

HEPTARES THERAPEUTICS LIMITED

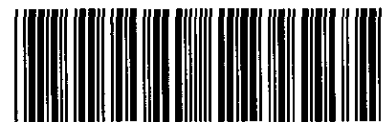
Report and Financial Statements

Year Ended 31 December 2020

Company Registration No: 06267989

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HEPTARES THERAPEUTICS LIMITED

REPORT & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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HEPTARES THERAPEUTICS LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Malcolm Weir
Tim Tasker
Christopher Cargill
Kieran Johnson

COMPANY SECRETARY

Andrew Brimblecombe

REGISTERED OFFICE AND BUSINESS ADDRESS

Steinmetz Building
Granta Park
Great Abington
Cambridge
CB21 6DG
United Kingdom

BANKERS

Barclays Bank
28 Chesterton Road
Cambridge
CB4 3AZ
United Kingdom

Mizuho Bank
Mizuho House
30 Old Bailey
London
EC4M 7AU
United Kingdom

STATUTORY AUDITOR

Ernst & Young LLP
One Cambridge Business Park
Cambridge
CB4 0WZ
United Kingdom

HEPTARES THERAPEUTICS LIMITED

STRATEGIC REPORT

PRINCIPAL ACTIVITY

The principal activity of the Company is drug discovery research. The Company's mission is to make a significant contribution to improving the quality of life and health of people around the world by designing and developing innovative and effective medicines through the use of its world-leading patent-protected technology and platform.

BUSINESS REVIEW

The results for the year ended 31 December 2020 are set out on page 12. The Company's turnover decreased to £64.5 million (31 December 2019: £67.0 million), primarily due to the timing of upfront fees and development milestone related income. The profit on ordinary activities after taxation was £17.8 million (31 December 2019: profit £22.5 million). The decrease in the current year was primarily due to the decrease in turnover.

The balance sheet as at 31 December 2020 showed net assets of £121.5 million (31 December 2019: £101.5 million).

The Directors have carefully considered the principal risks and uncertainties faced by the business. The Company operates in a competitive marketplace where its continued growth is dependent on progressing existing partnered programs and entering new partnership agreements in order to generate sufficient funds to develop in-house novel drug targets. The Directors are confident that the Company can achieve its objectives by continuing with this business strategy.

KEY PERFORMANCE INDICATORS

	Year ended 31 December 2020	Year ended 31 December 2019	Movement
Turnover	£64.5m	£67.0m	Decrease of 4%
Profit before tax	£16.5m	£20.2m	Decrease of 18%
Headcount	148	138	Increase of 7%
Cash at bank	£80.4m	£39.6m	Increase of 103%

In the year ended 31 December 2020 there was a decrease in turnover and profit before tax for the reasons stated above. Headcount increased primarily to support the additional collaboration agreements signed during the year. Cash at bank at the year end increased due to revenues exceeding costs and the receipt of R&D tax credits during the year.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's activities expose it to a number of risks including business risk, credit risk, liquidity risk and foreign exchange risk.

Business risk

The Company's principal business risk is that it is reliant on progressing existing partnered programs and entering new partnership agreements in order to generate sufficient funds to develop in house novel drug targets. This risk is managed by monitoring the progress of existing partnered programs and allocating resources to generate new partnerships.

HEPTARES THERAPEUTICS LIMITED

STRATEGIC REPORT

Credit risk

The Company's principal financial assets are cash at bank, trade and other receivables, and investments.

The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which provides evidence of a reduction in future cash flows.

The credit risk on liquid assets is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Company has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Liquidity risk

In order to ensure sufficient funds are available for ongoing operations and future developments, the Company maintains a material cash balance and utilises an intercompany loan facility with its parent company.

Foreign exchange risk

A substantial proportion of the Company's income and expenditure is received or paid in US dollars. The Company currently uses natural hedges to mitigate its foreign currency transactions.

Other risks

The ongoing coronavirus outbreak presents a risk to the Company as it affects employees, suppliers, customers and the wider economy. To mitigate its impact and protect staff the Company introduced a number of counter-measures which comply with applicable UK government health and safety protocols issued in response to the COVID-19 pandemic. These included:

- weekly SARS-CoV-2 testing of laboratory-based scientists who work on an optimized rota basis;
- a work-from-home policy for many employees;
- dual sourcing of supplies.

During 2020 the Company did not experience major interruptions to the supply of critical consumables for laboratory work but it did experience delays in the progression of some research and development programs. Although the impact has been limited to date, managing a business whilst the virus remains prevalent still represents a significant challenge. Circumstances could change and further delays or other issues could be experienced by the Company in the future. The Directors continue to monitor the situation in order to mitigate the effects on the Company, wherever possible.

NON-FINANCIAL KEY PERFORMANCE INDICATORS

Collaboration Deals and In-House R&D

On 25 June 2020, the Company entered into an agreement with AbbVie Ireland Unlimited Company ('AbbVie') to discover, develop and commercialise novel medicines targeting inflammatory and autoimmune diseases. The Company is eligible to receive up to US\$32 million in upfront near-term milestone payments as well as potential option, development and commercial milestones of up to US\$377 million, plus tiered royalties on any future product sales.

