Company Number 05375156

VERONA PHARMA PLC

ANNUAL REPORT AND ACCOUNTS

YEAR ENDED 31 DECEMBER 2015

VERONA PHARMA PLC
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VERONA PHARMA PLC
DIRECTORS, SECRETARY AND ADVISERS

Directors	David Ebsworth (Non-Executive Chairman) Jan-Anders Karlsson (Chief Executive Officer) Ken Cunningham Anders Ullman Patrick Humphrey
Company Secretary	Ben Harber
Registered Office	One Central Square Cardiff CF10 1FS
Company Number	05375156
Auditors	PricewaterhouseCoopers LLP One Kingsway Cardiff CF10 3PW
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Solicitors	Taylor Wessing LLP 5 New Street Square London EC4A 3TW
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VERONA PHARMA PLC
CORPORATE STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2015

Verona Pharma is focused on the development of innovative drugs to treat respiratory diseases with significant unmet medical needs, such as chronic obstructive pulmonary disease (COPD), asthma and cystic fibrosis. Verona Pharma's lead drug, RPL554, a first-in-class PDE3/PDE4 inhibitor with both bronchodilator and anti-inflammatory activities, is currently in Phase II trials as a nebulised treatment for acute exacerbations of COPD in a hospital setting.

2015 OPERATIONAL HIGHLIGHTS

- Completed a series of successful clinical trials with a novel proprietary suspension formulation for nebulisation of RPL554
    - a Phase I/IIa Single Ascending Dose/Multiple Ascending Dose (SAD/MAD) study in 80 healthy subjects and in 32 COPD patients (study 007)
    - a Phase IIa dose-finding study in 29 asthma patients (study 008)
    - a Phase IIa study examining the effect of adding RPL554 to standard doses of common bronchodilator drugs in 30 COPD patients (study 009)

- New clinical data obtained in >170 subjects with the new suspension formulation of RPL554 strongly supports its continued development
    - Studies continue to demonstrate the excellent bronchodilator properties of RPL554
    - Formulation is much better tolerated than the earlier solution formulation prototype, with no maximum tolerated dose observed even at 16 times the active bronchodilator dose
    - New formulation is suitable for twice daily dosing
    - Formulation provides for a longer pulmonary residence time, lower peak plasma exposure and longer half-life in blood than the earlier formulation suggesting a more pronounced effect locally in the lung and comparatively less effects in other organs in the body

- Data published at the North America Cystic Fibrosis Conference and in a peer-reviewed scientific journal demonstrates that RPL554 enhances CFTR[1] activation, suggesting its potential use in cystic fibrosis patients

- Filed multiple patents on RPL554 to extend IP coverage beyond 2030

- Appointed Dr Ken Newman as Chief Medical Officer, and Dr Ken Cunningham and Dr Anders Ullman as Non-Executive Directors of the Board

2015 FINANCIAL HIGHLIGHTS

- Loss after tax of £7.42m (2014: £2.76m) broadly in line with market expectations, reflecting tight cost control despite the planned increase in R&D spend especially on clinical studies

- Loss per share of 0.73 pence (2014: 0.32 pence)

- Net cash outflows from operating activities during the year of £6.35m (2014: £3.54m) reflecting clinical progress, with cash and cash equivalents as at 31 December 2015 of £3.52m (2014: £9.97m)

[1] Cystic fibrosis transmembrane conductance regulator (CFTR) is the membrane protein and chloride ion channel which is dysfunctional in cystic fibrosis patients and responsible for their respiratory symptoms

POST PERIOD

- Positive headline data from RPL554 Phase IIa dose-finding study in asthma patients demonstrates substantial bronchodilator effect and excellent tolerability at broad range of doses
    - Data suggests drug could be meaningful new addition, alone or in combination, for the treatment of COPD

- Positive headline data from RPL554 Phase IIa add-on study demonstrates a highly significant and clinically meaningful additional bronchodilator effect when RPL554 is administered on top of standard doses of the commonly used bronchodilators salbutamol and ipratropium bromide
    - The combination of RPL554 with salbutamol or ipratropium bromide caused a significant reduction in trapped air in the lung (residual volume) as compared to salbutamol or ipratropium bromide alone
        - Suggesting that RPL554 treatment may reduce dyspnea, a major debilitating symptom of COPD
    - Consistent with previous studies, RPL554 was well tolerated both alone and in combination
        - No effect on vital signs or ECG parameters
        - No gastro-intestinal adverse events recorded

INTRODUCTION

Verona Pharma is a specialist pharma company developing first-in-class drugs for patients with chronic, debilitating respiratory diseases that are not adequately treated by existing medicines. The Company's strategy is to accelerate shareholder value creation, by focusing its resources on its lead programme RPL554, an innovative inhaled, dual phosphodiesterase (PDE) 3 and 4 inhibitor, as a nebulised treatment for patients in hospital with acute exacerbations of chronic obstructive pulmonary disease (COPD) to facilitate and speed up recovery and reduce the risk of early recurrence of symptoms and re-hospitalisation after discharge from hospital. Many of these patients become hospitalised as a result of an acute worsening of their disease that cannot be prevented or properly treated by their current medications and they are therefore in need of more intensive care and treatment. RPL554's unique and very attractive properties, being both an effective bronchodilator and anti-inflammatory agent in the same compound, should be beneficial to these patients. In addition, the Company is exploring the use of nebulised RPL554 in maintenance treatment of COPD patients with moderate to severe disease. RPL554's unique properties could also translate into activity in other respiratory disorders including cystic fibrosis and asthma.

The Company is also currently exploring the potential of the drug in cystic fibrosis, where it is in pre-clinical testing. Cystic fibrosis is a genetic disease with a shortened lifespan in need of new and effective treatments. In addition, RPL554 delivered in a Dry Powder Inhaler (DPI) or Metered Dose Inhaler (MDI) device could be beneficial as a chronic maintenance treatment for patients with COPD and subsequently in asthma, although such development is longer and more costly compared to that required for the development of a nebulised formulation and would therefore ultimately require a collaboration with a larger partner to complete the required larger scale clinical trials and subsequent commercialisation.

RPL554 provides an opportunity to treat patients with respiratory diseases that are not optimally treated with currently available drugs. The Board believes there is no other compound which demonstrates RPL554's unique mechanism of action, or any other novel type of bronchodilator currently in clinical development. The yearly market for nebulised bronchodilators in the US is about $1 billion[1] providing a very attractive commercial opportunity. Additionally, the cystic fibrosis market (expected to grow to > $5billion in 2018; GlobalData July 2014) and the market for maintenance treatment of COPD patients (worldwide COPD market to reach >$13bn by 2020; Evaluate Pharma Sept 2015) with a DPI/MDI are very large and provide significant upside sales potential for RPL554.

2015 YEAR IN REVIEW

During 2015, the Company completed a series of clinical trials with the new proprietary suspension formulation of RPL554 for use in a nebuliser. The first Phase I/IIa clinical trials with the new formulation of RPL554 started in December 2014 at Medicines Evaluation Unit, Manchester, UK and completed around mid-year. Based on the positive data from the initial Single Ascending Dose (SAD) part of this study, the Board decided to accelerate development of RPL554. Consequently, two additional Phase IIa trials completed their clinical phases before year end 2015. Top-line data from the asthma study was reported in March 2016 and the data from the second study in COPD patients was reported in May 2016. Both studies met their primary endpoints and reported very positive efficacy data together with the observation that RPL554 was well tolerated in both studies.

Verona Pharma strengthened its senior management team with a new CMO, Dr Kenneth Newman from January 2015. Two Non-Executive Directors, Dr Ken Cunningham and Dr Anders Ullman, two physicians highly experienced in the development of respiratory medicines, were appointed to the Company's Board of Directors in September 2015. Verona Pharma also listed its shares on the Frankfurt Xetra exchange (part of Deutsche Börse in Germany) to facilitate trading for investors located outside of UK.

Verona Pharma continued to investigate RPL554 in pre-clinical models of cystic fibrosis, providing further evidence for RPL554 activating the ion channel (CFTR, cystic fibrosis transmembrane conductance regulator)

that is dysfunctional in cystic fibrosis patients and responsible for their respiratory symptoms. Improving the functioning of this ion channel may enhance mucociliary clearance in the airways of these patients and improve their lung function. This work was supported by an Award from the Cystic Fibrosis Trust, UK. The new data in cystic fibrosis was presented in Phoenix, US, in October, and published in a peer-reviewed manuscript in American Journal of Physiology in November 2015, further enhancing the profile of RPL554.

Additionally, the Company filed a number of patent applications on RPL554, including a patent on the new suspension formulation, to further strengthen the patent portfolio and extend the patent life of the compound beyond 2030.

[1] IMS Consulting Group market research 2014

RPL554

RPL554 is a novel inhaled dual PDE3/PDE4 inhibitor that was selected for clinical development following pre-clinical studies that demonstrated both potent bronchodilator and anti-inflammatory properties. To these properties a potential effect directly on mucociliary clearance can also be added. RPL554 is currently being developed as a very promising first-in-class treatment for patients with chronic respiratory diseases such as COPD and potentially cystic fibrosis as both diseases are characterised by obstructed airways, chronic inflammation of the lung and impaired mucociliary clearance. Future studies may also indicate a potential role in the treatment of asthmatics.

