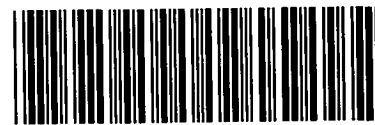


**Oxford Nanopore Technologies Limited**  
**Annual report and financial statements**  
**for the year ended 31 December 2013**

Registered number: 05386273

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COMPANIES HOUSE

# **OXFORD NANOPORE TECHNOLOGIES LIMITED**

## **CONTENTS**

<b>Company information</b>	<b>3</b>
<b>Directors' report</b>	<b>4</b>
<b>Directors' strategic report</b>	<b>6</b>
<b>Directors' responsibilities statement</b>	<b>9</b>
<b>Independent Auditor's report</b>	<b>10</b>
<b>Consolidated statement of comprehensive income</b>	<b>12</b>
<b>Consolidated balance sheet</b>	<b>13</b>
<b>Company balance sheet</b>	<b>14</b>
<b>Statements of changes in equity</b>	<b>15</b>
<b>Consolidated statement of cash flows</b>	<b>16</b>
<b>Company statement of cash flows</b>	<b>17</b>
<b>Notes to the consolidated financial statements</b>	<b>18</b>

# **OXFORD NANOPORE TECHNOLOGIES LIMITED**

## **COMPANY INFORMATION**

### **Directors**

JHP Bayley  
PV Allen  
G Sanghera  
JP Willcocks  
A Aubrey  
JA McDonald

### **Company secretary**

Aldwych Secretaries

### **Registered office**

Edmund Cartwright House  
4 Robert Robinson Avenue  
Oxford Science Park  
Oxford  
OX4 4GA  
United Kingdom

### **Company number**

05386273

### **Independent auditor**

Deloitte LLP  
Reading  
United Kingdom

# **OXFORD NANOPORE TECHNOLOGIES LIMITED**

## **DIRECTORS' REPORT**

The directors are pleased to present their annual report on the affairs of Oxford Nanopore Technologies Limited ("the Company") and its subsidiaries ("the Group" or "Oxford Nanopore", or "ONT") and the audited financial statements for the period ended 31 December 2013.

### **Principal activities**

The principal activities of the Group are to research, develop, manufacture and commercialise a technology platform based on nanopores for the direct analysis of single molecules. The instruments developed by the Group - GridION™ and MinION™ - are designed to address a wide range of customers and applications, and are compatible with nanopores that have been adapted for the analysis of molecules including DNA, RNA, proteins and small molecules.

MinION is a small, USB-compatible sensing device that is used with consumable 'flow cells' containing ONT-designed nanopores. GridION is a larger and scalable product based on a hardware unit called a 'node' combined with consumable cartridges that contain nanopores. GridION nodes are designed to be capable of clustering to enable higher throughput of data. Both products stream data in real time and therefore have the potential to change the traditional paradigm of molecular analysis.

The Group is in late stage development of these products and in early 2014 invited a number of researchers to join a large-scale early access scheme, the MinION Access Programme "MAP". In the MAP, customers will use the product, provide feedback on its performance and contribute to the development of its applications and operating protocols. Initially focused on DNA sequencing, the MAP will expand to additional applications as it progresses.

A review of the Group's research and development activities and future developments are discussed in the Strategic Report on pages 6 to 8.

### **Results and dividends**

The consolidated statement of comprehensive income is set out on page 12. The directors do not recommend the payment of a dividend (2012: £nil).

### **Directors**

The directors of the Company during the period, and up to the date of signing the financial statements were as follows:

JHP Bayley  
G Sanghera  
JP Willcocks  
A Aubrey (acting Chair)  
JA McDonald  
PV Allen

# **OXFORD NANOPORE TECHNOLOGIES LIMITED**

## **DIRECTORS' REPORT**

### **Auditor**

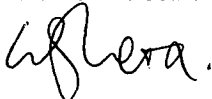
Each of the persons who is a director at the date of approval of this annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Group's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor. A resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

On behalf of the board



**G Sanghera, Director**  
29 April 2014

# OXFORD NANOPORE TECHNOLOGIES LIMITED

## DIRECTORS' STRATEGIC REPORT

The directors are pleased to present their Strategic Report of Oxford Nanopore Technologies Limited and its subsidiaries and the audited financial statements for the year ended 31 December 2013.

### Historical Financial Information and Key Performance Indicators

The Group has been in a research and development stage with no significant revenue from its inception and, as such, has generated a loss each year. The losses after tax and average headcount for the past three years have been as follows:

Year ending 31 Dec:	2011	2012	2013
Loss after Tax (£000)	13,741	19,159	24,216
Average Headcount	95	127	147

The loss after tax increased £5m from £19.2m in 2012 to £24.2m in 2013 driven by increased R&D spend on the Group's strand sequencing technology, the related MinION and GridION platforms, and expenditure in 2013 related to the preparation for the MAP. This has been partially driven by a £1.8m, or 24%, increase in staff costs from 2012 to 2013 and a 16% increase in average headcount from 127 to 147.

The principal financial key performance indicators for the Group are controlling overall spend in line with budgets approved by the Board and ensuring that the Group has adequate cashflows to fund operations. For the year ended 31 December 2013, the Group's net loss of £24.2 million (2012: £19.2 million) was in line with budgets approved by the Board. Net cashflows and movements in current asset investments for the year ended 31 December 2013 were £16.3 million (2012: £10.1 million) and as at 31 December 2013, the Group's balance of cash, cash equivalents and other financial assets of £61.3 million (2012: £45.0 million) is considered adequate to fund the Group's operations.

These financial targets are supported by non-financial targets which are based on technical progress made in research and development.

### Research, Development and Production

During 2013, the Group continued to develop several aspects of its technology including, among others, variations to existing and development of new nanopores for molecular sensing, properties of the proprietary sensor chip in which nanopores are embedded, research programmes to expand the capacity and improve performance of the Application Specific Integrated Circuit (ASIC), software for operating the systems and analysing the resultant data, and methods of sample preparation. The Group also prepared to transition from research and development to a production and distribution phase which will be piloted during the MAP.

During the year, Oxford Nanopore added headcount across Research, Development, Production and Commercial parts of the Group. This required expansion of the premises at the Oxford Science Park and the addition of new premises.

### Commercial

In 2013, the Company focused on the development of MinION for early customer release in 2014.

Following the disclosure of MinION and GridION in 2012, the Group received feedback from the genomics community that the design of both products could enable a range of experiments and applications that were challenging with existing equipment. However, the breadth of interest in MinION combined with its simpler product design and potentially low cost of access meant that Oxford Nanopore was able to design a large-scale, open customer access programme to accelerate the development of the product.

In October 2013, Oxford Nanopore exhibited at the American Society of Human Genetics meeting (ASHG) in Boston and unveiled the MAP to the customer community. The design of the MAP allows individuals to

# **OXFORD NANOPORE TECHNOLOGIES LIMITED**

## **DIRECTORS' STRATEGIC REPORT**

apply for up to 50 MAP packages, each one of which includes a single MinION and a supply of flow cells for the duration of their participation in the MAP. Oxford Nanopore will also provide sequencing preparation kits, software, and other core materials needed to perform MinION experiments. Participants are asked to provide a \$1,000 deposit for each MAP package and to pay additional delivery charges.