On 2 November 2020, the Company entered into an agreement with Tempero Bio, Inc. ('Tempero Bio') under which Tempero Bio has in-licensed exclusive global rights to Sosei Heptares' mGlu5 negative allosteric modulator (NAM) program to develop therapies targeting substance use disorders and anxiety. The Company received an upfront payment and strategic equity stake in Tempero Bio, and is eligible to receive future success-based development and commercial milestone payments plus tiered royalties from any future product sales.

On 30 November 2020, the Company entered into an agreement with Biohaven Pharmaceutical Holding Company, Ltd. ('Biohaven'), under which Biohaven has acquired exclusive global rights to a portfolio of novel, small-molecule CGRP antagonists. The Company received an upfront payment of US\$10 million and is eligible to receive additional development, regulatory and commercialization milestone payments of up to US\$370 million, plus tiered royalties on any future product sales.

HEPTARES THERAPEUTICS LIMITED

STRATEGIC REPORT

Collaboration Deals and In-House R&D (Continued)

On 21 December 2020, the Company announced it had entered into an agreement with GlaxoSmithKline Intellectual Property Development Limited ('GSK'). The single-target agreement is focused on the discovery and development of selective, oral, small molecule agonists of GPR35, a receptor associated with inflammatory bowel disease (IBD) and other gastrointestinal immune disorders. The Company is eligible to receive an upfront payment, potential near-term development milestones and research funding of up to £34 million. The Company is eligible to receive additional development, regulatory and commercialization milestone payments of up to £336 million, plus tiered royalties on any future product sales.

EMPLOYEE HEALTH AND SAFETY

The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995 (RIDDOR) place a legal duty on employers to report accidents and ill health at work to local Government authorities. No incidents were reported in the year ended 31 December 2020 (31 December 2019: none). All mandatory registrations are managed in accordance with Environment Agency and HSE regulations, to ensure the Company's operations are compliant.

HR OPERATIONS

The Company employed an average of 148 staff at its R&D facility in Cambridge during 2020. The Company adopts a robust recruitment policy, which includes checks on eligibility to work in the UK for all employees.

SECTION 172 COMPANIES ACT 2006 STATEMENT

The Company's governance processes are designed and operated to ensure that all relevant matters are considered by the Board when making its principal decisions over matters contributing to the delivery of the Company's mission of making a significant contribution to improving the quality of life and health of people around the world. Principal decisions are defined as those that have a material impact on the Company and its wider stakeholders. Such decisions include the selection of targets for in-house research and development programs, whether to continue to invest in those programs in view of the results of research and the terms on which the Company enters into collaboration and licensing agreements. The four major collaboration / licensing agreements signed during 2020 are described in the Non-Financial Key Performance Indicators section above.

In the performance of its duty to promote the success of the Company and deliver the Company's strategic objectives, the Board considers the views of its shareholders and the Company's other stakeholders to build trust and ensure it fully understands the potential impacts of the decisions it makes for the Company's stakeholders, the environment and the community in which it operates.

The Company has engaged with its main stakeholder groups, including shareholders, employees, customers and suppliers, during the normal course of conducting its business and uses feedback from them to inform its decision making. This is further explained in the Stakeholder Engagement paragraph in the Directors' Report.

Approved by the Board of Directors
and signed on behalf of the Board



Kieran Johnson
Director

Date: 16 April 2021

HEPTARES THERAPEUTICS LIMITED

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 December 2020.

DIRECTORS

The Directors who served during the year and to the date of this report, unless otherwise stated, were:

Malcolm Weir
Tim Tasker
Christopher Cargill
Kieran Johnson

STAKEHOLDER ENGAGEMENT

The Company aims to build enduring relationships with employees, customers, suppliers, regulators, industry associations and other stakeholders by operating in a responsible, respectful and transparent way. The Company's activities affect a wide variety of organisations and individuals. The Company engages with these stakeholders during the normal course of conducting its business and uses feedback from them to inform its decision making. Employee engagement is described below. Senior managers across the Company maintain close working relationships with key customers through formal (e.g. joint steering committees) and informal processes. Our procurement team is in regular contact with key suppliers and has been instrumental in identifying potential supply issues and alternative sources of supply. We employ regulatory experts to ensure we understand and comply with regulatory obligations. The Company seeks to reduce its impact on the environment through a number of measures including energy efficient practices (see below), recycling schemes, the operation of a cycle-to-work scheme and the provision of free electric car charge points.

STREAMLINED ENERGY AND CARBON REPORTING (SECR)

The following disclosures relate to the year ended 31 December 2020:

Total energy use covering electricity ¹ , gas ¹ & transport ^{2,3}	2,745,146	kWh
Emissions generated through use of purchased electricity ^{1,3}	396	tCO ₂ e
Emissions generated through combustion of gas ^{1,3}	217	tCO ₂ e
Emissions generated through business travel ^{2,3}	1	tCO ₂ e
Total emissions ³	614	tCO ₂ e
Total emissions per employee (Intensity ratio) ⁴	4.1	tCO ₂ e per employee

1 Relates to the Company's R&D facility in Cambridge which is the Company's only site. The Company's subsidiary undertakings consume immaterial amounts of energy.