With the original proof-of-concept solution formulation for nebulisation, the Company successfully completed a number of early Phase I and II clinical studies with RPL554 in over 100 subjects. Data demonstrated that the compound is a potent bronchodilator in human subjects. As the bronchodilator response is rapid in onset, cost-effective single-dose studies could be performed. Anti-inflammatory effects of RPL554 in a human model of COPD-like inflammation were examined after six days of treatment with the original solution formulation of the compound before subjects were challenged on the last day by an irritant agent that provokes a COPD-like inflammatory response in their airways. RPL554 significantly reduced the number of neutrophils (an inflammatory cell type recognised for its central role in COPD, cystic fibrosis and severe asthma) together with all other cell types such as eosinophils, lymphocytes and macrophages in the sputum. These data indicate that RPL554 has anti-inflammatory properties, most likely due to inhibition of PDE4 (or perhaps the combined inhibition of PDE3 and PDE4; Lancet Resp Med 2013*).

To date, RPL554 has been used in different formulations in clinical trials involving >275 human subjects, over 170 of which have received the novel, proprietary suspension formulation. These single and multiple dose studies suggest that RPL554, when inhaled across a range of doses, is an effective bronchodilator and anti-inflammatory agent and is an excellent candidate for further development.

- Studies continue to demonstrate the excellent bronchodilator properties of RPL554 indicating that it is able to produce large improvements in lung function in healthy subjects as well as patents with mild, moderate or severe lung disease
- Data from the asthma study indicate that RPL554 can produce an improvement in lung function at least as large as the most commonly used rescue bronchodilator, salbutamol
- The Company is strongly encouraged by the observation that RPL554 is consistently well tolerated in these studies. The new suspension formulation is much better tolerated than the earlier solution formulation prototype, with no maximum tolerated dose observed even at 16 times the active bronchodilator dose
- New formulation is suitable for twice daily dosing, which is convenient for patients
- Formulation provides for a longer pulmonary residence time, lower peak plasma exposure and longer half-life in blood than the earlier formulation, suggesting a more pronounced effect locally in the lung and comparatively less effects in other organs in the body

The suspension formulation of RPL554 has been developed for use in nebulisers and this formulation will be used in the further clinical development of the compound. The manufacture of this new formulation is scalable and shows stability suitable for commercialisation. The first Phase I/IIa clinical trial with the new formulation of RPL554 started in December 2014 at MEU, Manchester, UK.

SAD/MAD Phase I/II study in healthy volunteers and COPD patients

The first SAD/MAD study enrolled 80 healthy subjects and 32 COPD patients. Increasing dose levels were tested in both the single dose SAD and the multiple dose (MAD, treatment twice daily for 5.5 days) parts of the study with the pre-specified highest dose being approximately 16 times greater than the dose used in earlier reported clinical studies, using the previous formulation of RPL554. The drug was well tolerated across all doses and no maximum tolerated dose could be reached. Importantly, there were no cardiovascular events of concern and a lack of PDE4-inhibitor-like adverse events. Pharmacokinetic data showed lower peak plasma levels and a significantly longer half-life of the drug in plasma, than that observed with the previous formulation. This suggests that the new suspension formulation results in a longer residence time for RPL554 in the lung and slower release into the blood stream, suggesting that twice-daily dosing may be appropriate.

Dose-finding Phase IIa study in asthma patients

A Phase IIa dose-finding study was conducted in 29 patients with moderate asthma in UK and Sweden. The study met its primary objective, with nebulised RPL554 demonstrating a dose-dependent bronchodilator response in asthma patients. RPL554 pharmacokinetics was linear across the whole dose range. At the highest doses of both compounds, RPL554 produced the same maximum bronchodilator effect as that by a supramaximal dose of nebulised salbutamol (7.5 mg, a dosed occasionally used in the hospital emergency room). Even the lowest RPL554 dose of 0.4mg was significantly superior ($p<0.0001$) to placebo as a bronchodilator. All doses of RPL554 were found to be well tolerated and the data supports the use of RPL554 in a twice daily dosing regimen. There were no reports of serious adverse events and fewer adverse events were seen with RPL554 than with salbutamol. Salbutamol produced well-acknowledged adverse events for this drug including tremor, tachycardia, palpitations, and a reduction in blood potassium levels. The large dosing range (60 fold) of RPL554 suggests a potentially large therapeutic index.

Phase IIa study in COPD patients

A Phase IIa add-on bronchodilator study was conducted in 30 patients with moderate to severe COPD in UK. The primary objectives of the study were met: RPL554 when used in combination with other common bronchodilators was as well tolerated as the individual drugs given alone. Furthermore, nebulised RPL554 produced a significantly ($p<0.0001$) larger bronchodilator response when added on-top-of a standard dose of either salbutamol (a beta2 agonist) or ipratropium (an anti-muscarinic drug) than either of the individual drugs alone. Importantly, the combination with the anti-muscarinic drug seemed to be more effective in peripheral airways, in keeping with earlier *in vitro* data showing a synergistic effect between RPL554 and anti-muscarinic drugs in human large and small airways. The combination with the beta2 agonist seemed to be additive, as observed in earlier pre-clinical studies. These data suggest that RPL554 could be both a stand-alone treatment as well as a very attractive combination partner to existing treatments for COPD.

The Company is highly encouraged by the results demonstrated with this new suspension formulation of RPL554 and is preparing plans to progress this formulation into a Phase IIb clinical programme to investigate treatment of acute exacerbations in COPD and maintenance treatment of COPD patients with a nebuliser.

Cystic fibrosis

Further experiments were performed in cells obtained from the airways of cystic fibrosis patients to demonstrate that RPL554 is an activator of CFTR, the ion channel that is dysfunctional and causes the respiratory problems in patients with cystic fibrosis. These data were presented at the North America Cystic Fibrosis conference in Phoenix, US, in October 2015 and in a peer-reviewed manuscript in the American Journal of Physiology published in November 2015. This work continues with the support of a Venture and Innovation Award from the UK Cystic Fibrosis Trust, the first to be granted to a biotech company by the Trust. Cystic fibrosis is a rare, orphan disease, and therefore provides a very attractive development and market opportunity for the Company. The Company plans to commence clinical work for this indication in 2017.

FINANCIALS

The loss from operations for the year ended 31 December 2015 was £7.42m (2014: £2.76m). Research and development expenditure amounted to £7.27m (2014: £2.63m) and reflected an increase in expenditures on the RPL554 programme by £4.88m to £7.15m (2014: £2.27m). The increase in expenditure on the RPL554 programme was primarily due to a planned acceleration of the development of the new nebulised formulation programme.

Administrative expenses for the year were £1.71m (2014: £1.16m). R&D costs are expected to be offset by R&D tax credits of approximately £1.53m receivable in 2016.

As at 31 December 2015, the Company had approximately £3.52 million in cash and cash equivalents.

MANAGEMENT AND STAFF

In January 2015, the Company appointed Dr Kenneth Newman as Chief Medical Officer. Dr Newman is an experienced pharmaceutical and biotechnology industry executive with extensive experience in clinical development, particularly for the treatment of respiratory disease. Prior to joining Verona Pharma, Dr Newman was Chief Development Officer at Mesoblast Inc. Previously, Dr Newman held the positions of Chief Medical Officer at Acton Pharmaceuticals, VP, Medical Affairs at Boehringer Ingelheim and several positions at Forest Laboratories (now Allergan). Dr Newman began his professional career at the National Jewish Medical and Research Center, Denver, Colorado.

The Company also significantly strengthened the Board of Directors during the year. Dr Anders Ullman, who joined the Board in September 2015, was previously EVP R&D at Nycomed (now Takeda) and was responsible for the development and approval of roflumilast (*Daxas*®) for the treatment of COPD. He also oversaw the initiation of a post-approval Phase IV study (the REACT study) which was published in the Lancet in February 2015. This study demonstrated that treatment with the PDE4 inhibitor roflumilast leads to a 24% reduction in severe COPD exacerbations even in the presence of "double" or "triple" therapy. Subsequently AstraZeneca purchased the commercial rights to roflumilast from Takeda.

Dr Ken Cunningham, who also joined the Board in September, was the CEO of Arakis, a respiratory company sold to Sosei. He was also a former CEO of Skyepharma plc, which developed the orally inhaled drug Flutiform®, which is approved in Europe and Japan for the treatment of asthma and licensed to Mundipharma. Ken was also chairman of Prosonix, an inhalation development company, purchased by Circassia in 2015.

By adding Dr Ullman and Dr Cunningham to the Board, we have significantly expanded the expertise on the Board both in terms of respiratory medicine and significant transaction experience.

Post period end, Biresh Roy, Chief Financial Officer, stepped down from the Board with immediate effect but remains with Verona Pharma for up to six months to allow time for a suitable successor to be appointed and

for an orderly handover. The Board has commenced a search for his successor and a further announcement will be made in due course. The Board thanks Biresh for his many contributions to the Company at what has been a formative time for Verona Pharma, as it has delivered on important operational and clinical goals it set at the time of the 2014 financing, on or ahead of budget in a timely manner.

OUTLOOK

The US has about 12 million patients diagnosed with COPD, and it is expected that there are almost as many again that remain undiagnosed. About 9% of COPD patients prefer to use a nebuliser over other types of inhalation devices, so they are comfortable that they have actually received the medication. This is potentially a large market for RPL554.

The Board believes that RPL554, with its unique bronchodilator, anti-inflammatory and CFTR activator properties, is capable of addressing specific patient groups that are currently under-treated and for which there is limited competition in the form of new types of drugs with both bronchodilator and anti-inflammatory properties, such as patients with COPD, cystic fibrosis and possibly asthma. The Board believes that RPL554 therefore presents a very attractive commercial opportunity for generating significant value for shareholders.