At ASHG the Group also held an invitation-only demonstration event for select researchers who were invited to run a MinION experiment.

Applications for the MAP were accepted between November 2013 and January 2014 during which time a substantial number and breadth of proposals were received. In February 2014, invitations were issued to several hundred applicants to join the first phase of the MAP and the Group will commence shipment of MAP items to customers during March-April 2014.

### **Future Developments**

Oxford Nanopore has always viewed intellectual property and a long-term product pipeline as central to the long term growth and protection of the Group. In addition to continuous, iterative improvement of current product design the Group is also focused on future generations of nanopore sensing. Oxford Nanopore's first products include biological nanopores however the Group also has internal projects and external collaborations on future generations of solid-state nanopore sensing technologies.

### **Fundraisings**

On 8 October 2013, Oxford Nanopore raised £40.0 million (\$64.0 million) in new funding via a private placement of ordinary shares in the Company. The funds, which come from new and existing investors, were raised to support a range of corporate development activities including the development of commercial infrastructure, expansion of our manufacturing capability and further R&D for DNA/RNA sequencing and protein/miRNA analysis applications.

Previously on 3 May 2012, Oxford Nanopore raised £31.6 million (\$50.8 million) in new funding via a private placement of ordinary shares in the Company.

### **Going Concern**

Although the Group is consistently loss making at present due to the research and development activity which it undertakes, the Group has financial resources in the form of cash, cash equivalents and other current financial assets which management forecast will be sufficient to enable the business to remain in operation for a period of not less than twelve months from the date of approving these financial statements.

Taking into consideration the current economic uncertainty, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

### **Principal Risks and Uncertainties**

The principal risks and uncertainties facing the Group relate to whether the Group will be successful in fully developing its technology and whether the technology will be commercially successful.

Even if the MAP programme proves the technical feasibility of the current version of the MinION product, there will still be significant risks around whether the MinION, GridION or any future products of the Group will be commercially successful. Some of these risks include:

- The Group is at an early stage of development and has not yet commercially launched its first product. The Group thus has no proven track record of commercial success and no historical financial data upon which it can base projections of revenue. The Group has incurred losses to date and expects to continue to incur losses as it develops its business, and may never reach profitability.

## OXFORD NANOPORE TECHNOLOGIES LIMITED

### DIRECTORS' STRATEGIC REPORT

- The products being developed by the Group are based on new and relatively unproven technologies and, as such, all development efforts carry a disproportionately high risk of failure. Even if the management is able to conclude that the current version of a product is technically feasible, there is no certainty that future development efforts will be successful. All development involves cutting edge state of the art technology. Planned improvements to products may be subject to delays or not delivered at all.
- The technology in life sciences and other applicable applied markets is constantly and rapidly changing. The Group expects to continue to face competition from enhanced or alternative technologies and products.

The Group's processes to manage their principal financial risks are outlined in note 13.

On behalf of the board



**G Sanghera, Director**  
29 April 2014



# OXFORD NANOPORE TECHNOLOGIES LIMITED

## DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Group's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board



Chief Executive Officer  
**G Sanghera**

29 April 2014



Chief Financial Officer  
**JA McDonald**

29 April 2014

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OXFORD NANOPORE TECHNOLOGIES LIMITED**

We have audited the financial statements of Oxford Nanopore Technologies Limited for the year ended 31 December 2013 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Cash Flow Statements and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

### **Respective responsibilities of directors and auditor**

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

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the 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.

### **Opinion on financial statements**

In our opinion:

- 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 2013 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

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

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OXFORD  
NANOPORE TECHNOLOGIES LIMITED (CONTINUED)**

**Matters on which we are required to report by exception**

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

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

Gregory Culshaw, ACA (Senior statutory auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

Reading, United Kingdom

2014

# OXFORD NANOPORE TECHNOLOGIES LIMITED

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME For the year ended 31 December 2013

	Note	Year ended 31 December 2013 £	Year ended 31 December 2012 £
<b>Revenue</b>			
Other income		-	149,491
<b>Operating expenses</b>			
Direct research & development expenses		(21,044,277)	(17,568,681)
General & administrative expenses		(5,682,265)	(4,172,269)
Facilities and infrastructure expenses		(1,277,166)	(977,272)
Depreciation and amortisation expense		(936,164)	(892,988)
<b>Total operating expenses</b>	4	(28,939,872)	(23,611,210)
<b>Loss from operations</b>	4	(28,939,872)	(23,461,719)
Finance costs, net of exchange loss	8	(57,458)	(8,430)
Finance income	8	435,710	665,991
<b>Loss before tax</b>		(28,561,620)	(22,804,158)
R&D tax credits, net of tax paid	9	4,346,152	3,644,663
<b>Accumulated loss for the period</b>		(24,215,468)	(19,159,495)

The Group made no acquisitions and had no discontinued operations.

	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Attributable to: Equity shareholders of the parent.		
<b>Other Comprehensive Income</b>		
Loss for the year	(24,215,468)	(19,159,495)
Exchange differences on translation of foreign operations	(21,340)	(6,973)
<b>Total Comprehensive Income</b>	(24,236,808)	(19,166,468)

# OXFORD NANOPORE TECHNOLOGIES LIMITED

## CONSOLIDATED BALANCE SHEET as at 31 December 2013

	Note	2013 £	2012 £
<b>Non-current assets</b>			
Property, plant and equipment	10	1,364,403	1,577,481
		<u>1,364,403</u>	<u>1,577,481</u>
<b>Current assets</b>			
Trade and other receivables	12	1,900,584	1,759,783
R&D tax credit recoverable		4,333,659	3,644,949
Other financial assets	13	33,152,403	23,047,630
Cash and cash equivalents	16	28,118,451	21,916,358
		<u>67,505,097</u>	<u>50,368,720</u>
<b>Total assets</b>		<u>68,869,500</u>	<u>51,946,201</u>
<b>Current liabilities</b>			
Trade and other payables	13, 14	(3,097,645)	(2,007,863)
		<u>(3,097,645)</u>	<u>(2,007,863)</u>
<b>Non-current liabilities</b>			
Provisions	15	(200,000)	-
		<u>(200,000)</u>	<u>-</u>
<b>Total liabilities</b>		<u>(3,297,645)</u>	<u>(2,007,863)</u>
<b>Net assets</b>		<u>65,571,855</u>	<u>49,938,338</u>
<b>Equity</b>			
Share capital	16	24,901	23,221
Share premium reserve		145,817,933	106,134,459
Retained earnings		(80,242,666)	(56,212,369)
Translation Reserve		(28,313)	(6,973)
<b>Total equity</b>		<u>65,571,855</u>	<u>49,938,338</u>

The financial statements of Oxford Nanopore Technologies Limited (Registered number 05386273) were approved by the board of directors and authorised for issue on 29 April 2014. They were signed on its behalf by:



