocused on other markets with cooperation from outside investors.

Allied Minds seeks to collaborate with targeted US federal research institutions, universities, medical institutions, and select corporations and entrepreneurs to identify early stage innovations and inventions that have the potential to transform markets, and to invest to build strong companies that can bring differentiated products and services to market. We seek to deliver attractive returns for our shareholders, as well as generate an additional source of funds for company creation and development, by realising superior exit valuations from those businesses that achieve commercialisation.

**Our Strategy and Capital Allocation**

Allied Minds sources, operates and funds a portfolio of subsidiary companies to generate long-term value for its investors and stakeholders, supporting its businesses with capital, management, expertise and shared services.

We seek to invest in companies at an early stage, including seed investment to build a company based on a technical breakthrough or invention. As such, our investments have significant upside potential, but also carry significant risk inherent in the early stage model. Allied Minds provides equity funding at the initial seed or Series A investment round and participates in follow-on investment rounds. Additionally, we provide hands-on support through the appropriate level of management, operating and governance support and expertise, and shared services over the life of the subsidiary to commercialisation and monetisation. A key component of the Company's strategy is to maintain strict discipline in the allocation of financial and human capital to those businesses meeting the objectives or milestones set, and ceasing funds for those where the path to commercialisation is no longer attractive.

Allied Minds invests in technologies that have the potential to disrupt large markets and builds companies with a strong focus on those criteria that together best position them for successful commercialisation and ultimately an exit at a superior valuation. The company has defined six key success factors that, if present, can create the conditions for a superior exit valuation:

- Disruptive innovation solving an important problem (ideally with first mover advantage)
- Favourable market dynamics (large market and/or high growth rate)
- Sustainable competitive advantage (unique or superior solutions, with sustainable barriers to entry, potentially including IP)
- Route to widespread adoption (minimum barriers to adoption; known/available distribution channels)
- Capable management with aligned interest (right skill mix and accountability for delivery)
- Potential for competitive tension (operate to maximise exit optionality and nurture potential buyers)

*Source*

Since inception, Allied Minds has sought to deliver the commercial potential of IP developed in universities, federal laboratories, and medical institutions, by working with technology transfer offices (TTOs). It maintains relationships with several US Department of Defense laboratories and federal government agencies such as the Department of Homeland Security and the Department of Energy.

The Company typically receives certain access and licensing rights to inventions selected for investment. Additionally, the Company has established certain partnerships and alliances with US corporations, including Bristol Myers Squibb (BMS) (via Allied- Bristol Life Sciences, LLC (ABLS)) and GE Ventures, which provide us with access to technology, expertise and capital. Finally, we leverage our own businesses and operators, as well as our network of partners and advisors to help identify emerging market and/or breakthrough technology opportunities. We prioritise those technologies or companies that benefit from the "network effect", i.e. where we can leverage our market insight, operating expertise and network, often gained from those companies already in our portfolio, to benefit the early stage opportunity, or where it can deliver incremental value to our own companies.

*Operate*

We evaluate on an on-going basis the progress and potential of each of the Company's businesses, and make strategy and funding decisions based on the achievement of key milestones. Together with management, the Company defines the critical milestones, or inflection points, for each subsidiary and measures tangible progress towards commercialisation and the key success factors for a successful monetisation event. Management is accountable for these milestones, which are developed into annual management objectives (or MBOs).

Allied Minds actively supports its businesses throughout their life-cycle. During the early stages, Allied Minds typically provides technical and executive leadership, as well as shared services support. At the appropriate time we will support a subsidiary business in hiring a full time CEO and other critical talent and in putting in place incentives to drive results. As businesses evolve, Allied Minds builds and leads the Board, recruits advisors and forms advisory Boards comprising of seasoned industry experts who act as mentors, while maintaining dedicated personnel to oversee progress.

It is a fact of life in early stage company creation and development that not all ideas or technologies will successfully transition to commercialisation. We carefully scrutinise our portfolio of subsidiary businesses with the objective of ensuring that we identify early signs that successful commercialisation and attractive returns on investment may not be obtainable. Where it becomes evident that a company does not have a clear path to commercial traction we seek to terminate early and with minimum sunk capital, while treating all parties involved fairly and with respect. Although our model assumes that not all of our investments will succeed, we expect to make sufficient successful investments to generate attractive returns across the portfolio as a whole because we enjoy competitive advantages via our origination platform and central operating expertise, and focus on investing in innovations that are disruptive to large and growing markets and maintaining large positions where appropriate.

Allied Minds has established scalable shared services capabilities designed to enable our businesses to focus on research, product development and commercialisation activities and at the same time benefit from strong, cost-effective operational and financial infrastructure and support. The administrative support provided includes payroll, IT support, legal, HR and fund-raising support, as well as hands-on operational advice.

*Fund*

As our companies meet the objectives identified for success, we seek to participate in subsequent capital raises to mitigate dilution, to the extent consistent with our goal to maximise risk adjusted returns for our shareholders and, taking into account competing uses of capital across our portfolio and pipeline. Co-investors in later rounds include financial, strategic and commercial partners. Where appropriate, we seek to include partners who validate the market opportunity and can provide support and/or commercial commitments to accelerate, expand and/or de-risk the path to commercialisation.

*Portfolio composition*

Allied Minds has identified six subsidiaries as defined earlier that we believe are well-positioned for commercialisation and have the potential to realise superior exit valuations.

These subsidiaries currently represent the substantial majority of Group Subsidiary Ownership Adjusted Value. Allied Minds' ownership stakes range from 48.40% (Spin Transfer Technologies) to 98.15% (BridgeSat).

Outside these subsidiaries Allied Minds has two earlier stage investments (LuxCath and Signature Medical). These represent exciting opportunities in medtech, albeit with more work to be done to commercialise their technologies.

In addition Allied Minds operates an early stage drug development joint venture with Bristol Myers Squibb: Allied Bristol Life Sciences (ABLS). Currently ABLS has two drug candidates in initial feasibility studies and a third in lead optimisation.

*Origination activities*

Allied Minds focuses its origination activities on technologies or companies that are aligned with our theses on the future direction of market segments we are close to. Leveraging proprietary knowledge, expertise and networks - often gained from the companies already in our portfolio - we believe we have differentiated insight enabling us to identify new opportunities in dynamic markets, as well as market and operating experience and expertise that can deliver meaningful benefits to early stage companies. This is particularly true for market opportunities in regulated industries, or where target markets include government customers.

Areas where we have established ourselves as one of the leading operators, and where we believe there will be large or transformational market opportunities include: space/analytics; connectivity; data/machine learning; wearables; and minimally-invasive solutions where adoption can be dramatic such as interventional cardiology, electrophysiology, neuroradiology, pulmonology, and gastroenterology.

In order to fully participate in these emerging market opportunities, Allied Minds expects to take majority positions to build new companies and selectively take minority positions in already-formed companies. We will consider the latter where an opportunity is financially compelling in its own right and fits with an existing thesis or area of competitive advantage, and where participation is expected to also yield additional knowledge and expertise or strengthen our network in that area, thereby consolidating our competitive advantage.

**Partner Network**

The Group has well-established relationships with some of the most prestigious academic research institutions across the United States. Allied Minds aims to gain direct access to technologies at the forefront of research by working to deepen our relationships with selected institutions and selectively adding highly regarded research centres across the US. As described above, thematic investing demands a more selective approach to institutional relationships, matching origination efforts to those entities with expertise aligned to the Group's investing theses. We anticipate focusing more on US government laboratories and other Federal Funded Research and Development Centers (FFRDCs), given our areas of interest.

Corporate partnerships provide an additional valuable source of new investments. This began with the formation of our ABLS partnership with BMS, and has continued with our strategic alliance with GE Ventures formed in September 2016. We continue to actively explore additional sources of world-class technology innovation.

**Portfolio Summary**

During 2017, an aggregate of $81.1 million was invested into new and existing subsidiary businesses. This included $64.5 million from fundraisings, of which $35.1 million came from third-party investment, to further accelerate the development of HawkEye$^{360}$, Signature Medical, BridgeSat, Federated Wireless, Spin Transfer. In addition to these fundraisings, $16.6 million was invested by the Group into other existing subsidiary businesses.

Allied Minds currently has majority ownership in, or operating control of, all of its subsidiary businesses. Below we provide an overview of our 12 current operating subsidiary businesses, including year formed, and Allied Minds' ownership interest. These 12 subsidiary businesses include two entities which do not directly provide or are not directly developing products and services: Allied-Bristol Life Sciences (ABLS) (the holding company for ABLS drug development subsidiaries); and ABLS Capital (a funding vehicle for ABLS drug development subsidiaries). There are some additional non-operating or holding companies not listed in the table below.

| Operating Subsidiary(2)(3)(4) | Year Formed | Ownership Interest (1) | Overview |
|---|---|---|---|
| *Corporate partnerships* | | | |
| Allied-Bristol Life Sciences, LLC | 2014 | 80.00% | Created with BMS to identify and conduct pre-clinical development of therapeutic candidates which are intended to be sold to BMS prior to clinical development |
| ABLS Capital, LLC | 2015 | 30.25% | Funding vehicle with up to $80 million of binding commitments to support development of ABLS drug compounds proceeding to lead optimisation phase |
| ABLS II, LLC | 2014 | 35.95% | Novel small molecule therapeutics for the treatment of fibrotic and autoimmune diseases, developed in |

| | | | |
|---|---|---|---|
| | | | the Harvard University laboratory of Professor Malcolm Whitman |
| ABLS IV, LLC | 2017 | 80.00% | Novel inhibitors of immunoproteasomes targeting inflammatory and autoimmune diseases, developed by Dr. Ramanuj Dasgupta at the NYU School of Medicine |
| *Life sciences* | | | |
| LuxCath, LLC | 2012 | 98.00% | Catheter ablation initially focused on atrial fibrillation using novel proprietary real-time tissue and lesion visualisation technology |
| Precision Biopsy, Inc. | 2008 | 64.59% | Medical device and analytics company using spectral analysis to distinguish tissue characteristics in real-time, with the aim of improving diagnostics and therapies.  Initially focused on prostate cancer, the technology is potentially applicable to other cancers |
| SciFluor Life Sciences, Inc. | 2010 | 69.89% | Drug development company focused on creating a portfolio of best- in-class compounds in the fields of ophthalmology, neuroscience and fibrosis. Lead clinical asset SF0166 is a topical eye droplet treatment for retinal diseases including Wet AMD and DME |
| Signature Medical, Inc. | 2016 | 88.09% | Developing cardiac signature technology on a wearable device enabling diagnosis and monitoring of heart failure during hospital therapy and post discharge |
| *Technology* | | | |
| BridgeSat, Inc. | 2015 | 98.15% | Developing an optical communications service for data transfer from LEO and Geostationary Equatorial Orbit (GEO) satellites to earth (and vice versa), and between satellites, targeting significantly lower cost and faster rates than current Radio Frequency (RF)  solutions |
| Federated Wireless, Inc. | 2012 | 52.26% | Plans to offer a cloud-based SaaS service that unlocks spectrum previously unavailable to commercial users by enabling government and commercial users to securely share the same spectrum band |
| HawkEye$^{360}$, Inc. | 2015 | 53.06% | Data analytics company seeking to commercialise the capability to detect, independently geo-locate and analyse diverse RF signals from space |
| Spin Transfer Technologies, Inc. | 2007 | 48.40% | Developing technology solutions that have the potential to materially enhance the endurance, speed and size characteristics of MRAM (magneto-resistive random access memory) - the emerging next generation memory technology |

In addition Allied Minds is party to an agreement with GE Ventures establishing a Strategic Alliance through which the two parties envisage cooperating to jointly invest in technologies from their pipelines.

Notes:

(1) Ownership interests are as at 19 March 2018 (being the latest practicable date prior to the publication of this document), and are based upon percentage interest in issued and outstanding share capital in the subsidiary undertakings.
(2) Not reflected in the above list of operating subsidiaries are the two platform companies: Foreland Technologies and Allied Minds Federal Innovations.
(3) ABLS and BMS together resolved that ABLS III, which was pursuing feasibility studies on proprietary compounds that target the Wnt signaling pathway and nuclear beta catenin, had not met pre-set objectives and accordingly the program was terminated.
(4) Post-period end, Allied Minds ceased operations and dissolved each of Whitewood

Encryption Systems, Inc. (Whitewood Encryption) and Seamless Devices, Inc. (Seamless Devices), and sold the assets of Percipient Networks, LLC. (Percipient Networks).

**Subsidiary Valuation**

All of the Company's subsidiary companies are currently majority owned and/or controlled and therefore fully consolidated in the Company's consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS). As a result, the Consolidated Statements of Financial Position incorporated within the Company's consolidated financial statements do not include current valuations of the Company's subsidiary companies.

At the close of each annual financial period, the Directors formally approve the value of all subsidiary businesses in the Group, which is used to derive the GSOAV. There can be no guarantee that the aforementioned valuation of the Group will be considered to be correct in light of the future performance of the various Group businesses, or that the Group would be able to realise proceeds in the amount of such valuations, or at all, in the event of a sale by it of any of its subsidiaries. These valuations assume there will be available funds for the subsidiaries to reach next stages of their development towards commercial success or an exit event.

The GSOAV was $395.6 million as of 19 March 2018 (being the latest practicable date prior to the publication of this document), of which $375.3 million (or 94.9%) is attributed to the top six companies ($371.6 million or 89.4% as last reported). Of the total GSOAV, 95.9% is valued by reference to the valuation implied by the most recent third party funding round. Compared to $415.8 million when last reported, this reflects a decrease of $20.2 million, or 4.9%. This decrease is primarily attributed to the liquidation of several subsidiary businesses subsequent to current year end and write off of their value, namely Percipient Networks, Seamless Devices, and Whitewood Encryption as well as write downs in platform companies Allied Minds Federal Innovations, Inc. (AMFI) and Foreland Technologies Inc. (Foreland). This decrease was partially offset by an increase in value at BridgeSat and Federated Wireless demonstrated by the consummation of third-party fundraisings.

Ownership adjusted value represents Allied Minds' interest in the equity value of each subsidiary and is calculated as follows: (Business Enterprise Value - Long Term Debt + Cash) x Allied Minds percentage ownership plus the value of debt provided by Allied Minds plc to each subsidiary business.

**Key Performance Indicators**

The following Key Performance Indicators (KPIs) were selected to measure the performance of the Company in 2017. These objectives seek to link financial, operational, technical and other performance milestones established by the Board directly to remuneration and KPIs.

- Change in Group Subsidiary Ownership Adjusted Value (GSOAV); and
- Percentage level of achievement of management by objectives (MBOs).

Performance against 2017 KPIs is set out below:

| KPI | 2017 | 2016 | Performance |
|---|---|---|---|
| GSOAV | $395.6 million | $416.2 million | $20.6 million / 4.9% decrease |
| MBO Achievement; Percentage of Target; See Detail Below | 131.0% | 111.2% | Substantially above target |

Notes:

(1) $416.2 million is GSOAV estimated as at 24 April 2017, following the Board's decision to discontinue funding at several subsidiary businesses.

The MBOs set by the Board for 2017, along with the level of achievement against such MBOs, is set forth below:

| MBO | Threshold Weightings | Target Weightings | Maximum Weightings | Achieved Weightings |
|---|---|---|---|---|
| Deliver Validating Events[1] and Technical Milestones[2] for Key Subsidiaries | 0.0% | 40.0% | 60.0% | 57.0% |
| Secure Funding and Strategic Relationships for Subsidiary Companies | 0.0% | 20.0% | 30.0% | 24.0% |
| Strengthen Investment Committee Process: | | | | |
| Establish Corporate Partner Goals and Commitments | 0.0% | 5.0% | 7.5% | 5.0% |
| Expand New Company Pipeline Development | 0.0% | 5.0% | 7.5% | 5.0% |
| Define Path to Commercialisation, Liquidity Event or Key Commercial or Strategic Differentiators | 0.0% | 10.0% | 15.0% | 15.0% |
| Develop Strategic Plan to Drive Shareholder Value | 0.0% | 10.0% | 15.0% | 15.0% |
| Manage Cash | 0.0% | 10.0% | 15.0% | 10.0% |
| **Total Percentage of Target** | 0.0% | 100.0% | 150.0% | **131.0%** |

The following Key Performance Indicators (KPIs) were selected to measure the performance of the Company in 2018. These objectives seek to link financial, operational, technical and other performance milestones established by the Board directly to remuneration and KPIs.

The 2018 KPIs, including financial, operational, technical and other performance targets and their weightings for the upcoming year were set at the start of 2018, as follows:

| KPIs | Target Weightings |
|---|---|
| Deliver Validating Events[1] and Technical Milestones[2] for Key Subsidiaries | 30.0% |

| | |
|---|---|
| Secure Funding and Strategic Relationships for Subsidiary Companies | 20.0% |
| Strengthen Investment Committee Process; Progress Longer Term Strategy: | |
| Initiate New Company Formation and Investment | 15.0% |
| Deepen Specific Federal Lab Relationships | 5.0% |
| Expand Sources of New Deal Pipeline | 5.0% |
| Strengthen Core Business for Sustainability | |
| Manage Cash | 15.0% |
| Broaden Shareholder Base | 5.0% |
| Bolster Portfolio Company Support and Services | 5.0% |
| **Total Percentage of Target** | 100.0% |

Notes:

(1) "Validating Events" represent various material achievements, such as fundraisings, mergers and acquisitions, development partnerships, strategic alliances, customer contracts and other significant corporate events.

(2) "Technical Milestones" represent various research and development achievements, as well as advancement of clinical trials.

**Portfolio Review and Developments**

**Top Six Subsidiary Businesses**

***BridgeSat, Inc.***

*Overview*

Formed in 2015, BridgeSat is seeking to develop an optical communications service for data transfer from LEO and GEO satellites to earth (and vice versa), and between satellites, at significantly lower cost and faster rates than current RF solutions. The technology underpinning BridgeSat's offering was sourced originally from The Aerospace Corporation and Draper Laboratories. BridgeSat is based in Denver, Colorado.

*Problem statement - RF cannot meet exponential growth in demand for satellite data downlink*

LEO satellite data downlink demand is expected to grow over 125% annually through 2024, as a result of an expected three-fold increase in number of satellites by 2022 carrying a broader range of data-intensive sensors. The cost and speed characteristics of RF, together with increasingly scarce spectrum, make it difficult to support this increase in data downlink demand.

*Proposed solution - optical-based data delivery service*

BridgeSat is seeking to build an optical-based data delivery service that will enable data transfer to/from satellites at speeds of up to 10Gbps (roughly 10x the speed of current RF communications technologies) and significantly lower cost (up to 10x cheaper on a $/byte basis at speeds above 1Gbps). Other advantages include the fact that optical does not use spectrum, which is a scarce resource with competing demands; does not suffer spectrum interference issues; and is more secure since the narrow optical beam is difficult to jam.

BridgeSat's optical communications system has three core elements. The first is the space terminal that is installed on customer satellites. The second is a network of optical ground stations that will receive data from BridgeSat space terminals and is planned to be compatible with those manufactured by other suppliers. The company estimates that a network of 10 ground stations is needed to meet the service requirements of LEO and GEO customers. The third is the Network Operations Centre (NOC), located in Colorado, required to operate the network and manage data delivery against customer service levels.

BridgeSat enjoys first mover advantages and is thought to be the only commercial entity currently building out a network of optical communications ground stations.

*Business model and target markets*

BridgeSat's service contracts will vary based on volume of data and service levels.

BridgeSat's first target market is the fast-growing LEO data downlink segment, currently estimated to be worth $1.5 billion annually. In addition it will target the GEO and inter-satellite data markets.

*2017 management objectives:*

- Complete series A fund-raise
- Acquire launch customers
- Demonstrate operation of first BridgeSat ground station

*Progress in 2017*:

- Appointed Barry Matsumori as CEO
- Completed a $6.0 million series A fund-raise completed in May 2017, including participation by Space Angels, a venture capital firm focused on emerging space
- Signed ground station partnership with Swedish Space Corporation (SSC)
- First ground station designed and contracted with completion due in 2018
- Contracted with launch customers (3 pathfinder customers signed and one space terminal delivered)
- Signed an agreement with Tesat to develop interoperability with BridgeSat's ground station network
- Received a contract award in Japan to deliver a GEO space terminal for the ETS-IX GEO satellite programme

*2018 key operational management objectives*

- Successfully demonstrate end-to-end service: NOC, at least one ground station, and customer pathfinder(s)
- Sign 2+ customer agreements; build strong commercial revenue backlog

***Federated Wireless, Inc.***

*Overview*

Based in Arlington, Virginia, Federated Wireless plans to offer a cloud-based SaaS service that unlocks spectrum previously unavailable to commercial users by enabling government and commercial users to securely share the same spectrum band. Founded in 2012, the company's solution is based on technology developed with support from Virginia Tech University and the US Department of Defense (DoD).

*Problem statement - the spectrum crunch*

Demand for more spectrum to meet the growing needs of wireless broadband, IoT and next generation services while also ensuring the protection of critical missions performed by federal agencies is challenging existing allocation models. These include licensed spectrum, which can be high cost and inefficient, and unlicensed spectrum, such as Wi-Fi, which has no or very low cost but may be congested and unpredictable, and lacks carrier-grade technologies such as LTE. According to the FCC, "service quality is likely to suffer and prices are likely to rise" without new models that address the expected shortage of usable spectrum.

*Proposed solution - shared spectrum model*

Pioneered by Federated Wireless, spectrum sharing enables government and commercial users to securely share the same spectrum band.