We have made considerable clinical progress with RPL554 since the March 2014 fundraising. The complete set of Phase IIa data is expected by end Q2 2016 after which the Company will prepare the compound for Phase IIb studies. The completion of these studies represents the next significant value inflection point for the Company.

The Directors are currently considering all options for further funding of such studies. As part of this process, and as previously stated, the Board recognises that an experienced and resourceful commercial partner could bring significant value to the development of a DPI/MDI formulation of RPL554 for chronic maintenance treatment in COPD and potentially other respiratory diseases. The Company therefore continues to be involved in business development discussions around the RPL554 programme and may undertake some limited additional clinical work to enhance to prospects of an attractive partnership. The Company intends to partner its drug candidates only when it can extract a commercially attractive return for the Company and its shareholders.

The Company will continue to operate with a strong focus and financial discipline, and remains very positive about its progress to date and the opportunities for its lead drug development programme in COPD.

We would like to thank the staff and Board members for all their contributions and shareholders for their continued support during a successful year.

Dr. David Ebsworth
Chairman

2 June 2016

Dr. Jan-Anders Karlsson
Chief Executive Officer

2 June 2016

The Directors present their strategic report together with the audited financial statements and auditors' report for the year ended 31 December 2015.

Principal activity

The Company was incorporated on 24 February 2005. On 18 September 2006 the Company successfully acquired all the shares of Rhinopharma Limited, a private company incorporated in Canada, and changed its name to Verona Pharma plc (the "Company" or the "Parent"). On 12 December 2014, the Company established a U.S subsidiary, Verona Pharma Inc., in the state of Delaware. The Parent, Rhinopharma Limited and Verona Pharma Inc. are collectively referred to as the "Group".

The principal activity of the Group is the development of novel, "first-in-class" drugs for the treatment of chronic respiratory diseases, such as chronic obstructive pulmonary disease (COPD), asthma and cystic fibrosis.

Review of the business and future prospects

The Chairman and Chief Executive Officer's joint statement describes the Group's activities and future prospects.

Key performance indicators ("KPIs")

The key performance indicators for the Group are as follows:

1. Development milestones – this operational KPI is used by the Board to monitor the performance of the Group's drug candidates through the planned clinical studies. Key development milestones achieved in 2015 include:

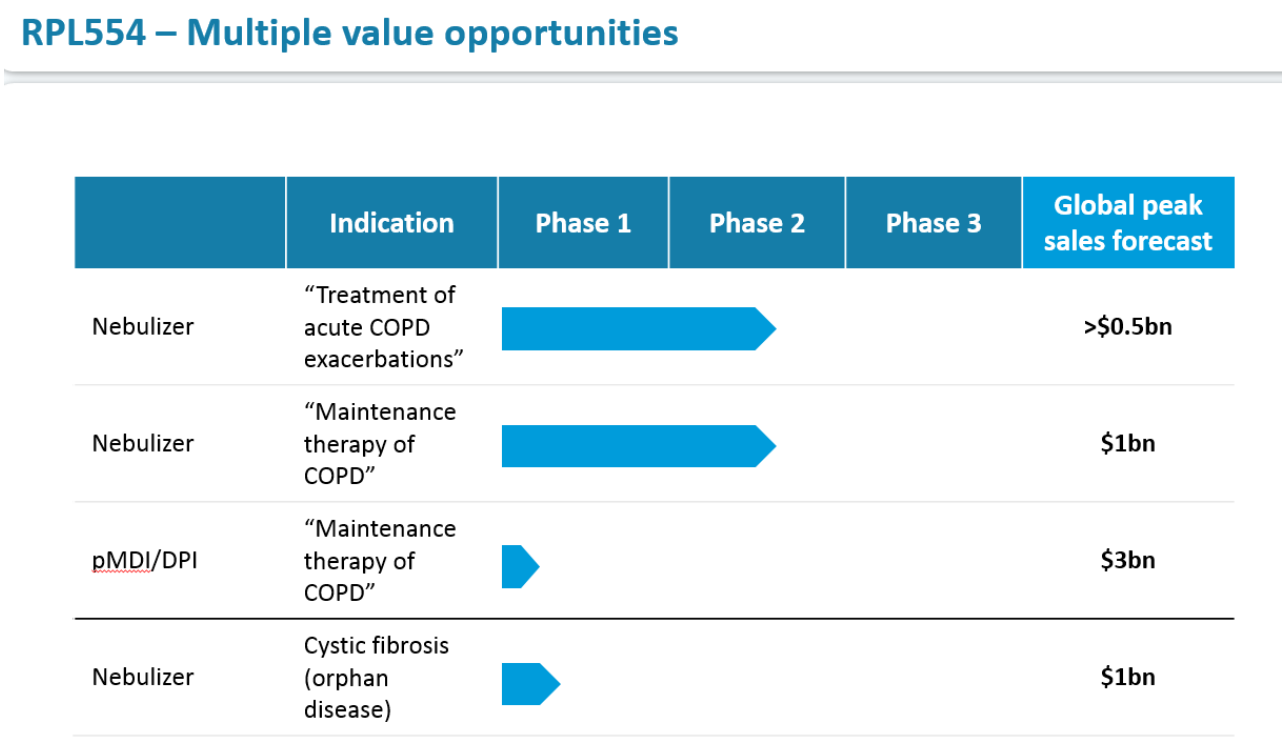
- Completed a series of clinical trials with a novel proprietary suspension formulation for nebulisation of the lead compound RPL554 - a "first-in-class", dual PDE3/PDE4 inhibitor with both bronchodilator and anti-inflammatory activities for treatment of respiratory diseases.
    - a Phase I/IIa Single Ascending Dose /Multiple Ascending Dose (SAD/MAD) study in 80 healthy subjects and in 32 COPD patients in UK (study 007)
    - a Phase IIa dose-finding study in 29 asthma patients in UK and Sweden (study 008)
    - a Phase IIa study examining the effect of adding RPL554 to standard doses of common bronchodilator drugs in 30 COPD patients in UK (study 009)

- Filed multiple patents on RPL554 to extend IP coverage beyond 2030

- Published further data on RPL554 at the North America Cystic Fibrosis Conference and in a scientific journal, providing additional data demonstrating that it is an activator of the CFTR channel that is dysfunctional in cells from cystic fibrosis patients and responsible for the respiratory problems in these patients

2. Cash flow: This financial KPI is used by the Board to monitor the Group's burn rate and the timing and requirement for future funding. The average monthly operating cash outflow in 2015 was £588,000 (2014: £320,000), the increase in operating cash outflow over last year reflecting the increased R&D activity, especially clinical trials, during the year. The net cash position at 31 December 2015 was £3.52 million. It is estimated that the Group has funds allowing it to complete existing clinical studies and operate for more than 12 months as at the date of approval of this report assuming no acquisition of new intellectual properties and based on current cost expectations and level of operations.

Following is a clinical development chart showing the stage of development of the Group's drug candidates as at 31 December 2015:



The Group's strategy is to either enter into a licensing or partnership arrangement for the further development and commercialisation of its drug candidates at the end of clinical proof of concept and/or to develop drug candidates in-house for smaller, specialised disease indications. The timeline for entering into licensing arrangements is uncertain and depends on the Group's ability to find a suitable partner and successfully complete the due diligence and negotiation process.

Principal risks and uncertainties

There is a high level of risk in drug development. The Group's current drug development programmes are at an early stage. The RPL554 programme has completed Phase I and IIa with the original formulation and subsequently with the new suspension formulation. More than 275 human subjects have been included in the clinical trials conducted with RPL554 to date. The next step is entering larger and longer Phase IIb trials. In addition, there are numerous regulatory approvals that must be obtained to test, manufacture and commercialise the proposed drug treatments. Even if such approvals are obtained, there is no certainty that the Group will be able to commercialise the drug treatments on commercially acceptable terms or that additional development trials will prove successful. The Group will require access to additional funding in the future. If it fails to obtain such funding the Group may need to delay or scale back some of its anticipated further research and development programmes.

Looking ahead

The Company is highly encouraged by the clinical results demonstrated with this new suspension formulation of RPL554 that were obtained ahead of our original timeline. With expanded respiratory development competency on the Board, the Company is preparing plans to progress RPL554 into a Phase IIb clinical programme, as well as additional pre-clinical and clinical work in Cystic Fibrosis and potentially other respiratory conditions. These activities will be performed together with vendors and partners in a highly focused and financially prudent manner. The Company continues the acceleration of RPL554 development that started in 2014 to create shareholder value and provide COPD patients with a new and clinically meaningful treatment option.

By order of the Board

Dr. Jan-Anders Karlsson
Chief Executive

2 June 2016

Results and dividends

The Group results for the year are set out on page 22. There was a loss for the year after taxation amounting to £7.42 million (2014: loss of £2.76 million), reflecting a planned increase in research and development expenditure to £7.27 million (2014: £2.63 million). In view of the loss for the period, further planned expenditure on drug development and in the absence of distributable reserves the Directors cannot recommend the payment of a dividend.