G Sanghera

Director

# OXFORD NANOPORE TECHNOLOGIES LIMITED

## COMPANY BALANCE SHEET for the year ended 31 December 2013

		2013 £	2012 £
<b>Non-current assets</b>	<b>Note</b>		
Property, plant and equipment	10	1,235,526	1,562,550
Investment in subsidiary undertakings	11	214,702	258,286
		<u>1,450,228</u>	<u>1,820,836</u>
<b>Current assets</b>			
Trade and other receivables	12	1,868,287	1,733,311
R&D tax credit recoverable		4,333,659	3,644,949
Other financial assets	13	33,152,403	23,047,630
Cash and cash equivalents	16	28,030,269	21,634,627
		<u>67,384,617</u>	<u>50,060,517</u>
<b>Total assets</b>		<u>68,834,845</u>	<u>51,881,353</u>
<b>Current liabilities</b>			
Trade and other payables	14	(3,064,554)	(1,948,818)
		<u>(3,064,554)</u>	<u>(1,948,818)</u>
<b>Non-current liabilities</b>			
Provisions	15	(200,000)	-
		<u>(200,000)</u>	<u>-</u>
<b>Total liabilities</b>		<u>(3,264,554)</u>	<u>(1,948,818)</u>
<b>Net assets</b>		<u>65,570,291</u>	<u>49,932,535</u>
<b>Equity</b>			
Share capital	16	24,901	23,221
Share premium reserve		145,817,933	106,134,459
Retained earnings		(80,272,543)	(56,225,145)
<b>Total equity</b>		<u>65,570,291</u>	<u>49,932,535</u>

The financial statements of Oxford Nanopore Technologies Limited (Registered number 05386273) were approved by the board of directors and authorised for issue on 29 April 2014. They were signed on its behalf by:



**G Sanghera**

Director

# OXFORD NANOPORE TECHNOLOGIES LIMITED

## STATEMENTS OF CHANGES IN EQUITY for the year ended 31 December 2013

Group	Share Capital £	Share Premium Account £	Retained Earnings £	Translation Reserve £	Total £
<b>Balance at 1 January 2012</b>	21,162	74,474,978	(37,236,121)	-	37,260,019
Total recognised loss for the year	-	-	(19,159,495)	-	(19,159,495)
Exchange loss on Translation of subsidiary	-	-	-	(6,973)	(6,973)
Issue of share capital	2,059	31,714,569	-	-	31,716,628
Cost of share issue	-	(55,088)	-	-	(55,088)
Employee share benefit	-	-	183,247	-	183,247
<b>Balance at 1 January 2013</b>	23,221	106,134,459	(56,212,369)	(6,973)	49,938,338
Total recognised loss for the year	-	-	(24,215,468)	-	(24,215,468)
Exchange loss on Translation of subsidiary	-	-	-	(21,340)	(21,340)
Issue of share capital	1,680	40,068,672	-	-	40,070,352
Cost of share issue	-	(385,198)	-	-	(385,198)
Employee share benefit	-	-	185,171	-	185,171
<b>Balance at 31 December 2013</b>	<b>24,901</b>	<b>145,817,933</b>	<b>(80,242,666)</b>	<b>(28,313)</b>	<b>65,571,855</b>

Company	Share Capital £	Share Premium Account £	Retained Earnings £	Total £
<b>Balance at 1 January 2012</b>	21,162	74,474,978	(37,237,787)	37,258,353
Total recognised loss for the year	-	-	(19,170,605)	(19,170,605)
Issue of share capital	2,059	31,714,569	-	31,716,628
Cost of share issue	-	(55,088)	-	(55,088)
Employee share benefit	-	-	183,247	183,247
<b>Balance at 1 January 2013</b>	23,221	106,134,459	(56,225,145)	49,932,535
Total recognised loss for the year	-	-	(24,232,569)	(24,232,569)
Issue of share capital	1,680	40,068,672	-	40,070,352
Cost of share issue	-	(385,198)	-	(385,198)
Employee share benefit	-	-	185,171	185,171
<b>Balance at 31 December 2013</b>	<b>24,901</b>	<b>145,817,933</b>	<b>(80,272,543)</b>	<b>65,570,291</b>

# OXFORD NANOPORE TECHNOLOGIES LIMITED

## CONSOLIDATED STATEMENT OF CASH FLOWS for the year ended 31 December 2013

		Year ended 31 December 2013 £	Year ended 31 December 2012 £
<b>Net cash outflow from operating activities</b>	<b>17</b>	<b>(23,269,542)</b>	<b>(21,274,143)</b>
<b>Investing activities</b>			
Purchases of property, plant and equipment		(736,348)	(869,835)
Proceeds from the sale of fixed asset		24,208	-
Amounts transferred (to) / from other financial assets		(10,104,772)	5,072,217
Finance costs net of exchange loss		(57,458)	(8,430)
Interest received		671,166	608,600
<b>Net cash (used in) / from investing activities</b>		<b>(10,203,204)</b>	<b>4,802,552</b>
<b>Financing activities</b>			
Proceeds from issue of shares		40,070,352	31,716,628
Costs of share issue		(385,198)	(55,088)
<b>Net cash from financing activities</b>		<b>39,685,154</b>	<b>31,661,540</b>
<b>Net increase in cash and cash equivalents before foreign exchange movements</b>		<b>6,212,408</b>	<b>15,189,949</b>
Foreign Exchange loss		(10,315)	(7,703)
<b>Cash and cash equivalents at beginning of period</b>		<b>21,916,358</b>	<b>6,734,112</b>
<b>Cash and cash equivalents at end of period</b>		<b>28,118,451</b>	<b>21,916,358</b>



# OXFORD NANOPORE TECHNOLOGIES LIMITED

## COMPANY STATEMENT OF CASH FLOWS for the year ended 31 December 2013

		Year ended 31 December 2013 £	Year ended 31 December 2012 £
	Note		
Net cash outflow from operating activities	17	(23,292,403)	(21,366,844)
<b>Investing activities</b>			
Purchases of property, plant and equipment		(574,151)	(852,330)
Loans repaid by / provided to subsidiary undertakings		43,583	(146,584)
Proceeds from the sale of fixed asset		24,208	-
Amounts transferred (to) / from other financial assets		(10,104,772)	5,072,216
Finance costs net of exchange loss		(57,094)	(8,415)
Interest received		671,117	608,569
Net cash (used in) / from investing activities		(9,997,109)	4,673,456
<b>Financing activities</b>			
Proceeds from issue of shares		40,070,352	31,716,628
Costs of share issue		(385,198)	(55,088)
Net cash from financing activities		39,685,154	31,661,540
Net increase in cash and cash equivalents		6,395,642	14,968,152
Cash and cash equivalents at beginning of period		21,634,627	6,666,475
Cash and cash equivalents at end of period		28,030,269	21,634,627

# OXFORD NANOPORE TECHNOLOGIES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 1. GENERAL INFORMATION

Oxford Nanopore Technologies Limited is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 3. The nature of the Group's operations and its principal activities are set out in the Directors' Report on page 4.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates.

### 2. ADOPTION OF NEW AND REVISED STANDARDS

#### *Basis of accounting*

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore comply with Article 4 of the EU IAS regulations.