In the US, the FCC initially plans to open up for shared use 150MHz of spectrum in the 3.5GHz band previously held by the Department of Defense, following an order creating the Citizens Broadband Radio Service (CBRS) that makes 3.5G available for mobile broadband and other commercial users. 150MHz of spectrum is equivalent to a large wireless carriers' spectrum holdings. The cost to deploy the necessary equipment to utilise shared spectrum is approximately on par with that for wi-fi systems, but the technology is based on robust, carrier-grade LTE. The first commercial spectrum sharing services of the 3.5 GHz band are slated to be launched in 2018, pending FCC certification.

*Federated Wireless' Technology*

There are two key elements to the core Federated Wireless spectrum controller product. The Spectrum Allocation System (SAS) is cloud-based software that dynamically allocates available spectrum in the 3.5GHz band to registered users.  Spectrum is allocated according to the three tier priorities determined by FCC rules and regulations.  Access to the spectrum is gained via "access points" - equivalent to a wi-fi router - which are deployed close to the end user.

The second element is the ESC sensors that detects use by the incumbent (in the case of 3.5GHz the U.S. Navy) and secures priority access on an as needed basis. Federated Wireless is installing and will operate over one hundred ESC sensors along substantial stretches of the US coastlines. Dozens of ESC sensors are currently deployed at the time of writing.

*Business model and target markets*

There are five core markets for Federated Wireless' spectrum sharing technology.

1. Mobile Network Operators (MNOs) are expected to provide access by adding access points in highly populated areas to densify their existing networks, improve coverage and extend capacity and service quality.
2. Cable companies, also known as multiple system operators (MSOs), are expected to provide access by installing access points in homes and destinations to provide mobile offload.
3. Neutral hosts can harness shared spectrum by installing access points at private venues such as stadiums, campuses and other commercial properties to provide local networks at significantly reduced cost compared to current distributed antenna system technologies.
4. Wireless broadband providers (also known as WISPs) can install access points in rural locations otherwise underserved by fixed line broadband.
5. Enterprise, industrial and other commercial customers can install access points to enable private LTE networks in factories and other venues, in support of IoT.

Overall, Federated Wireless estimates that the total addressable US market for 3.5GHz shared spectrum equates to more than 135 million access points, including 100 million home cable and broadband MSO installations; 30 million enterprise installations; and 5 million in last mile access installations for rural homes.  Not included is additional demand expected from MNOs for network densification and underserved travel and commercial hubs. Assuming FCC certification in 2018 and adoption rates equivalent to wi-fi, it is estimated that the US market could reach 5.4 million access points by 2022 (less than 4% of the total addressable US market).

*2017 management objectives*

- Complete Series B fund-raise
- Receive formal SAS and ESC FCC certification
- Launch SAS commercial product

*Progress in 2017*

- Completed a $42.0 million Series B financing led by Charter Communications, Arris International, American Tower and GIC, together with participation from existing investors
- Launched the Spectrum Controller commercial product, with FCC approval for selected use by customers in field trials in US cities.

- In Q4 began field trials with customers covering all five of the spectrum sharing verticals, including Charter Communications; Arris International; American Tower as well as Verizon and Telrad (a wireless broadband provider or WISP)
- After the period end, signed a multi-year commercial agreement with Telrad in January to deliver LTE fixed wireless services

*2018 key operational management objectives*

- FCC certification
- Support multiple customer launches and realise commercial revenue
- Build out national availability of ESC network to meet customer requirements

***HawkEye$^{360}$, Inc.***

*Overview*

Formed in 2015, HawkEye$^{360}$ is a data analytics company seeking to commercialise the capability to detect, independently geo-locate and analyse diverse RF signals from space. Using proprietary algorithms, HawkEye$^{360}$ aims to combine RF signals detection with other forms of geospatial information to produce contextually relevant analytics and reports for government and commercial end market applications. HawkEye$^{360}$ is based in Herndon, Virginia.

*Problem statement - current space-based RF signals detection and mapping capabilities are limited*

Wireless communications, using RF signals, are proliferating yet there is currently no commercial provider of RF detection, mapping and analytics with signal diversity and independent geolocation capabilities that can support sophisticated data analytic products. These capabilities have the potential to enhance government and commercial activities across a range of applications including spectrum mapping and interference management, maritime domain awareness and infrastructure management.

*Proposed solution - RF signals detection, mapping and analytics from formation satellite constellations*

HawkEye$^{360}$ plans to operate clusters of 3 low earth orbit (LEO) small satellites flying in formation to provide independent data streams that can be used to accurately geo-locate diverse RF signals. Using proprietary algorithms, signals data will be used individually or in combination with multiple other data sources to deliver contextual, timely analysis and predictions related to sources of RF signals, such as ships and fishing vessels. For example maritime vessels engaged in illegal fishing may seek to evade detection by switching off their AIS (Automatic Identification System) and going "dark". HawkEye$^{360}$'s capability may be used to detect other forms of RF emissions from the "dark" ship making it possible to detect vessels that are attempting to hide or spoof their location and avoid interception.

The company estimates that at full capacity it will operate with up to 10 commercial clusters. HawkEye$^{360}$'s satellites and payloads are provided by third parties and have flight heritage, and its signals detection and geo-location capability has been simulated successfully using aircraft. The algorithms that form the foundation of HawkEye$^{360}$'s signals processing and data analytics are proprietary to HawkEye$^{360}$.

HawkEye$^{360}$ enjoys first mover advantages and is thought to be the only commercial entity currently planning for launch of satellite clusters with diverse RF signals detection, mapping and analytics capabilities.

*Business model and target markets*

The first market targeted by HawkEye$^{360}$ is maritime domain awareness (MDA). Per Frost and Sullivan, this is currently a $1.7 billion market, forecast to grow to $2.2 billion by 2024 (excluding defence and intelligence expenditure). In civil government the market is anticipated to include: anti-piracy and pollution; illegal, unreported and unregulated (IUU) fishing: and anti-illegal transshipment. Other representative markets include: spectrum mapping; emergency response and search and rescue; communications/spectrum interference detection; critical infrastructure awareness; and government mission support.

HawkEye$^{360}$'s subscription model is expected to generate recurring revenue.

*2017 management objectives*

- Prepare for 2018 pathfinder launch
- Initiate contract for development of next commercial satellite clusters

*Progress in 2017*

- Pathfinder satellites, payloads and software developed, tested and integrated on track for readiness ahead of summer 2018 launch schedule, with additional testing conducted following launch delay
- Ground infrastructure for relay of data/analytics to end customers operational, with software complete and awaiting deployment

*2018 key operational management objectives*

- Successfully launch Pathfinder satellite cluster
- Launch MDA products and realise commercial revenue

***Precision Biopsy, Inc.***

*Overview*

Precision Biopsy is a medical device and analytics company using spectral analysis to distinguish tissue characteristics in real-time, with the aim of improving diagnostics and therapies. Initially focused on prostate cancer, the technology is potentially applicable to other cancers. Precision Biopsy was formed in 2008 based on technology originally sourced from the University of Colorado. It is based in Aurora, Colorado.

*Problem statement - poor diagnosis rates and invasive therapies for prostate cancer*

The location of the prostate means that cancer tumours cannot be accurately imaged so biopsies are performed "blind", with 12 to 14 cores sampled randomly. Poor diagnosis rates mean that cancer is missed nearly half of the time and patients are subjected to repeat treatments. Further, 90% of tissue cores are negative, resulting in unnecessary pathology costs of around $900 million annually in the US alone. Because tumours cannot be accurately mapped, treatments for prostate cancer are predominantly whole gland treatments, principally prostatectomy, carrying c. 85% side effects including sexual dysfunction and incontinence.

*Proposed solution - "smart" diagnosis and therapy*

Precision Biopsy's ClariCore™ system uses spectral analysis to distinguish benign and cancerous tissue in real-time during the biopsy procedure, guiding the urologist, and potentially improving diagnosis rates and reducing pathology costs. The same technology is anticipated to be leveraged to produce accurate 3D mappings of prostate cancer tumours, which in turn builds the foundation for focal therapy. Targeted therapy has the potential to replace certain prostatectomies, and potentially move treatment from the operating room to the clinic at significantly reduced cost.

Today's standard of care involves a random biopsy of 12-14 cores under ultrasound. Where routine biopsies of high risk patients fail to diagnose the cancer, physicians typically prescribe an MR Fusion biopsy which involves an MRI scan (typically in the hospital) followed by the biopsy (typically in the urology office). An MRI scan is expensive and has an estimated 10mm error margin. ClariCore™ is estimated to have an error margin of 1mm, which is accurate enough for focal therapy, in which only the cancerous tissue is treated.

*Target markets*

In the US, Precision Biopsy's ClariCore™ diagnostic product targets a c. $1.5 billion segment of the estimated $7 billion prostate cancer market, or approximately 1 million biopsies annually. Precision Biopsy believes an estimated 100,000 prostate cancer patients may be eligible for 3D mapping, worth c. $300 million annually in the US, plus an additional $500 million US market for an integrated focal therapy device. The European market is of a similar size to the US.

*Precision Biopsy' performance against 2017 management objectives*

- Complete Cohort A study
- Initiate Cohort B trial
- Progress ClariCore™ CE Mark and FDA approval

*Progress in 2017*

- Completed Cohort A study
- Improved algorithm accuracy - supports biopsy, 3D mapping and focal therapy
- Confirmed de novo 510k approval path with FDA (on average a markedly cheaper route to FDA approval for a medical device versus the PMA alternative)
- Cohort B IDE submission completed
- Good progress against ClariCore™ CE mark approval
- 3D mapping prototype developed, ready for first in man studies

*2018 key operational management objectives*

- Gain CE Mark
- Complete Cohort B trial

***SciFluor Life Sciences, Inc.***

*Overview*

SciFluor is a drug development company focused on creating best in class compounds in the fields of ophthalmology, neuroscience and fibrosis. SciFluor's lead clinical asset, SF0166, is a topical eye droplet treatment for Age-related Macular Degeneration and Diabetic Macular Edema, both widely prevalent retinal diseases that lead to blindness if left untreated. The company has a pipeline of compounds in pre-clinical development. SciFluor is based in Cambridge, Massachusetts.

The disclosure below focuses on SF0166.

*Problem statement - treatment of AMD and DME requires regular injections to the back of the eye*

AMD and DME require monthly injections to the back of the eye, causing patient discomfort and imposing significant costs on payors.

*Proposed solution - topical eye droplet*

SF0166 is a fluorinated compound administered via daily topical eye droplets. The patented fluorination process modifies a compound known to be safe and lends it qualities intended to enable passage to the back of the eye. In the second half of 2017 SciFluor concluded separate Phase I/II clinical trials for DME and Wet-AMD. The results of these trials, as interpreted by SciFluor's Scientific Advisory Board (SAB), indicate that SF0166 is safe and well-tolerated by patients. In addition, the trials provided a preliminary indication that the drug is reaching the retina and having a biological effect. Of the 40 patients in the DME trial 53% were deemed responders as assessed by reduction in retinal thickness. In the Wet-AMD study 21% of the 42 patients were deemed responders, as assessed by reduction in retinal thickness, elimination or significant reduction of subretinal fluid and clinical judgement. In the view of SciFluor's Board and SAB the results of these trials provide a clear basis to proceed to full Phase II trials for both indications. SciFluor is in the planning and design phase for these trials.

*Target markets*

20 million patients globally suffer from DME and 15 million suffer from Wet-AMD, with a further 150 million patients suffering from earlier stage Dry-AMD. In 2016 worldwide combined revenue for Lucentis and Eylea, the two leading injectable drugs treating these diseases, exceeded $8 billion. Ageing populations and the projected increased prevalence of diabetes are expected to drive future growth.

*2017 management objectives*

- SF0166: complete Phase I/II trials in DME (AMD in 2018)
- SF0034: file IND and complete enrollment

*Progress in 2017*

- Phase I/II trial for DME successfully completed
- Phase I/II trial for wet-AMD successfully completed
- Both SF0166 trials with positive safety profile and preliminary evidence of biological effect
- SciFluor secured 12 additional patents in relation to SF0166, and filed 4 patents in relation to new compounds
- SF0034 enrollment completed, but trial halted due to metabolic response. New alternatives under development

*2018 key operational management objectives*

- Initiate at least one Phase II trial for SF0166
- Complete in-life IND enabling study for one new asset

***Spin Transfer Technologies, Inc. (Spin Transfer)***

*Overview*

Spin Transfer is developing technology solutions that have the potential to materially enhance the endurance, speed and size characteristics of MRAM (magneto-resistive random access memory) - the emerging next generation memory technology. Spin Transfer believes these technologies hold the potential to unlock the widespread adoption of MRAM technology as a replacement for existing SRAM and DRAM. Based in Fremont, California, Spin Transfer was formed in 2006 and employs over 20 PhDs in fields including engineering, physics, materials sciences and mathematics.

*Problem statement - current pervasive SRAM and DRAM technologies are reaching obsolescence*

Current pervasive SRAM and DRAM memories deliver powerful size, speed and endurance performance, but have limitations in terms of volatility, i.e. they do not retain memory when power is cut, and have a high power consumption. Memory demand is growing, driven by more devices and more complex, data-intensive applications, including AI and VR, that require rapidly increasing amounts of memory to store data. At the same time, downward pressure on size and cost continues.

*Proposed solution - universal technologies that enable DRAM-grade MRAM*

Spin Transfer is developing 3 patented, universal technologies that hold the potential to enable MRAM (which is inherently non-volatile and low power) to meet or exceed the size, speed and endurance characteristics of SRAM and DRAM.

- Endurance Engine - circuitry designed to correct for inherent errors or non-idealities of MRAM, improving endurance by up to 6 orders of magnitude, taking current MRAM technologies from $10^8$ to $10^{14}$ compared to DRAM at up to $10^{15}$ or above. The Endurance Engine also improves cell size, speed, power consumption, density and retention. The Endurance Engine has parallels to innovations pioneered by SanDisk to correct for non-idealities in Flash memory leading to the widespread adoption of this technology.
- Spin Polarizer (also known as PSC) - series of materials that can be layered onto a perpendicular magnetic tunnel junction (pMTJ - the core magnetics technology of MRAM) to improve switching speeds and increase efficiency by an estimated 30%, and reduce size by a corresponding amount.
- 3D multi-level cell (3D-MLC) - allows increases in densities to a level which, when combined with the Spin Polarizer and Endurance Engine, will allow MRAM to match or exceed the characteristics of DRAM.

Spin Transfer has more than 150 patents issued or pending in relation to these three technologies.

*Target markets and business model*

Through a phased roll-out of capabilities with partners, Spin Transfer expects first to target SRAM markets estimated at $500 million, and later DRAM with a total addressable market estimated to be worth $20 billion.

Spin Transfer plans to commercialise its technology through a combination of licensing agreements, potentially delineated by component and field of use, NRE-type agreements or sponsorship agreements, and other commercial partnerships. It does not possess a large scale manufacturing capability and would need to partner with a manufacturer at some stage to move beyond a licensing model if this were deemed desirable.

On a cost evaluation basis, the Endurance Engine is intended to decrease the overall silicon area (and hence cost) of a large (> 32 Megabit) MRAM memory. The Spin Polarizer adds an infinitesimal processing cost (fractions of a per cent) while greatly reducing silicon area. The 3D-MLC will add an as-yet undetermined processing cost that should also be significantly outweighed by the further silicon area reduction.

*2017 management objectives (as of March 2017)*

- Advance technology to demonstrate differentiators
- Secure strategic development/investing partner
- Complete Series B fund-raise

Note: After Tom Sparkman was hired as CEO, new objectives were set, including:

- Partner with Tokyo Electron Limited (TEL)
- Create 1G of data to demonstrate advanced pMTJ capability
- Meet with 25+ potential partners
- Increase patent portfolio

*Progress in 2017*

- In July recruited Tom Sparkman as CEO, with previous executive roles at Maxim, Spansion
- New strategy in place, transformed operational and commercial focus
- In September signed a collaborative engineering program with TEL providing expedited access to MRAM deposition tools and engineering resource
- 1G data measured
- Held over 50 partner meetings
- 87 new patents filed
- $22.8 million bridge finance facility underwritten by Allied Minds in October 2017. Spin Transfer secured $10.3 million of funding via a convertible bridge facility with existing shareholders of the Group in January 2018, which satisfied Allied Minds' commitment to fulfill the remaining balance of the 2017 bridge facility with Spin Transfer.

*2018 key operational management objectives*

- Successfully demonstrate the advantages of the Spin Polarizer and Endurance Engine
- Sign 2+ customer/partner agreements

Spin Transfer is engaged in active dialogue regarding its Series B fundraising activities with multiple high quality strategic investors and commercial partners. Spin Transfer has sufficient cash resources to bridge to the Series B round without making any material changes to its technical development and operational plans.

**Corporate Partnerships**

***ABLS, LLC***

ABLS is a drug discovery and development company created in August 2014 through a partnership between Allied Minds and BMS. The company's mission is to create novel drug candidates against serious diseases with large market potential. These include fibrosis, cardiovascular, immune-science, immuno-oncology and oncology, aligning to BMS's strategic areas of focus. BMS has the option to acquire drug candidates from ABLS upon completion of the lead optimisation phase for a pre-agreed multiple of invested capital, with Allied Minds retaining rights to potential milestone and royalty payments.

ABLS sources novel mechanisms and initial lead molecules from Allied Minds' network of institutional research partners and funds the initial feasibility study. Recently ABLS has in certain cases sought to de-risk projects by undertaking early work via a materials transfer agreement and an exclusive option, prior to forming a subsidiary and entering into an exclusive license.

If the drug does not pass the initial feasibility stage, funding is ceased and the subsidiary or project is closed with losses capped at the up to approximately $1 million of seed investment. If the drug passes the initial feasibility state it will enter into the lead optimisation phase to further advance the lead molecules, typically requiring further capital investment of up to $15.0 million. Funding for lead optimisation is provided by a combination of ABLS Capital, LLC (ABLS Capital) (80.0%) and BMS (20.0%). The lead optimisation phase studies are in part carried out at a BMS R&D Site in India, called Biocon-BMS Research Center (BBRC).

ABLS Capital was formed to provide the majority of the capital required to fund up to ten (10) ABLS subsidiaries though the lead optimisation phase. In April 2016 ABLS Capital secured commitments amounting to $80.0 million, including $40.0 million from Woodford Investment Management and $20.0 million from Invesco Perpetual. These funding commitments will be used to invest alongside the up to $20.0 million from BMS to fund these lead optimisation phases.

The ABLS partnership aligns Allied Minds with a seasoned large pharmaceutical partner and creates a natural early stage (pre-clinical) acquirer of developing assets, potentially de-risking the drug development process for Allied Minds and providing attractive risk adjusted returns.

***ABLS II, LLC***

ABLS II was formed in June 2015 to undertake pre-clinical discovery and development of molecules against a novel target (Prolyl tRNA Synthetase) for treatment of fibrotic diseases. Harvard University researchers had earlier identified the mechanism of halofuginone (a natural product with anti-fibrotic properties) as an inhibitor of Prolyl tRNA Synthetase. ABLS II's objective is to discover and develop halofuginone analogues with novel IP, better safety and superior efficacy. ABLS II has synthesised various molecules and is evaluating them for safety and efficacy. In May 2016 ABLS announced that ABLS II had successfully passed feasibility and in August ABLS II successfully raised $15.0 million of funding from ABLS Capital and BMS to fund the Lead Optimisation phase. The work is underway at BBRC with several proprietary molecules synthesised. However, the current lead molecules have not yet improved the therapeutics index (TI) using the industry standard Bleomycin model of Fibrotic diseases. Selected lead molecules are being evaluated in another disease model of Duchenne Muscular Dystrophy (DMD).

***ABLS IV, LLC***

ABLS IV was formed in October 2017 to enter into an alliance with Weill Cornell Medicine and an exclusive licensing agreement with Cornell University to conduct initial feasibility studies in relation to a novel class of inhibitors of immunoproteasomes. The class of inhibitors under development is targeted at a specific sub-unit of the immunoproteasome playing a critical role in inflammation and autoimmune diseases, including lupus and rheumatoid arthritis, with the potential to develop safer treatments with better efficacy. The market for unmet medical needs in autoimmune and inflammatory diseases is estimated to be in the tens of billions of dollars. Initial Feasibility Phase is underway at BBRC.

***Strategic Alliance with GE Ventures***

Created in September 2016 to jointly identify and invest in technologies from Allied Minds' and GE Ventures' combined technology and innovation pipelines. Through this agreement, Allied Minds has an exclusive right of first refusal to license certain technologies, chosen by GE, for the spin-out and commercialisation of that technology.

Consistent with our focus on thematic investing, our efforts with GE Ventures have been focused on discovering the overlap of our strategic themes with commercialisation candidates from GE Ventures. Through this joint discovery process between Allied Minds and GE Ventures' technology licensing group, multiple promising candidates for eventual spin-out have been reviewed. While we have not yet identified a candidate that meets each of our investment criteria and objectives, we continue to seek an opportunity for Allied Minds to form new entities based on the cutting-edge technologies developed by one of the world's leaders in technology innovation. The strategic alliance with GE will expire by its terms in September 2018 unless extended by mutual agreement of the parties.

**Other subsidiaries**

**LuxCath, LLC**

LuxCath is developing a proprietary ablation catheter technology to enable live, optical interrogation of heart tissue during cardiac ablation, applying fluorescence to allow a cardiologist to assess on a real-time basis the impact of ablation therapy on targeted heart tissue. Current procedures are typically executed on a "blind" basis with the cardiologists unable to visually assess whether there is tissue contact before commencing ablation and unable to determine whether ablation has successfully killed target tissue, or left gaps between lesions which could lead to recurrence. LuxCath's technology can be applicable to all cardiac ablation procedures and is focused on atrial fibrillation (AF) ablation as its initial target market. It aims to improve clinical outcomes while reducing procedure times, fluoroscopy exposure, costs, and clinical recurrences. AF is the most common cardiac arrhythmia in the US, affecting more than two million people and projected to affect 15.9 million in the year 2050, half of whom will be over 80 years old. AF has been implicated as a significant cause of strokes, thromboembolic events, and heart failure, costing the US healthcare system billions of dollars annually.