Directors

The following Directors held office during the year:

Jan-Anders Karlsson
David Ebsworth
Biresh Roy (resigned post period end)
Claire Poll (retired from the Board 10th September 2015)
Trevor Jones (retired from the Board 10th September 2015)
Stuart Bottomley (retired from the Board 10th September 2015)
Ken Cunningham (appointed 10th September 2015)
Anders Ullman (appointed 10th September 2015)
Patrick Humphrey

Directors' interests

The beneficial and non-beneficial interests in the Company's shares of the Directors and their families were as follows:

Name	Held at 31 December 2015	Held at 31 December 2014
David Ebsworth	4,199,774	1,326,667
Jan-Anders Karlsson	2,870,000	1,709,091
Biresh Roy	900,000	Nil
Ken Cunningham	Nil	Nil
Anders Ullman	Nil	Nil
Patrick Humphrey	Nil	Nil

Share options

Share options held by Directors at 31 December 2015 were as follows:

	At beginning of period	Granted/ exercised or expired in period	At end of period	Exercise price (£)	Exercisable at end of period
J-A Karlsson	5,000,000	-	5,000,000	0.05 - 0.15	5,000,000
J-A Karlsson	5,000,000	-	5,000,000	0.04	3,333,334
J-A Karlsson	3,000,000	-	3,000,000	0.035	1,000,000
J-A Karlsson	-	15,000,000	15,000,000	0.025	-
B Roy	6,000,000	-	6,000,000	0.022	2,000,000
B Roy	-	2,000,000	2,000,000	0.025	-
P Humphrey	500,000	(500,000)	-	0.09	-
P Humphrey	1,000,000	-	1,000,000	0.04	666,667

Report on Directors' remuneration and service contracts

The Remuneration Committee, consisting of two independent Non-Executive Directors and chaired by Dr. David Ebsworth, meets at least once a year (or more frequently as required). The Committee is responsible for the remuneration of the Executive Directors, including their benefits in kind, terms of employment and share options. The Executive Directors also consult the Committee in relation to the remuneration of senior employees and staff share option schemes. The remuneration of the Non-Executive Directors is determined by the Board as a whole, based on a review of current practices in other companies. The service contracts of the Directors for director services are subject to a three-month termination period. There is a separate contract in place for the provision of consulting services by Claire Poll. The consulting contract with Claire Poll is in her own name and specifies a termination period of three months. The employment contract with Dr. Jan-Anders Karlsson is in his own name and the contract specifies a termination period of twelve months. The employment contract with Biresh Roy is in his own name and the contract specifies a termination period of six months.

The Committee aims to provide remuneration packages that are sufficient to attract, retain and motivate high-calibre Executive Directors who can deliver the Company's strategic objectives, reflecting the individual's experience and role within the Company. The Committee recognises that remuneration packages should be appropriately structured to include fixed and variable pay elements and a mixture of short, medium and long-term incentives in order to align the actions and interests of the Executive Directors with those of shareholders. To achieve this objective, the Committee takes account of shareholder views on remuneration policy and information on remuneration paid by other companies of a similar size and comparable industry sector in the UK. The Committee has engaged the services of an external adviser, New Bridge Street (a brand of Aon Hewitt Ltd, part of Aon plc) to provide such information and to advise the Committee on its remuneration policy effective from 1 January 2015.

Details of the Directors' emoluments for the year are set out below. An annual cash bonus is awarded on the achievement of stretch objectives that support the Company's corporate goals and business strategy together with goals in relation to personal performance. Goals typically include progress in clinical development programs, cash flow management, pipeline development, partnering and investor relations. Jan-Anders Karlsson, CEO, received a £144,000 bonus in 2015 representing 80% of target bonus against 2014 objectives.

The CEO and CFO are required to invest a significant proportion of their after-tax bonus in purchasing shares in the Company and are required to build and retain a significant holding in the Company equivalent to at least 100% and 50% respectively of their base salary. Share option awards are made at the discretion of the Committee and are designed to encourage strong corporate performance. Awards typically vest over a three year period. Share options granted to Executive Directors in 2015 vest 50% two years after the date of grant and 50% three years after the date of grant. The Committee imposes performance conditions for share options by setting the exercise price at a premium to the share price at the date of grant.

Directors' emoluments

	Base Salary	Consulting Fees	Bonus	Employer's NI/Benefit ±	Employer's Pension	Share-based payment	2015 Total	2014 Total
	£	£	£	£	£	£	£	£
Executive								
Jan-Anders Karlsson	181,800	-	144,000	84,548	19,089	140,970	570,407	390,457
Biresh Roy	180,000	-	21,000*	30,675	18,900	37,731	288,306	58,055
Claire Poll	13,949	56,051	10,000	-	-	29,760	109,760	94,787
Non-Executive								
David Ebsworth	80,000	33,000	-	9,921	-	-	122,921	7,207
Patrick Humphrey	25,000	-	-	2,331	-	7,776	35,107	28,024
Trevor Jones	23,423	-	-	2,113	-	7,776	33,312	28,024
Stuart Bottomley	23,423	-	-	2,113	-	7,777	33,313	28,024
Ken Cunningham	9,230	-	-	628	-	-	9,858	-
Anders Ullman	9,230	-	-	628	-	-	9,858	-
	546,055	**89,051**	**175,000**	**132,957**	**37,989**	**231,790**	**1,212,842**	**634,578**

* Biresh Roy's bonus is pro-rata for 2014
±Included in £84,548 for Dr. Karlsson is £35,770 in health insurance benefit.
±Included in £30,675 for Biresh Roy is £3,564 in health insurance benefit.

Pensions

Verona Pharma plc operates a defined contribution pension scheme open to all Executive Directors and employees.

Political and charitable contributions

There were no political or charitable contributions made by the Company during the year ended 31 December 2015.

Significant share holders

The Company has been notified, in accordance with Chapter 5 of the FCA's Disclosure and Transparency Rules, of the under noted interests in its ordinary shares as at 23 May 2016 of 3% shareholders and above:

	Number of Ordinary shares	% of Share Capital
The Wales Life Sciences Investment Fund LP	207,500,000	20.55
Aviva plc and subsidiaries	159,335,343	15.78
Vivo Capital	82,000,000	8.12
Fidelity International	77,737,197	7.70
Investec Wealth & Investment	55,948,334	5.54
Hargreaves Lansdowne	43,629,005	4.32
TD Waterhouse	36,010,859	3.57

Statement of Directors' responsibilities

The Directors are responsible for preparing their annual reports and the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs").

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as the Directors are aware:

1. there is no relevant audit information of which the Company's auditors are unaware; and
2. the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditors

In accordance with Section 489 of the Companies Act 2006, a resolution proposing that PricewaterhouseCoopers be re-appointed as auditors of the Company and that the Directors be authorised to fix their remuneration will be proposed at the Annual General Meeting.

Annual General Meeting

Accompanying this report is the notice of Annual General Meeting of the Company which sets out the resolutions relating to the business which the Company proposes to conduct at the meeting. The meeting will be held at 11am on 27th June 2016 at One America Square, Crosswall, London EC3N 2SG.

By order of the Board.

Dr. Jan-Anders Karlsson
Chief Executive

2 June 2016

Board of Directors

The Board meets at regular intervals, normally no less than six times a year. The Board is responsible for approving company policy and strategy. The Board consists of five members, with Dr. Jan-Anders Karlsson as an executive director and Dr. David Ebsworth, Dr. Patrick Humphrey, Dr. Ken Cunningham and Dr. Anders Ullman as non-executive directors. The Chairman of the Board is Dr. David Ebsworth and the Company's business is run by Dr. Jan-Anders Karlsson (CEO).

Internal control

The Board is responsible for maintaining a strong system of internal control to safeguard shareholders' investment and the Group's assets and to review its effectiveness. The system of internal control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to mitigate operational risks.

An Audit Committee has been established, chaired by Dr. Ken Cunningham and with Dr. Ebsworth and Dr. Anders Ullman as members. The Committee meets at least twice a year and is responsible for ensuring that the financial performance of the Group is properly monitored and reported on, as well as meeting the auditors and reviewing any reports prepared by auditors.

At the present time, the size of the Group does not justify an internal audit function. The key features of the Group's system of internal control are as follows:

- the Company is headed by an effective Board, which leads and controls the Group;
- there is a clear division of responsibilities in running the Board and running the Group's business;
- the Board includes a balance of executive and non-executive directors; and
- the Board receives and reviews on a timely basis financial and operating information appropriate to being able to discharge its duties.

The Company has also established a Remuneration Committee and a Nomination and Corporate Governance Committee. Both of these Committees are chaired by Dr. David Ebsworth and have Dr. Ken Cunningham, Dr. Patrick Humphrey and Dr. Anders Ullman as members. Each Committee meets at least once a year. The Nomination and Corporate Governance Committee is responsible for overseeing the Company's corporate governance capability, including evaluating the structure, size and composition of the Board and succession planning of Board members and senior management.

Going concern

The Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Board will continue to monitor the progress of the development of its programmes and the financial position in order to ensure that the Group continues to have sufficient funding to continue in business. For this reason, the Board continues to adopt the going concern basis in preparing the financial statements.

Communication with shareholders

The Board has a strong commitment to the maintenance of good investor relations with its shareholders, and the Directors will make themselves available to answer questions at the Annual General Meeting. Shareholders are encouraged to contact the Company via email or telephone if they have any questions.