#### *New standards and interpretations*

The following new standards and interpretation have been adopted in the current period:

- Amendments to IAS 19 'Employee Benefits';
- IFRS 13 'Fair Value Measurement'; and
- 'Improvements to IFRS 2009-2011 cycle' and IFRIC 20 'Stripping costs in the production phase of a surface mine'.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- Amendments to IFRS 1 'Government loans', and IFRS 7 'Disclosures – offsetting financial assets and financial liabilities';
- IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements', IFRS 12 'Disclosure of Interests in Other Entities'; and
- IAS 27 (2011) 'Separate Financial Statements' and IAS 28 (2011) 'Investments in Associates and Joint Ventures', 'Consolidated Financial Statement, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance'.

The Directors anticipate that the adoption of these standards in future periods is not expected to have a material impact on the financial statements of the Group.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### *Basis of preparation*

These financial statements relate solely to the activities of Oxford Nanopore Technologies Limited and its subsidiaries.

A summary of the Group's principal accounting policies, all of which have been applied consistently throughout the current and preceding year, is set out below:

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union ("IFRSs"), and with those parts of the Companies Act 2006 applicable to companies preparing their accounts under IFRS. The Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual statements of comprehensive income and related notes.

## **OXFORD NANOPORE TECHNOLOGIES LIMITED**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)** **For the year ended 31 December 2013**

#### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### ***Basis of consolidation***

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity, so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

##### ***Going concern***

The Group's financial position together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 6 to 8. Note 13 to the financial statements includes the Group's assessment of financial risks and its policies and processes for managing those risks.

The directors note that the Group is consistently loss making at present due to the research and development activity which it undertakes. The loss for the current period is £24.2 million (2012: £19.2 million). However, the Group has financial resources in the form of cash, cash equivalents and other current financial assets, which management forecast will be sufficient to enable the business to remain in operation for a period of not less than twelve months from the date of approving these financial statements.

Having considered the current economic uncertainties, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

##### ***Foreign currency***

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purposes of the consolidated financial statements, the results and financial position of each group company are expressed in pounds sterling, which is the functional currency of the Company, and the presentational currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case exchange rates at the date of transactions are used. Exchange differences arising are recognised in other comprehensive income and accumulated in equity.

## **OXFORD NANOPORE TECHNOLOGIES LIMITED**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)** **For the year ended 31 December 2013**

#### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### ***Financial assets***

The Group classifies its financial assets depending on the purpose for which the asset was acquired. The Group's accounting policy for each identified category is as follows:

##### ***Cash and cash equivalents***

Cash and cash equivalents comprise cash in hand and deposits held at call with banks and other short-term highly liquid investments with a maturity of three months or less at the date of acquisition.

##### ***Loans and receivables***

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), but also incorporate other types of contractual monetary asset. They are carried at cost less any provision for impairment.

Other financial assets comprise longer-term deposits held with banks that do not meet the IAS 7 definition of a cash equivalent.

##### ***Financial liabilities***

The Group classifies its financial liabilities depending on the purpose for which the asset was acquired. Other financial liabilities, which include trade payables and other short-term monetary liabilities, are recognised at amortised cost.

##### ***Research and development***

All on-going research expenditure is currently expensed in the period in which it is incurred. The Group regularly assesses the research and development expenditures against the criteria for development costs to be recognised as an asset, as set out in IAS 38 "Intangible Assets". Development costs will be capitalised when all of the criteria are met and it is probable that future economic benefit will flow to the Group. The Group currently has no such qualifying expenditure.

##### ***Share-based payments***

Where share options and other equity instruments are awarded to employees, the fair value of the instrument at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of instruments that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition. Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received.

##### ***Inventories***

Inventories are carried at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. The Group currently uses all of its inventory in research and development and values its inventories at a net realisable of £nil at year-end (2012 - £nil).

## OXFORD NANOPORE TECHNOLOGIES LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2013

#### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### *Leased assets*

Where substantially all of the risks and rewards incidental to ownership are retained by the lessor (an "operating lease"), the total rentals payable under the lease are charged to the income statement on a straight-line basis over the lease term. The land and buildings elements of property leases are considered separately for the purposes of lease classification.

##### *Taxation*

The tax expense represents the sum of the tax currently payable and deferred tax.

##### *Current tax*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

##### *Deferred tax*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred tax balances are not discounted.

##### *Property, plant and equipment*

Items of property, plant and equipment are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future costs of dismantling and removing items. Any corresponding liability is recognised within provisions.

All items of property, plant and equipment are carried at depreciated cost less any recognised impairment losses.

Depreciation is provided on all items of property, plant and equipment so as to write off the carrying value of items over their expected useful economic lives. It is applied at the following rates:

Leasehold improvements	- over the expected duration of the lease straight line
Plant and machinery	- 3 years straight line
Office equipment	- 3 years straight line

##### *Government grants*

The only income recognised by the Group are monies received under government grants. Government grants received are recognised as other income. Where retention of a government grant is dependent on the satisfaction of certain criteria, it is initially recognised as deferred income. When the criteria for retention have been satisfied, the deferred income balance is released to the income statement.

## OXFORD NANOPORE TECHNOLOGIES LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2013

#### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### *Critical accounting estimates and judgements*

In the application of the Group's accounting policies the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

##### *Critical judgements in applying the Group's accounting policies*

The following are the critical judgements that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

##### *1) Intellectual Property Agreements*

The Company has entered into a small number of intellectual property licence agreements with academic institutions. These agreements contract the Company to make material payments in respect of licence issuance and maintenance fees over the term of the agreements.

Critical judgements are required in determining the accounting treatment of these agreements under IAS 38 "Intangible Assets". The directors believe that whilst the value of the licences can be reliably measured, it is as yet uncertain that any future economic benefit will be derived from the licences and flow to the Company. Accordingly, all amounts in relation to these agreements have been recognised within research and development expenses in the income statement during the period.

##### *2) Research and Development Costs*

Critical judgements are required in determining whether development spend meets the criteria for capitalisation of such costs as laid out in IAS38 "Intangible Assets", in particular whether any future economic benefit will be derived from the costs and flow to the Group. The directors believe that the criteria for capitalisation were not met during the year and accordingly all amounts in relation to research and development have been recognised within research and development expenses in the income statement during the period.

##### *3) Inventories*

Critical judgements are required in assessing the net realisable value of inventories. The Directors believe that, as all inventory available as at 31 December 2013 would be used for the purpose of research and development with no net realisable value, inventory should be valued at £nil (2012 – £nil).