During 2017 LuxCath began developing a proprietary catheter into which its optical tissue interrogation technology will be integrated. A prototype integrated device is expected to be delivered and tested in 2018. The prototype will have the capability to interrogate cardiac tissue radially (not only in a straight line), enabling more comprehensive lesion assessment. Subject to testing, LuxCath expects to move the integrated device to patient trials. LuxCath has recruited a highly qualified Scientific Advisory Board comprising leading electrophysiologists at Mount Sinai Health System (New York), Massachusetts General Hospital, Beaumont Health (Michigan), Texas Cardiac Arrhythmia Institute at St. David's Medical Center and L'Institut de Rythmologie et Modelisation Cardiaque (Bordeaux, France).

**Signature Medical, Inc.**

Signature Medical is developing smart wearable devices to evaluate and monitor patients remotely and on a real time basis. Its lead AcoustiCare™ device is designed for patients with heart failure and other indications.

While acoustic signature analysis represents an excellent and well-founded approach to cardiac evaluation and monitoring, AcoustiCare™ and other products under development by Signature Medical, differ from other sensor-based wearables based on proprietary artificial intelligence coupled with cloud-based audio technology. Most existing technologies are based on measurement of rhythm, movement or impedance.

AcoustiCare™ is being developed with the objective of providing a more effective and non-invasive heart monitoring and evaluation system for patients suffering from heart failure and other indications. Remote, cloud-based monitoring of data transmitted by the device offers patients the potential for earlier and more targeted intervention, with the benefit to the healthcare system of improving clinical outcomes, reducing hospital re-admissions and material associated cost. Heart failure recurrence represents an enormous under-served market opportunity and ranks among the most prevalent and costly chronic diseases. It is the number one cause of hospitalisation among US adults over the age of 65 and consumes 1-2% of all healthcare expenditures in developed countries. Heart failure re-admission rates alone are estimated to be approximately 25% within 30 days of hospital discharge at a cost of approximately $5 billion in the US annually.

During 2017, Signature Medical completed a $2.5 million Series A preferred financing round, including participation by Riot Ventures, an early stage investment fund focused on emerging technology, and Bose Corporation, a global leader in audio innovation. The company has begun work on building an AcoustiCare™ prototype, integrating a proprietary algorithm capable of assessing cardiac function, and expects to collect acoustic data to train and validate the algorithm and build its IP position. Signature Medical has formed an expert Scientific Advisory Board comprising of heart failure thought leaders at renowned institutions including University of California, San Francisco Brigham & Women's Hospital and the Cardiovascular Research Foundation in New York City.

**Discontinued Subsidiaries**

Consistent with the Allied Minds' model, where a project has failed to deliver sufficient additional proof points for ultimate commercialisation and financial return, no longer supports on-going development and commercialisation activity, and cannot be successfully redirected to an alternative commercial path, Allied Minds will look to cease operations and terminate the project.

In April 2017, Allied Minds announced that it would cease operations at the following subsidiaries, having determined that the path to commercialisation was not sufficiently clear and that capital and management resource should be redirected to more promising areas of the portfolio and pipeline: Biotectix; Cephalogics;

CryoXtract; Novare Pharmaceuticals; Optio Labs; RF Biocidics; SoundCure; and Tinnitus Treatment Solutions. The related net restructuring cost for the period was $7.3 million, which included $4.7 million of non-cash charges for impairment of tangible and intangible assets and inventory write-offs and is net of $1.1 million in net proceeds from the sale of assets.

Also in 2017, ABLS I and ABLS III ceased operations and were dissolved following Board determination that they had not successfully completed initial feasibility studies. Vatic Materials was closed following unsatisfactory due diligence outcomes.

Post period-end the Group sold the assets of Percipient Networks to WatchGuard Technologies, and ceased operations and dissolved each of Whitewood Encryption and Seamless Devices.

**Financial Review**

During 2017, $81.1 million was invested into new and existing subsidiary businesses. This included $64.5 million from subsidiary fundraisings, with $35.1 million coming from third-party investment, to further accelerate the development of four of the Group's existing companies, HawkEye$^{360}$, BridgeSat, Federated Wireless, and Signature Medical. In addition to these fundraisings, $16.6 million was invested by the Group into new and other existing subsidiary businesses.

**Consolidated Statement of Comprehensive Loss**

For the years ended 31 December

| | 2017<br>$'000 | 2016<br>$'000 |
|---|---|---|
| Revenue | 5,001 | 2,664 |
| Cost of revenue | (5,242) | (5,563) |
| Selling, general and administrative expenses | (55,214) | (55,484) |
| Research and development expenses | (49,012) | (55,292) |
| Finance cost, net | (6,545) | (15,267) |
| Other comprehensive income | (103) | 208 |
| Total comprehensive loss | (111,115) | (128,734) |
| of which attributable to: | | |
| Equity holders of the parent | (75,778) | (96,125) |
| Non-controlling interests | (35,337) | (32,609) |

Revenue increased by $2.3 million, to $5.0 million in 2017 (2016: $2.7 million). This increase is mainly attributable to the higher NRE revenue at Federated Wireless and HawkEye$^{360}$. Cost of revenue was lower by $0.4 million at $5.2 million (2016: $5.6 million), reflecting prior year higher cost from write offs of inventory at two liquidated subsidiaries.

Selling, general and administrative (SG&A) expenses decreased by $0.3 million, to $55.2 million, for the year ended 31 December 2017 (2016: $55.5 million), largely due to savings from the restructuring and discontinued funding of subsidiaries during the year of $8.9 million. These savings were offset by an increase in spending at certain companies nearing comercialisation within the Group.

R&D expenses decreased by $6.3 million to $49.0 million for the year ended 31 December 2017 (2016: $55.3 million). Similarly to SG&A expenses, the decrease in R&D cost was largely due to savings from the restructuring and discontinued funding of subsidiaries during the year of $7.3 million. These savings were offset, in part, by the acceleration of activities at companies supported by third party financing rounds in 2016 and 2017, such as BridgeSat and HawkEye$^{360}$.

Finance cost, net decreased by $8.8 million to $6.5 million in 2017 (2016: $15.3 million) reflecting to the fair value accounting adjustment of the subsidiary preferred shares liability balance of $6.8 million (2016: $17.6 million), and interest income, net of interest expense, of $0.3 million (2016: $1.0 million).

As a result of the above discussed factors, total comprehensive loss decreased by $17.6 million to $111.1 million for the year ended 31 December 2017 (2016: $128.7 million). Total comprehensive loss for the year attributed to the equity holders of the Group was $75.8 million (2016: $96.1 million) and $35.3 million (2016: $32.6 million) was attributable to the owners of non-controlling interests.

**Consolidated Statement of Financial Position**

As of 31 December

| | 2017<br>$'000 | 2016<br>$'000 |
|---|---|---|
| Non-current assets | 28,369 | 38,282 |
| Current assets | 184,792 | 232,007 |
| Total assets | 213,161 | 270,239 |
| Non-current liabilities | 867 | 720 |
| Current liabilities | 200,202 | 155,402 |
| Equity | 12,092 | 114,117 |
| Total liabilities and equity | 213,161 | 270,239 |

Significant performance-impacting events and business developments reflected in the Company's financial position at year end include:

*Non-current assets*

- Property and equipment decreased by $5.3 million to $26.6 million as at 31 December 2017 (2016: $31.9 million), mainly reflecting depreciation expense of $5.8 million and impairment charges of $0.7 million, offset by purchases of approximately $1.2 million, mainly at HawkEye$^{360}$ and Federated Wireless;
- Intangible assets as of 31 December 2017 decreased by $1.7 million to $1.1 million (2016: $2.8 million) mainly as a result of amortisation expense of $0.3 million and impairment charges of $1.7 million, offset by additions of $0.3 million in acquired licenses and software assets;
- Other investments, non-current decreased to nil (2016: $2.7 million) reflecting the maturity of investment in fixed income government and corporate securities into current assets;

*Current assets*

- Cash and cash equivalents decreased by $51.1 million to $158.1 million at 31 December 2017 from $209.2 million at 31 December 2016. The decrease is mainly attributed to $90.8 million of net cash used in operations, offset by $35.4 million of cash from financing activities mainly from subsidiary financing rounds, and $4.3 million cash from investing activities mainly reflecting the conversion of fixed income security investments into cash and cash equivalents;
- Other investments, current decreased to $11.1 million (2016: $14.2 million) as those securities matured into cash and cash equivalents, reflecting the investment of excess cash into fixed income government and corporate securities that have maturities shorter than twelve months;
- Inventories decreased by $2.6 million to nil as at 31 December 2017 (2016: $2.6 million) reflecting mainly the obsolescence charges at discontinued subsidiaries of $2.5 million;
- Trade and other receivables increased by $9.7 million to $15.6 million at 31 December 2017 (2016: $5.9 million) as a result of an increase of $6.4 million mainly from advance payments to contract manufacturers plus a net increase of $3.3 million in trade receivables;

*Current liabilities*

- Subsidiary preferred shares increased by $40.7 million to $181.6 million as of 31 December 2017 (2016: $140.9 million) as a result of net proceeds from subsidiary preferred rounds of $33.9 million at BridgeSat, Federated Wireless, HawkEye360 and Signature Medical in 2017. The IAS 39 fair value adjustment for the year of $6.8 million additionally contributed to the increase in the subsidiary preferred shares liability;
- Deferred revenue increased to $4.3 million as of 31 December 2017 (2016: $0.5 million) primarily due to $3.7 million of customer deposits on contracts mainly at BridgeSat and HawkEye$^{360}$;

*Equity*

- Share capital and premium increased by $1.6 million to a combined $162.3 million at 31 December 2017 (2016: $160.7 million) primarily due to exercises of stock options under the U.S. Stock Option Plan. The increase in accumulated deficit of $65.0 million to $354.4 million (2016: $289.4 million) mainly reflected the net comprehensive loss attributable to equity holders of the Group for the year of $75.8 million (2016: $96.1 million). This increase is offset by the effect from dissolution of subsidiaries of $4.7 million (2016: nil) and the share-based compensation expense charge for the year of $6.1 million (2016: $5.9 million).

**Consolidated Statement of Cash Flows**

For the years ended 31 December

| | 2017<br>$'000 | 2016<br>$'000 |
|---|---|---|
| Net cash outflow from operating activities | (90,779) | (95,220) |
| Net cash inflow from investing activities | 4,331 | 70,729 |
| Net cash inflow from financing activities | 35,372 | 128,087 |
| Net (decrease)/increase in cash and cash equivalents | (51,076) | 103,596 |
| Cash and cash equivalents in the beginning of the year | 209,151 | 105,555 |
| Cash and cash equivalents at the end of the year | 158,075 | 209,151 |

The Group's net cash outflow from operating activities of $90.8 million in 2017 (2016: $95.2 million) was primarily due to the net operating losses for the year of $104.5 million and the net effect from movement in working capital of $2.4 million, offset by the adjustment for non-cash items such as depreciation, amortisation, impairments and share-based expenses of $16.0 million and interest received net of paid and other finance charges of $0.1 million.

The Group had a net cash inflow from investing activities of $4.3 million in 2017 (2016: $70.7 million) mainly reflecting the disposal of fixed income investment securities of $5.9 million, offset by purchases or property and equipment, net of disposals, of $1.3 million, and purchases of intangible assets net of disposals of $0.3 million.

The Group's net cash inflow from financing activities of $35.4 million in 2017 (2016: $128.1 million) primarily reflects $33.9 million proceeds from subsidiary financing rounds in HawkEye$^{360}$, BridgeSat, Signature Medical and Federated Wireless and $1.6 million from exercises of stock options and issuance of share capital, offset by $0.1 million repayment of notes payable.

The Group's strategy is to maintain healthy, highly liquid cash balances that are readily available for investment. To further minimise its exposure to risks the Group does not maintain any material borrowings or cash balances in foreign currency.

**Risk Management**

The execution of the Group's strategy is subject to a number of risks and uncertainties. A key focus for the Board is to formally identify the principal risks facing the Group and develop a robust and effective framework to ensure that the risks are both well understood and appropriate for the Company's risk appetite to achieve the stated corporate goals. This process needs to address both risks arising from the internal operations of the Group and those arising from the business environment in which it operates. It is possible that one or more of these identified risks could impact the Group in a similar timeframe which may compound their effects.

With our focus on early stage company creation and development, the Group inherently faces significant risks and challenges. The overall aim of the risk management policy is to achieve an effective balancing of risk and reward, although ultimately no strategy can provide an absolute assurance against loss.

The Board has carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and/or liquidity. The major risks and uncertainties identified by the Board are set out below along with the consequences and mitigation strategy of each risk.

1. The science and technology being developed or commercialised by the Group's businesses may fail and/or the Group's businesses may not be able to develop their innovations and intellectual property into commercially viable products or technologies. There is also a risk that some of the subsidiary businesses may fail or not succeed as anticipated, whether as a result of technical, product, market or other risks, resulting in an impairment of the Group's value.

Impact: The failure of any of the Group's subsidiary businesses would impact the Group's value. A failure of one of the major subsidiary businesses could also impact on the perception of the Group as a builder of high value businesses and possibly make additional fund raising at the Group or subsidiary level more difficult.

Mitigation:

- Before making any investment, extensive due diligence is carried out by the Group which covers all the major business risks including market size, strategy, adoption and intellectual property.
- The initial seed round investment is typically quite small with additional investment only being made on successful completion of milestones.
- A disciplined approach to capital allocation is pursued such that proof of concept has to be achieved before substantial capital is committed.
- Members of the Group's management team who carry out the initial due diligence may initially manage the subsidiary in its incubation phase and will typically serve as directors, thus staying with the project to help ensure consistency of management.
- Dedicated leadership with deep industry or sector knowledge, and relevant technical and/or leadership experience, is recruited as appropriate, and the Group ensures that each subsidiary has independent directors and/or other advisors, as appropriate for the relevant stage of development.
- During incubation stage, we closely monitor milestone developments and should a project fail to achieve sufficient progress, we terminate the investments.
- Each subsidiary business holds quarterly board of director meetings, with participation from the Group's management and/or investment team, along with the senior management team of such subsidiary business.
- The shared services model provides significant administrative support to the subsidiary businesses whilst the budgetary and financial controls ensure good governance.
- Within the Group there is significant management expertise which can be called upon to support each of the subsidiary businesses where necessary.
- The Group actively uses third party advisors and consultants, specific to the particular domain in which a subsidiary business operates, to assist on market strategy and direction.

2. The Group expects to continue to incur substantial expenditure in further research and development, product development, marketing and other operational activities of its businesses. There is no guarantee that the Group or any of its individual subsidiaries will become profitable prior to the achievement of a subsidiary sale or other liquidity event, and, even if the Group or any of its individual subsidiaries does become profitable, such profitability may not be sustainable. The Group may not be able to sell its ownership interests in subsidiary businesses during any specific time frame or otherwise on desirable terms, if at all.

Impact: The strategic aim of the business is to generate profits for its shareholders through early stage company creation and development within the technology and life science sectors, to generate long-term value. Such value is expected to be delivered through the commercialisation and monetisation of these businesses, including through generation of revenue and profits, and through sales of subsidiary businesses or other liquidity events. The timing and size of these potential inflows is uncertain and should liquidity events not be forthcoming, or in the event that they are achieved but at values significantly less than the amount of capital invested, then it would be difficult to sustain the current levels of investment in the subsidiary businesses and continue to make new investments. This will lead to reduced activity across the Group. In turn this could make raising additional capital at the Group level difficult and it could ultimately lead to the failure of the Group as a whole.

Mitigation:

- The Group retains significant cash balances in order to support its cash flow requirements, including to support the cash requirements for each subsidiary and for corporate resources, as well as invest in new businesses.

- The Group has close relationships with a wide group of investors, including its shareholder base to ensure it can continue to access the capital markets, and continues to identify and develop strategic and financial relationships for co-investing in the Group's subsidiary businesses.

- Senior management continually seek to create additional strategic relationships for the Group, and each subsidiary continually seeks to engage in strategic relationships relevant to their respective markets and to maintain current information on and awareness of potential monetisation strategies.

3. If a significant number of the Group's relationships with US universities and federal government institutions were to break down or be terminated or expire, then the Group would lose any rights that it has to act as a private sector partner in the commercialisation of intellectual property being generated by such universities, other research intensive institutions or US federal research institutions.

Impact: Termination of certain of the Group's existing relationships would impact the quantity and potential quality of the Company's deal flow. This may in turn prevent the Company from completing promising new deals and reduce its opportunity to create new subsidiaries. This could potentially have an adverse effect on the Group's long term prospects and performance.

Mitigation:

- The Group continues to strengthen its partner network. The Group seeks to ensure that it has a diversity of relationships to ensure that no one university or US government laboratory has inordinate influence on our prospects. At the same time we seek to develop deep relationships with select research institutions and corporate partners, as well as build out a network of industry-specific relationships, in order to strengthen the quality and quantity of new deal opportunities.

- The risk of losing deal flow through the termination of relationships is greatly lessened by the wide portfolio and geographic spread of our partners.

- The Group is fostering new relationships with strategic corporate partners to expand and strengthen its partner network and pipeline for opportunities.

4. A majority of the Group's intellectual property relates to technologies originated in the course of research conducted in, and initially funded by, US universities or other federally-funded research institutions. Although the Group has been granted exclusive licenses to use this intellectual property, there are certain limitations inherent in these licenses, for example as required by the Bayh-Dole Act of 1980.

Impact: There are certain circumstances where the US government has rights to utilise the underlying intellectual property without any economic benefit flowing back to the Group. In the event this were to happen, this could impact the financial return to the Group on its investment in the applicable subsidiary businesses.

Mitigation:

- To the Board's knowledge, while these so called "march in" rights exist, the US government has never had cause to use them.

- The Group seeks to develop dual use capabilities for the technology it licenses and generally tends to avoid use cases directly applicable to government use.

- This risk is also mitigated through employing experienced technology transfer experts supported by our legal team to assess risks that may arise out of this eventuality.

5. The Group, including certain of the subsidiary businesses, currently has in place cooperative research and development agreements with certain US Department of Defense laboratories and other federally funded government institutions. Certain regulatory measures apply to these agreements which restrict the export of information and material that may be used for military or intelligence applications by a non-US person, and compliance with these regulatory measures may be complex and limit commercial alternatives.

Impact: If the Group were to breach restrictions on the use of certain licensed technologies, particularly those derived from federally funded research facilities, this could materially impact upon the Group's ability to license additional intellectual property from these establishments. In certain circumstances it may also lead to the termination of existing licenses. In the event that this were to happen, this could materially affect a number of the Group's businesses and potentially harm the reputation and standing of the Group and cause the termination of certain important relationships with federally funded research institutions.

Mitigation:

- Prior to licensing any technology under these agreements, the Group's management seeks to identify the commercial and other alternatives available for products and services associated with such technology and innovations, and to ensure that there are sufficient markets available to justify the capital investment.

- Prior to the commercialisation process, the Group's management seeks to obtain all the necessary clearances from applicable regulatory bodies to ensure that the export of products based upon the licensed IP is strictly in accordance with government guidelines.

- The Group employs a number of individuals with experience in working with various government agencies.

- Senior management is fully cognisant of the regulations and sensitivities in relation to this issue and in particular with International Traffic in Arms Regulations (ITAR) which regulate the use of technologies for export, and has numerous mitigating actions available should issues arise.

6. The Group operates in complex and specialised business domains and requires highly

qualified and experienced management to implement its strategy successfully. All of the operations of the Group and its subsidiary businesses are located in the United States, which is a highly competitive employment market. Furthermore, given the relatively small size of the senior management at the corporate level, the Group is reliant on a small number of key individuals.

Impact: There is a risk that the Group may lose key personnel, or fail to attract or retain new personnel. The loss of key personnel would have an adverse impact on the ability of the Group to continue to grow and may negatively affect the Group's competitive advantage.

Mitigation:

- The Board annually seeks external expertise to assess the competitiveness of the compensation packages of its senior management, and to ensure that the structure of compensation is designed to properly incent performance and retention.
- Senior management continually monitor and assess compensation levels to ensure the Group remains competitive in the employment market.
- While staff turnover has historically been low and the Group continues to attract highly qualified individuals, management encourages development and inclusion through coaching and mentoring programmes.

7. A large proportion of the overall value of the Group's businesses may be concentrated in a small proportion of the Group's businesses. If one or more of the intellectual property rights relevant to a valuable business were terminated, this would have a material adverse impact on the overall value of the Group's businesses.

Impact: The termination of critical IP licenses would materially impact the value of the subsidiary business and have a consequent effect on the value of the overall Group.

Mitigation:

- In each subsidiary, the management is specifically directed to pursue a policy of generating and patenting additional intellectual property to both provide additional protection and create direct IP ownership for the subsidiary business.
- Where possible, the Group seeks to negotiate intellectual property ownership rights in any research and development agreement it enters into with a network partner, such that the Group becomes a part owner of the underlying IP.
- The Group has a diversified portfolio of subsidiary businesses. The value of any one of its subsidiaries relative to the aggregate value of the Group is closely monitored to ensure that the concentration of risk of any one subsidiary is not disproportionate.

8. Clinical studies and other trials to assess the commercial viability of a product are typically expensive, complex and time-consuming, and have uncertain outcomes. If the Company fails to complete or experiences delays in completing trials for any of its product candidates, it may not be able to obtain regulatory approval or commercialise its product candidates on a timely basis, or at all.

Impact: Significant delays in any of the clinical studies to support the appropriate regulatory approvals could significantly impact the amount of capital required for the subsidiary business to achieve final regulatory approval, which in turn may impact the value of such subsidiary. A critical failure in any stage of a clinical testing programme would probably necessitate a termination of the project and a loss of the Group's investment.