2 Relates to business miles incurred by employees in their own cars and reimbursed by the Company.

3 Conversion methodology: electricity usage (generation + transmission & distribution), gas usage and reimbursed mileage converted to tCO₂e using the 2020 UK Government conversion factors.

4 The monthly average number of employees during the year was 148.

The Company is committed to responsible energy management and seeks to adopt energy efficient practices wherever it is cost effective. Our energy efficiency improvement initiatives in 2020 included:

- Changes to heating controls to improve energy efficiency
- Increased usage of virtual meetings, where appropriate, to reduce travel related carbon emissions (but also in response to COVID-19)

In addition, the Company's electricity contract for 2020 was based on a 100% renewables tariff. We hope to identify additional opportunities to reduce total emissions per employee in the future.

EMPLOYEE INVOLVEMENT

The Company has maintained its commitment to employee involvement throughout the business. Employees are kept informed of the objectives and performance of the Company through personal briefings, regular 'townhall' briefings and e-mails. Employee feedback has been instrumental in the design of the Company's organisational response to COVID-19.

HEPTARES THERAPEUTICS LIMITED

DIRECTORS' REPORT

EQUAL OPPORTUNITIES

The Company is committed to an active equal opportunities policy in recruitment and selection, training and development, appraisal and promotion, and retirement. The Company is responsive to the needs of its employees and it endeavours to use its employees' talents and abilities to the full.

RESEARCH AND DEVELOPMENT

The Company's expenditure on research and development in the year ended 31 December 2020 was £25.9m (31 December 2019: £25.5m). The expenditure is incurred on basic and applied research as well as on the development of future medicines.

RESULTS AND DIVIDENDS

The profit after tax for the year ended 31 December 2020 was £17.8m (31 December 2019: £22.5m). The Directors do not recommend the payment of a dividend for the year (31 December 2019: £nil).

FUTURE PROSPECTS

The Company is a clinical-stage company creating transformative medicines targeting G protein-coupled receptors (GPCRs), which are linked to a wide range of human diseases. The Company has built a powerful and unique capability for discovering small molecule, biologics and antibody medicines targeting GPCRs, and its structure-based drug design (SBDD) platform enables the Company to unlock GPCRs that have strong clinical and biological validation, yet which have proven to be historically hard to drug.

Using this approach, the Company has generated an exciting pipeline of new medicines with potential to transform the treatment of a wide range of human diseases. The pipeline of potential first-in-class and best-in-class candidates is diversified across many different disease areas, including neuroscience, immuno-oncology, gastroenterology and inflammation, creating a rich and sustainable set of possibilities for internal development and partnering.

In parallel to building its own pipeline of new molecules, the Company has signed multiple collaboration agreements, which leverage its SBDD product engine to identify novel small molecule and antibody therapeutics targeting GPCRs of strategic interest to speciality and large pharmaceutical companies, including AbbVie, AstraZeneca, GSK, Pfizer and Takeda. Please see the Post Balance Sheet Events note for information regarding the muscarinic program licensed to Allergan / AbbVie.

The Company also held a number of strategic equity investments as at 31 December 2020:

- The Company held an equity investment in MiNA (Holdings) Limited, which is a pioneer in the development of small activating RNA medicines aimed at treating cancer and other disease areas.
- The Company held equity investments in Orexia Limited and Inexia Limited, which are both developing novel therapies for neurological diseases, in collaboration with the Company. It is noted that these investments were exchanged for shares in Centessa Pharmaceuticals Limited in January 2021 (see Post Balance Sheet Events) but this has not impacted the underlying development plans.
- The Company held an equity investment in Tempero Bio Inc., which is developing therapies targeting substance use disorders and anxiety, in collaboration with the Company.

The Company receives royalties from Novartis on the sale of drugs treating respiratory diseases. This royalty stream is expected to be continue for a number of years.

GOING CONCERN

The Directors have prepared a 12 month forecast to 30 April 2022 demonstrating the Company has adequate resources to continue in operational existence for this period based upon its strong cash position at the year end. This assessment included consideration of the potential impact of COVID-19. Accordingly, the Directors believe that it remains appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements.

DIRECTORS' QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

The Company has arranged an indemnity for all its Directors to provide cover against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. The indemnity, which constitutes a qualifying third party indemnity provision, was in force during the financial period and remains in force at the date of approval of the directors' report for all current and past directors.

HEPTARES THERAPEUTICS LIMITED

DIRECTORS' REPORT

POST BALANCE SHEET EVENTS

In January 2021, the Company announced that it would be regaining the worldwide rights to its muscarinic agonist program following a decision by AbbVie to end the collaboration. The program was licensed to Allergan in April 2016, and Allergan was acquired by AbbVie in May 2020. AbbVie's decision to return the worldwide rights was based on business decisions regarding AbbVie's pipeline strategy and not on any efficacy, safety or other data related to the collaboration program. AbbVie will return all assets in development under the program, together with all associated intellectual property licensed by the Company to Allergan, and all clinical and preclinical data generated under the partnership. Management's strategy is to further develop and re-partner of the program.

In January 2021, the Company's holdings in Orexia Limited and Inexia Limited were exchanged for shares in Centessa Pharmaceuticals Limited, a newly created umbrella company formed by the merger of 10 privately held biotech businesses (including Orexia / Inexia) in which Medicxi, a life sciences focused venture capital firm, held stakes.