Report on the financial statements

Our opinion

In our opinion:

- Verona Pharma plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2015 and of the group's loss and the group's and the parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Accounts (the "Annual Report"), comprise:

- the group and parent company statements of financial position as at 31 December 2015;
- the group statement of comprehensive income for the year then ended;
- the group and parent company statements of cash flows for the year then ended;
- the group and parent company statements of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

Opinion on additional disclosures

Directors' Remuneration Report

The parent company voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The directors have requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the parent company were a quoted company. In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' responsibilities set out on page 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Jason Clarke (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors
Cardiff

2 June 2016

VERONA PHARMA PLC
GROUP STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	Year ended 31 December 2015 £	Year ended 31 December 2014 £
Research and development costs		(7,265,063)	(2,634,848)
General and administrative costs		(1,705,944)	(1,157,925)
Operating loss	5	(8,971,007)	(3,792,773)
Finance income	7	44,791	29,978
Loss before taxation		(8,926,216)	(3,762,795)
Taxation – credit	8	1,509,448	1,004,065
Loss and total comprehensive loss for the year		(7,416,768)	(2,758,730)
Loss and total comprehensive loss attributable to equity owners of the Company		(7,416,768)	(2,758,730)
Loss per ordinary share – basic and diluted (pence)	3	(0.73)p	(0.32)p

VERONA PHARMA PLC
GROUP STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

	Notes	31 December 2015 £	31 December 2014 £
ASSETS			
Non-current assets			
Plant and equipment	13	13,822	21,847
Intangible assets – patents	14	343,985	380,540
Goodwill	15	1,469,112	1,469,112
		1,826,919	1,871,499
Current assets			
Trade and other receivables	10	2,048,088	1,287,535
Cash and cash equivalents	11	3,524,387	9,969,759
		5,572,475	11,257,294
Total assets		7,399,394	13,128,793
EQUITY AND LIABILITIES			
Capital and reserves attributable to equity holders			
Share capital	16	1,009,923	1,009,923
Share premium		26,650,098	26,650,098
Share-based payment reserve		1,022,440	677,946
Retained losses		(23,095,806)	(15,733,487)
Total equity		5,586,655	12,604,480
Current liabilities			
Trade and other payables	12	1,812,739	524,313
Total liabilities		1,812,739	524,313
Total equity and liabilities		7,399,394	13,128,793

The financial statements on pages 22 to 49 were approved by the Board of Directors on 2 June 2016 and signed on its behalf by:

Dr. Jan-Anders Karlsson
Chief Executive

Biresh Roy
Chief Financial Officer

Company Number: 05375156

VERONA PHARMA PLC
COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

	Notes	31 December 2015 £	31 December 2014 £
ASSETS			
Non-current assets			
Plant and equipment	13	13,822	21,847
Intangible assets – patents	14	343,985	380,540
Goodwill	15	1,453,569	1,453,569
Investment	9	79,593	2
		1,890,969	1,855,958
Current assets			
Trade and other receivables	10	2,048,617	1,287,535
Cash and cash equivalents	11	3,523,140	9,968,483
		5,571,757	11,256,018
Total assets		7,462,726	13,111,976
EQUITY AND LIABILITIES			
Capital and reserves attributable to equity holders			
Called up share capital	16	1,009,923	1,009,923
Share premium account		26,650,098	26,650,098
Share-based payment reserve		1,022,440	677,946
Retained losses		(23,137,641)	(15,750,305)
Total equity		5,544,820	12,587,662
Current liabilities			
Trade and other payables	12	1,917,906	524,314
Total liabilities		1,917,906	524,314
Total equity and liabilities		7,462,726	13,111,976

The financial statements on pages 22 to 49 were approved by the Board of Directors on 2 June 2016 and approved on its behalf by:

Dr. Jan-Anders Karlsson
Chief Executive

Biresh Roy
Chief Financial Officer

Company Number: 05375156

VERONA PHARMA PLC
GROUP STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	Year ended 31 December 2015 £	Year ended 31 December 2014 £
Cash flows from operating activities			
Cash used in operating activities	17	(7,052,412)	(3,833,926)
Income tax credit received		699,519	293,263
Net cash used in operating activities		(6,352,893)	(3,540,663)
Cash flow from investing activities			
Interest received		50,591	24,178
Purchase of plant and equipment		(1,830)	(4,882)
Payment for patents		(141,240)	(215,676)
Net cash used in investing activities		(92,479)	(196,380)
Cash flow from financing activities			
Net proceeds from issue of shares		-	13,103,011
Net cash generated from financing activities		-	13,103,011
Net (decrease)/increase in cash and cash equivalents		(6,445,372)	9,365,968
Cash and cash equivalents at the beginning of the year		9,969,759	603,791
Cash and cash equivalents at the end of the year	11	3,524,387	9,969,759

VERONA PHARMA PLC
COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	Year ended 31 December 2015 £	Year ended 31 December 2014 £
Cash flows from operating activities			
Cash used in operating activities	17	(7,052,383)	(3,833,914)
Income tax credit received		699,519	293,263
Net cash used in operating activities		(6,352,864)	(3,540,651)
Cash flow from investing activities			
Interest received		50,591	24,178
Purchase of plant and equipment		(1,830)	(4,882)
Payments for patents		(141,240)	(215,676)
Net cash used in investing activities		(92,479)	(196,380)
Cash flow from financing activities			
Net proceeds from issue of shares		-	13,103,011
Net cash generated from financing activities		-	13,103,011
Net (decrease)/increase in cash and cash equivalents		(6,445,343)	9,365,980
Cash and cash equivalents at the beginning of the year		9,968,483	602,503
Cash and cash equivalents at the end of the year	11	3,523,140	9,968,483

VERONA PHARMA PLC
GROUP STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

	Share capital £	Share premium £	Option reserve £	Retained losses £	Total £
Balance at 1 January 2014	372,598	14,184,412	640,579	(13,129,576)	2,068,013
Loss for the year	-	-	-	(2,758,730)	(2,758,730)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	(2,758,730)	(2,758,730)
Issue of shares	637,325	13,383,821	-	-	14,021,146
Share issue costs	-	(918,135)	-	-	(918,135)
Share-based payments	-	-	192,186	-	192,186
Transfer of previously expensed share based payment charge upon lapse of options	-	-	(154,819)	154,819	-
Balance at 31 December 2014	1,009,923	26,650,098	677,946	(15,733,487)	12,604,480
Balance at 1 January 2015	1,009,923	26,650,098	677,946	(15,733,487)	12,604,480
Loss for the year	-	-	-	(7,416,768)	(7,416,768)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	(7,416,768)	(7,416,768)
Issue of shares	-	-	-	-	-
Share issue costs	-	-	-	-	-
Share-based payments	-	-	398,943	-	398,943
Transfer of previously expensed share based payment charge upon lapse of options	-	-	(54,449)	54,449	-
Balance at 31 December 2015	1,009,923	26,650,098	1,022,440	(23,095,806)	5,586,655

VERONA PHARMA PLC
COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

	Share capital £	Share premium £	Option reserve £	Retained losses £	Total £
Balance at 1 January 2014	372,598	14,184,412	640,579	(13,147,128)	2,050,461
Loss for the year	-	-	-	(2,757,996)	(2,757,996)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	(2,757,996)	(2,757,996)
Issue of shares	637,325	13,383,821	-	-	14,021,146
Share issue costs	-	(918,135)	-	-	(918,135)
Share-based payments	-	-	192,186	-	192,186
Transfer of previously expensed share based payment charge upon lapse of options	-	-	(154,819)	154,819	-
Balance at 31 December 2014	1,009,923	26,650,098	677,946	(15,750,305)	12,587,662
Balance at 1 January 2015	1,009,923	26,650,098	677,946	(15,750,305)	12,587,662
Loss for the year	-	-	-	(7,441,785)	(7,441,785)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	(7,441,785)	(7,441,785)
Issue of shares	-	-	-	-	-
Share issue costs	-	-	-	-	-
Share-based payments recognised as expense	-	-	319,352	-	319,352
Share-based payments recognised as investment in subsidiary	-	-	79,591	-	79,591
Transfer of previously expensed share based payment charge upon lapse of options	-	-	(54,449)	54,449	-
Balance at 31 December 2015	1,009,923	26,650,098	1,022,440	(23,137,641)	5,544,820

1. General information

Verona Pharma plc ("the company") and its subsidiaries (together "the group") develop innovative prescription medicines to treat respiratory diseases.

The company is a public limited company, which is listed on the Alternative Investment Market (AIM) and incorporated and domiciled in the UK.

2. Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, is set out below.

2.1. Basis of preparation

The consolidated financial statements of Verona Pharma plc have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 2.14.

2.2. Going concern

During the year ended 31 December 2015 the Group made a loss of £7,416,768 (2014: a loss of £2,758,730). At the year-end date the Group had net assets of £5,586,655 (2014: £12,604,480) of which £3,524,387 was cash and cash equivalents.

The operation of the Group is currently being financed from funds that the Company raised from share placings. On 24 March 2014 the Company announced that it had raised £14.0 million in gross proceeds from a placing, subscription and open offer.

These funds have been used primarily to support the development of RPL554 in moderate and severe COPD as well as corporate and general administrative expenditures.

The Group's capital management policy is to only raise sufficient funding to finance the Group's near term objectives of its clinical development programmes. Based on considerable clinical progress with RPL554 since the March 2014 fundraising, the next significant value inflection point is expected to be completion of phase 2b studies (which will require funding). The Directors are currently considering all options for further funding of such studies. As part of this process, and as previously stated, the Company recognises that the right commercial partner could bring significant value to the development of RPL554 for chronic maintenance treatment in COPD and perhaps asthma. The Company therefore continues to be involved in business development discussions around RPL554.

The Directors believe that the Group has sufficient funds to complete the current clinical trials, to cover corporate and general administration costs and for it to comply with all its current and foreseeable commitments and, accordingly, are satisfied that the going concern basis remains appropriate for the preparation of these financial statements.