Mitigation:

- The Group has dedicated internal resources within each subsidiary business to establish and monitor each of the clinical programmes in order to try and maximise successful outcomes.
- During the evaluation and due diligence phase prior to the initial investment, focus is placed on an analysis of the risks of the clinical phase of development.
- Prior to the launch of any clinical trials it will be normal for a dedicated management team (and an advisory team to include key opinion leaders (KOLs)) to be hired, and experience with the management of clinical programmes would be a prerequisite qualification.
- In the event of the outsourcing of these trials, care and attention is given to assure the quality of the Contract Research Organization (CRO) vendors used to perform the work.

9. The US Investment Company Act of 1940 regulates companies which are engaged primarily in the business of investing, reinvesting, owning, holding or trading in securities. Securities issued by companies other than consolidated partner companies are generally considered "investment securities" for purposes of the Investment Company Act, unless other circumstances exist which actively involve the company holding such interests in the management of the underlying company.

Impact: If the Company is deemed to be an "investment company" subject to regulation under the Investment Company Act, applicable restrictions could make it impractical for the Group to continue its business as contemplated and could have a material adverse effect on its business. If anything were to happen which would cause the Company to be deemed to be an investment company under the Investment Company Act, requirements imposed by the Investment Company Act, including limitations on capital structure, ability to transact business with subsidiaries and ability to compensate key employees, could make it impractical for it to continue its business as currently conducted.

Mitigation:

- The Company intends to monitor and conduct its operations so that it will not be deemed to be an investment company under the Investment Company Act.
- The Company seeks to build value by forming majority-owned or primarily controlled subsidiary companies; it is not engaged primarily in the business of investing, reinvesting, owning, holding or trading in securities and does not own or propose to acquire investment securities above prescribed thresholds under the Investment Company Act.
- Currently the Company holds more than 50% of the voting securities of each of its subsidiary companies (other than Spin Transfer Technologies, where it owns 48.40%), and intends to continue to try to structure its new businesses in such a way as to hold majority of the voting securities in its operating subsidiaries, or otherwise obtain and maintain primary control.
- In addition to ownership levels, the Company seeks to obtain and maintain primary control of its subsidiary businesses through a combination of the following:
    - Rights to elect representatives to the board of directors, with ability to exercise influence over the subsidiary's business strategy, operating plans, budgets and key corporate decisions;
    - Legal rights, such as access to information (books and records) and financial statements, liquidation preferences, registrations rights, rights of first refusal, pre-emptive rights and co-sale rights;
    - Protective provisions, such as rights to block certain subsidiary actions; and
    - Active involvement in the management of the subsidiary, such as shared service support, business development introductions, co-locating, and key management recruiting.

10. The Group expects to remain viable through December 2020 given its current cash and financial position. However, if the Group is unable to raise capital, generate sufficient revenue, appropriately manage expenses, or exit any of its existing Group businesses prior to the end of such period, then the Group's business, financial condition, results of operations, prospects and future viability could be adversely affected.

Impact: Lack of capital could restrict the Group's ability to further fund, develop and commercialise its existing businesses and prevent the Group from investing in attractive new opportunities. In turn, this could ultimately lead to failure of individual subsidiaries and loss of investment as well as failure of the Group as a whole.

Mitigation:

- The Group maintains close relationships with its shareholder base, strategic partners, and a wide group of investors to ensure it continuous access to the capital markets.
- The Group has historically had a strong financial position, including prior to its initial public offering (IPO), and holds significant control over the Company's investments and how subsidiary company working capital requirements are met.
- The Company strives to maintain majority ownership and/or control over all of the subsidiary companies, so that it can seek to influence optimal capital allocation, use of cash, and fund-raising strategy.
- The Company has built a valuable portfolio of subsidiary businesses since its inception.
- The Company continuously and critically reviews the progress of its subsidiaries against pre-set milestones to ensure its financial capital and human resource is properly allocated to the more promising areas of its portfolio to help strengthen and accelerate the Group's path to monetisation.

**Brexit**

On 23 June 2016, the UK electorate voted to leave the European Union in a so-called "Brexit" referendum. The full consequences of the decision to leave the European Union will not be known for some time. The uncertainty surrounding the implementation and effect of Brexit has caused and is likely to continue to cause increased economic volatility.

It is expected that companies based in the UK and with significant UK and EU operational focus will be the most directly impacted by Brexit. All of the Group's subsidiary businesses are based in the US, and substantially all of the business and operations of the Group are conducted in the US. However, the Group has raised significant capital in the UK and may need to raise additional capital in the UK in the future to support the growth and development of its subsidiaries. The uncertainty caused by Brexit may result in the Group being unable to obtain additional capital on a timely basis on commercially acceptable terms.

In addition, Brexit exposes the Group to increased foreign currency risk. Foreign exchange risk is an exposure for the Group as it derives substantially all of its revenue in US dollars and the Group's businesses borrow, account in, and are valued in, US dollars, but its shares trade in amounts denominated in pounds sterling. Any capital raised by the Group in the UK would be denominated in pounds sterling, but would be allocated to subsidiary businesses which operate in the US and whose functional currency is US dollars.

If the Group requires and fails to obtain sufficient capital on acceptable terms, it may be forced to curtail or abandon its planned growth activity and to forego further investment in developing certain of its current businesses, and otherwise be subject to a material adverse impact on the Group's business and financial condition.

**Corporate and Social Responsibility**

Details on the Group's policies, activities and aims with regard to its corporate and social responsibilities, including diversity, are included in the Sustainability section and are incorporated herein by reference.

This Strategic Report of the 2017 Annual Report has been approved by the Board of Directors.

ON BEHALF OF THE BOARD

***Peter Dolan*** ***Jill Smith***
***Chairman*** ***Chief Executive Officer***

22 March 2018

**Consolidated Financial Information**

The financial information set out below has been extracted from the 2017 Annual Report and is an abridged version of the full financial statements, not all of which are reproduced in this Annual Results Release.

**Directors' Responsibilities Statement**

The responsibility statement set out below has been reproduced from the 2017 Annual Report, which was published in March 2018, and relates to that document and not this announcement.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the parent Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report of the 2017 Annual Report includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the 2017 Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

ON BEHALF OF THE BOARD

***Peter Dolan*** ***Jill Smith***
***Chairman*** ***Chief Executive Officer***

22 March 2018

**FINANCIAL STATEMENTS**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS**

| **For the year ended 31 December** | **Note** | **2017 $'000** | **2016 $'000** |
|---|---|---|---|
| Revenue | 3 | 5,001 | 2,664 |
| Operating expenses: | | | |
| Cost of revenue | 4,5 | (5,242) | (5,563) |
| Selling, general and administrative expenses | 4,5 | (55,214) | (55,484) |
| Research and development expenses | 4,5 | (49,012) | (55,292) |
| **Operating loss** | | (104,467) | (113,675) |
| Finance income | 7 | 485 | 2,879 |
| Finance cost | 7 | (180) | (561) |
| Finance cost from IAS 39 fair value accounting | 7 | (6,850) | (17,585) |
| **Finance cost, net** | | (6,545) | (15,267) |
| Loss before taxation | | (111,012) | (128,942) |
| Taxation | 25 | - | - |
| **Loss for the period** | | (111,012) | (128,942) |
| **Other comprehensive loss:** | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Foreign currency translation differences | | (103) | 208 |
| **Other comprehensive (loss)/income, net of taxation** | | (103) | 208 |
| **Total comprehensive loss for the period** | | (111,115) | (128,734) |
| **Loss attributable to:** | | | |
| Equity holders of the parent | | (75,675) | (96,333) |
| Non-controlling interests | 17 | (35,337) | (32,609) |
| | | (111,012) | (128,942) |

| | | | |
|---|---|---|---|
| **Total comprehensive loss attributable to:** | | | |
| Equity holders of the parent | | (75,778) | (96,125) |
| Non-controlling interests | 17 | (35,337) | (32,609) |
| | | (111,115) | (128,734) |
| **Loss per share** | | $ | $ |
| Basic | 8 | (0.32) | (0.44) |
| Diluted | 8 | (0.32) | (0.44) |

See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

| As of 31 December | Note | 2017 $'000 | 2016 $'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property and equipment | 9 | 26,627 | 31,882 |
| Intangible assets | 10 | 1,074 | 2,762 |
| Other investments | 12 | - | 2,668 |
| Other financial assets | 22 | 668 | 904 |
| Other non-current assets | | - | 16 |
| **Total non-current assets** | | 28,369 | 38,232 |
| **Current assets** | | | |
| Cash and cash equivalents | 13 | 158,075 | 209,151 |
| Other investments | 12 | 11,057 | 14,244 |
| Inventories | 14 | - | 2,551 |
| Trade and other receivables | 15 | 15,642 | 5,900 |
| Other financial assets | 22 | 18 | 161 |
| **Total current assets** | | 184,792 | 232,007 |
| **Total assets** | | 213,161 | 270,239 |
| **Equity** | | | |
| Share capital | 16 | 3,714 | 3,657 |
| Share premium | 16 | 158,606 | 157,067 |
| Merger reserve | 16 | 263,367 | 263,435 |
| Translation reserve | 16 | 89 | 192 |
| Accumulated deficit | 16 | (354,443) | (289,437) |
| **Equity attributable to owners of the Company** | | 71,333 | 134,914 |
| Non-controlling interests | 16,17 | (59,241) | (20,797) |
| **Total equity** | | 12,092 | 114,117 |
| **Non-current liabilities** | | | |
| Other non-current liabilities | 20 | 867 | 720 |
| **Total non-current liabilities** | | 867 | 720 |
| **Current liabilities** | | | |
| Trade and other payables | 20 | 14,276 | 13,941 |
| Deferred revenue | 3 | 4,296 | 458 |
| Loans | 19 | - | 115 |
| Subsidiary preferred shares | 18 | 181,630 | 140,888 |
| **Total current liabilities** | | 200,202 | 155,402 |
| **Total liabilities** | | 201,069 | 156,122 |
| **Total equity and liabilities** | | 213,161 | 270,239 |

See accompanying notes to consolidated financial statements.
Registered number: 8998697

The financial statements were approved by the Board of Directors and authorised for issue on 22 March 2018 and signed on its behalf by:

Jill Smith
*Chief Executive Officer*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**For the year ended 31 December 2017**

| | Note | Share capital Shares | Amount | Share premium | Merger reserve | Translation reserve | Accumulated Deficit | Total parent equity | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | $' 000 | $' 000 | $' 000 | $' 000 | $' 000 | $' 000 | $' 000 | $' 000 |
| **Balance at 31 December 2015** | | 215,637,363 | 3,429 | 155,867 | 185,544 | (16) | (192,819) | 152,005 | (10,631) | 141,374 |
| **Total comprehensive loss for the year** | | | | | | | | | | |
| Loss from continuing operations | | - | - | - | - | - | (96,333) | (96,333) | (32,609) | (128,942) |
| Foreign currency translation | | - | - | - | - | 208 | - | 208 | - | 208 |
| **Total comprehensive loss for the year** | | | | | | 208 | (96,333) | (96,125) | (32,609) | (128,734) |
| Issuance of ordinary shares | *16* | 17,457,015 | 219 | - | 77,891 | - | - | 78,110 | - | 78,110 |
| New funds into non-controlling interest | *16* | - | - | - | - | - | - | - | 13,773 | 13,773 |
| Gain/(loss) arising from change in non-controlling interest | *17* | - | - | - | - | - | (6,229) | (6,229) | 6,229 | - |
| Exercise of stock options | *6* | 650,000 | 9 | 1,200 | - | - | - | 1,209 | - | 1,209 |
| Equity-settled share based payments | *6* | - | - | - | - | - | 5,944 | 5,944 | 2,441 | 8,385 |
| **Balance at 31 December 2016** | | 233,744,378 | 3,657 | 157,067 | 263,435 | 192 | (289,437) | 134,914 | (20,797) | 114,117 |
| **Total comprehensive loss for the year** | | | | | | | | | | |
| Loss from continuing operations | | - | - | - | - | - | (75,675) | (75,675) | (35,337) | (111,012) |
| Foreign currency translation | | - | - | - | - | (103) | - | (103) | - | (103) |
| **Total comprehensive loss for the year** | | | | | | (103) | (75,675) | (75,778) | (35,377) | (111,115) |
| Issuance of ordinary shares | *16* | 3,402,567 | 43 | - | (68) | - | - | (25) | - | (25) |
| Gain/(loss) arising from change in non-controlling interest | *17* | - | - | - | - | - | (50) | (50) | 50 | - |
| Dissolution of subsidiaries | *17* | | | | | | 4,653 | 4,653 | (4,653) | - |
| Exercise of stock options | *6* | 1,055,596 | 14 | 1,539 | - | - | - | 1,553 | - | 1,553 |
| Equity-settled share based payments | *6* | - | - | - | - | - | 6,066 | 6,066 | 1,496 | 7,562 |
| **Balance at 31 December 2017** | | 238,202,541 | 3,714 | 158,606 | 263,367 | 89 | (354,443) | 71,333 | (59,241) | 12,092 |

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

| **For the year ended 31 December** | *Note* | **2017** **$ '000** | **2016** **$ '000** |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net operating loss | | (104,467) | (113,675) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Depreciation | *9* | 5,800 | 5,714 |

| | | | |
|---|---|---|---|
| Amortisation | *10* | 302 | 921 |
| Impairment losses on property and equipment | *9* | 701 | 340 |
| Impairment losses on intangible assets | *10* | 1,662 | 1,025 |
| Share-based compensation expense | *5,6* | 7,562 | 8,385 |
| Changes in working capital: | | | |
| Decrease/(increase) in inventory | *14* | 2,551 | (1,040) |
| (Increase)/decrease in trade and other receivables | *15* | (9,742) | 1,442 |
| Decrease in other assets | | 394 | 361 |
| Increase/(decrease) in trade and other payables | *20* | 335 | (327) |
| Increase/(decrease) in other non-current liabilities | *20* | 147 | (31) |
| Increase in deferred revenue | *3* | 3,838 | 63 |
| Interest received | *7* | 475 | 1,610 |
| Interest paid | *7* | (174) | (527) |
| Other finance (expense)/income | | (163) | 519 |
| **Net cash used in operating activities** | | (90,779) | (95,220) |
| **Cash flows from investing activities:** | | | |
| Purchases of property and equipment, net of disposals | *9* | (1,246) | (3,763) |
| Purchases of intangible assets, net of disposals | *10* | (276) | (324) |
| Disposal of investment in equity accounted investees | *11* | — | 2,535 |
| Disposal of other investments | *12* | 5,853 | 72,281 |
| **Net cash provided by investing activities** | | 4,331 | 70,729 |
| **Cash flows from financing activities:** | | | |
| Proceeds from exercise of stock options | *16* | 1,545 | 1,209 |
| Repayment of notes payable | *19* | (115) | (225) |
| Proceeds from issuance of share capital | *16* | 50 | 78,110 |
| Proceeds from issuance of share capital in subsidiaries | *17* | — | 13,773 |
| Proceeds from issuance of preferred shares in subsidiaries | *18* | 33,892 | 35,220 |
| **Net cash provided by financing activities** | | 35,372 | 128,087 |
| **Net (decrease)/increase in cash and cash equivalents** | | (51,076) | 103,596 |
| **Cash and cash equivalents at beginning of the period** | | 209,151 | 105,555 |
| **Cash and cash equivalents at end of the period** | | 158,075 | 209,151 |

See accompanying notes to consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**For the year ended 31 December 2017**

### (1) Accounting Policies

**Basis of Preparation**

Allied Minds plc ("Allied Minds" or the "Company") is a company incorporated and domiciled in the UK. The Annual Report and Accounts of Allied Minds and its subsidiaries (together referred to as the "Group") are presented for the year ended 31 December 2017. The group financial statements consolidate those of the Company and its subsidiaries and include the Group's interest in associates using the equity method of accounting. The Group financial statements have been prepared and approved by the directors in accordance with the International Financial Reporting Standards, International Accounting Standards, and Interpretations (collectively "IFRS") issued by the International Accounting Standards Board ("IASB") as adopted by the European Union ("adopted IFRSs"). The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

**Basis of Measurement**

The consolidated financial statements, with exception of financial instruments, have been prepared on the historical cost basis.

**Use of Judgments and Estimates**

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to estimates are recognised prospectively. The effects on the amounts recognised in the consolidated financial statements, or on other alternative performance measures, is included in the following notes:

- Note 4 - revenue recognition: when determining the correct amount of revenue to be recognised. This includes making certain estimates and judgements when determining the appropriate accounting treatment of key customer contract terms in accordance with the applicable accounting standards. In particular, judgement is required to determine the timing of revenue recognition (on delivery or over a period of time). The Directors also make estimates of the fair values of each component of a contract to be able to allocate the overall consideration to each component.

- Note 11 and 18 - portfolio and subsidiary preferred shares valuations: when determining the appropriate valuation methodology and deriving the estimated fair value of subsidiary undertakings and subsidiary preferred shares. This includes making certain estimates of the future earnings potential of the subsidiary businesses, appropriate discount rate and earnings multiple to be applied, marketability and other industry and company specific risk factors.

- Note 18 - subsidiary preferred shares liability classification: when determining the classification of financial instruments in terms of liability or equity. These judgements include an assessment whether the financial instrument include any embedded derivative features, whether they include a contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party, and whether that obligation will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments. Further information about these critical judgments and estimates is included below under Financial Instruments.

**Changes in Accounting Policies**

No other new standards, interpretations and amendments effective for the first time from 1 January 2017 have had a material effect on the Group's financial statements.

**Going Concern**

The Directors have prepared trading and cash flow forecasts for the Group covering the period to 31 December 2020. Despite the fact that the Group is currently loss making and is likely to continue to be so, at least in the short term, after making enquiries and considering the impact of risks and opportunities on expected cash flows, and given the fact that the Group has $169.1 million of available funds in the form of cash and fixed income securities as at 31 December 2017, the Directors have a reasonable expectation that the Group has adequate cash to continue in operational existence for the period to 31 December 2020. For this reason, they have adopted the going concern basis in preparing the financial statements.

**Basis of Consolidation**

Allied Minds plc was formed on 15 April 2014 and the consolidated financial statements for each of the years ended 31 December 2017 and 2016 comprises the financial statements of Allied Minds plc and its subsidiaries.

*Subsidiaries*

The financial information of the subsidiaries is prepared for the same reporting period as the parent Company, using consistent accounting policies. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Where the Group loses control of a subsidiary, the assets and liabilities are derecognised along with any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

*Associates*

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Associates are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the total comprehensive income and equity movements of equity accounted investees, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

*Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra- group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

*Acquisitions and disposals of non-controlling interests*

Non-controlling interests ("NCI") are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Acquisitions and disposals of non-controlling interests that do not result in a change of control are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. Any difference between the price paid or received and the amount by which non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the parent.

**Functional and Presentation Currency**

These consolidated financial statements are presented in US dollars, which is the functional currency of most of the entities in the Group. All amounts have been rounded to the nearest thousand unless otherwise indicated.

**Foreign Currency**

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the consolidated statement of comprehensive loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency (US dollar) at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve or non- controlling interest, as the case may be. When a foreign operation is disposed of, such that control, joint control or significant influence (as the case may be) is lost, the entire accumulated amount in the Translation reserve, net of amounts previously attributed to non-controlling interests, is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while still retaining control, the relevant proportion of the accumulated amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in a subsidiary or an associate that includes a foreign operation while still retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

**Cash and Cash Equivalents**

Cash and cash equivalents include all highly liquid instruments with original maturities of three months or less.

**Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the specific identification or weighted-average method. The cost of inventories includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**Financial Instruments**

*Financial Assets*

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net amount presented in the Consolidated Statement of Financial Position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies its financial assets into the following categories: cash and cash equivalents, trade and other receivables, security and other deposits, other investments. Fixed income securities are recognised at fair value through profit and loss. The remaining categories are recognised at amortised cost using the effective interest rate method.

Other investments comprise fixed income debt securities, including government agency and corporate bonds, are stated at amortised cost less impairment. It is the Group policy to hold these investments until a maximum maturity of three years.

*Financial Liabilities*

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the following categories: trade and other payables and loans. Such financial liabilities are recognised at fair value through profit and loss plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

Warrants are accounted for as financial liabilities and recorded at fair value.

The Group's financial liabilities include subsidiary preferred shares some of which incorporate embedded derivatives. In accordance with IAS 39.11 the Group has elected not to bifurcate the embedded derivative but fair value the entire instrument at each reporting date. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

*Financial instruments issued by the Group*

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the financial instrument is classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in the financial information for share capital and merger reserve account exclude amounts in relation to those shares.

Where a financial instrument that contains both equity and financial liability components exists, these components are separated and accounted for individually under the above policy.

**Share Capital**

Ordinary shares are classified as equity. The Group considers its capital to comprise share capital, share premium, merger reserve, translation reserve, and accumulated deficit.

**Property and Equipment**

Property and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Assets under construction represent machinery and equipment to be used in operations, R&D activities, or to be leased to customers once completed.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets:

| | |
|---|---|
| Computers and electronics | 3 years |
| Furniture and fixtures | 5 years |
| Machinery and equipment | 5 -20 years |
| Under construction | Not depreciated until transferred into use |
| Leasehold improvements | Shorter of the lease term or estimated useful life of the asset |

Depreciation methods, useful lives and residual values are reviewed at least annually and adjusted if appropriate.

**Intangible Assets**

*Licenses (or Options to License) and Purchased In Process Research & Development*

Licenses or options to license represent licenses or such options provided by universities, federal laboratories, and scientists in exchange for an equity ownership in the entities or cash. Purchased in process research & development ("IPR&D") represents time and expertise already invested by the scientist and provided in exchange for an equity interest in the entity. Licenses or options to license and purchased IPR&D are valued based on the amount of cash directly paid to acquire those assets or based on the amount of cash contributed by Allied Minds, at inception of the subsidiary, and the proportionate amount of equity ascribed to Allied Minds. The licenses or options to license and purchased IPR&D are capitalised only when they meet the criteria for capitalisation, namely separately identifiable and measurable and it is probable that economic benefit will flow to the entity.