Although the impact of COVID-19 on the Company has been limited to date, managing a business whilst the virus remains prevalent still represents a significant challenge in 2021. Circumstances could change and further delays or other issues could be experienced by the Company in the future. The Directors continue to monitor the situation in order to mitigate the effects on the Company, wherever possible.

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 Company's auditor is unaware; and
- the Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company'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.

Approved by the Board of Directors
and signed on behalf of the Board



Kieran Johnson
Director

Date: 16 April 2021

HEPTARES THERAPEUTICS LIMITED

DIRECTORS' STATEMENT OF RESPONSIBILITIES

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 United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework". Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

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

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

HEPTARES THERAPEUTICS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HEPTARES THERAPEUTICS LIMITED

Opinion

We have audited the financial statements of Heptares Therapeutics Limited for the year ended 31 December 2020 which comprise the Statement of Profit or Loss & Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 20, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the period to 30 April 2022.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

HEPTARES THERAPEUTICS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HEPTARES THERAPEUTICS LIMITED (continued)

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

HEPTARES THERAPEUTICS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HEPTARES THERAPEUTICS LIMITED (continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are the Companies Act 2006, the Financial Reporting Standard 101, HM Revenue & Customs regulations and other UK Tax Legislation.
- We understood how the company is complying with those frameworks by considering the potential for override of controls or other inappropriate influence over the financial reporting process (such as efforts by management to manage earnings), understanding the culture of honesty and ethical behaviour within the company over our term as auditor of the company, and observing whether a strong emphasis is placed on fraud prevention, which may reduce opportunities for fraud to take place. Our work performed over the controls present within the company has also evidenced a high level of fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by understanding which areas of the business present potential fraud risk areas (through assessing the presence of opportunities, incentives or potential rationalisation to commit such acts of fraud), understanding where these risks could present themselves and subsequently identifying the process level controls in place to prevent, or detect and correct them. Combining this with our review of entity level controls, which have evidenced management's behaviour and the culture embedded within the company, we have gained a detailed understanding of the overall susceptibility to fraud.

HEPTARES THERAPEUTICS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HEPTARES THERAPEUTICS LIMITED (continued)

- Based on this understanding, we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved direct enquiries with those charged with governance, as well as specific analysis and testing of legal expenses incurred in the period to ascertain the nature of such costs and confirm their non-relation to non-compliance with applicable laws and regulations. In addition, we performed detailed testing around manual journals for identified fraud risks, corroborating balances where necessary to underlying supporting documentation. The results of this procedure did not identify any such instances of irregularities, including fraud.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in 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.

Signed: Rachel Wilden

Rachel Wilden (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP (Statutory Auditor)
Cambridge, United Kingdom

Date: 16 April 2021

HEPTARES THERAPEUTICS LIMITED

STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME Year Ended 31 December 2020

	Note	Year Ended 31 December 2020 £	Year Ended 31 December 2019 £
TURNOVER	3	64,457,147	67,040,076
Cost of Sales		(5,551,623)	(4,966,903)
Gross profit		<u>58,905,524</u>	<u>62,073,173</u>
Research & Development expenses		(25,128,188)	(25,506,190)
Administrative expenses		(14,580,176)	(14,204,067)
Impairment of investments		(6,064,804)	(1,228,814)
OPERATING PROFIT	4	<u>13,132,356</u>	<u>21,134,102</u>
Investment income - Dividends receivable	6	4,171,678	-
Interest payable and similar expense	7	(900,177)	(1,057,685)
Interest receivable	7	103,955	103,801
PROFIT BEFORE TAXATION		<u>16,507,812</u>	<u>20,180,218</u>
Taxation	8	<u>1,245,211</u>	<u>2,312,306</u>
PROFIT FOR THE YEAR		<u><u>17,753,023</u></u>	<u><u>22,492,524</u></u>
OTHER COMPREHENSIVE (LOSS)/INCOME			
Fair value movements on investments in securities	10	(82,633)	840,093
Total other comprehensive (loss)/income		<u>(82,633)</u>	<u>840,093</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u><u>17,670,390</u></u>	<u><u>23,332,617</u></u>

All activities derive from continuing operations.

HEPTARES THERAPEUTICS LIMITED

BALANCE SHEET As at 31 December 2020

	Note	31 December 2020 £	31 December 2019* £
FIXED ASSETS			
Investments	10	33,505,841	34,679,643
Intangible assets	11	31,771,287	32,285,753
Tangible assets	12	25,975,538	28,050,887
		<u>91,252,666</u>	<u>95,016,283</u>
CURRENT ASSETS			
Debtors	13	14,500,532	29,562,216
Cash at bank		80,410,492	39,577,357
		<u>94,911,024</u>	<u>69,139,573</u>
CREDITORS: amounts falling due within one year	14	(45,625,408)	(44,613,444)
NET CURRENT ASSETS		<u>49,285,616</u>	<u>24,526,129</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		140,538,282	119,542,412
CREDITORS: amounts falling due after more than one year	15	(18,188,945)	(17,462,216)
PROVISIONS	16	(597,794)	(580,447)
NET ASSETS		<u>121,751,543</u>	<u>101,499,749</u>
CAPITAL AND RESERVES			
Called up share capital	17	416,406	416,406
Share premium account	17	137,147,305	137,147,305
Retained earnings	17	28,151,424	7,899,630
Other reserve	17	(43,963,592)	(43,963,592)
SHAREHOLDERS' FUNDS		<u>121,751,543</u>	<u>101,499,749</u>

* Certain comparative balances have been restated – see Note 1.