# OXFORD NANOPORE TECHNOLOGIES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2013

### 4. LOSS FROM OPERATIONS

	Note	Year ended 31 December 2013 £	Year ended 31 December 2012 £
<i>This is after charging/(crediting):</i>			
Government grants received		-	(149,941)
Staff costs	6	9,265,987	7,570,522
Depreciation		936,164	892,988
Direct non-staff research and development costs		14,992,184	12,997,415
Payments under operating leases - property		426,909	358,046
Net foreign exchange loss		53,097	8,133

All amounts relate to continuing operations

### 5. AUDITOR'S REMUNERATION

The analysis of auditor's remuneration is as follows:

	Year ended 31 December 2013 £	Year ended 31 December 2012 £
<b>Fees payable to the Group's auditor for the audit of the Group's annual accounts</b>	21,501	21,294
US sales Tax and product classification	28,488	-
Professional services	17,710	-
Taxation	39,055	40,417
<b>Total non-audit fees</b>	85,253	40,417
<b>Total fees payable to the Group's auditor</b>	106,754	61,711

# OXFORD NANOPORE TECHNOLOGIES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2013

### 6. STAFF COSTS

Staff costs, including directors, consist of:

	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Wages and salaries	8,239,095	6,569,013
Employee Benefits	96,624	66,725
Social security costs	745,097	751,536
Share based payments	185,171	183,248
	<u>9,265,987</u>	<u>7,570,522</u>

The average monthly number of employees, including directors, during the year was 147 (2012: 127). This included 3 executive directors (2012: 3), 3 non-executive directors (2012: 4), 125 direct research and development staff (2012: 109) and 16 administration staff (2012: 12).

### 7. DIRECTORS' AND KEY MANAGEMENT COMPENSATION

	Year ended 31 December 2013 £	Year ended 31 December 2012 £
<i>Directors' emoluments consist of:</i>		
Remuneration for management services	793,632	693,068
Amount paid as directors' fees	99,000	140,667
	<u>892,632</u>	<u>833,735</u>
<i>Highest paid director:</i>		
Remuneration for directors fees and management services	327,952	295,000
	<u>327,952</u>	<u>295,000</u>

The highest paid director did not exercise any share options in the current or prior period.

Executive directors receive medical insurance for themselves as a non-monetary benefit. Total premiums in respect of this cover amounted to £ 5,012 (2012: £1,806). All the emoluments relate to short-term employee benefits. No director received any post-employment benefit, other long-term benefit or termination benefit.

In 2013, none of the directors were granted or exercised any share options. In 2012, none of the directors were granted any options and two directors exercised 10,250 options.



# OXFORD NANOPORE TECHNOLOGIES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2013

### 7. DIRECTORS' AND KEY MANAGEMENT COMPENSATION (CONTINUED)

#### Key Management Compensation

Aggregate compensation for key management, being directors and members of the Executive Committee, was as follows:

	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Short term employee benefits	1,409,811	1,329,521

In addition to the above, charges to the profit and loss account relating to share based payments relating to options held by directors amounted to £32,768 (2012: £60,028)

### 8. FINANCE INCOME AND EXPENSE

	Year ended 31 December 2013 £	Year ended 31 December 2012 £
<b>Finance income</b>		
Bank interest receivable	435,710	665,991
<b>Finance expense</b>		
Bank interest payable and charges	(4,361)	(298)
Exchange losses	(53,097)	(8,132)
	<u>(57,458)</u>	<u>(8,430)</u>

### 9. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 31 December 2013 £	Year ended 31 December 2012 £
<b>Current tax</b>		
R&D tax credit for the period	(4,333,659)	(3,644,949)
Adjustment in respect of previous periods	(13,333)	-
Tax payable on foreign subsidiary	840	286
Total current tax	<u>(4,346,152)</u>	<u>(3,644,663)</u>

Deferred tax assets have been recognised to the extent that they offset the deferred tax liability arising through accelerated capital allowances. The remainder of the deferred tax asset of £8,237,254 (2012: £6,370,385) has not been recognised due to uncertainty that the asset will reverse in the foreseeable future as the Group has yet to obtain significant sources of income. The unrecognised deferred tax asset relates to tax losses of £8,251,039 (2012: £6,205,572) and short term timing differences of £29,478 (2012: £291,383), offset by accelerated capital allowances £43,263 (2012: £126,570).

# OXFORD NANOPORE TECHNOLOGIES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2013

### 9. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

The differences between the small profits rate of corporate tax in the UK of 20% (2012: 20%) and the tax charge for the year are explained below

	Year Ended 31 December 2013 £	Year ended 31 December 2012 £
Loss before taxation	(28,561,620)	(22,804,158)
Standard tax rate for period as a percentage of losses at 20% (2012: 20%)	(5,712,324)	(4,560,832)
Effects of:		
R&D tax relief	(831,712)	(706,278)
Expenses not deductible	31,874	2,083
Adjustments to tax charge in respect of previous periods	(12,493)	-
Origination of unrecognised tax losses	2,056,907	1,597,926
Impact of share options	37,034	-
Short term and fixed asset timing differences not recognised	84,562	22,438
	<u>(4,346,152)</u>	<u>(3,644,663)</u>

# OXFORD NANOPORE TECHNOLOGIES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2013

### 10. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold Improvements £	Plant and Machinery £	Office Equipment £	Total £
<b>Cost</b>				
At 1 January 2012	805,028	2,130,140	819,500	3,754,668
Additions	8,362	371,332	490,571	870,265
Disposals	-	(37,627)	(12,387)	(50,014)
Foreign exchange movements	-	(645)	(180)	(825)
At 1 January 2013	813,390	2,463,200	1,297,504	4,574,094
Additions	41,802	358,097	332,011	731,910
Disposals	-	(167,184)	(8,599)	(175,783)
Foreign exchange movements	-	(5,366)	(2,914)	(8,280)
At 31 December 2013	855,192	2,648,747	1,618,002	5,121,941
<b>Accumulated depreciation</b>				
At 1 January 2012	(332,495)	(1,395,774)	(425,257)	(2,153,526)
Charge for the year	(155,164)	(456,886)	(280,938)	(892,988)
Eliminated on disposals	-	37,627	12,010	49,637
Foreign exchange movements	-	245	19	264
At 1 January 2013	(487,659)	(1,814,788)	(694,166)	(2,996,613)
Charge for the year	(168,506)	(419,238)	(348,420)	(936,164)
Eliminated on disposals	-	167,183	6,443	173,626
Foreign exchange movements	-	1,238	375	1,613
At 31 December 2013	(656,165)	(2,065,605)	(1,035,768)	(3,757,538)
<b>Carrying amount</b>				
At 31 December 2012	325,731	648,412	603,338	1,577,481
At 31 December 2013	199,027	583,142	582,234	1,364,403

# OXFORD NANOPORE TECHNOLOGIES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2013

### 10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company	Leasehold Improvements £	Plant and Machinery £	Office Equipment £	Total £
<b>Cost</b>				
At 1 January 2012	805,028	2,116,323	818,199	3,739,550
Additions	8,362	362,513	481,455	852,330
Disposals	-	(37,627)	(12,387)	(50,014)
At 1 January 2013	813,390	2,441,209	1,287,267	4,541,866
Additions	41,802	251,498	280,850	574,150
Disposals	-	(153,458)	(8,599)	(162,057)
At 31 December 2013	855,192	2,539,249	1,559,518	4,953,959
<b>Accumulated depreciation</b>				
At 1 January 2012	(332,495)	(1,395,390)	(425,149)	(2,153,034)
Charge for the year	(155,164)	(440,829)	(279,926)	(875,919)
Eliminated on disposals	-	37,627	12,010	49,637
At 1 January 2013	(487,659)	(1,798,592)	(693,065)	(2,979,316)
Charge for the year	(168,506)	(388,758)	(341,754)	(899,018)
Eliminated on disposals	-	153,458	6,443	159,901
At 31 December 2013	(656,165)	(2,033,892)	(1,028,376)	(3,718,433)
<b>Carrying amount</b>				
At 31 December 2012	325,731	642,616	594,203	1,562,550
At 31 December 2013	199,027	505,357	531,142	1,235,526

At 31st December 2013, the Group had entered into contractual commitments for the acquisition of property, plant and equipment of £173,274.