*Capitalised Development Costs*

Research and development costs include charges from universities based on sponsored research agreements ("SRAs") that the subsidiaries of Allied Minds enter into with universities. Under these agreements, the universities perform research on the technology that is being licensed to the subsidiaries. Research and development costs also include charges from independent research and development contractors, contract research organisations ("CROs"), and other research institutions.

Expenditure on research activities is recognised in profit or loss as incurred. Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, the Group intends to and has sufficient resources to complete development and to use or sell the asset, and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. The point at which technical feasibility is determined to have been reached is when regulatory approval has been received, where applicable. Management determines that commercial viability has been reached when a clear market and pricing point have been identified, which may coincide with achieving recurring sales. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure considered for capitalisation includes the cost of materials, direct labour and an appropriate proportion of overhead costs. Otherwise, the development expenditure is recognised in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

*Software*

Software intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

Finite-lived intangible assets are amortised on a straight-line basis over their estimated useful lives, from the date that they are available for use. Intangible assets which are not yet available for use (and therefore not amortised) are tested for impairment at least annually.

*Amortisation*

Amortisation is charged to the consolidated statement of comprehensive loss on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. Amortisation methods, useful lives and residual values are reviewed at least annually and adjusted if appropriate.

The estimated useful lives of the Group's intangible assets are as follows:

| | |
|---|---|
| Licences and Options to License | Over the remaining life of the underlying patents |
| Purchased IPR&D | Over the remaining life of the underlying patents, once commercial viability has been achieved |
| Development cost | Over the remaining life of the underlying technology |
| Software | 2 years |

**Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

*Current Income Tax*

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

*Deferred Income Tax*

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities where the Group intends to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred taxes are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

**Impairment**

*Impairment of Non-Financial Assets*

Non-financial assets consist of property and equipment and intangible assets, including licences, purchased IPR&D, capitalised development cost, with finite lives and such intangible assets which are not yet available for use.

The Group reviews the carrying amounts of its property and equipment and finite-lived intangibles at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Intangible assets which are not yet available for use are tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units ("CGUs").

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised in profit and loss if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are allocated to reduce the carrying amounts of assets in a CGU on a pro rata basis.

*Impairment of Financial Assets*

Financial assets not classified as at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

• default or delinquency by a debtor;

• restructuring of an amount due to the Group on terms that the Group would not consider otherwise;

• indications that a debtor or issuer will enter bankruptcy;

• adverse changes in the payment status of borrowers or issuers;

• the disappearance of an active market for a security; or

• observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

*Financial Assets Measured at Amortised Cost*

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

**Share-based Payments**

Share-based payment arrangements in which the Group or its subsidiaries receive goods or services as consideration for their own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group or its subsidiaries. Grants of equity instruments under the subsidiary stock option incentive plans are accounted for as equity-settled in the consolidated accounts of the parent and are reflected in equity as a credit to Non-Controlling Interest.

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using an option pricing valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

**Employee Benefits**

*Short-term Employee Benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

*Defined Contribution Plans*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in the periods during which related services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

*Phantom Plan*

The Phantom Plan is a cash settled bonus plan. Expense is accrued when it is determined that it is probable that a payment will be made and when the amount can be reasonably estimated.

**Provisions**

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

**Revenue Recognition**

*Sale of Goods*

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably.

The transfer of significant risks and rewards of ownership usually occurs when products are shipped and the customer takes ownership and assumes risk of loss.

*Rendering of Services*

The Group recognises revenue from rendering of services at the time services are provided to the customer and the Group has no additional performance obligation to the customer.

*Government Grants*

Grants received are recognised as revenue when the related work is performed and the qualifying research and development costs are incurred.

*License Revenue*

The Group recognises revenue from fees associated with licensing of its technologies to third parties in the form of license fees and royalties on an accruals basis in accordance with the substance of the relevant agreement and when the Company's right to receive payment is established, provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably.

**Finance Income and Finance Costs**

Finance income mainly comprises interest income on funds invested and foreign exchange gains. Finance costs mainly comprise loan interest expense and foreign exchange losses. Interest income and interest payable are recognised as they accrue in profit or loss, using the effective interest method.

**Fair Value Measurements**

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The carrying amount of cash and cash equivalents, accounts receivable, deposits, accounts payable, accrued expenses and other current liabilities in the Group's Consolidated Statements of Financial Position approximates their fair value because of the short maturities of these instruments.

**Operating Leases**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

**Operating Segments**

Allied Minds determines and presents operating segments based on the information that internally is provided to the executive management team, the body which is considered to be Allied Minds' Chief Operating Decision Maker ("CODM").

An operating segment is a component of Allied Minds that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Allied Minds' other components. The operating segment's operating results are reviewed regularly by the CODM to make decisions about resources to be allocated to the segment, to assess its performance, and for which discrete financial information is available.

**(2) New Standards and Interpretations not yet Adopted**

A number of new standards, interpretations and amendments to existing standards are effective for annual periods beginning after 1 January 2018, and have not therefore been applied in preparing this consolidated financial information. Management has yet to complete an analysis of these new standards, interpretations and amendments to existing standards on the results of its operations, financial position, and disclosures. The Group intends to adopt these standards on their respective effective dates.

The following are amended or new standards and interpretations that may impact the Group. The Group is finalising the required disclosures, which includes an assessment of the impact of the new guidance on our financial position and results of operations. The adoption of the proposed changes is not expected to have a material effect on the financial statements unless otherwise indicated:

**IFRS 9*, 'Financial instruments'* (effective 1 January 2018)**

IFRS 9, 'Financial instruments', deals with recognition, measurement, classification and impairment and derecognition of financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 'Financial Instruments: Recognition and Measurement and is required to be adopted from 1 January 2018. The Group has performed a preliminary assessment of the potential impact of adoption of IFRS 9 based on its positions at 31 December 2017 under IAS 39 and it does not expect the adoption of this guidance to have a material effect on its financial statements.

*Classification - Financial assets*

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables, and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid as a whole is assessed for classification.

*Cash and cash equivalents:* Represent basic cash balances in banks used to fund operations. These will be classified as assets at Amortised cost under the new standard;

*Trade Receivables*: Under IFRS 9 trade receivables that do not have a significant financing component have to be initially recognised at their transaction price rather than at FV. The Group initially recognises receivables and deposits on the date that they are originated at their transaction price, which is the same as their fair value. As such, Trade and other receivables will be classified as assets at Amortised cost under IFRS 9.

*Security and other deposits*: These generally represent security deposits paid by the Group to landlords as part of operating lease commitments. As the Company's objective is that those deposits will be collected back, they will be classified as assets at Amortised Cost under IFRS 9.

*Fixed income securities*: At 31 December 2017, the Group had investments in the form of fixed income securities classified as assets designated as FVTPL with a fair value of $11.1 million that are held for supporting the short-term liquidity needs of the Group. The changes in fair value year over year have been historically immaterial as these investments are in cash equivalent and short term position. Per the new guidance, the amounts presented in OCI are never reclassified to profit or loss even if such a gain or loss is realized by settling or repurchasing the financial instrument at fair value. However, the Company has the option to transfer the cumulative gain and loss within equity. Under IFRS 9, these investments will be designated as measured at FVOCI. Consequently, all fair value gains and losses will be reported in OCI and no impairment losses will be recognised in profit or loss. The Group's preliminary assessment does not indicate any material impact from IFRS 9 on the Group's financial position as of 31 December 2017 or the total comprehensive loss for the year then ended.

*Investments in subsidiaries*: Currently, all group subsidiaries are fully consolidated in the consolidated financial statements. The value of those investments is disclosed as an alternative performance measure, which was determined at $395.6 million as of 22 March 2018. In future, the Company's position in those investments may be reduced to a point where the Company no longer exercises control over these entities and they are deconsolidated from the group accounts and presented separately as investments in equity securities on the consolidated statement of financial position. If these investments continue to then be held for the same long-term strategic purposes, per the application of IFRS 9, the Group may elect then to classify them as FVOCI or FVTPL. The Group has not yet made a decision in this regard. In the former case, all fair value gains and losses would be reported in other comprehensive income, no impairment losses would be recognised in profit or loss and no gains or losses would be reclassified to profit or loss on disposal. In the latter case, all fair value gains and losses would be recognised in profit or loss as they arise, increasing volatility in the Group's profits.

*Impairment - Financial assets*

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a 'forward looking expected credit loss' ("ECL") model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to debt instruments accounted for at amortised cost or at FVOCI, most loan commitments, financial guarantee contracts, contract assets under IFRS 15 Revenue from Contracts with

Customers and lease receivables under IAS 17 Leases or IFRS 16 Leases.

Under IFRS 9, loss allowances will be measured on either 12-month ECL on initial recognition and thereafter as long as there is no significant deterioration in credit risk; or lifetime ECL if there has been a significant increase in credit risk on an individual or collective basis. For trade receivables, a simplified approach may be applied whereby the lifetime ECL are always recognised. Based on the assessments undertaken to date, the group expects no additional impairment provision recognised as at 1 January 2018.

*Classification - Financial liabilities*

Under IAS 39 all fair value changes of liabilities designated as at fair value through profit or loss are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and

- the remaining amount of change in the fair value is presented in profit or loss.

The Group has designated the subsidiary preferred shares liability at FVTPL and the trade and other payables and loans at Amortised Cost under IFRS 9. The Group's preliminary assessment did not indicate any material impact if IFRS 9's requirements regarding the classification of financial liabilities were applied at 31 December 2017.

**IFRS 15*, 'Revenue from contracts with customers'* (effective 1 January 2018)**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs.

The standard outlines a comprehensive five-step revenue recognition model based on the principal that an entity should recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group has completed an initial assessment of the potential impact on its consolidated financial statements and determined that this standard will not have a material impact on our financial position and results of operations. As of 1 January 2018, the Group's implementation plan to adopt this new guidance is substantially complete. The Company intends to adopt this standard using a modified retrospective approach.

The majority of the Company's subsidiaries are characterised by some early stage sales that are generally still considered an isolated number of sales. In 2017, the company has recognised $5.0 million in revenue. Out of the total revenue recognised in current year, 89% has been recorded by Federated Wireless, Inc., Hawkeye$^{360}$, Inc. and RF Biocidics, Inc. Management's evaluation and adoption impact of IFRS 15 was performed based on the 5-step model and each signed revenue contract was considered unique and reviewed separately. For sale of products, revenue is currently recognised when the goods are delivered to the customers' premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. While IAS 18 states that the revenue recognition criteria depends on each type of revenue, IFRS 15 implements a uniform method of recognising revenue based on the actual contract and performance obligation. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. Based on the Group's assessment, the fair value and the stand-alone selling prices of the good rendered and services provided are broadly similar. Therefore, the Group does not expect the application of IFRS 15 to result in significant differences in the timing of revenue recognition for these good and services.

**IFRS 16*, 'Leases'* (effective 1 January 2019)**

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a lease, SIC -15 Operating Leases -Incentives and SIC-27 Evaluating the substance of transactions involving the legal form of a lease. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees in a similar way to finance leases under IAS 17. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard-i.e: lessors continue to classify leases as finance or operating leases.

The Group has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases of its rented office and laboratory space. As at 31 December 2017, the Group's future minimum lease payments under non-cancellable operating leases amounted to $8.0 million, on an undiscounted basis (see note 21). The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

Other new standards and interpretations yet to be adopted, for which the Company does not expect to have a material impact on its financial statements include:

Amendments to IFRS 2*, 'Share-based Payment' to clarify classification and measurement* (effective 1 January 2018)

IFRIC Interpretation 22, *Foreign Currency Transactions and Advance Consideration* (effective 1 January 2018)

**(3) Revenue**

Revenue recorded in the statement of comprehensive loss consists of the following:

| For the year ended 31 December: | **2017** | **2016** |
|---|---|---|
| | $'000 | $'000 |
| Product revenue | 1,537 | 1,829 |

| | | |
|---|---|---|
| Service revenue | 3,464 | 835 |
| **Total revenue in consolidated statement of loss** | 5,001 | 2,664 |

Product revenue includes license revenue of $22,000 and $55,000 during 2017 and 2016, respectively.

Deferred revenue recorded in the statement of financial position consists of the following:

| As of 31 December: | 2017<br>$'000 | 2016<br>$'000 |
|---|---|---|
| Customer deposits | 3,750 | 297 |
| Other deferred revenue, current | 546 | 161 |
| **Total deferred revenue in statement of financial position** | 4,296 | 458 |

### (4) Operating Segments

**Basis for Segmentation**

For management purposes, the Group's principal operations are currently organised in two types of activities:

(i) Early stage companies - subsidiary businesses that are in the early stage of their lifecycle characterised by incubation, research and development activities; and
(ii) Later stage companies - subsidiary businesses that have substantially advanced with or completed their research and development activities, are closer in their lifecycle to commercialisation, and/or have a potential of realising material return on investment through a future liquidity event.

The Group no longer recognises commercial stage companies as a separate reportable segment. Instead, a Later stage companies reportable segment is established in the current year, as defined above.

The Group's CODM reviews internal management reports on these segments at least quarterly in order to make decisions about resources to be allocated to the segment and to assess its performance.

Other operations include the management function of the head office at the parent level of Allied Minds.

**Information about Reportable Segments**

The following provides detailed information of the Group's reportable segments as of and for the years ended 31 December 2017 and 2016, respectively:

| | 2017<br>$'000 | | | |
|---|---|---|---|---|
| | Early stage | Later stage | Other operations | Consolidated |
| **Statement of Comprehensive Loss** | | | | |
| Revenue | 1,607 | 3,394 | — | 5,001 |
| Cost of revenue | (3,861) | (1,381) | — | (5,242) |
| Selling, general and administrative expenses | (9,544) | (23,205) | (22,465) | (55,214) |
| Research and development expenses | (6,424) | (42,588) | — | (49,012) |
| Finance income/(cost), net | (11) | (6,954) | 420 | (6,545) |
| **Loss for the period** | (18,233) | (70,734) | (22,045) | (111,012) |
| Other comprehensive income | 79 | — | (182) | (103) |
| **Total comprehensive loss** | (18,154) | (70,734) | (22,227) | (111,115) |
| Total comprehensive loss attributable to: | | | | |
| Equity holders of the parent | (13,794) | (39,757) | (22,227) | (75,778) |
| Non-controlling interests | (4,360) | (30,977) | — | (35,337) |
| **Total comprehensive loss** | (18,154) | (70,734) | (22,227) | (111,115) |
| **Statement of financial position** | | | | |
| Non-current assets | 452 | 26,834 | 1,083 | 28,369 |
| Current assets | 22,297 | 77,849 | 84,646 | 184,792 |
| **Total assets** | 22,749 | 104,683 | 85,729 | 213,161 |
| Non-current liabilities | (3) | (109) | (755) | (867) |
| Current liabilities | (2,237) | (193,523) | (4,442) | (200,202) |
| **Total liabilities** | (2,240) | (193,632) | (5,197) | (201,069) |
| **Net assets/(liabilities)** | 20,509 | (88,949) | 80,532 | 12,092 |

| | 2016<br>$'000 | | | |
|---|---|---|---|---|
| | Early stage | Later stage | Other operations | Consolidated |
| **Statement of Comprehensive Loss** | | | | |
| Revenue | 2,376 | 288 | — | 2,664 |
| Cost of revenue | (5,436) | (127) | — | (5,563) |

| | | | | |
|---|---|---|---|---|
| Selling, general and administrative expenses | (17,362) | (18,498) | (19,624) | (55,484) |
| Research and development expenses | (15,802) | (39,490) | – | (55,292) |
| Finance income/(cost), net | (27) | (17,472) | 2,232 | (15,267) |
| **Loss for the period** | (36,251) | (75,299) | (17,392) | (128,942) |
| Other comprehensive income/(loss) | (74) | – | 282 | 208 |
| **Total comprehensive loss** | (36,325) | (75,299) | (17,110) | (128,734) |
| Total comprehensive loss attributable to: | | | | |
| Equity holders of the parent | (28,161) | (50,854) | (17,110) | (96,125) |
| Non-controlling interests | (8,164) | (24,445) | – | (32,609) |
| **Total comprehensive loss** | (36,325) | (75,299) | (17,110) | (128,734) |
| **Statement of financial position** | | | | |
| Non-current assets | 3,629 | 30,778 | 3,825 | 38,232 |
| Current assets | 27,644 | 70,042 | 134,321 | 232,007 |
| **Total assets** | 31,273 | 100,820 | 138,146 | 270,239 |
| Non-current liabilities | (131) | (91) | (498) | (720) |
| Current liabilities | (3,511) | (148,813) | (3,078) | (155,402) |
| **Total liabilities** | (3,642) | (148,904) | (3,576) | (156,122) |
| **Net assets/(liabilities)** | 27,631 | (48,084) | 134,570 | 114,117 |

All discontinued subsidiaries, including those disclosed in the prior year Commercial stage segment, are presented in the Early stage segment at the current year end. Later stage companies in the current year comprise those that have graduated from Early stage by way of further advancements in their development as described above. Those currently include our top six subsidiaries, namely BridgeSat, Federated Wireless, HawkEye$^{360}$, Precision Biopsy, SciFluor Life Sciences, and Spin Transfer Technologies. This change has been reflected accordingly in the comparative year information about reportable segments.

In 2017, Cost of revenue and Selling, general and administrative expenses of Early stage, Later stage, and Other operations segments included depreciation and amortisation expense of $308,000, $5,558,000, and $236,000, respectively (2016: $1,180,000, $5,302,000 and $153,000, respectively).

The proportion of net assets shown above that is attributable to non-controlling interest is disclosed further in notes 11 and 17.

**Geographic Information**

Whilst the Group includes RF Biocidics (UK) Limited, which is a UK company, the revenues and net operating losses of that subsidiary are not considered material to the Group, and therefore the Group revenues and net operating losses for the years ended 31 December 2017 and 2016 are considered to be entirely derived from its operations within the United States and accordingly no additional geographical discloses are provided.

**(5) Operating Expenses**

The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

| For the year ending 31 December: | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Selling, general and administrative | 80 | 88 |
| Research and development | 125 | 121 |
| **Total** | 205 | 209 |

The aggregate payroll costs of these persons were as follows:

| For the year ending 31 December: | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Selling, general and administrative | 28,714 | 28,913 |
| Research and development | 21,596 | 21,644 |
| **Total** | 50,310 | 50,557 |

Total operating expenses were as follows:

| For the year ending 31 December: | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Salaries and wages | 36,864 | 36,050 |
| Payroll taxes | 2,026 | 2,110 |
| Healthcare benefit | 2,589 | 2,837 |
| Other payroll cost | 1,269 | 1,175 |
| Share-based payments | 7,562 | 8,385 |
| **Total** | 50,310 | 50,557 |

| | | |
|---|---|---|
| Cost of revenue | 5,242 | 5,563 |
| Other SG&A expenses | 26,500 | 26,571 |
| Other R&D expenses | 27,416 | 33,648 |
| **Total operating expenses** | 109,468 | 116,339 |

| | **2017** | **2016** |
|---|---|---|
| | $'000 | $'000 |
| **Auditor's remuneration** | | |
| Audit of these financial statements | 552 | 425 |
| Audit of the financial statements of subsidiaries | 20 | 20 |
| Review of half-yearly report | 129 | 106 |
| | 701 | 551 |

The cumulative amount of litigation settlements during 2017 was nil (2016: $1,750,000). In the prior year, this related to the settlement of a manufacturing commitment, which RF Biocidics held with a third party. The issue arose and was settled during 2016.

As a result of the restructuring plan from April 2017, the Company recognised a net restructuring charge for the period of $7.3 million, of which $4.7 million related to non-cash charges for impairment of tangible and intangible assets and inventory write-offs and is net of $1.1 million in net proceeds from the sale of assets.

The Group recorded an impairment charge on property and equipment of $0.6 million (2016: nil) and on intangible assets of $1.6 million (2016: nil) and wrote off certain tangible and intangible assets at the companies included in the plan.

Inventory write-offs as a result of the restructuring plan accounted for $2.5 million of the cost of sales for the period.

See note 6 for further disclosures related to share-based payments and note 24 for management's remuneration disclosures.

**(6) Share-Based Payments**

**UK Long Term Incentive Plan**

Under the UK Long Term Incentive Plan ("LTIP"), awards over Ordinary Shares may be made to employees, officers and Directors, and other individuals providing services to the Company and its subsidiaries. Awards may be granted in the form of share options, share appreciation rights, restricted or unrestricted share awards, performance share awards, restricted share units, phantom-share awards and other share-based awards. Vesting is subject to the achievement of certain performance conditions and continued services of the participant.

Awards have been granted under the LTIP based on the following vesting criteria:

- awards subject to performance conditions based on the Company's total shareholder return ("TSR") performance or relative total shareholder return (rTSR) performance over a defined of time;
- awards subject to performance conditions based on a basket of shareholder value metrics ("SVM"). Performance is assessed on these measures on a scorecard basis over a defined period of time;
- awards that vest 100 per cent after a period of time subject to continued service condition only.