The financial statements of Heptares Therapeutics Limited, registered number 06267989, were approved by the Board of Directors and authorised for issue on 16 April 2021.

Signed on behalf of the Board of Directors



Kieran Johnson
Director

HEPTARES THERAPEUTICS LIMITED

STATEMENT OF CHANGES IN EQUITY As at 31 December 2020

	Called up share capital £	Share premium account £	Retained earnings £	Other reserve £	Total Equity £
Balance at 31 December 2018	416,406	137,147,305	(16,555,421)	(43,963,592)	77,044,698
Profit for the year	-	-	22,492,524	-	22,492,524
Fair value movement on investment in securities (note 10)	-	-	840,093	-	840,093
Share-based payments (note 9)	-	-	1,122,434	-	1,122,434
Balance at 31 December 2019	416,406	137,147,305	7,899,630	(43,963,592)	101,499,749
Profit for the year	-	-	17,753,023	-	17,753,023
Fair value movements on investments in securities (note 10)	-	-	(82,633)	-	(82,633)
Share-based payments (note 9)	-	-	2,581,404	-	2,581,404
Balance at 31 December 2020	416,406	137,147,305	28,151,424	(43,963,592)	121,751,543

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below.

General information and basis of accounting

Heptares Therapeutics Limited is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Business Review on page 2.

These financial statements have been prepared in accordance with Financial Reporting Standard 101 (FRS 101) 'Reduced Disclosure Framework' issued by the Financial Reporting Council. The Company meets the definition of a qualifying entity under FRS 101. The Company has used a true and fair view override in respect of the non-amortisation of goodwill.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to revenue from contracts, leases, business combinations, share-based payments, non-current assets held for sale, financial instruments, capital management, and the presentation of comparative information in respect of certain assets, the presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the consolidated accounts of Sosei Group Corporation. The Company has taken advantage of the exemption permitted under part 15, section 401 of the Companies Act 2006 not to prepare consolidated group accounts as it is itself a subsidiary of Sosei Group Corporation, a company incorporated in Japan. The consolidated accounts of Sosei Group Corporation are available to the public and can be obtained as set out in note 20.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described in the consolidated group financial statements which are publicly available.

Adoption of new and revised Accounting Standards

There were no new or revised Accounting Standards that materially impacted the Company's financial statements for the year ended 31 December 2020.

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2020

1. ACCOUNTING POLICIES (CONTINUED)

Restatement

Certain comparative balances have been restated in order to:

- reclassify long term deferred income of £5,548,060 from creditors: amounts falling due within one year to creditors; amount falling due after more than one year

The previously reported balance sheet balances and restated balances are as follows:

	Creditors: Amounts falling due within one year £	Creditors: Amounts falling due after more than one year £
Balance at 31 December 2019 – as previously reported	(50,161,504)	(11,914,156)
Reclassification	5,548,060	(5,548,060)
Restated Balance at 31 Dec 2019	<u>(44,613,444)</u>	<u>(17,462,216)</u>

Presentation currency

The accounts of the Company have been prepared in pounds sterling, with values rounded to the nearest pound.

Going concern

The Directors have prepared a 12 month forecast to 30 April 2022 demonstrating the Company has adequate resources to continue in operational existence for this period based upon its strong cash position at the year end. This assessment included consideration of the potential impact of COVID-19. Accordingly, the Directors believe that it remains appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements.

Turnover

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

The Company has three types of research and development revenue; upfront fees, development milestone income and Full Time Equivalent (FTE) income. In addition, the Company receives royalties relating to product sales by a commercial partner.

In line with IFRS15 *Revenue from Contracts with Customers*, revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled to in exchange for those goods or services. This is done following the five step framework:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation

Application of this guidance depends on the facts and circumstances present in a contract with a customer and requires the exercise of judgement.

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

1. ACCOUNTING POLICIES (CONTINUED)

Research and development

Research expenditure is included in profit or loss in the year in which it is incurred.

Development expenditure is included in the same year unless the Directors are satisfied that all of the following conditions have been demonstrated:

- the technical feasibility of completing the intangible assets so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible assets; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Tangible fixed assets

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment. Depreciation is provided at rates calculated to write off the cost less residual value of each asset over its expected useful life as follows:

Buildings (Leased)	straight line over lifetime of lease (16 years)
Laboratory equipment	straight line over 5-6 years
Fixtures and fittings	straight line over 3-8 years
Computer Hardware & Software	straight line over 3-4 years

No depreciation is provided on assets under construction.

Goodwill

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is not subject to amortisation but is tested for impairment.

Goodwill is not subject to amortisation but is tested for impairment. The Company has invoked a 'true and fair view override' to overcome the prohibition on the non-amortisation of goodwill in the Companies Act. Had the company amortised goodwill, a period of 15 years and 4 months would have been chosen as the useful life (corresponding to the remaining expected period of the royalty payments as at the date of transfer of the rights from Sosei R&D Limited to the Company). The profit for the year would have been £1,800,827 lower had goodwill been subject to amortisation.