2.3. Basis of consolidation

These group financial statements include the accounts of Verona Pharma plc and its wholly-owned subsidiaries Rhinopharma Limited and Verona Pharma Inc. The purchase method of accounting is used to account for the acquisition of Rhinopharma Limited.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Goodwill arising on acquisitions is capitalised and subject to an impairment review, both annually and when there are indications that the carrying value may not be recoverable.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated.

Rhinopharma Limited and Verona Pharma Inc. adopt the same accounting policies as the Company.

2.4. Foreign currency translation

Items included in the Group's financial statements are measured using the currency of the primary economic environment in which the Group operates ("the functional currency"). The financial statements are presented in pounds sterling ("£"), which is the functional and presentational currency of the Company and the presentational currency of the Group.

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the original transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The assets and liabilities of foreign operations are translated into sterling at the rate of exchange ruling at the balance sheet date. Income and expenses are translated at weighted average exchange rates for the period. The resulting exchange differences are recognised in other comprehensive income.

2.5. Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.6. Deferred Taxation

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and expected to apply when the related deferred tax is realised or the deferred liability is settled.

Deferred tax assets are recognised to the extent that it is probable that the future taxable profit will be available against which the temporary differences can be utilised.

2.7. Research and development costs

Capitalisation of expenditure on product development commences from the point at which technical feasibility and commercial viability of the product can be demonstrated and the Group is satisfied that it is probable that future economic benefits will result from the product once completed. No such costs have been capitalised to date, given the early stage of the Group's product development

Expenditure on research and development activities that do not meet the above criteria is charged to the Statement of Comprehensive Income as incurred.

2.8. Plant and equipment

Property, plant and equipment are stated at cost, net of depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is calculated so as to write off the cost less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned. The principal annual periods used for this purpose are:

Computer hardware	3 years
Computer software	2 years
Office furniture and equipment	5 years

2.9. Intangible assets and goodwill

(a) Group Goodwill
Group Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the fair value of the identifiable net assets acquired.

(b) Patents
Patent costs associated with the preparation, filing, and obtaining of patents are capitalised and amortised on a straight-line basis over the estimated useful lives of the patents of ten years.

2.10. Impairment of intangible assets and goodwill

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events of changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value (less costs of disposal) and value in use.

2.11. Pension

The Group operates a defined contribution pension scheme. Contributions payable for the year are charged to the Statement of Comprehensive Income. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the Statement of Financial Position. The Group has no further payment obligation once the contributions have been paid.

2.12. Share based payments

The Group operates a number of equity-settled, share-based compensation plans. The fair value of share-based payments under such schemes is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

The fair value calculation of share-based payments requires several assumptions and estimates as disclosed in note 19. The calculation uses the Black-Scholes model.

For equity-settled share-based payments where employees of subsidiary undertakings are rewarded with shares issued by the Parent Company, a capital contribution is recorded in the subsidiary, with a corresponding increase in the investment in the Parent Company.

Where warrants have been issued to external parties as recompense for services supplied, the fair value of warrants is charged to the Statement of Comprehensive Income over the period of services are received and a corresponding credit is made to reserves.

2.13. Investments in subsidiaries

Investments in subsidiaries are shown at cost less any provision for impairment.

2.14. Critical accounting judgements and estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. IFRSs also require management to exercise its judgement in the process of applying the Group's accounting policies.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows:

(a) Going Concern

The financial statements have been prepared on a going concern basis, which assumes that sufficient funds will be available for the Company and Group to continue in operational existence for the foreseeable future. More details are set out in note 2.2.

(b) Impairment of intangible assets

Determining whether an intangible asset is impaired requires an estimation of whether there are any indications that its carrying value is not recoverable.

At each reporting date, the Group reviews the carrying value of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to

the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Details of the Group's assessment of the carrying value of goodwill are disclosed in note 15.

(c) Share based payments

The Group records charges for share based payments. For option based share based payments management estimate certain factors used in the option pricing model, including volatility, vesting date of options and number of options likely to vest. If these estimates vary from actual occurrence, this will impact on the value of the equity carried in the reserves. Further details of the Group's estimation of share based payments are disclosed in note 19.

2.15. New standards, amendments and interpretations adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2015. They do not materially impact on the Group results:

- Annual improvements 2011 - 2013

2.16. New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2015 and not early adopted

A number of new standards and amendments to standards and interpretations have been endorsed for annual periods beginning after 1 January 2015 (noted below), and have not been early adopted in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the group.

- Annual improvements 2014 (2012-2014 cycle)
- Amendment to IFRS 11, 'Joint arrangements' on acquisition of an interest in a joint operation
- Amendments to IAS 16, 'Property, plant and equipment'
- Amendments to IAS 27, 'Separate financial statements' on the equity method
- Amendment to IAS 1, 'Presentation of financial statements' on the disclosure initiative
- Amendment to IFRS 10, 11 and 12 on transition guidance
- Amendments to IAS 32 and IFRS 7 Financial instruments on asset and liability offsetting
- IAS 28 (revised), 'Investments in associates and joint ventures'
- IFRS 13, 'Fair value measurement'
- Amendment to IAS 12,'Income taxes' on deferred tax
- Amendment to IAS 16, 'Property, plant and equipment' and IAS 38,'Intangible assets', on depreciation and amortisation
- Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures.

A number of new standards and amendments to standards and interpretations have been issued but are not yet endorsed for annual periods beginning after 1 January 2015 (noted below), and have not been adopted in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group.

- IFRS 15 Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2018)
- IFRS 9 Financial instruments (effective for annual periods beginning on or after 1 January 2018)

3. Earnings per share

Basic loss per share of 0.73p (2014: loss of 0.32p) for the Group is calculated by dividing the loss for the period by the weighted average number of ordinary shares in issue of 1,009,923,481 (2014: 866,743,656).

Potential ordinary shares are not treated as dilutive as the entity is loss making.

4. Segmental information

The Group has determined that its operating segments be reported on a product pipeline basis as this best reflects the Group's activity cycle. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board of Directors.

The Group's product pipeline is dedicated to the research, discovery and development of new therapeutic drugs for the treatment of acute and chronic respiratory diseases. Two products had reached the clinical stage: RPL554 and VRP700. However VRP700 was abandoned in 2015 in order to concentrate on RPL554. The basic research figures are for NAIPs, which were also abandoned in 2015.

Segment information by operating segment is as follows:

	Clinical 2015 £	**Clinical 2014 £**	**Basic research 2015 £**	**Basic research 2014 £**
Income statement information				
Research and development	(7,087,269)	(2,634,848)	-	-
Amortisation of patents	(42,983)	(38,046)	(279)	(4,233)
Write-off of patents	(108,707)	-	(25,825)	-
Segment loss	(7,238,959)	(2,672,894)	(26,104)	(4,233)
Assets information				
Patent	343,985	356,244	-	24,296
Goodwill	1,469,112	1,469,112	-	-
Segment intangible assets	1,813,097	1,825,356	-	24,296

4. Segmental information (continued)

	2015 £	2014 £
Reconciliation of segment result		
Loss per reportable segment – Clinical	(7,238,959)	(2,672,894)
Loss per segment – Basic research	(26,104)	(4,233)
Total loss for reportable segments	(7,265,063)	(2,677,127)
Depreciation of non-segment assets	(9,855)	(10,683)
Unallocated general and administrative costs	(1,696,089)	(1,104,963)
Group operating loss	(8,971,007)	(3,792,773)

At the end of the financial year, the Group was still in the early development stage and therefore had no turnover in either 2014 or 2015.

Reconciliation of segment assets		
Assets per reportable segment – Clinical	1,813,097	1,825,356
Assets per reportable segment – Basic research	-	24,296
Total assets for reportable segments	1,813,097	1,849,652
Unallocated non-current assets	13,822	21,847
Unallocated current assets	5,572,475	11,257,294
Group total assets	7,399,394	13,128,793

Segment information by geographical segment for 2015 is as follows:

Geographical segment (Group)	**United Kingdom** £	**North America** £	**Total** £
Research and development costs	(6,833,830)	(431,233)	(7,265,063)
General and administrative costs	(1,704,856)	(1,088)	(1,705,944)
Finance income	44,791	-	44,791
Loss before taxation	(8,493,895)	(432,321)	(8,926,216)
Tangible assets	13,822	-	13,822
Intangible assets	343,985	-	343,985
Trade and other receivables	2,048,088	-	2,048,088
Cash and cash equivalents	3,523,140	1,247	3,524,387
Goodwill	1,469,112	-	1,469,112
Trade and other payables	(1,782,006)	(30,733)	(1,812,739)
Net assets	5,616,141	(29,486)	5,586,655

4. Segmental information (continued)

Segment information by geographical segment for 2014 is as follows:

Geographical segment (Group)	**United Kingdom**	**North America**	**Total**
	£	**£**	**£**
Research and development costs	(2,634,848)	-	(2,634,848)
General and administrative costs	(1,157,191)	(734)	(1,157,925)
Finance income	29,978	-	29,978
Loss before taxation	(3,762,061)	(734)	(3,762,795)
Tangible assets	21,847	-	21,847
Intangible assets	380,540	-	380,540
Trade and other receivables	1,287,535	1	1,287,536
Cash and cash equivalents	9,968,483	1,276	9,969,759
Goodwill	1,469,112	-	1,469,112
Trade and other payables	(524,314)	-	(524,314)
Net assets	12,603,203	1,277	12,604,480