The Company issued awards under the LTIP during 2017 and 2016 in respect of a total of 7,466,235 and 1,499,247 Ordinary Shares, respectively. A summary of stock option activity under the UK LTIP for the year ended 31 December 2017 and 2016, respectively, is shown below:

| For the year ended 31 December: | | 2017 | | | 2016 | |
|---|---|---|---|---|---|---|
| | rTSR | SVM | Time | rTSR | SVM | Time |
| Number of shares granted at maximum ('000) | 2,837 | 1,632 | 2,998 | 1,443 | — | 56 |
| Weighted average fair value (£) | 0.89 | 1.44 | 1.48 | 2.19 | — | 3.37 |
| Fair value measurement basis | Monte Carlo | Market value of ordinary share | Market value of ordinary share | Monte Carlo | Market value of ordinary share | Market value of ordinary share |

The share grants that vest upon the occurrence of a market condition (i.e. the TSR performance) and service condition were adjusted to current market price at the date of the grant to reflect the effect of the market condition on the non-vested shares' value. The Company used a Monte Carlo simulation analysis utilising a Geometric Brownian Motion process with 50,000 simulations to value those shares. The model takes into account share price volatilities, risk-free rate and other covariance of comparable UK public companies and other market data to predict distribution of relative share performance. This is applied to the reward criteria to arrive at expected value of the TSR awards.

The share grants that vests only upon the occurrence of a non-market performance condition (i.e. the SVM grants) and service condition were valued at the fair value of the shares on the date of the grants and the vesting conditions are taken into account by subsequently adjusting the number of instruments included in the measurement of the transaction amount so that, ultimately, the amount of recognised share-based expense is based on the number of instruments that eventually vest.

The accounting charge does not necessarily represent the intended value of share-based payments made to recipients, which are determined by the Remuneration Committee according to established criteria. The share-based payment charge for the fiscal year ended 31 December 2017 related to the UK LTIP was $7.6 million (2016: $5.9 million).

**U.S. Stock Option/Stock Issuance Plan**

The U.S. Stock Option/Stock Issuance Plan (the "U.S. Stock Plan") was originally adopted by Allied Minds, Inc. (now Allied Minds, LLC) in 2008. The U.S. Stock Plan provides for the grant of share option awards, restricted share awards, and other awards to acquire common stock of Allied Minds, Inc. (now Allied Minds, LLC). All stock options granted to employees under this plan are equity settled, for a ten-year term. Pursuant to the Company's IPO in 2014, Allied Minds plc adopted and assumed the rights and obligations of Allied Minds, Inc. (now Allied Minds, LLC) under this plan except that the obligation to issue Common Stock is replaced with an obligation to issue ordinary shares to satisfy awards granted under the U.S. Stock Plan. As of 19 June 2014, the maximum number of options reserved under the plan were issued and outstanding and as a result of the Company's IPO in 2014, all issued and outstanding options vested on 19 June 2014. The Company does not intend to make any further grants under the U.S. Stock Plan.

No new stock option grants were awarded in 2017 and 2016 under the Allied Minds 2008 Plan. A summary of stock option activity in the U.S. Stock Plan is presented in the following table:

| | Number of options 2017 | Weighted average exercise price 2017 | Number of options 2016 | Weighted average exercise price 2016 |
|---|---|---|---|---|
| **Outstanding as of 1 January** | 8,554,712 | $ 2.12 | 9,204,712 | $ 2.10 |
| Exercised during the year | (1,055,596) | $ 1.46 | (650,000) | $ 1.86 |
| **Outstanding as of 31 December** | 7,499,116 | $ 2.21 | 8,554,712 | $ 2.12 |
| Exercisable as of 31 December | 7,499,116 | $ 2.21 | 8,554,712 | $ 2.12 |
| Intrinsic value of Exercisable | $ 0.1 million | | $ 31.5 million | |

The options outstanding as of 31 December 2017 had an exercise price in the range of $1.78 to $2.49 (2016: $0.68 to $2.60).

The share-based payment charge for the fiscal year ended 31 December 2017 related to the U.S. Stock Plan was $18,000 (2016: $57,000).

**Other Plans**

*Spin Transfer Technologies ("Spin Transfer")*

Stock compensation expense was approximately $724,000 and $1,129,000 for the year ended 31 December 2017 and 2016, respectively. Deferred stock compensation expense under these grants was approximately $475,000 and $1,199,000 as of 31 December 2017 and 2016, respectively.

There were no new grants under the 2012 Equity Incentive Plan in 2017. The fair value of the stock option grants awarded under the 2012 Equity Incentive Plan is estimated as of the date of grant using a Black-Scholes-Merton option valuation model that uses the following weighted average assumptions:

| | 2017 | 2016 |
|---|---|---|
| Expected option life (in years) | - | 6.10 |
| Expected stock price volatility | - | 40.99% |
| Risk-free interest rate | - | 1.21% |
| Expected dividend yield | - | - |
| Grant date option fair value | - | $ 3.18 |
| Share price at grant date | - | $ 7.77 |
| Exercise price | - | $ 7.77 |

Expected volatility has been based on an evaluation of the historical volatility of the share price of publicly traded companies comparable to Spin Transfer, particularly over the historical period commensurate with the expected term. The expected term of the instruments has been based on historical experience and general option holder behavior.

A summary of stock option activity in the Spin Transfer plans is presented in the following table:

| | Number of options 2017 | Weighted average exercise price 2017 | Number of options 2016 | Weighted average exercise price 2016 |
|---|---|---|---|---|
| **Outstanding as of 1 January** | 2,188,293 | $ 7.48 | 1,849,367 | $ 7.43 |
| Granted during the year | - | - | 346,426 | $ 7.77 |
| Forfeited during the year | (245,000) | $ 7.75 | (7,500) | $ 7.77 |
| **Outstanding as of 31 December** | 1,943,293 | $ 7.14 | 2,188,293 | $ 7.48 |
| Exercisable as of 31 December | 1,543,350 | $ 6.98 | 1,397,056 | $ 7.34 |
| Intrinsic value of Exercisable | $ 0.7 million | | $ 0.1 million | |

The options outstanding as of 31 December 2017 had an exercise price in the range of $6.97 to $7.77 (2016: $6.97 to $7.77) and a weighted-average contractual life of approximately 8.3 years (2016: 8.7 years).

*Plans Under Other Subsidiaries*

The stock compensation expense under other subsidiaries of the Company was $771,000 (2016: $1,312,000). Deferred stock compensation expense under these grants as of 31 December 2017 was approximately $744,000 (2016: $1,035,000).

**Allied Minds Phantom Plan**

In 2007, Allied Minds established a cash settled bonus plan for Allied Minds employees, also known as its Phantom Plan. In 2012, the board of directors adopted the Amended and Restated 2007 Phantom Plan. Under the terms of the Amended and Restated Plan, upon a liquidity event Allied Minds will allocate 10% of the value (after deduction of the amount invested by Allied Minds and accrued interest at a rate not exceeding 5% per annum) of the invested capital owned by Allied Minds of each operating company to the plan account. Upon a liquidity event, plan participants holding units will receive their proportionate share of the plan account. The allocated shares at all times remain the sole and exclusive property of Allied Minds and holders of units have no rights or interests in Allied Minds. No amount has been paid out to employees under the Phantom Stock Plan through 31 December 2017.

Allied Minds has not accrued any expense relating to the Phantom Plan as of 31 December 2017 or 2016. Management will record an expense relating to this plan when it is probable that a subsidiary will be sold and the amount of the payout is reasonably estimable.

**Share-based Payment Expense**

The Group recorded share-based payment expense related to stock options of approximately $7,562,000 and $8,385,000 for the years ended 31 December 2017 and 2016, respectively. There was no income tax benefit recognised for share- based payment arrangements for the years ended 31 December 2017 and 2016, respectively, due to operating losses. Shared-based payment expenses are included in selling, general and administrative expenses and research and development expenses in the Consolidated Statement of Comprehensive Income.

**(7) Finance Cost, Net**

The following table shows the breakdown of finance income and cost:

| For the year ended 31 December: | 2017 | 2016 |
|---|---|---|
| | $'000 | $'000 |
| Interest income on: | | |
| - Bank deposits | 475 | 1,610 |
| Foreign exchange gain | 10 | 1,269 |
| Finance income | 485 | 2,879 |
| Interest expense on: | | |
| - Financial liabilities at amortised cost | (174) | (527) |
| Foreign exchange loss | (6) | (34) |
| Finance cost contractual | (180) | (561) |
| Loss on fair value measurement of subsidiary preferred shares | (6,850) | (17,585) |
| Finance cost | (7,030) | (18,146) |
| **Total finance cost, net** | (6,545) | (15,267) |

See note 18 for further disclosure related to subsidiary preferred shares.

**(8) Loss Per Share**

The calculation of basic and diluted loss per share as of 31 December 2017 was based on the loss attributable to ordinary shareholders of $75.7 million (2016: $96.3 million) and a weighted average number of ordinary shares outstanding of 236,194,051 (2016: 217,317,696), calculated as follows:

*Loss attributable to ordinary shareholders*

| | 2017 $'000 | | 2016 $'000 | |
|---|---|---|---|---|
| | Basic | Diluted | Basic | Diluted |
| Loss for the year attributed to the owners of the Company | (75,675) | (75,675) | (96,333) | (96,333) |
| Loss for the year attributed to the ordinary shareholders | (75,675) | (75,675) | (96,333) | (96,333) |

*Weighted average number of ordinary shares*

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Basic | Diluted | Basic | Diluted |
| Issued ordinary shares on 1 January | 233,744,378 | 233,744,378 | 215,637,363 | 215,637,363 |
| Effect of share capital issued | — | — | 1,390,196 | 1,390,196 |
| Effect of vesting of RSUs | 1,823,106 | 1,823,106 | — | — |
| Effect of share options exercised | 626,567 | 626,567 | 290,137 | 290,137 |
| Weighted average ordinary shares | 236,194,051 | 236,194,051 | 217,317,696 | 217,317,696 |

*Loss per share*

| | 2017 $ | | 2016 $ | |
|---|---|---|---|---|
| | Basic | Diluted | Basic | Diluted |
| Loss per share | (0.32) | (0.32) | (0.44) | (0.44) |

### (9) Property and Equipment

Property and equipment, net, consists of the following at:

| **Cost**<br>*in $'000* | **Machinery and Equipment** | **Furniture and Fixtures** | **Leasehold Improvements** | **Computers and Electronics** | **Under Construction** | **Total** |
|---|---|---|---|---|---|---|
| Balance as of 31 December 2015 | 32,378 | 572 | 4,671 | 1,165 | 2,969 | 41,755 |
| Additions, net of transfers | 4,560 | 313 | 919 | 239 | (2,268) | 3,763 |
| Disposals | (1,829) | (23) | (27) | (53) | - | (1,932) |
| Balance as of 31 December 2016 | 35,109 | 862 | 5,563 | 1,351 | 701 | 43,586 |
| Additions, net of transfers | 723 | 25 | 258 | 373 | (133) | 1,246 |
| Disposals | (1,159) | (211) | (147) | (530) | — | (2,047) |
| Balance as of 31 December 2017 | 34,673 | 676 | 5,674 | 1,194 | 568 | 42,785 |

| **Accumulated Depreciation and Impairment loss**<br>*in $'000* | **Machinery and Equipment** | **Furniture and Fixtures** | **Leasehold Improvements** | **Computers and Electronics** | **Under Construction** | **Total** |
|---|---|---|---|---|---|---|
| Balance as of 31 December 2015 | (5,805) | (197) | (1,011) | (569) | - | (7,582) |
| Depreciation | (4,378) | (135) | (876) | (325) | - | (5,714) |
| Impairment loss | (320) | (7) | - | (13) | - | (340) |
| Disposals | 1,829 | 23 | 27 | 53 | - | 1,932 |
| Balance as of 31 December 2016 | (8,674) | (316) | (1,860) | (854) | - | (11,704) |
| Depreciation | (4,456) | (122) | (909) | (313) | — | (5,800) |
| Impairment loss | (425) | (114) | (53) | (109) | — | (701) |
| Disposals | 1,159 | 211 | 147 | 530 | — | 2,047 |
| Balance as of 31 December 2017 | (12,396) | (341) | (2,675) | (746) | — | (16,158) |

| **Property and equipment, net**<br>*in $'000* | **Machinery and Equipment** | **Furniture and Fixtures** | **Leasehold Improvements** | **Computers and Electronics** | **Under Construction** | **Total** |
|---|---|---|---|---|---|---|
| Balance as of 31 December 2016 | 26,435 | 546 | 3,703 | 497 | 701 | 31,882 |
| Balance as of 31 December 2017 | 22,277 | 335 | 2,999 | 448 | 568 | 26,627 |

Impairment of property and equipment of $701,000 and $340,000 for the years ended 31 December 2017 and 2016, respectively, is mainly attributed to the closing of subsidiary companies, which resulted in the associated assets being impaired, see further detail in note 26. Impairment of property and equipment is included in selling, general and administrative expenses in the consolidated statement of comprehensive income.

Property and equipment under constructions represents assets that are in the process of being built and not placed in service as of the reporting date.

### (10) Intangible Assets

Information regarding the cost and accumulated amortisation of intangible assets is as follows:

| **Cost**<br>*in $'000* | **Licenses** | **Purchased IPR&D** | **Software** | **Development cost** | **Total** |
|---|---|---|---|---|---|
| Balance as of 31 December 2015 | 5,417 | 768 | 744 | 504 | 7,433 |
| Additions - Acquired separately | 85 | - | 20 | - | 105 |
| Additions - Internally developed | - | - | - | 219 | 219 |
| Disposals | (681) | - | (34) | (629) | (1,344) |
| Balance as of 31 December 2016 | 4,821 | 768 | 730 | 94 | 6,413 |
| Additions - Acquired separately | 264 | — | 12 | — | 276 |
| Additions - Internally developed | — | — | — | — | — |
| Disposals | (3,883) | (491) | (199) | (94) | (4,667) |
| Balance as of 31 December 2017 | 1,202 | 277 | 543 | — | 2,022 |

| **Accumulated amortisation and Impairment loss**<br>*in $'000* | **Licenses** | **Purchased IPR&D** | **Software** | **Development Cost** | **Total** |
|---|---|---|---|---|---|
| Balance as of December 31, 2015 | (2,615) | (102) | (276) | (56) | (3,049) |

| | | | | | |
|---|---|---|---|---|---|
| Amortisation | (522) | (22) | (318) | (59) | (921) |
| Impairment loss | (487) | - | - | (538) | (1,025) |
| Disposals | 681 | - | 34 | 629 | 1,344 |
| Balance as of December 31, 2016 | (2,943) | (124) | (560) | (24) | (3,651) |
| Amortisation | (130) | (13) | (153) | (6) | (302) |
| Impairment loss | (1,223) | (354) | (21) | (64) | (1,662) |
| Disposals | 3,883 | 491 | 199 | 94 | 4,667 |
| Balance as of December 31, 2017 | (413) | — | (535) | — | (948) |

**Intangible assets, net**

| *in $'000* | Licenses | Purchased IPR&D | Software | Development Cost | Total |
|---|---|---|---|---|---|
| Balance as of 31 December 2016 | 1,878 | 644 | 170 | 70 | 2,762 |
| Balance as of 31 December 2017 | 789 | 277 | 8 | — | 1,074 |

Amortisation expense is included in selling, general and administrative expenses in the consolidated statement of comprehensive loss. Amortisation expense, recorded using the straight-line method, was approximately $302,000 and $921,000 for the years ended 31 December 2017 and 2016, respectively.

Impairment of intangible assets of $1,662,000 and $1,025,000 for the years ended 31 December 2017 and 2016, respectively, is mainly attributed to the closing of subsidiary companies, which resulted in the associated intangible assets being impaired to zero, see further detail in note 26. Impairment expense is included in selling, general and administrative expenses in the consolidated statement of comprehensive income.

At each reporting period, management considers qualitative and quantitative factors that define the future prospects of the respective investment and assesses whether it supports the value of the underlying intangible.

### (11) Investment in Subsidiaries and Associates

#### Group Subsidiaries

Allied Minds has 23 subsidiaries as of 31 December 2017. As of and for the two years ended 31 December 2017 the capitalisation of all subsidiary companies in the Group portfolio is in the form of ordinary shares only, except for certain subsidiaries where Series A and B preferred shares were issued to both the parent company and third parties in financing rounds, namely ABLS II, BridgeSat, Federated Wireless, HawkEye$^{360}$, Precision Biopsy, SciFluor Life Sciences, Signature Medical and Spin Transfer Technologies. The Group's ownership of preferred shares as per cent of the total ownership percentage of economic interest in those subsidiaries as of 31 December 2017 were 19.14%, 32.34%, 12.60%, 53.03% 18.15%, 3.82%, 47.63% and 8.01%, respectively.

The following outlines the formation of each subsidiary and evolution of Allied Minds' equity ownership interest over the two year period ended 31 December 2017:

| | Inception Date | Location (4) | Ownership percentage of equity interest at 31 December (2) 2017 | 2016 |
|---|---|---|---|---|
| **Active subsidiaries** | | | | |
| **Holding companies** | | | | |
| Allied Minds, LLC (1), (3) | 19/06/14 | Boston, MA | 100.00% | 100.00% |
| Allied Minds Securities Corp. (3) | 21/12/15 | Boston, MA | 100.00% | 100.00% |
| **Early stage companies** | | | | |
| ABLS Capital, LLC | 09/07/15 | Boston, MA | 30.25% | 30.25% |
| Allied-Bristol Life Sciences, LLC | 31/07/14 | Boston, MA | 80.00% | 80.00% |
| ABLS II, LLC | 24/09/14 | Boston, MA | 35.95% | 35.95% |
| ABLS IV, LLC | 26/10/17 | Boston, MA | 80.00% | — |
| Allied Minds Federal Innovations, Inc. | 09/03/12 | Boston, MA | 100.00% | 100.00% |
| Foreland Technologies, Inc. | 23/01/13 | Boston, MA | 100.00% | 100.00% |
| LuxCath, LLC | 29/05/12 | Boston, MA | 98.00% | 98.00% |
| Percipient Networks, LLC | 29/01/14 | Wakefield, MA | 100.00% | 100.00% |
| RF Biocidics, Inc. | 12/06/08 | Boston, MA | 67.14% | 67.14% |
| RF Biocidics (UK) Ltd (3) | 10/09/10 | United Kingdom | 67.14% | 67.14% |
| Seamless Devices, Inc. | 14/10/14 | Boston, MA | 79.12% | 79.12% |
| Signature Medical, Inc. | 12/12/16 | Boston, MA | 88.09% | 100.00% |
| Whitewood Encryption Systems, Inc. | 21/07/14 | Boston, MA | 100.00% | 100.00% |
| **Later stage companies** | | | | |
| BridgeSat, Inc. | 09/02/15 | Denver, CO | 98.15% | 100.00% |
| Federated Wireless, Inc. | 08/08/12 | Arlington, VA | 52.26% | 72.99% |
| Federated Wireless Government Solutions, Inc. (3) | 04/05/16 | Arlington, VA | 52.26% | 72.99% |
| HawkEye$^{360}$, Inc. | 16/09/15 | Herndon, VA | 53.06% | 56.11% |
| HawkEye$^{360}$ Federal, Inc. (3) | 22/09/15 | Herndon, VA | 53.06% | 56.11% |
| Precision Biopsy, Inc. | 17/06/08 | Denver, CO | 64.59% | 64.59% |
| SciFluor Life Sciences, LLC | 14/12/10 | Cambridge, MA | 69.89% | 69.89% |
| Spin Transfer Technologies, Inc. | 03/12/07 | Fremont, CA | 48.40% | 48.40% |
| **Closed subsidiaries** | | | | |
| Project Poldark (Jersey) Limited (3) | 29/11/16 | Boston, MA | — | 100.00% |
| ABLS I, LLC | 24/09/14 | Boston, MA | — | 74.00% |

| | | | | |
|---|---|---|---|---|
| ABLS III, LLC | 10/03/16 | Boston, MA | — | 80.00% |
| Biotectix, LLC | 16/01/07 | Richmond, CA | — | 64.35% |
| Cephalogics, LLC | 29/11/06 | Cambridge, MA | — | 95.00% |
| CryoXtract Instruments, LLC | 23/05/08 | Woburn, MA | — | 93.24% |
| Optio Labs, Inc. | 28/02/12 | Baltimore, MD | — | 81.23% |
| ProGDerm, Inc. (dba Novare Pharmaceuticals) | 19/09/08 | Boston, MA | — | 90.38% |
| SoundCure, Inc. (3) | 04/06/09 | San Jose, CA | — | 84.62% |
| Vatic Materials, Inc. | 21/11/16 | Boston, MA | — | 100.00% |
| Tinnitus Treatment Solutions, LLC | 26/02/13 | San Jose, CA | — | 100.00% |
| **Number of active subsidiaries at 31 December:** | | | 23 | 33 |

Notes:

(1) On 19 June 2014, Allied Minds plc completed a reorganisation of its corporate structure, whereby Allied Minds plc acquired the entire issued share capital of Allied Minds, Inc., first incorporated on 4 June 2004, which at the same time changed its name to Allied Minds, LLC;

(2) Represents ownership percentage used in allocations to non-controlling interests except for BridgeSat, Federated Wireless, HawkEye360, Precision Biopsy, SciFluor Life Sciences, Signature Medical and Spin Transfer Technologies in which cases the percentage used to allocate the non-controlling interests was 100%, 94.15%, 0%, 80.35%, 86.86%, 100.00% and 56.13%, respectively, where in these cases there are liability classified preferred shares in issue, which are excluded.

(3) These subsidiaries do not represent separate subsidiary businesses referred to earlier within the annual report.

(4) All subsidiaries have a registered office address at CT Corporation System, Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801, United States except for Allied Minds Securities Corp. with registered office address at CT Corporation System, 155 Federal Street, Suite 700, Boston, MA 02110, United States, and Biotectix, LLC, Cephalogics, LLC at CT Corporation System, 120 South Central Avenue, Suite 400, Clayton, MO 63105, United States.