Intangible assets – Core Technology

The core technology intangible asset was acquired by the Company from its subsidiary, Heptares Therapeutics Zürich AG, at fair market value (CHF 8.1m). The expected useful life of this asset has been assessed to be finite, and the asset is being amortised on a straight line basis over 10 years. The amortisation charges are recognised within administrative expenses on the statement of profit or loss & other comprehensive income.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the period that the related costs, which it is intended to compensate, are expensed.

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

1. ACCOUNTING POLICIES (CONTINUED)

Investments in subsidiaries

Investments in subsidiaries are accounted for at cost less, where appropriate, provisions for impairment.

Investments in associates

Investments in associates are accounted for at cost less, where appropriate, provisions for impairment, due to the Company itself being a wholly-owned subsidiary of another entity, as defined in IAS 28.13(c).

Investments in securities

Investments in securities are accounted for as investments under IFRS 9 where management has determined that they do not exercise control or significant influence over the companies and, accordingly, they do not fall within the scope of IFRS 10 Consolidated Financial Statements or IAS 28 Accounting for Associates and Joint Ventures. Management has elected to take fair value movements relating to its investments in Orexia Limited, Inexia Limited, Tempero Bio, Inc. and Biohaven Pharmaceutical Holding Company Ltd. through Other Comprehensive Income as management believes this best reflects the expected long-term nature of these investments.

Impairment

Impairment loss is recognised when a difference arises between the asset's carrying amount and management's best estimate of the recoverable value. The recoverable amount is the higher of its fair value less costs to sell and its value in use.

Share-based payments

The Company makes equity-settled share-based payments using the shares of its parent company, Sosei Group Corporation, to certain eligible employees. Equity-settled share based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions. In respect of stock options, the price of the consideration equals the intrinsic value of the exercised stock options.

Fair value is measured by use of the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The required disclosures about share based payments are included in the consolidated financial statements of Sosei Group Corporation. The Company measures its share-based payment expense as a proportion of the expense recognised for the Group-wide share-based payment scheme based on the number of Company employees participating in the scheme.

Leases

The Company's lease commitments relate mainly to land and buildings. Leases are typically negotiated on an individual basis and thus contain a wide range of terms and conditions, including options to terminate. The lease liability is considered to be an indicator of the future cash outflows. Previously, payments made under operating leases were charged to profit or loss on a straight line basis over the period of the lease.

From 1 January 2019, the Company assesses at contract inception whether a contract is, or contains, a lease. The Company initially recognises a right-of-use asset and a corresponding liability at the date at which the leased asset is available.

As a lessee, the Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

1. ACCOUNTING POLICIES (CONTINUED)

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company adopted IFRS16 Leases with effect from 1 January 2019, except for low value items which are charged against income on a straight line basis over the lease term.

The Company presents right-of-use assets in 'Fixed Assets' and lease liabilities in 'Creditors: amounts falling due within one year' and 'Creditors: amounts falling after more than one year' in the balance sheet.

Pensions

The Company operates a defined contribution pension plan. The assets of the pension plan are held separately from those of the Company in independently administered funds. The pension costs charged in the financial statements represent the contributions payable by the Company during the year.

Foreign currency

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of 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 profit or loss for the year.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision represents management's best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of a financial instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

1. ACCOUNTING POLICIES (CONTINUED)

Financial assets and liabilities

All financial assets and liabilities are initially measured at the transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the balance sheet when, and only when there exists a legally enforceable right to set off the recognised amounts and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in Note 1, 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 Company's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Revenue recognition

The amount of revenue to be recognised is based on management's estimate of the fair value of the consideration received or receivable, on successful completion of a milestone and of the point in time at which management considers that it becomes probable that economic benefits will flow to the entity. The performance obligation and transaction price are evaluated and allocated based on the individual terms unique to each contract.

Recharge of costs

Amounts received in respect of the recharge of costs incurred by the Company on behalf of its development partners are presented as a reduction in operating expenses. Management believe this presentation to be appropriate given such recharges match the relevant costs incurred on behalf of the partner. Total recharged costs for the year were £4,558,676 (31 December 2019: £6,034,612).

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Valuation of Investments

The Company's investments in its subsidiaries (Heptares Zurich AG, Sosei R&D Limited and Heptares Therapeutics Ireland Limited) and in its associate (MiNA Holdings Limited) are carried at acquisition cost less impairment. A review is carried out on a quarterly basis for potential indicators of impairment. If any such indicators are identified a discounted cashflow based impairment test is performed.

The Company's equity investments in Orexia Limited, Inexia Limited and Tempero Bio, Inc. are carried at fair value. The fair values of Orexia Limited and Inexia Limited are assessed using a model that combines the reproduction cost of assets contributed and the present value of probability adjusted funding inflows, and then applies a lack of control discount. Significant unobservable inputs used in the model include future cashflows, the estimated probabilities of success of assets progressing to the next milestone event and discount rate of 13.9% (2019: 16%). The fair value of Tempero Bio, Inc. is assessed by estimating the present value of probability adjusted future cashflows and applying a lack of control discount. Significant unobservable inputs used in the model include the estimated future cashflows, estimated probabilities of success and discount rate (13%).