### 11. INVESTMENT IN SUBSIDIARIES

The principal subsidiaries of Oxford Nanopore Technologies Limited, are as follows:

Name	Country of Incorporation	Proportion of ownership interest	
		31 December 2013	31 December 2012
Oxford Nanopore Technologies, Inc	USA	100%	100%
Oxford Nanolabs Limited	England and Wales	100%	100%
Metrichor Limited	England and Wales	100%	-

Oxford Nanolabs Limited has never traded and is a dormant company.

Oxford Nanopore Technologies Inc was set up on 29 September 2011 to provide sub-contracted R&D and other services in the USA to Oxford Nanopore Technologies Limited.

# OXFORD NANOPORE TECHNOLOGIES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2013

### 11. INVESTMENT IN SUBSIDIARIES (CONTINUED)

Metrichor Limited was set up on 31<sup>st</sup> May 2013 has never traded and is dormant.

All of the Company's subsidiary undertakings have been consolidated in the Group financial statements.

The Company's investment in subsidiary undertakings, comprised of loans, is summarised as:

	2013 £	2012 £
At 1 January	258,286	111,701
Movement	(43,584)	146,585
At 31 December	<u>214,702</u>	<u>258,286</u>

### 12. TRADE AND OTHER RECEIVABLES

	Group		Company	
	Year ended 31 December 2013 £	Year ended 31 December 2012 £	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Other debtors	84,432	103,942	65,289	88,035
Accrued interest income	76,651	312,107	76,651	312,107
Other taxes	730,397	498,474	730,397	498,474
Accrued income	-	78,511	-	78,511
Prepayments	<u>1,009,104</u>	<u>766,749</u>	<u>995,950</u>	<u>756,184</u>
	<u>1,900,584</u>	<u>1,759,783</u>	<u>1,868,287</u>	<u>1,733,311</u>

### 13. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

Financial risk management objectives and policies

#### Overview

The Group has exposure to credit, liquidity and market risks from its use of financial instruments. This note sets out the Group's key policies and processes for managing these risks.

#### Credit risk

Credit risk is the risk of financial loss to the Group if a grant provider fails to meet its contractual obligations or if a deposit taker should fail. Since almost all of the Group's current income is derived from grant and interest income from reputable sources as opposed to trade debtors the Group's exposure to credit risk is considered to be inherently low. In order to manage Counterparty risk, Term deposits are with institutions with credit ratings assessed as A or better by both Moody's and Standard & Poor's.

#### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities as they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group has no debt facilities and a substantial cash balance to fund its operations.

## OXFORD NANOPORE TECHNOLOGIES LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2013

#### 13. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

It is currently Group policy that the majority of external monetary deposits are made on a fixed interest basis over terms varying from one to twelve months depending upon the rate available. Maturities are staggered whenever possible to spread exposure to interest rate movement. Although the board accepts that this policy neither protects the Group from the risk of receiving rates below the current market rates nor eliminates fully cash flow risk associated with interest receipts, it considers that it achieves an appropriate balance of exposure to these risks. Term deposits are denominated in UK sterling with institutions rated as A or better by both Moody's and Standard & Poor's.

The Directors consider that all of the Group's financial liabilities at the year end and prior year end have maturity dates of less than 12 months from the balance sheet date.

##### *Market risk*

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's costs of research and development or the value of its holdings in financial instruments. The Group has little exposure to interest rate risk other than that returns on short-term fixed interest deposits will vary with movements in underlying bank interest rates. The Group's principal market risk exposure is to movements in foreign exchange rates.

##### *Foreign currency risk*

Foreign exchange risk arises because the Group from time to time enters into transactions denominated in a currency other than Sterling. Where it is considered that the risk to the Group is significant, it will enter into a matching forward contract with a reputable bank, or hold deposits of the currency in cash. To date no such forward contracts have been entered into, but significant amounts of dollars were held during the year. In the year ended 31 December 2013 approximately 14% (2012:17%) of the Group's annual expenditures was denominated in US dollars and approximately 15 % (2012 10%) of the company's expenditure was denominated in Euros.

Exchange rate exposures are managed within approved policy parameters. The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	Year ended 31 December 2013 £	Year ended 31 December 2012 £	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Financial assets and liabilities	6,956,625	3,430,984	(1,161,012)	(648,161)

##### *Sensitivity analysis*

A 5% strengthening of the US\$ at 31 December 2013 would have resulted in changes to equity and profit or loss by the amounts shown below:

# OXFORD NANOPORE TECHNOLOGIES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2013

### 13. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Increase in loss for the period	317,051	118,651
Decrease in equity	317,051	118,651

The interest rate for short-term deposits is variable dependent on the rates offered by the Group's bankers. During the period ended 31 December 2013, the short-term deposits returned an average of 1.41% (2012: 2.13%). The Group's exposure to interest rate risk on Other financial assets, is illustrated below with regard to the average cash balance and the difference a decrease of 1% in interest rates would have made based on the average short-term deposit balance of £25,802,142 (2012: £29,135,315):

	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Increase in loss for the period	258,358	291,592
Decrease in equity	258,358	291,592

#### *Capital management*

The Group defines the capital that it manages as the Group's total equity. The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern, so that it can continue to strive to provide returns to investors.
- To provide an adequate return to investors based on the level of risk undertaken.
- To have available the necessary financial resources to allow the Group to invest in areas that may deliver future benefits for inventive sources and returns to investors.
- To maintain sufficient financial resources to mitigate against risks and unforeseen events.

The Group has no debt and accordingly the gearing ratio is zero.

#### *Financial instruments*

The Group's financial instruments comprise cash, short-term deposits and various items such as trade debtors and creditors which arise directly from operations.

The Group's maximum credit risk at the period end is those amounts due from grant providers of £nil (2012: £78,511) and amounts held with financial institutions of £61.3 million (2012: £45.0 million). The Group places its deposits with several reputable financial institutions to minimise its credit risk.

# OXFORD NANOPORE TECHNOLOGIES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2013

### 13. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

#### *Fair values*

The fair values of the Group's financial assets and liabilities, together with the carrying values shown in the balance sheet, are as follows:

	Total Carrying Value £	Fair Value £
<b>31 December 2013</b>		
<b>Loans and receivables</b>		
Other financial asset	33,152,403	33,152,403
Cash and cash equivalents	28,118,451	28,118,451
Trade and other receivables	6,234,243	6,234,243
<b>Other financial liabilities</b>		
Trade and other payables	<u>(3,097,645)</u>	<u>(3,097,645)</u>
<b>31 December 2012</b>		
<b>Loans and receivables</b>		
Other financial assets	23,047,630	23,047,630
Cash and cash equivalents	21,916,358	21,916,358
Trade and other receivables	5,404,732	5,404,732
<b>Other financial liabilities</b>		
Trade and other payables	<u>(2,007,863)</u>	<u>(2,007,863)</u>

The following summarises the methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

#### *Trade receivables, trade payables and cash and cash equivalents*

Trade payables and receivables generally have a remaining life of less than one year so their value recorded in the balance sheet is considered to be a reasonable approximation of fair value.