**2017**

In February 2017, HawkEye completed a second closing of the Series A-2 financing round for additional $2.75 million, of which $1.25 million from existing shareholders of the Group and members of management of the company for 967,641 Series A-2 shares and a warrant to purchase 1,161,172 Series A-2 shares for $1.5 million issued to an existing investor of the company.

In May 2017, BridgeSat closed a Series A round of financing issuing 4,675,446 Series A preferred shares for $6.0 million to Allied Minds and another strategic investor. As a result, following the transaction, Allied Minds' ownership percentage in BridgeSat is 98.15%. The Company continues to exercise effective control over BridgeSat and as such, the subsidiary will continue to be fully consolidated within the group's financial statements.

In July 2017, Signature Medical completed a Series A round of financing issuing 13,241,526 Series A preferred shares for $2.5 million to Allied Minds and two new strategic investors. As a result, following the transaction, Allied Minds' ownership percentage in Signature Medical is 88.09%. The Company continues to exercise effective control over Signature Medical and as such, the subsidiary will continue to be fully consolidated within the group's financial statements.

In September 2017, Federated Wireless completed a Series B round of financing issuing 27,167,093 Series B preferred shares for $42.0 million to Allied Minds, existing shareholders of the Group, and a number of new strategic investors who led the round. As a result, following the transaction, Allied Minds' ownership percentage in Federated Wireless is 52.26%. The Company continues to exercise effective control over Federated Wireless and as such, the subsidiary will continue to be fully consolidated within the group's financial statements.

**2016**

In April 2016, Allied Minds completed the formation of ABLS Capital, LLC in partnership with existing shareholders of the Group. The members of ABLS Capital committed to up to $80.0 million for the development of drug discovery programs, of which 22.5% was committed by Allied Minds, and contributed an initial $2.0 million for 2.0 million Class B shares to fund the operations of the subsidiary. The purpose of this partnership is to fund 80% of the lead optimisation phase of up to ten new drug candidates that pass initial feasibility studies funded by Allied Bristol Life Sciences, LLC ("ABLS"). The remaining 20% of lead optimisation phase investment, or up to an additional $20.0 million, will be funded by Bristol-Myers Squibb, pursuant to the terms of the partnership formed in 2014 through ABLS. Further, in August 2016, ABLS Capital raised $12.0 million of new equity in a Class B shares round pursuant to the initial commitment discussed above, which were used to further fund the development at ABLS II. Under the terms of the ABLS Capital organisation documents, Allied Minds is appointed as the manager of the company and effectively controls the policies and management of ABLS Capital. As a result, following the transactions from 2016, Allied Minds continues to exercise effective control over ABLS Capital and as such the subsidiary will continue to be fully consolidated within the group's financial statements.

In August 2016, ABLS II closed a Series A round of financing issuing 6,410,256 shares of Preferred Stock at issue price of $2.34/share to ABLS Capital ($12.0 million) and Bristol-Myers Squibb Company ($3.0 million), raising approximately $15.0 million. Under the terms of the ABLS II organisation documents, through its control over ABLS and ABLS Capital, the Company effectively controls the policies and management of ABLS II. As a result, following the transaction, Allied Minds continues to exercise effective control over ABLS II and as such, the subsidiary will continue to be fully consolidated within the group's financial statements.

**2014**

In October 2014, Spin Transfer Technologies ("STT") completed a Series A financing round as a result of which the Allied Minds' ownership percentage in STT decreased from 56.13% to 48.40%. Whilst Allied Minds owns less than 50.00% of the voting share capital after the transaction and as of 31 December 2017, the company remains the largest single shareholder at 48.40% of the voting share capital, and retains control over the majority of the voting rights on the board of directors of STT. Under the terms of the STT organisational documents, the board of directors effectively controls the policies and management of STT, and in all instances, the board acts by majority vote. In addition, all material shareholder voting provisions of the STT organisational documents require a simple majority for approval, giving the Company substantial influence over the outcome of all actions which require a shareholder vote. As a result, following the transaction, Allied Minds continues to exercise effective control over STT and as such will continue to be fully consolidated within the group's financial statements.

The following tables summarise the financial information related to the Group's subsidiaries with material non-controlling interests, aggregated for interests in similar entities, and before intra-group eliminations.

As of and for the year ended 31 December:

| | 2017<br>$'000 | |
|---|---|---|
| | **Early stage** | **Later stage** |
| **Statement of Comprehensive Loss** | | |
| Revenue | 1,405 | 3,394 |
| Loss for the year | (13,390) | (70,734) |
| Other comprehensive loss | 79 | — |
| **Total comprehensive loss** | (13,311) | (70,734) |
| Comprehensive loss attributed to NCI | (4,360) | (30,977) |
| **Statement of Financial Position** | | |
| Non-current assets | 412 | 26,834 |
| Current assets | 21,825 | 77,849 |
| **Total assets** | 22,237 | 104,683 |
| Non-current liabilities | (3) | (109) |
| Current liabilities | (2,066) | (193,525) |
| **Total liabilities** | (2,069) | (193,634) |
| **Net assets/(liabilities)** | 20,168 | (88,951) |
| Carrying amount of NCI | (4,371) | (54,870) |
| **Statement of Cash Flows** | | |
| Cash flows from operating activities | (11,262) | (71,284) |
| Cash flows from investing activities | 149 | (1,472) |
| Cash flows from financing activities | 8,881 | 70,456 |
| | (2,232) | (2,300) |

| | 2016<br>$'000 | |
|---|---|---|
| | **Early stage** | **Later stage** |
| **Statement of Comprehensive Loss** | | |
| Revenue | 2,082 | 288 |
| Loss for the year | (32,376) | (75,300) |
| Other comprehensive loss | (74) | — |
| **Total comprehensive loss** | (32,450) | (75,300) |
| Comprehensive loss attributed to NCI | (8,165) | (24,444) |
| **Statement of Financial Position** | | |
| Non-current assets | 3,471 | 30,778 |
| Current assets | 27,208 | 70,042 |
| **Total assets** | 30,679 | 100,820 |
| Non-current liabilities | (21) | (91) |
| Current liabilities | (2,750) | (148,813) |
| **Total liabilities** | (2,771) | (148,904) |
| **Net assets/(liabilities)** | 27,908 | (48,084) |
| Carrying amount of NCI | 4,400 | (25,197) |
| **Statement of Cash Flows** | | |
| Cash flows from operating activities | (36,541) | (51,144) |
| Cash flows from investing activities | 1,222 | (2,725) |
| Cash flows from financing activities | 49,063 | 50,186 |
| | 13,744 | (3,683) |

**Portfolio Valuation**

At the close of each annual financial period, the Directors formally approve the value of all subsidiary businesses in the Group, which is used to derive the "Group Subsidiary Ownership Adjusted Value". This Group Subsidiary Ownership Adjusted Value is a sum-of-the-parts ("SOTP") valuation of all the subsidiaries that make up the Group. GSOAV is an alternative performance measure ("APM") used by the Directors as a key performance indicator ("KPI") to measure the performance of the Group. An APM is a numeric measure of the Group's financial position that is not a GAAP measure. As the Group exercises control over all of its investments in subsidiary undertakings their activities are fully consolidated in the group accounts and the value of those investments is not separately disclosed in the statement of financial position. Only the value of non-controlling interests of certain subsidiaries reflecting the subsidiary preferred shares liability is disclosed separately in the statement of financial position, as further discussed in footnote 18. These valuations assume there will be available funds for the subsidiaries to reach next stages of their development towards commercial success or an exit event.

The Group Subsidiary Ownership Adjusted Value ("GSOAV") was $395.6 million as of 22 March 2018 (2016: $416.2 million). The decrease compared to prior year is primarily attributed to discontinued funding and wind-down of Percipient Networks, Seamless Devices and Whitewood Encryption, as well as write downs in platform companies AMFI and Foreland. The decrease was partially offset by an increase in value at BridgeSat and Federated Wireless demonstrated by the consummation of a third-party fundraising.

Ownership adjusted value represents Allied Minds' interest in the equity value of each subsidiary and is calculated as follows: lower of (Business Enterprise Value - Long Term Debt + Cash) x Allied Minds percentage ownership plus the value of debt provided by Allied Minds plc to each subsidiary business, or the subsidiary Business Enterprise Value. Allied Minds commits post seed funding to its subsidiaries in the form of loans.

*Valuation Methodology*

Each subsidiary company is regularly evaluated based on a range of inputs, including: company performance and progress towards development milestones; market and competitor analyses based on information from databases and public material; and interviews with scientists and physicians.

The Group Subsidiary Ownership Adjusted Value represents the sum-of-the-parts ("SOTP") of, principally, net present value ("NPV") or risk-adjusted net present value ("rNPV") from discounted cash flow ("DCF") valuations and valuations based on recent third party investment at the subsidiary level. A DCF valuation is used for the majority of Allied Minds subsidiaries. The DCF valuations are updated when the underlying assumptions for the valuations warrant a change. Generally, valuations are not increased unless warranted by or in anticipation of a financing transaction. Valuations are decreased in situations where the subsidiary is falling short of expected progress. Otherwise, the valuations are kept constant. When available, financing transactions are used as the basis for the subsidiary valuation. In limited instances other techniques such as based on asset values are utilised.

In the current year, the Group relied on funding transactions as the principal methodology to value all subsidiaries in the portfolio, except for LuxCath where the DCF valuation model was updated in the current year. Funding transactions used as basis for the subsidiary valuations were consummated in the current year, except for Allied Bristol Life Sciences (2014), Spin Transfer Technologies (2014), Precision Biopsy (2016), HawkEye$^{360}$ (2016)and SciFluor Life Sciences (2015). In those cases, a DCF was used to substantiate the subsidiary valuation based on a prior funding round. Subsidiaries for which the ownership-adjusted value was based on a funding transaction accounted for 95.9% of total GSOAV in the current year (2016: 87.1%), and those based on DCF or other alternative methods accounted for 4.1% (2016: 13.9%).

For detail of the Net Present Value ("NPV") method used in estimating the group valuations from discounted cash flows see footnote 18.

**(12) Other Investments**

| As of 31 December: | **2017** $'000 | **2016** $'000 |
|---|---|---|
| Fixed income securities | | |
| Corporate bonds | 11,057 | 14,244 |
| Other investments, current | 11,057 | 14,244 |
| Fixed income securities | | |
| Corporate bonds | — | 2,668 |
| Other investments, long-term | — | 2,668 |
| **Total other investments** | 11,057 | 16,912 |

Other investments represent investments in fixed income securities issued by government agencies and US and non-US corporations. As of 31 December 2017, the investments had a credit rating of A-1 to A+, maturities of up to 2 months and original coupon rate from 0.00% to 1.55% (2016: 0.00% to 5.00%).

**(13) Cash and Cash Equivalents**

| As of 31 December: | **2017** $'000 | **2016** $'000 |
|---|---|---|
| Bank balances | 158,207 | 209,283 |
| Restricted cash | (132) | (132) |
| **Total cash and cash equivalents** | 158,075 | 209,151 |

Restricted cash represents cash reserved as collateral against a letter of credit with a bank issued for the benefit of a landlord in lieu of a security deposit to an office space lease for one of the Group's subsidiaries. The amount is classified as other financial assets, non-current in the statement of financial position.

**(14) Inventories**

| As of 31 December: | **2017** $'000 | **2016** $'000 |
|---|---|---|
| Finished units | — | 2,505 |
| Work in progress | — | 15 |
| Raw materials | — | 31 |
| **Total inventories** | — | 2,551 |

Finished units and raw materials recognised as cost of revenue in the year amounted to $1,874,000 (2016: $1,756,000). The write-down of inventories to net realisable value recognised through cost of revenue during the year was $2,532,000 (2016: $3,403,000).

### (15) Trade and Other Receivables

| As of 31 December: | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Trade receivables | 3,493 | 312 |
| Prepayments and other current assets | 12,149 | 5,588 |
| **Total trade and other receivables** | 15,642 | 5,900 |

### (16) Equity

In December 2016, the Company issued 17,457,015 ordinary shares of one pence at 367 pence, which were admitted to the premium listing segment of the Official List of the UK Listing Authority and to trading on the LSE's Main Market for listed securities. This resulted in approximately $78.1 million of net proceeds from the equity placing (net of issue cost of $2.2 million). The amounts subscribed for share capital in excess of the nominal value in relation to this transaction are reflected in the merger reserve balance as of 31 December 2016.

During 2017, existing and former employees of the Group exercised options to purchase 1,055,596 shares of the Company under the U.S. Stock Plan (2016: 650,000), resulting in additional share premium of $1,539,000 (2016: $1,200,000). Additionally, 3,402,567 shares were issued to existing and former employees of the Group during the year as result of vesting of RSUs under the LTIP.

As of 31 December 2017, 11,551,496 ordinary shares were reserved under the U.S. Stock Plan and 23,820,254 were reserved under the LTIP, see note 6 for further discussion of the share-based payment plans.

The table below explains the composition of share capital:

| As of 31 December: | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Equity** | | |
| Share capital, £0.01 par value, issued and fully paid 238,202,541 and 233,744,378, respectively | 3,714 | 3,657 |
| Share premium | 158,606 | 157,067 |
| Merger reserve | 263,367 | 263,435 |
| Translation reserve | 89 | 192 |
| Accumulated deficit | (354,443) | (289,437) |
| **Equity attributable to owners of the Company** | 471,333 | 134,914 |
| Non-controlling interests | (59,241) | (20,797) |
| **Total equity** | 12,092 | 114,117 |

Holders of Ordinary Shares are entitled to vote, on all matters submitted to shareholders for a vote. Each Ordinary Share is entitled to one vote. Each ordinary share is entitled to receive dividends when and if declared by the Company's board of directors. The Company has not declared any dividends in the past.

Share premium represents the amounts subscribed for share capital in excess of the nominal value, net of directly attributable issue costs.

Merger reserve reflects the amounts subscribed for share capital in excess of the nominal value in relation to the qualifying acquisition of subsidiary undertakings.

Translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

### (17) Acquisition of Non-Controlling Interest ("NCI")

For the two years ended 31 December 2017, the Group recognised the following changes in common and preferred stock ownership in subsidiaries resulting in changes to non-controlling interest:

- In April 2016, the Group completed the formation of ABLS Capital, LLC in partnership with existing shareholders of Allied Minds. The members of the LLC committed to up to $80.0 million for the development of up to 10 drug discovery programs, of which Allied Minds commits 22.5%, and contributed an initial $2.0 million funding for 2.0 million Class B shares. The purpose of this partnership is to fund 80% of the lead optimisation phase of up to ten new drug candidates that pass initial feasibility studies funded by ABLS. The remaining 20% of lead optimisation phase investment, or up to an additional $20.0 million, will be funded by Bristol-Myers Squibb Company (BMS), pursuant to the terms of the partnership formed in 2014 through ABLS. Following the transaction, Allied Minds continues to exercise effective control over ABLS Capital and as such the subsidiary will continue to be fully consolidated within the group's financial statements.

  In August 2016, ABLS Capital raised $12.0 million of new equity in a Class B shares round pursuant to the initial commitment discussed to fund its portion of the ABLS II financing (see below). There is no change in the subsidiary's governance structure as a result of the round. Following the transaction Allied Minds continues to exercise effective control over ABLS Capital and as such the subsidiary will continue to be fully consolidated within the group's financial statements.

- In August 2016, ABLS II closed a Series A round of financing issuing 6,410,256 shares of Preferred Stock at issue price of $2.34 per share to ABLS Capital and Bristol-Myers Squibb Company, raising approximately $15.0 million. The use of proceeds from the Series A round is intended primarily to fund further development of the lead ecognizesn program. Should this next lead ecognizesn phase prove successful, Bristol-Myers Squibb has the right to acquire Allied Minds' interest in ABLS II at a pre-determined multiple of invested capital.

- In October 2017, Allied-Bristol Life Sciences (ABLS) launched its fourth project - ABLS IV, LLC, in a partnership with Cornell University. ABLS owns 100% of the common stock of ABLS IV. Following the transaction, Allied Minds continues to exercise effective control over ABLS and subsidiaries including ABLSI V and as such the subsidiary will continue to be fully consolidated within the group's financial statements.
- During 2017, as a result of the restructuring earlier in the year, the company discontinued funding of eight subsidiaries, seven of which were legally dissolved and deconsolidated as of 31 December 2017.

The following summarises the changes in the non-controlling ownership interest in subsidiaries by reportable segment:

| | Early stage $'000 | Later stage $'000 | Consolidated $'000 |
|---|---|---|---|
| **Non-controlling interest as of 31 December 2015** | **(7,921)** | **(2,710)** | **(10,631)** |
| New funds into non-controlling interest | 13,773 | — | 13,773 |
| Share of comprehensive loss | (8,164) | (24,445) | (32,609) |
| Effect of change in Company's ownership interest | 5,913 | 316 | 6,229 |
| Equity-settled share based payments | 799 | 1,642 | 2,441 |
| **Non-controlling interest as of 31 December 2016** | **4,400** | **(25,197)** | **(20,797)** |
| Share of comprehensive loss | (4,360) | (30,977) | (35,337) |
| Effect of change in Company's ownership interest | 36 | 14 | 50 |
| Equity-settled share based payments | 206 | 1,290 | 1,496 |
| Dissolution of subsidiaries | (4,653) | — | (4,653) |
| **Non-controlling interest as of 31 December 2017** | **(4,371)** | **(54,870)** | **(59,241)** |

### (18) Subsidiary Preferred Shares

Certain of the Group's subsidiaries have outstanding preferred shares which have been classified as a subsidiary preferred shares in current liabilities in accordance with IAS 39 as the subsidiaries have a contractual obligation to deliver cash or other assets to the holders under certain future liquidity events, and/or a requirement to deliver an uncertain number of common shares upon conversion. The preferred shares do not contain mandatory dividend rights. The preferred shares are convertible into common stock of the subsidiary at the option of the holder and mandatorily convertible into common stock of the subsidiary upon a qualified public offering at or above certain value and gross proceeds specified in the agreements or upon the vote of the holders of a majority of the subsidiary preferred shares. Under certain scenarios the number of common stock shares receivable on conversion will change. The Group has elected not to bifurcate the variable conversion feature as a derivative liability, but account for the entire instrument at fair value through the income statement.

The preferred shares are entitled to a vote with holders of common stock on an as converted basis. The holders of the preferred shares are entitled to a liquidation preference amount in the event of a liquidation or a deemed liquidation event of the respective subsidiary. The Group ecognizes the subsidiary preferred shares balance upon the receipt of cash financing, and records the change in its fair value for the respective reporting period through profit and loss. Preferred shares are not allocated shares of the subsidiary losses.

The following summarises the subsidiary preferred shares balance:

| As of 31 December: | **2017** $'000 | **Finance cost from IAS 39 fair value accounting** $'000 | **Additions** $'000 | **2016** $'000 |
|---|---|---|---|---|
| BridgeSat | 339 | 14 | 325 | — |
| Federated Wireless | 47,033 | (2,126) | 31,817 | 17,342 |
| HawkEye360 | 13,512 | 4,998 | 1,250 | 7,264 |
| Precision Biopsy | 25,973 | 3,455 | — | 22,518 |
| SciFluor Life Sciences | 32,354 | (27) | — | 32,381 |
| Signature Medical | 530 | 30 | 500 | — |
| Spin Transfer Technologies | 61,889 | 506 | — | 61,383 |
| **Total subsidiary preferred shares** | 181,630 | 6,850 | 33,892 | 140,888 |

The redemption is conditional on occurrence of uncertain future events beyond the control of the Group. The amount that would be payable in case of such events is as follows:

| As of 31 December: | **2017** $'000 | **2016** $'000 |
|---|---|---|
| BridgeSat | 325 | — |
| Federated Wireless | 50,000 | 17,000 |
| HawkEye360 | 8,500 | 7,250 |
| Precision Biopsy | 22,000 | 22,000 |

| | | |
|---|---|---|
| SciFluor Life Sciences | 25,200 | 25,200 |
| Signature Medical | 500 | — |
| Spin Transfer Technologies | 50,000 | 50,000 |
| **Total liquidation preference** | 156,525 | 121,450 |

For the two years ended 31 December 2017, the Group recognised the following changes in subsidiary preferred shares:

**2017**

- HawkEye[360] completed a second closing of the Series A-2 financing round in February 2017 for additional $2.75 million, of which $1.25 million from existing shareholders of the Group and members of management of the company for 967,641 Series A-2 shares.
- BridgeSat closed a Series A round of financing in May 2017 issuing 4,675,446 Series A preferred shares for $6.0 million. Allied Minds contributed $5.7 million and another strategic investor contributed with the remainder of the round.
- Signature Medical completed a Series A round of financing in July 2017 issuing 13,241,526 Series A preferred shares for $2.5 million. Allied Minds contributed with $2.0 million and two new strategic investors contributed with the remainder of the round.
- Federated Wireless completed a Series B round of financing in September 2017 issuing 27,167,093 Series B preferred shares for $42.0 million. Allied Minds contributed $9.0 million. Other existing shareholders of the Group and a number of new strategic investors contributed with the remainder of the round.

**2016**

- Federated Wireless completed a $22.0 million round of Series A financing in January 2016. Of the $22.0 million raised in this financing, Allied Minds contributed approximately $5.0 million for the purchase of 2,727,580 preferred shares, and other existing shareholders of the Group contributed with the remainder of the round.
- Precision Biopsy received the second tranche of the October 2015 Series A round (see below) and raised addition $5.0 million from one of the existing shareholders that originally participated in the round for additional 945,966 shares.
- HawkEye[360] completed a $11.0 million round of Series A-2 financing in November 2016. Of the $11.0 million raised in this financing, Allied Minds contributed approximately $4.0 million for the purchase of 3,096,459 preferred shares, and other new investors contributed with the remainder of the round.

The fair value is derived using the option pricing model where the key inputs and assumptions include the subsidiary valuations, which are either based on the implied value from a third party funding round,  on a Net Present Valuation method  or asset based valuation, volatility, time to liquidity and risk free rate.