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2020

3. TURNOVER

Turnover is attributable to the following geographical markets:

	Year Ended 31 December 2020 £	Year Ended 31 December 2019 £
UK	12,245,759	16,665,263
Rest of Europe	24,282,986	20,649,664
Rest of the World	27,928,402	29,725,149
	<u>64,457,147</u>	<u>67,040,076</u>

	Year Ended 31 December 2020 £	Year Ended 31 December 2019 £
Upfront Fees and Milestone Income	39,028,991	42,575,842
Royalty Income	18,519,979	17,068,910
FTE Income	6,890,714	7,414,092
Grant Income	17,463	(18,768)
	<u>64,457,147</u>	<u>67,040,076</u>

4. OPERATING PROFIT

	Year Ended 31 December 2020 £	Year Ended 31 December 2019 £
Operating profit is after charging/(crediting):		
Research and development expenditure	25,128,188	25,506,190
Depreciation (note 12)	3,206,920	3,039,306
Amortisation (note 11)	514,466	570,136
Impairment (note 10)	6,064,804	1,228,814
Exchange losses	951,118	316,655
Leases of low value items not recognised under IFRS16	5,112	2,009
Research & development expenditure credit	(88,131)	(284,023)
Share-based payments	2,581,407	1,122,434
Fees payable to the Company's auditor:		
Audit	233,100	200,000
Non audit fees	-	-
	<u></u>	<u></u>

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

5. STAFF COSTS

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

	Year Ended 31 December 2020 Number	Year Ended 31 December 2019 Number
Laboratory and scientific management	118	113
Administration, including business development	30	25
	<u>148</u>	<u>138</u>

The aggregate remuneration comprised:

	Year Ended 31 December 2020 £	Year Ended 31 December 2019 £
Wages and salaries	9,340,098	8,440,910
Social security costs	1,139,913	1,623,981
Pension costs	1,313,544	1,158,146
Share based payments	2,581,407	1,122,434
	<u>14,374,962</u>	<u>12,345,471</u>

Directors' remuneration:

Remuneration and other benefits	937,833	777,284
Pension costs	-	-
	<u>937,833</u>	<u>777,284</u>

Remuneration of the highest paid director:

Remuneration and other benefits	553,093	434,502
Pension costs	-	-
	<u>553,093</u>	<u>434,502</u>

	Number	Number
Number of directors to whom retirement benefits are accruing	-	-
Number of directors exercising share options during the year	1	2
Number of directors receiving share awards for qualifying activities during the year (see notes below)	2	2

The share awards comprised Restricted Stock Units (RSUs) and Performance Share Units (PSUs), as defined in Note 9. The highest paid director exercised share options and received share awards for qualifying activities during the year. This also occurred in 2019.

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2020

5. STAFF COSTS (CONTINUED)

Two of the directors were not paid a salary by the Company during the year (2019 £nil), with these salaries being paid by Sosei Group Corporation (SGC) in both years. These two directors were granted SGC share awards in 2019 and 2020 but this was in respect of their services to SGC and not the Company. An element of their remuneration cost was recharged as part of the management charge from SGC. However, it is not possible to specify exactly how much of this management charge relates to directors' remuneration.

6. DIVIDENDS RECEIVABLE

During the year, the company received dividends of £4,171,678 from its subsidiary, Heptares Therapeutics Zürich AG (2019: nil).

7. INTEREST

	Year Ended 31 December 2020 £	Year Ended 31 December 2019 £
Interest payable and similar expense		
Interest payable to group undertakings	515,385	679,448
Interest payable on leases	384,792	368,608
Other interest payable	-	9,629
Total interest payable and similar expense	900,177	1,057,685
Interest receivable		
Interest receivable from group undertakings	-	43,789
Bank interest receivable	103,955	60,012
Total interest receivable	103,955	103,801

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2020

8. TAXATION

	Year Ended 31 December 2020 £	Year Ended 31 December 2019 £
Current tax		
Research and development tax credit	(413,345)	(219,705)
Tax adjustment relating to prior year	(831,866)	(1,270,566)
Total current tax credit	(1,245,211)	(1,490,271)
Deferred tax		
Recognised on result for the year	(304,921)	(3,271,267)
Adjustment in respect of previous periods	249,939	2,112,843
Effect of changes in tax rates	54,982	336,389
Total deferred tax	-	(822,035)
Total tax credit	(1,245,211)	(2,312,306)

Factors affecting tax credit for the year / period

The tax assessed for the year / period is lower than the standard rate of corporation tax in the United Kingdom of 19% (year ended 31 December 2019 - 19%). The difference is explained below:

Profit/(loss) before tax	16,507,812	20,180,218
Profit/(loss) multiplied by the standard rate of corporation tax in the United Kingdom of 19% (year ended 31 December 2019 - 19%)	3,136,484	3,834,241
Effects of:		
Adjustments in respect of prior years	(581,926)	842,277
Expenses not deductible	1,221,123	263,496
Income not taxable	(792,619)	-
R&D	(4,905,196)	(3,883,787)
Tax rate changes	54,982	318,376
Effects of group relief/other reliefs	-	-
Share relief scheme	462,218	(1,133,969)
Transfer pricing	-	-
Exempt amounts	-	-
Amounts not recognized	159,723	(2,552,942)
Not qualifying	-	2
Total tax credit	(1,245,211)	(2,312,306)