#### **Financial assets – numerical information**

As at the 31 December, the Group had the following treasury deposits:

	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Floating rate assets	28,118,451	21,916,358
Fixed rate assets	<u>33,152,403</u>	<u>23,047,630</u>
	<u>61,270,854</u>	<u>44,963,988</u>

The weighted average interest rate on the fixed term deposits was 0.99% (2012: 2.47%). The weighted average term of fixed interest rate deposits was 3 months (2012: 7 months).



# OXFORD NANOPORE TECHNOLOGIES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2013

### 14. CURRENT TRADE AND OTHER PAYABLES

	Group		Company	
	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2013	Year ended 31 December 2012
	£	£	£	£
Trade payables	1,865,454	1,005,067	1,856,881	984,848
Taxation and social security	242,083	195,759	242,083	167,515
Other creditors	284,164	19,559	284,164	19,559
Accruals and deferred income	705,944	787,478	681,426	776,897
	<u>3,097,645</u>	<u>2,007,863</u>	<u>3,064,554</u>	<u>1,948,819</u>

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases by the Company and Group is 30 days (2011: 30). The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

The directors consider that the carrying amount of trade payables approximates to their fair value.

### 15. PROVISIONS

	Group Dilapidation Provision £	Company Dilapidation Provision £
Balance at 1 January 2013	-	-
Additional provision in the year	200,000	200,000
Balance at 31 December 2013	<u>200,000</u>	<u>200,000</u>

The dilapidation provision relates to the leased property Edmund Cartwright House.  
The provision is non-current.

# OXFORD NANOPORE TECHNOLOGIES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2013

### 16. SHARE CAPITAL

On 8 October 2013, the Company effected a sub-division of its share capital (the "Sub-division") involving the sub-division of each of the Ordinary Shares in the Company, which previously had a nominal value of 1 penny, into 10 Ordinary Shares in the Company with a nominal value of 0.1 pence. Similarly, each A share in the Company, which previously had a nominal value of 5 pence, was subdivided into 10 A shares with a nominal value of 0.5 pence. Other than the change in nominal value, the Sub-division of the 1 penny Ordinary Shares and the 5 pence A shares did not affect the rights or restrictions attached to them respectively.

All current year and prior year disclosures presented in this Note have been adjusted, as necessary, to reflect the Sub-division such that all disclosures are presented on the same basis and are comparable.

#### Group and Company

	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Issued and fully paid:		
Opening- 19,171,340 ordinary shares of £0.001 each (2012: 17,112,310)	19,171	17,112
Opening Issued- 810,000 A shares of £0.005 each (2012: 810,000)	4,050	4,050
	<hr/> 23,221	<hr/> 21,162
Issued – 1,680,199 ordinary shares of £0.001 each (2012: 2,059,030)	1,680	2,059
	<hr/> 1,680	<hr/> 2,059
Closing – 20,851,539 ordinary shares of £0.001 each (2012: 19,171,340)	20,851	19,171
Closing - 810,000 A shares of £0.005 each (2012: 810,000)	4,050	4,050
	<hr/> 24,901	<hr/> 23,221
Total Issued Share Capital	<hr/> <hr/> 24,901	<hr/> <hr/> 23,221

On 18 October 2013, Oxford Nanopore raised £40.0 million (\$64.0 million) through the issuance of 1,626,019 ordinary shares at a share price of £24.60 per share.

On 3 May 2012, Oxford Nanopore raised £31.6 million through the issuance of 1,926,460 ordinary shares at £16.385.

During the year, 54,180 ordinary shares (2012: 132,570) were issued as a result of share options exercised.

Transaction costs for the issue of shares are offset against the Share Premium Reserve.

The A Shares are structured so that their holders will be able to benefit from a proportion of the future increase in the value of the Company above a threshold value on an official listing of the Company's shares, a sale of a majority of the Company's issued ordinary share capital, a sale of the trade and assets of the Company or any other return of capital (collectively known as "Exit Events") provided that one of these Exit Events has occurred by 29 January 2015.

In 2010, the Company issued and allotted 810,000 A shares of £0.005 each. In 2013, each A share subdivided into 10 A shares of 0.5 pence each

Neither the ordinary shares nor the A shares carry any right to fixed income.

# OXFORD NANOPORE TECHNOLOGIES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2013

### 17. NOTES TO THE CASH FLOW STATEMENT

Group	Group		Company	
	Year ended 31 December 2013 £	Year ended 31 December 2012 £	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Loss before tax	(28,561,620)	(22,804,158)	(28,579,561)	(22,815,556)
Adjustments for:				
Depreciation	936,164	892,988	899,018	875,919
(Gain) / loss on disposal of property, plant and equipment	(22,051)	377	(22,051)	377
Bank charges and exchange loss, net	57,458	8,430	57,095	8,415
Interest income	(435,710)	(665,991)	(435,661)	(665,960)
Increase in provisions	200,000	-	200,000	-
Employee share benefit costs	185,171	183,248	185,171	183,248
Operating cash flows before movements in working capital	(27,640,588)	(22,385,106)	(27,695,989)	(22,413,557)
Increase in receivables	(379,089)	(664,123)	(370,432)	(671,781)
Increase / (decrease) in payables	1,092,693	(217,409)	1,115,736	(274,001)
Cash absorbed by operations	(26,926,984)	(23,266,638)	(26,950,685)	(23,359,339)
Income taxes – R&D tax credit received	3,657,442	1,992,495	3,658,282	1,992,495
Net cash from operating activities	(23,269,542)	(21,274,143)	(23,292,403)	(21,366,844)

### Cash and cash equivalents

	Group		Company	
	Year ended 31 December 2013 £	Year ended 31 December 2012 £	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Cash and bank balances	28,118,451	21,916,358	28,030,269	21,634,627

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets is approximately equal to their fair value.

# OXFORD NANOPORE TECHNOLOGIES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2013

### 18. COMMITMENTS

As at 31 December 2013, the Group had a commitment to make payments under several operating lease for laboratory and office space with a total commitment over the next 5 years of £539,441 (2012 - £831,178).

#### Operating lease arrangements

##### The Group as lessee

	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Minimum lease payments under operating leases recognised as an expense in the year	426,909	358,047

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Within one year	324,462	431,887
In the second to fifth years inclusive	214,979	399,291
	539,441	831,178

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are usually negotiated for an average term of five years.

As at 31 December 2013, the Group had the following non-cancellable commitments under research agreements.