*Net Present Valuation ("NPV") method*

NPV is a standard technique used in valuation and can be defined as the difference between the present value of the future cash flows from an investment and the amount of investment. Present value of the estimated cash flows is computed by discounting them at the required rate of return which includes an adjustment for risk.

The following are important factors when determining fair value based on NPV:

- Estimated income generally consists of sales, co-development revenues, one-time payments and royalty payments on sales depending on the company, its business model and industry. These are estimated based on a variety of factors including: total addressable market; competitive factors; barriers to competition; pricing; typical standards for contract value; royalty rates; and likelihood of development of a product that is commercially viable.
- Costs and capital expenditures are estimated for each phase of development based on the companies' information or according to industry standards. Costs are typically forecasted for cost of goods, SG&A (selling, general and administrative), research and development as well as a variety of other expenses. These are typically developed "from the ground up" for earlier years and for later years depicted as a factor or percentage of sales.
- The terminal or exit value represents the aggregate value of an entity at the end of the discrete forecast period. Terminal value may be estimated using the terminal multiple method, which inherently assumes that the business will be valued at the end of the projection period based on reference valuations. Under this methodology, the terminal value is typically calculated by applying one of two commonly accepted methodologies:
    - o Multiple base terminal value: Use of an appropriate multiple to the relevant financial metric forecasted for the last projected year taking into consideration the ongoing growth potential of the business in the terminal year. Exit values included in the analysis are typically projected as a multiple of EBIT, EBITDA or Sales based on the final year results for the forecast period. Where available, a set of guideline public companies that are similar to the company to be used for comparative purposes and the multiple is derived from this set;
    - o Gordon growth model based terminal value: Use of a formula that calculates the present value of cash flow in the terminal year growing into infinity at an ascribed terminal growth rate. The terminal growth rate is derived by estimating the long-term annual growth potential of the business at the terminal year.
- Selection of discount rates is based on part utilising American Institute of Certified Public Accountants ("AICPA") practice standards varying by stage of development of the subsidiary as well as other risk factors and typically range from 20-45%.
- Where available NPV results are compared against peer companies and to valuations for similar companies.

Due to the early stage nature of the Group's subsidiary companies, projections are particularly sensitive to certain key assumptions namely:

• Discount rate and in particular risk premium;

• The ability to predict the cost and timing of achieving technical and commercial viability;

• Projected revenue and operating costs in the post-product development phase of each company; and

• The size and share of addressable market for intellectual property, products and services developed.

In certain cases, the value of a subsidiary is determined using a market instead of income- based approach. Where there has been a third party funding round in the year this has been used as the implied value of the subsidiary, adjusted for indexation where this is deemed to be appropriate.

Whilst the Board considers the methodologies and assumptions adopted in the valuation are supportable, reasonable and robust, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investment existed and the differences could be significant.

The two principal methods the Group applies for allocation of value are the Probability-Weighted Expected Return Method ("PWERM") and the Option Pricing Method ("OPM").

The PWERM estimates the value of equity securities based on an analysis of various discrete future outcomes, such as an IPO, merger or sale, dissolution, or continued operation as a private enterprise until a later exit date. The equity value today is based on the probability-weighted present values of expected future investment returns, considering each of the possible outcomes available to the enterprise, as well as the rights of each security class.

The OPM treats common stock or derivatives thereof as call options on the enterprise's value or overall equity value. The value of a security is based on the optionality over and above the value securities that are senior in the capital structure (e.g. preferred stock), considering the dilutive effects of subordinate securities. In the OPM, the exercise price is based on a comparison with the overall equity value rather than per-share value.

**Allocation Model Inputs**

The following presents the quantitative information about the significant unobservable inputs used in the fair value measurement of the Group's subsidiary preferred shares liability:

| As of 31 December: | 2017 | 2016 |
|---|---|---|
| Volatility | 29.0% - 79.3% | 33.0% - 75.5% |
| Time to Liquidity (years) | 1.70 - 4.57 | 2.06 - 3.76 |
| Risk-Free Rate | 1.85% - 2.15% | 1.22% - 1.70% |

**Sensitivity Analysis**

The following summarises the sensitivity from the assumptions made by the Company in respect to the unobservable inputs used in the fair value measurement of the Group's subsidiary preferred shares liability, as well as that in respect to the enterprise value of the underlying subsidiary in general:

| As of 31 December: | | 2017<br>$'000 | 2016<br>$'000 |
|---|---|---|---|
| **Input** | **Sensitivity range** | **Subsidiary Preferred Shares Liability increase/(decrease)** | |
| Enterprise Value | -2% | (1,956) | (1,746) |
| | +2% | 2,144 | 1,746 |
| Volatility | -10% | (138) | (377) |
| | +10% | (651) | (776) |
| Time to Liquidity | -6 months | 168 | 416 |
| | +6 months | (413) | (762) |
| Risk-Free Rate [1] | -0.44% / -0.18% | 168 | 416 |
| | +0.06% / +0.13% | (413) | (762) |

[1] Risk-free rate is a function of the time to liquidity input assumption.

The change in fair value of the subsidiary preferred shares is recorded in Finance cost, net in the consolidated statement of comprehensive loss.

**(19) Loans**

| As of 31 December: | 2017<br>$'000 | 2016<br>$'000 |
|---|---|---|
| Current liabilities - Loans: | | |
| Unsecured loan | - | 115 |
| **Total loans** | - | 115 |

The terms and conditions of outstanding loans are as follows:

| | | | | 2017<br>$'000 | | 2016<br>$'000 | |
|---|---|---|---|---|---|---|---|
| **As of 31 December:** | Currency | Nominal interest rate | Year of maturity | Face value | Carrying amount | Face value | Carrying amount |
| Unsecured loan | USD | 6.5% | 2013-17 | - | - | 115 | 115 |

| | | | | |
|---|---|---|---|---|
| **Total interest bearing liabilities** | - | - | 115 | 115 |

**CryoXtract Instruments, LLC Promissory Note**

In May 2012, CryoXtract Instruments, LLC signed a promissory note with a state financing authority in the amount of $800,000 to provide working capital for materials and fund salaries. The note fully matured in May 2017 and bears interest of 6.5%. Payment of interest only is due in the first 18 months. As of 31 December 2013, CryoXtract had drawn the full balance of the note, of which $115,000 and $225,000 was repaid during 2017 and 2016, respectively, down to nil as of 31 December 2017 (2016: $115,000). Interest expense incurred on the note was nil and $26,000 for the years ended 31 December 2017 and 2016, respectively.

As part of the consideration for the loan, CryoXtract had issued to the lender a warrant entitling the lender to purchase an aggregate of 65,310 membership units in the subsidiary's ordinary shares, representing 0.01% of the total membership units. The fair value of the warrant issued of $35,000 was amortised over the life of the loan as a discount against the note balance. CryoXtract was dissolved in July 2017.

**(20) Trade and Other Payables**

| As of 31 December: | 2017<br>$'000 | 2016<br>$'000 |
|---|---|---|
| Trade payables | 2,489 | 4,362 |
| Accrued expenses | 10,434 | 9,210 |
| Other current liabilities | 1,353 | 369 |
| Trade and other payables, current | 14,276 | 13,941 |
| Other non-current payables | 867 | 720 |
| **Total trade and other payables** | 15,143 | 14,661 |

**(21) Leases**

Office and laboratory space is rented under non-cancellable operating leases. These lease agreements contain various clauses for renewal at the Group's option and, in certain cases, escalation clauses typically linked to rates of inflation.

Minimum rental commitments under non-cancellable leases were payable as follows:

| For the year ended 31 December: | 2017<br>$'000 | 2016<br>$'000 |
|---|---|---|
| Less than one year | 2,204 | 2,015 |
| Between one and five years | 5,842 | 3,713 |
| More than five years | — | 438 |
| **Total minimum lease payments** | 8,046 | 6,166 |

Total rent expense under these leases was approximately $2,426,000 and $2,859,000 in 2017 and 2016, respectively. Rent expenses are included in selling, general and administrative expenses and research and development expenses in the consolidated statements of comprehensive loss.

**(22) Financial Instruments and Related Disclosures**

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy:

| As of 31 December: | 2017 $'000 | | | | |
|---|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | | | |
| | | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Financial assets designated as fair value through profit or loss** | | | | | |
| Fixed income securities | 11,057 | - | 11,057 | - | 11,057 |
| **Loans and receivables** | | | | | |
| Cash and cash equivalents | 158,075 | - | 158,075 | - | 158,075 |
| Trade and other receivables | 15,642 | - | 15,642 | - | 15,642 |
| Security and other deposits | 686 | - | 686 | - | 686 |
| Total | 185,460 | - | 185,460 | - | 185,460 |
| **Financial liabilities designated as fair value through profit or loss** | | | | | |
| Subsidiary preferred shares | 181,630 | - | - | 181,630 | 181,630 |
| **Financial liabilities measured at amortised cost** | | | | | |
| Unsecured loan | — | - | — | - | — |
| Trade and other payables | 15,143 | - | 15,143 | - | 15,143 |
| Total | 196,773 | - | 15,143 | 181,630 | 196,773 |

| As of 31 December: | 2016 | | | | |
|---|---|---|---|---|---|
| | $'000 | | | | |
| | Carrying amount | Fair value | | | |
| | | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets designated as fair value through profit or loss** | | | | | |
| Fixed income securities | 16,912 | - | 16,912 | - | 16,912 |
| **Loans and receivables** | | | | | |
| Cash and cash equivalents | 209,151 | - | 209,151 | - | 209,151 |
| Trade and other receivables | 5,900 | - | 5,900 | - | 5,900 |
| Security and other deposits | 1,065 | - | 1,065 | - | 1,065 |
| Total | 233,028 | - | 233,028 | - | 233,028 |
| **Financial liabilities designated as fair value through profit or loss** | | | | | |
| Subsidiary preferred shares | 140,888 | - | - | 140,888 | 140,888 |
| **Financial liabilities measured at amortised cost** | | | | | |
| Unsecured loan | 115 | - | 123 | - | 123 |
| Trade and other payables | 14,662 | - | 14,662 | - | 14,662 |
| Total | 155,665 | - | 14,785 | 140,888 | 155,673 |

The fair value of financial instruments that are not traded is determined by using valuation techniques that maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. Where the inputs for determining the fair value of financial instruments are not based on observable market data, the instrument is included in Level 3.

The Group has determined that the carrying amounts for cash and cash equivalents, trade and other receivables and payables, security and other deposits, and customer deposits are a reasonable approximation of their fair values and are included in Level 2.

For assumptions used in the fair value measurement of the Group's subsidiary preferred shares liability designated as Level 3, see footnote 18.

**(23) Capital and Financial Risk Management**

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the level of capital deployed and available for deployment in subsidiary projects. The board of directors seeks to maintain a balance between the higher returns that might be possible with higher levels of deployed capital and the advantages and security afforded by a sound capital position.

The Group's executive management and board of directors have overall responsibility for establishment and oversight of the Group's risk management framework. The Group is exposed to certain risks through its normal course of operations. The Group's main objective in using financial instruments is to promote the commercialisation of intellectual property through the raising and investing of funds for this purpose. The Group's policies in calculating the nature, amount and timing of funding are determined by planned future investment activity. Due to the nature of activities and with the aim to maintain the investors' funds secure and protected, the Group's policy is to hold any excess funds in highly liquid and readily available financial instruments and reduce the exposure to other financial risks.

The Group has exposure to the following risks arising from financial instruments:

**Credit Risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash and cash equivalents, other investments in the form of fixed income securities, and trade and other receivables.

The Group held following balances:

| As of 31 December: | 2017 | 2016 |
|---|---|---|
| | $'000 | $'000 |
| Cash and cash equivalent | 158,075 | 209,151 |
| Other investments | 11,057 | 16,912 |
| Trade and other receivables | 15,642 | 5,900 |
| | 184,774 | 231,963 |

The Group maintains money market funds, certificates of deposits, and fixed income securities with financial institutions, which the Group believes are of high credit quality. Risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to credit ratings (if available) or to historical information about counterparty default rates.

Group policy is to maintain its funds in highly liquid deposit accounts with reputable financial institutions.

The aging of trade receivables that were not impaired was as follows:

| As of 31 December: | 2017 | 2016 |
|---|---|---|
| | $'000 | $'000 |
| Neither past due nor impaired | 3,493 | 162 |
| Past due 30-90 days | — | 81 |
| Past due over 90 days | 367 | 921 |
| Reserve for bad debt | (367) | (852) |
| | 3,493 | 312 |

The Group has no significant concentration of credit risk. The Group assesses the credit quality of customers, taking into account their current financial position. An analysis of the credit quality of trade receivables that are neither past due nor impaired is as follows:

| As of 31 December: | 2017 | 2016 |
|---|---|---|
| | $'000 | $'000 |
| Customers with less than three years of trading history with the Group | 3,493 | 312 |
| | 3,493 | 312 |

**Liquidity Risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group seeks to manage liquidity risk, ensuring that sufficient liquidity is available to meet foreseeable requirements.

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments and exclude the impact of netting agreements. The current portion of the carrying amount of lease obligations is included in trade and other payables.

| As of 31 December 2017: | | Contractual cash flows | | | |
|---|---|---|---|---|---|
| $'000 | Carrying amount | Total | Less than 1 year | 2-5 years | More than 5 years |
| Trade and other payables | 14,276 | 14,276 | 14,276 | — | — |
| Other non-current liabilities | 867 | 867 | — | 867 | — |
| | 15,143 | 15,143 | 14,276 | 867 | — |

| As of 31 December 2016: | | Contractual cash flows | | | |
|---|---|---|---|---|---|
| $'000 | Carrying amount | Total | Less than 1 year | 2-5 years | More than 5 years |
| Trade and other payables | 13,941 | 13,941 | 13,941 | - | - |
| Other non-current liabilities | 720 | 720 | 236 | 433 | 51 |
| Unsecured bank loans | 115 | 115 | 115 | - | - |
| | 14,776 | 14,776 | 14,292 | 433 | 51 |

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

**Market Risk**

Market risk is the risk that changes in market prices - such as foreign exchange rates, interest rates and equity prices - will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Group maintains the exposure to market risk from such financial instruments to insignificant levels. The Group exposure to changes in interest rates is determined to be insignificant.

**Capital Risk Management**

The Group is funded by equity finance and long term borrowings. Total capital is calculated as 'total equity' as shown in the consolidated statement of financial position.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may issue new shares or borrow new debt. The Group has some external debt and no material externally imposed capital requirements. The Group's share capital is set out in note 16.

**(24) Related Parties**

**Transactions with Key Management Personnel**

*Key Management Personnel Compensation*

Key management personnel compensation received comprised the following:

| For the year ended 31 December: | 2017 | 2016 |
|---|---|---|
| | $'000 | $'000 |
| Short-term employee benefits | 1,658 | 3,097 |
| Share-based payments | 7,607 | 2,073 |
| **Total** | 9,265 | 5,170 |

Short-term employee benefits of the Group's key management personnel include salaries and bonuses, health care and other non-cash benefits.

Share-based payments include the value of awards granted under the LTIP during the year. Share-based payments under the LTIP are subject to vesting terms over future periods. See further details of the two plans in note 6.

Bonuses to key management for the year of $1,840,000 were outstanding at 31 December 2017 (2016: $1,673,000) and were paid in January of 2018.

*Key Management Personnel Transactions*

Directors' remuneration for the year comprised the following:

| For the year ended 31 December: | 2017 | 2016 |
|---|---|---|
| | $'000 | $'000 |
| Non-executive Directors' fees | 456 | 492 |
| Non-executive Directors' share-based payments | 275 | 275 |
| **Total** | 731 | 767 |

Fees to non-executive Directors of $124,000 were outstanding at 31 December 2017 and paid in January 2018 (2016: nil).

Executive management and Directors of the Company control 0.2% of the voting shares of the Company as of 31 December 2017 (2016: 2.0%).

The Group has not engaged in any other transactions with key management personnel or other related parties.

**(25) Taxation**

**Amounts recognised in profit or loss**

No current income tax expense was recorded for the years ended 31 December 2017 and 2016 due to accumulated losses.

| For the year ended 31 December: | 2017 | 2016 |
|---|---|---|
| | $'000 | $'000 |
| Net loss | 111,012 | 128,942 |
| Income taxes | - | - |
| **Net loss before taxes** | 111,012 | 128,942 |

**Reconciliation of Effective Tax Rate**

The Group is primarily subject to taxation in the US, therefore the reconciliation of the effective tax rate has been prepared using the US statutory tax rate. A reconciliation of the US statutory rate to the effective tax rate is as follows:

| | 2017 | 2016 |
|---|---|---|
| | % | % |
| Weighted average statutory rate | 35.0 | 35.0 |
| Effect of state tax rate in US | 5.2 | 5.2 |
| Research credits | 3.8 | 3.4 |
| Share-based payment remeasurement | (12.7) | (1.8) |
| Losses from dissolved subsidiaries | 5.0 | - |
| Other temporary differences | (2.5) | (5.0) |
| Current year losses for which no deferred tax asset is recognised | (33.8) | (36.8) |
| | - | - |

*Factors that may affect future tax expense*

The Group is primarily subject to taxation in the US and UK. Additionally, the Group is exposed to state taxation in various jurisdictions throughout the US. Changes in corporate tax rates can change both the current tax expense (benefit) as well as the deferred tax expense (benefit). Reductions in the UK corporation tax rate to 19% (effective 1 April 2017) and to 18% (effective 1 April 2020) were substantially enacted on 26 October 2015. A further reduction to 17% (effective 1 April 2020) was substantially enacted on 6 September 2016. The maximum corporate tax rate in the US for the corresponding periods is 35%, which was reduced to 21% effective 1 January 2018.

On December 22, 2017, the U.S. government enacted a comprehensive tax legislation, H.R.1, commonly referred to as the Tax Cuts and Jobs Act (the Tax Act). The Tax Act makes broad and complex changes to the U.S. tax code, and it will take time for additional clarifying guidance and legislation to be issued, and this guidance will be required for the interpretation of these comprehensive changes. We are in the process of analyzing the potential aggregate current and future impacts of the Tax Act relative to the Company.

As of 31 December 2017, the Company has completed a preliminary analysis for the tax effects of the enactment of the Tax Act. In certain cases, specifically as follows, the Company has made a reasonable estimate of the effects on its existing deferred tax balances. The impact of the Tax Act may differ from this estimate, due to, among other things, changes in interpretations and assumptions the Company has made, guidance that may be issued and actions the Company may take as a result of the Tax Act.

The Tax Act reduces the U.S. federal corporate tax rate from 35% to 21%. The change in our future effective tax rate is not anticipated to have an effect on our cash tax until all of our U.S. federal net operating losses and credits have been utilised.

**Unrecognised Deferred Tax Assets**

Deferred tax assets have not been recognised in respect of the following items, due to history of losses and no convincing evidence that future taxable profit will be available against which the Group can use the benefits therefrom, as well as due to potential permanent restrictions under IRS Section 382 rules:

| As of 31 December: | **2017**<br>$'000 | **2016**<br>$'000 |
|---|---|---|
| Operating tax losses (1) | 84,037 | 115,868 |
| Capital losses (2) | 13,596 | 1,146 |
| Research credits (1) | 11,772 | 10,130 |
| Temporary differences (3) | 4,502 | 20,620 |
| Deferred tax assets | 113,907 | 147,764 |
| Other temporary differences (3) | (746) | (1,079) |
| Deferred tax liabilities | (746) | (1,079) |
| Deferred tax assets, net, not recognised | 113,161 | 146,685 |

(1) expire starting in 2024

(2) expiring since 2015

(3) generally will expire 20 years subsequent to the time the deduction is taken

Deferred tax is measured at the rates that are expected to apply in the period when the temporary differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the statement of financial position date. The reduction in the main rate of UK corporation tax to 20% (from 23%) was substantially enacted on 2 July 2013 and applied from 1 April 2015. However, the UK corporation tax rate initially reduced from 23% to 21% from 1 April 2014. The change in the UK corporate tax rate did not materially impact the calculation of the deferred tax assets as these assets are generally exposed to tax in US jurisdiction.

There were no movements in deferred tax recognised in income or equity in 2017 or 2016 as the deferred tax asset was not recognised in any of those years.

As of 31 December 2017 the Company had United States federal net operating losses carry forwards ("NOLs") of approximately $321.7 million (2016: $287.6 million) available to offset future taxable income, if any. These carry forwards start to expire in 2026 and are subject to review and possible adjustment by the Internal Revenue Service. The Company may be subject to limitations under Section 382 of the Internal Revenue Code as a result of changes in ownership. The Company's preliminary analysis on the impact from Section 382 limitations suggests that there is unlikely to be a material restriction on NOLs. A detailed exercise is ongoing. Upon the completion of the study, there may or may not be limitations on the Company's ability to utilize its current NOLs against future profits, although these are not expected to be material.

**(26) Subsequent Events**

The Company has evaluated subsequent events through 22 March 2018, which is the date the consolidated financial information is available to be issued.

**Spin Transfer Technologies, Inc.**

On 11 January 2018, Spin Transfer secured $10.3 million of funding via a convertible bridge facility with existing shareholders of the Group, which satisfied Allied Minds' commitment to fulfill the remaining balance of the 2017 bridge facility with Spin Transfer.

**Percipient Networks, LLC**

On 17 January 2018, Percipient completed a sale of assets to WatchGuard Technologies, Inc.

**Discontinued Subsidiaries**

The Group ceased operations and dissolved each of Whitewood Encryption Systems, Inc. and Seamless Devices, Inc. subsequent to year end. The impact of this was assessed in the Group financials as of 31 December 2017 and unrecoverable amounts were written off.

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Jill Smith
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Harry Rein
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Jeff Rohr
(Independent Non-Executive Director)

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