5. Operating expenses

Group ***Loss before income tax is stated after charging:***	**2015** **£**	**2014** **£**
Research and development costs:		
Employee benefits (note 6)	1,322,109	678,147
Amortisation of patents	43,262	42,280
Write-off of patents	134,532	-
Other expenses	5,765,160	1,914,421
Total research and developments costs	7,265,063	2,634,848
General and administrative costs:		
Employee benefits (note 6)	624,821	369,791
Legal and professional fees	608,447	394,316
Depreciation of plant and equipment	9,855	10,683
Operating lease charge	156,632	70,085
Other expenses	306,189	313,050
Total general and administrative costs	1,705,944	1,157,925
Total research and development and general administrative costs	8,971,007	3,792,773

During the year the Group obtained services from the Group's auditors and its associates as detailed below:-

Services provided by the Group's auditors ***Fees payable to the Group's auditors***	**2015** **£**	**2014** **£**
For the audit of Parent Company and consolidated financial statements	25,000	22,750
IT services review	9,972	-
Taxation consultancy	-	2,500
Total	34,972	25,250

6. Directors' emoluments and staff costs

	2015 Number	2014 Number
Group		
The average number of persons (including members of the Board) during the year was:	13	11

	2015 £	2014 £
Aggregate emoluments of directors:		
Salaries and other short-term employee benefits	854,012	526,582
Consulting fee	89,051	99,500
Pension contributions	37,989	-
	981,052	626,082
Share-based payment charge	231,790	121,602
Directors' emoluments including share-based payment charge	1,212,842	747,684

	2015 £	2014 £
Aggregate other staff costs:		
Wages and salaries	539,802	254,935
Social security costs	41,966	28,582
Share-based payment charge	137,393	16,737
Pension costs	14,927	-
	734,088	300,254

The Group operates a defined contribution pension scheme for UK employees and executive directors. The total pension cost during the year was £52,916 (2014: £nil). There are no prepaid or accrued contributions to the scheme at the year-end (2014: £nil).

7. Finance income

	2015 £	2014 £
Group		
Bank interest	44,791	29,978

8. Taxation

	2015 £	2014 £
Analysis of tax credit for the year		
Current tax:		
UK corporation tax at 20.25% (2014: 21.5%)	(1,520,732)	(641,652)
Prior year adjustment	11,284	(362,413)
Current tax credit	(1,509,448)	(1,004,065)
Factors affecting the tax charge for the year		
Loss on ordinary activities before taxation	(8,926,216)	(3,762,795)
Multiplied by standard rate of corporation tax of 20.25% (2014: 21.5%)	(1,807,559)	(809,001)
Effects of:		
Non-deductible expenses	113,529	2,194
Research and Development Incentive	(599,368)	(201,938)
Timing differences not recognised	(1,880)	38,026
Tax losses carried forward	774,546	329,067
Prior year adjustment	11,284	(362,413)
Current tax credit	(1,509,448)	(1,004,065)

Factors that may affect future tax charges

At the year-end date the Group has unused United Kingdom tax losses available for offset against suitable future profits in the United Kingdom. A deferred tax asset has not been recognised in respect of such losses due to uncertainty of future profit streams. The contingent deferred tax asset at 18% (2014: 20%) is estimated to be £2,244,221 (2014: £2,464,229).

9. Investments in subsidiaries

The Company currently has two wholly owned subsidiaries, Rhinopharma Limited and Verona Pharma Inc.

	2015	2014
Company	**£**	**£**
Net book amount:		
At the start of the year	2	1
Investment in subsidiary	-	1
Capital contribution arising from share-based payments	79,591	-
Net book amount at the end of year	79,593	2

A capital contribution arises where share-based payments are provided to employees of subsidiary undertakings settled with equity to be issued by the Company.

The Company's investments comprise interest in Group undertakings, details of which are shown below:

Name of undertaking	**Verona Pharma Inc.**	**Rhinopharma Limited**
Country of incorporation	Delaware USA	British Columbia Canada
Description of shares held	$0.001 Common stock	Without Par Value Common shares
Proportion of shares held by the Company	100%	100%

Verona Pharma Inc. was incorporated on the 12 December 2014 under the laws of the State of Delaware, USA. Rhinopharma Limited is incorporated under the laws of the Province of British Columbia, Canada. Rhinopharma Limited was a drug discovery and development company focused on developing proprietary drugs to treat allergic rhinitis and other respiratory diseases prior to its acquisition by the Company on 18 September 2006.

10. Trade and other receivables

	2015	2014
	£	**£**
Group		
Other receivables	1,851,775	922,934
Prepayments and accrued income	196,313	364,601
	2,048,088	1,287,535
Company		
Other receivables	1,851,775	922,934
Prepayments and accrued income	196,313	364,601
Amounts due from Group undertakings	529	-
	2,048,617	1,287,535

The classes within trade and other receivables do not include impaired assets.

Amounts due from Group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

11. Cash and cash equivalents	2015 £	2014 £
Group		
Cash at bank and in hand	3,524,387	9,969,759
Company		
Cash at bank and in hand	3,523,140	9,968,483

12. Trade and other payables	2015 £	2014 £
Group		
Trade payables	1,281,946	366,626
Other payables	54,964	31,493
Accruals	475,829	126,194
	1,812,739	524,313
Company		
Trade payables	1,281,946	366,626
Other payables	32,328	31,494
Amounts due to Group undertakings	135,900	-
Accruals	467,732	126,194
	1,917,906	524,314

Amounts due to Group undertakings are not interest bearing and have no fixed repayment date.

13. Plant and equipment

Group and Company	Computer hardware £	Computer software £	Office equipment £	Total £
Cost				
At 1 January 2014	36,670	23,684	36,461	96,815
Additions	4,632	250	-	4,882
At 31 December 2014	41,302	23,934	36,461	101,697
Depreciation				
At 1 January 2014	34,245	21,732	13,191	69,168
Charge for the year	1,645	2,014	7,023	10,682
At 31 December 2014	35,890	23,746	20,214	79,850
Net book value				
At 31 December 2014	5,412	188	16,247	21,847
Net book value				
At 31 December 2013	2,425	1,952	23,270	27,647

13. Plant and equipment (continued)

Group and Company	Computer hardware £	Computer software £	Office equipment £	Total £
Cost				
At 1 January 2015	41,302	23,934	36,461	101,697
Additions	1,193	637	-	1,830
At 31 December 2015	42,495	24,571	36,461	103,527
Depreciation				
At 1 January 2015	35,890	23,746	20,214	79,850
Charge for the year	2,664	166	7,025	9,855
At 31 December 2015	38,554	23,912	27,239	89,705
Net book value				
At 31 December 2015	3,941	659	9,222	13,822
Net book value				
At 31 December 2014	5,412	188	16,247	21,847

14. Intangible assets

Group and Company	Patents £
Cost	
At 1 January 2014	299,893
Additions	215,676
At 31 December 2014	515,569
Amortisation	
At 1 January 2014	92,749
Charge for the year	42,280
At 31 December 2014	135,029
Net book value	
At 31 December 2014	380,540
Net book value	
At 31 December 2013	207,144

14. Intangible assets (continued)

Group and Company	Patents £
Cost	
At 1 January 2015	515,569
Additions	141,239
Impairment	(174,944)
At 31 December 2015	481,864
Amortisation	
At 1 January 2015	135,029
Charge for the year	43,262
Impairment	(40,412)
At 31 December 2015	137,879
Net book value	
At 31 December 2015	343,985
Net book value	
At 31 December 2014	380,540

Intangible assets comprise the Group's investment in patents to protect RPL554. Patents are amortised over a period of ten years and are regularly reviewed for impairment to ensure the carrying amount exceeds the recoverable amount in accordance with note 2.10.

15. Goodwill	2015 £	2014 £
Group		
Goodwill	1,469,112	1,469,112
Company		
Goodwill	1,453,569	1,453,569

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in connection with the acquisition of Rhinopharma Limited in September 2006. Goodwill is capitalised and allocated to appropriate research projects, in Verona's case RPL554. They are deemed to have indefinite useful life and so are not amortised. Annual impairment test of the research projects ('RPs') is performed by comparing the expected recoverable amount of the RPs to the carrying amount of the RPs.

Recognising that the Group is still in pre-revenue phase and that the research projects are not yet ready for commercial use, management assesses the recoverable amount of such goodwill with reference to Verona's market capitalisation. As at 31 December 2015 this was several times the carrying value of goodwill. Accordingly management believe it is appropriate to carry goodwill at full historical value.

16. Called up share capital

The movements in the share capital are summarised below:

	Number of shares	£
Authorised:		
10,000,000,000 Ordinary shares of 0.1p each	10,000,000,000	10,000,000
Allotted, called up and fully paid:		
Ordinary shares as at 1 January 2014	372,598,650	372,598
Ordinary shares issued from share placement	298,750,000	298,750
Ordinary shares issued from share subscription	292,000,000	292,000
Ordinary shares issued from share open offer	46,574,831	46,575
As at 31 December 2014	1,009,923,481	1,009,923
As at 31 December 2015	1,009,923,481	1,009,923

17. Cash used in operating activities

	2015 £	2014 £
Group		
Operating loss	(8,971,007)	(3,792,773)
Share-based payment charge	398,943	192,186
Decrease / (increase) in trade and other receivables	57,633	(321,294)
Increase in trade and other payables	1,274,370	34,993
Depreciation of plant and equipment	9,854	10,682
Write-off of intangible assets	134,533	-
Amortisation of intangible assets	43,262	42,280
Cash used in operating activities	(7,052,412)	(3,833,926)
Company		
Operating loss	(9,010,081)	(3,792,039)
Share-based payment charge	319,352	192,186
Decrease / (increase) in trade and other receivables	57,104	(322,016)
Increase in trade and other payables	1,393,593	34,993
Depreciation of plant and equipment	9,854	10,682
Write-off of intangible asset	134,533	-
Amortisation of intangible assets	43,262	42,280
Cash used in operating activities	(7,052,383)	(3,833,914)

18. Related parties transactions

The Company was charged £2,375,898 by Simbec-Orion, a group of which Prof. Trevor Jones is a Director. At the year end, the Company owed £172,955 to this related party (2014: £Nil).