*The total of future minimum non-cancellable payments due for each of the following periods are:*

	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Not later than one year	1,465,151	833,768
Later than one year and not later than five years	1,243,928	666,367
	2,709,079	1,499,135

### 19. SHARE BASED PAYMENTS

#### Equity-settled share option scheme

The Company operates one equity-settled share based remuneration scheme for employees: the Oxford Nanopore Technologies Share Option Scheme. The Scheme allows the Company to award both HM Revenue & Customs approved Executive Management Incentive (EMI) share options to qualifying individuals and unapproved share options. All options may be subject to performance criteria and vesting schedules set at the Board's discretion. All UK resident employees working 25 hours a week, or if less, 75% of their working time are eligible to be awarded EMI share options, subject to the Group meeting the qualifying tests at the point of Grant. All options have a life of ten years from date of grant.

# OXFORD NANOPORE TECHNOLOGIES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2013

### 19. SHARE BASED PAYMENTS (CONTINUED)

Following the Sub-division of its shares (as described in Note 16), the Company made some minor consequential adjustments to: (i) the number and nominal value of Ordinary Shares in respect of which an Option may be exercised; and (ii) the Option Price, in accordance with the Rules of the Oxford Nanopore Technologies Limited Share Option Scheme. For each outstanding option as at 8 October 2013, the number of shares in respect of which the option may be exercised has been increased by tenfold and the option price reduced to one tenth of the price shown in the option agreement.

All current year and prior year disclosures presented in this Note have been adjusted, as necessary, to reflect the Sub-division such that all disclosures are presented on the same basis and are comparable.

In 2013, the Company granted the following options under the share option scheme over its ordinary shares of £0.001 nominal value: 5,000 options with an exercise price of £2.60 in April; 6,500 options with an exercise price of £2.60 in June; 28,733 options with an exercise price of £14.60 in October; and, 41,250 options with an exercise price of £14.60 in December. The aggregate of the estimated fair values of the options granted on those dates was £622,717. In 2012, the aggregate of the estimated fair values of the options granted was £238,106.

	Year ended 31 December 2013		Year ended 31 December 2012	
	Number of share options	Weighted average exercise price (in £)	Number of share options	Weighted average exercise price (in £)
Outstanding at beginning of period	1,428,750	1.304	1,429,250	1.166
Granted during the period	81,483	12.906	180,750	2.289
Forfeited during the period	(56,000)	1.181	(36,180)	1.335
Exercised during the period	(54,180)	1.297	(145,070)	1.160
Outstanding at the end of the period	<u>1,400,053</u>	<u>1.948</u>	<u>1,428,750</u>	<u>1.304</u>
Exercisable at the end of the period	<u>1,249,070</u>	<u>1.342</u>	<u>981,090</u>	<u>1.115</u>

The weighted average share price at the date of exercise for share options exercised during the period was £1.297 (2012: £1.160). The options outstanding at 31 December 2013 had a weighted average exercise price of £1.948 (2012: £1.304), and a weighted average remaining contractual life of 6.8 years (2012: 7.1 years).

	2013	2012
Weighted average share price	£7.642	£2.289
Weighted average exercise price	£7.642	£2.289
Expected volatility	50%	50%
Expected life	10 years	10 years
Risk-free rate	0.69-1.54%	0.79-1.03%
Expected dividend yields	Nil	Nil

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily share prices of comparable companies over various periods of no less than one year. The risk free interest rate used reflects the UK Government 5 year Gilt rate as reported by the Bank of England.

The Group recognised total expenses of £185,171 and £183,248 related to equity-settled share-based payment transactions in 2013 and 2012 respectively.

## **OXFORD NANOPORE TECHNOLOGIES LIMITED**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)** **For the year ended 31 December 2013**

#### **20. RETIREMENT BENEFITS**

The Group operates a Defined Contributions pension scheme for the benefit of its employees. Most of the employees who contribute to the Company's pension scheme do so via salary sacrifice. The Company makes no additional contributions to the pension scheme (2012- £nil).

#### **21. RELATED PARTY TRANSACTIONS**

Details of directors' remuneration are given in note 7.

At the end of the period, there were 165,500 (2012: 163,500, adjusted for subdivision) unapproved options issued to non-employees including non-executive directors and consultants.

During the year the company made purchases from certain shareholders: Purchases from Illumina, totalling £7,593 and invoices from IP Group, totalling £1,403 for directors' expenses, of which £206 to IP Group was an outstanding balance at 31 December 2013.

In January 2009, Oxford Nanopore completed a £13.9 million private fundraising and also announced a strategic alliance with the leading US genetic analysis company, Illumina. This alliance consisted of a commercialisation agreement and an investment of £11.9 million in return for a minority stake in Oxford Nanopore.

Under the terms of the commercialisation agreement, it was agreed that Illumina would exclusively market, sell, distribute, and service BASE Technology products developed by Oxford Nanopore for DNA sequencing into the research and diagnostic markets on a worldwide basis. BASE Technology was subsequently known as "exonuclease sequencing", a separate method from "strand sequencing" presented by Oxford Nanopore at the AGBT conference in February 2012. Under the terms of the commercialisation agreement, Illumina has the following contractual rights of negotiation:

- In the event Oxford Nanopore desires to commercialise Strand Sequencing Technology through a relationship with an entity that is not an Affiliate of Oxford Nanopore, Oxford Nanopore will first attempt to negotiate such commercialisation agreement with Illumina;
- In the event that Oxford Nanopore desires to accept an offer by any Third Party to purchase or exclusively license all of Oxford Nanopore's assets related to the Strand Sequencing Technology or purchase substantially all of the assets of Oxford Nanopore, then Illumina would have the option to complete such transaction on the same terms and subject to the same conditions within a specified number of days (together, the "Rights of Negotiation").

During 2011, a dispute arose between Illumina and Oxford Nanopore concerning the terms of the commercialisation agreement, and Illumina filed an arbitration demand in the state of New York to resolve the dispute. In April 2013, Illumina and Oxford Nanopore mutually agreed to dismiss the arbitration and agreed an amendment to the commercialisation agreement which resolved the dispute. Pursuant to this amendment, the parties agreed that the commercialisation agreement will terminate on 30 June 2016 and that Oxford Nanopore is not obligated to expend any further time or resources to develop BASE (exonuclease sequencing) technology. Illumina will retain its Rights of Negotiation; however, Oxford Nanopore has no current intention to commercialise its Strand Sequencing Technology through a relationship with an entity that is not an Affiliate of Oxford Nanopore nor to sell or exclusively licence to a third party all of its assets related to Strand Sequencing Technology. In any event, Illumina's Rights of Negotiation will cease to exist no later than 31 December 2016.

In November 2013, Illumina sold its entire 13.5% minority interest in the Company for £56.4 million.

The Company continued to fund its US subsidiary, Oxford Nanopore Technologies Inc (ONT Inc). During the year, the Company paid ONT Inc £518,775 for the R&D and other services provided to it. In addition, at the year end, the Company owed ONT Inc £258,286, and interest payable of £20,170 has been accrued on this balance in the year.

## **OXFORD NANOPORE TECHNOLOGIES LIMITED**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)** **For the year ended 31 December 2013**

#### **22. ULTIMATE CONTROLLING PARTY**

The Group is owned by a number of investors, none of whom is deemed to have overall control.