Arthurian Life Sciences Limited is also a company of which Prof. Trevor Jones is a Director. At the year end, the Company owed £nil to this related party (2014: £23,040). The £23,040 owed as at the end of 2014 was settled in early 2015. This was the only transaction with Arthurian Life Sciences Limited in 2015.

Arthurian Life Sciences Limited acts as General Partner for the Wales Life Sciences Investment Fund, which itself is a substantial shareholder in the Company.

The Directors of the Company have authority and responsibility for planning, directing and controlling the activities of the Group and they therefore comprise key management personnel as defined by IAS 24, Related Party Disclosures. Remuneration of Directors is disclosed in the Directors' emoluments report on page 15.

19. Share-based payments charge

Included within general and administrative costs is a share-based payment charge of £398,943 (2014: £192,187). The share based payment charge represents the current year's allocation of the expense for relevant share options between 2012 and 2015. All options issued prior to 2012 are fully expensed. The Company grants share options under an unapproved share option plan (the 'Unapproved Plan') and under tax efficient Enterprise Management Incentive arrangements (the 'EMI Plan'). Under the Unapproved Plan, options are granted to employees, directors and consultants to acquire shares at a price to be determined by the Board. In general, options are granted at a premium to the share price at the date of grant, vest over three years and are exercisable during a period ending ten years after the date of grant. Options are also issued to advisors under the Unapproved Plan: such options generally vest immediately and are exercisable between one and two years after grant. Under the EMI Plan, options are granted to employees and directors who are contracted to work at least 25 hours a week for the Company or for at least 75% of their working time. The options granted under the EMI Plan will be exercisable at a price and in accordance with a vesting schedule determined by the Board at the time of grant and will have an exercise period of 10 years from the date of grant.

The Company granted 5,100,000 (2014: 9,500,000) share options under the EMI Plan and 27,500,000 (2014: 15,500,000) share options under the Unapproved Plan during the current year with total fair values estimated using the Black-Scholes option-pricing model of £370,542 (2014: £240,163). The cost is amortised over the vesting period of the options on a straight-line basis and £173,131 is included in the charge to general and administrative costs noted above. The following assumptions were used for the Black-Scholes valuation of share options granted in 2015, 2014, 2013, and 2012.

	EMI Plan Issued in 2015	**Unapproved Plan Issued in 2015**	
Year/Type	**Employees**	**Employees**	**U.S. Employee**
Options granted	5,100,000	15,000,000	12,500,000
Risk-free interest rate	1.42%	1.42%	1.42%
Expected life of options	10 years	10 years	10 years
Annualised volatility	76.5%	76.5%	76.5%
Dividend rate	0.00%	0.00%	0.00%

	EMI Plan Issued in 2014	**Unapproved Plan Issued in 2014**	
Year/Type	**Employees**	**Employees**	**Advisors**
Options granted	9,500,000	5,500,000	10,000,000
Risk-free interest rate	2.46-2.53%	2.53%	1.71%
Expected life of options	10 years	10 years	4 years
Annualised volatility	70.6-78.9%	70.6%	89.5%
Dividend rate	0.00%	0.00%	0.00%

	EMI Plan Issued in 2013	**Unapproved Plan Issued in 2013**	
Year/Type	**Employees**	**Employees**	**Advisors**
Options granted	2,500,000	13,000,000	5,655,717
Risk-free interest rate	2.0-2.8%	1.7-2.3%	0.4-0.5%
Expected life of options	10 years	10 years	2 -3years
Annualised volatility	53.3-72.4%	80.0-81.9%	70.5-122.1%
Dividend rate	0.00%	0.00%	0.00%

19. Share-based payments charge (continued)

Year/Type	EMI Plan Issued in 2012 Employees	Unapproved Plan Issued in 2012 Employees	Consultants
Options granted	5,000,000	300,000	300,000
Risk-free interest rate	0.97%	0.97%	0.97%
Expected life of options	10 years	10 years	5 years
Annualised volatility	75.56%	82.36%	82.36%
Dividend rate	0.00%	0.00%	0.00%

The Company had the following share options movements in the year:

		Number of options					
Year of issue	**Exercise price (pence)**	**At 1 January 2015**	**Options granted**	**Options exercised**	**Options lapsed**	**At 31 December 2015**	**Expiry date**
2006	5	10,000,000	-	-	(2,000,000)	8,000,000	18 September 2016*
2010	9	500,000	-	-	(500,000)	-	15 June 2015
2012	5-15	5,000,000	-	-	-	5,000,000	1 June 2022***
2013	4.8	5,000,000	-	-	-	5,000,000	31 January 2016**
2013	4	655,717	-	-	(655,717)	-	31 January 2015**
2013	4	5,000,000	-	-	-	5,000,000	15 April 2023
2013	4	1,000,000	-	-	-	1,000,000	1 June 2023***
2013	4	8,000,000	-	-	-	8,000,000	29 July 2023
2014	3.5	5,500,000	-	-	-	5,500,000	15 May 2024
2014	3.5	3,500,000	-	-	-	3,500,000	15 May 2024***
2014	2.2	6,000,000	-	-	-	6,000,000	26 September 2024***
2014	2.2-3.5	10,000,000	-	-	-	10,000,000	6 August 2018
2015	2.5	-	5,100,000	-	-	5,100,000	29 January 2025***
2015	2.5	-	27,500,000	-	-	27,500,000	29 January 2025
Total		60,155,717	32,600,000	-	(3,155,717)	89,600,000	

19. Share-based payments charge (continued)

*10,000,000 directors' options with expiry date on 18 September 2011 were extended for five years to 18 September 2016.

****options granted to agents upon closing of a Placing or financing facility.

*****options granted under the EMI Plan.

Outstanding and exercisable share options by Plans at 31 December 2015:

Plan	Outstanding	Exercisable	WAEP (pence)
Unapproved	69,000,000	33,500,003	3.3
EMI	20,600,000	8,833,335	4.3
Total	89,600,000	42,333,338	3.6

The weighted average exercise price (WAEP) of options at the year-end is as follows:

	Number of options	Weighted average exercise price (pence)
As at 1 January 2014	38,755,717	5.5
Options granted in 2014:		
Employees and consultants	3,500,000	3.5
Directors	11,500,000	2.8
Placing agent	10,000,000	2.6
Options lapsed in the year	(3,600,000)	8.3
As at 31 December 2014	60,155,717	4.2
Options granted in 2015:		
Employees	3,100,000	2.5
Directors	17,000,000	2.5
U.S. Employee	12,500,000	2.5
Options lapsed in the year	(3,155,717)	5.4
As at 31 December 2015	89,600,000	3.6
Exercisable at 31 December 2015	42,333,338	4.5

20. Loss of the parent company

The Parent has taken advantage of the exemption permitted by Section 408 of the Companies Act 2006 not to present an income statement for the year. The Parent Company's loss for the year was £7,441,785 (2014: loss of £2,757,996), which has been included in the Group's income statement.

21. Control

The Company is not under the control of any individual or group of connected parties.

22. Financial commitments

As at 31 December 2015 the Group and Company were committed to making the following payments under non-cancellable operating leases in the year to 31 December 2016.

	Land and Buildings	
	2015	**2014**
Operating leases which expire:	**£**	**£**
Within one year	151,240	151,248

23. Financial instruments

(a) Fair values

The carrying amounts of cash and cash equivalents, short-term investments, receivables, and accounts payable and accrued liabilities, approximate to fair value due to their short-term nature.

(b) Credit risk

Credit risk reflects the risk that the Group may be unable to recover contractual receivables. The Group is still in the development stage; therefore, no policies are required at this time to mitigate this risk.

(c) Currency risk

Foreign currency risk reflects the risk that the Group's net assets will be negatively impacted due to fluctuations in exchange rates. The Group has not entered into foreign exchange contracts to hedge against gains or losses from foreign exchange fluctuations. At 31 December 2015, cash and cash equivalents include €3,503, US$8,315, CAD$1,463, SEK4,299 and accounts payable and accrued liabilities include balances of €276,981, US$98,654 and SEK2,218,684.

(d) Financial risk management

The Directors recognise that this is an area in which they may need to develop specific policies should the Group become exposed to further financial risks as the business develops.

(e) Management of capital

The Group considers capital to be its equity reserves. At the current stage of the Group's life cycle the Group's objective in managing its capital is to ensure funds raised meet the research and operating requirements until the next development stage of the Group's suite of projects.

The Group ensures it is meeting its objectives by reviewing its Key Performance Indicators ("KPIs") to ensure its research activities are progressing in line with expectations, controlling costs and placing unused funds on deposit to conserve resources and increase returns on surplus cash held.

23. Financial instruments (continued)

(f) Interest rate risk

At 31 December 2015, the Group had cash deposits of £3,524,387 (2014: £9,969,759). The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates on classes of financial assets and financial liabilities, was as follows:

Financial Asset	Floating interest rate 2015	Fixed Interest rate 2015	Floating interest rate 2014	Fixed interest rate 2014
	£	£	£	£
Cash deposits	64,516	3,459,871	101,508	9,868,251