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2020

8. TAXATION (CONTINUED)

Factors that may affect future tax charges

The Finance (No.2) Act 2015 reduced the main rate of UK corporation tax to 19%, effective from 1 April 2017. A further reduction in the UK corporation tax rate to 17% was expected to come into effect from 1 April 2020 (as enacted by Finance Act 2016 on 15 September 2016). However, legislation introduced in the Finance Act 2020 (enacted on 22 July 2020) repealed the reduction of the corporation tax, thereby maintaining the current rate of 19%. Deferred taxes have been measured at 19% (2019 – 17%) which represents the future corporation tax rate that was enacted at the balance sheet date.

The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing COVID-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were not substantively enacted at the balance sheet date and hence have not been reflected in the measurement of deferred tax balances at the period end. It is not anticipated that these changes will have a material impact on the company's deferred tax balances.

Deferred tax

	31 December 2020	31 December 2019
	£	£
Fixed assets	(2,752,821)	(2,612,869)
Temporary differences – trading	81,918	-
Losses	2,318,375	2,277,086
R&D expenditure credit	352,528	335,783
	<u>-</u>	<u>-</u>

No deferred tax has been recognised in the balance sheet as at 31 December 2020 (2019 - £nil). In addition, the Company has tax losses carried forward of £840,648 (year ended 31 December 2019 - £1,321,530) which have not been recognised due to the uncertain nature of their recoverability.

Movement in deferred tax (assets) and liabilities

	Fixed assets £	Temporary differences trading £	Tax losses £	Tax credits £	Other £	Total £
At 31 December 2019	-	-	-	-	-	-
Charged/(credited) to P&L	-	-	-	-	-	-
At 31 December 2020	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

9. SHARE-BASED PAYMENTS

The Company participates in Group Stock Acquisition Rights, Restricted Stock Unit (RSU), and Performance Share Unit (PSU) Plans.

The Stock Acquisition Rights are exercisable on the shares of the parent company at a price ordinarily equal to the estimated fair value of the parent company's shares on the date of grant.

Four rounds of Stock Acquisition Rights were issued from 2015 to 2017. Rights are ordinarily forfeited if the employee leaves the Company before the rights vest. Information regarding these rights is set out below:

	Vesting Date	Remaining Contractual Life (months)	Exercise Price JPY	Rights remaining at 31 Dec 2020	Rights remaining at 31 Dec 2019
Issue 30	30 June 2018	-	1,028	285,600	312,400
Issue 31	30 June 2020	-	1	12,400	72,400
Issue 33	30 June 2020	-	3,069	11,600	69,400
Issue 35	15 Dec 2020	-	2,673	400	4,000

31,600 rights were exercised during the year (31 December 2019: 683,200). The weighted average share price at the date of exercise of these options was JPY 1,653 (31 December 2019: JPY 2,323).

During 2020, Restricted Stock Units (RSUs) were issued by the Company. During 2019, Restricted Stock Units (RSUs) and Performance Share Units (PSUs) were issued by the Company. The number of shares to be issued under these stock-based compensation schemes cannot exceed 10% of the total number of outstanding shares of the Company. Information regarding these rights is set out below:

Grants	Year ended 31 December 2020	Year ended 31 December 2019
RSU		
Number of units granted	205,612	212,060
Weighted average fair value of grant (JPY)	1,435	1,444
PSU		
Number of units granted	-	90,064
Weighted average fair value of grant (JPY)	-	2,213

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2020

10. INVESTMENTS

The Company held investments in the following subsidiary, associated and other undertakings:

	Heptares Zürich	Sosei R&D	Heptares Ireland	MiNA	Inexia	Orexia	Biohaven	Tempero Bio	Total
	<i>100% Subsidiary</i>	<i>100% Subsidiary</i>	<i>100% Subsidiary</i>	<i>Associate</i>	<i>Investment</i>	<i>Investment</i>	<i>Investment</i>	<i>Investment</i>	
Cost	£	£	£	£	£	£	£	£	£
At 31 December 2019	9,496,721	9,773	90	27,500,000	1,292,467	1,357,238	-	-	39,656,289
Additions/Transfers in	-	-	-	-	-	-	3,750,001	1,223,634	4,973,635
Fair value movement	-	-	-	-	111,194	144,422	(285,354)	(52,895)	(82,633)
At 31 December 2020	9,496,721	9,773	90	27,500,000	1,403,661	1,501,660	3,464,647	1,170,739	44,547,291
Impairment									
At 31 December 2019	(4,976,646)	-	-	-	-	-	-	-	(4,976,646)
Impairment	(4,097,231)	-	-	(1,967,573)	-	-	-	-	(6,064,804)
At 31 December 2020	(9,073,877)	-	-	(1,967,573)	-	-	-	-	(11,041,450)
Carrying Amount									
At 31 December 2019	4,520,075	9,773	90	27,500,000	1,292,467	1,357,238	-	-	34,679,643
At 31 December 2020	422,844	9,773	90	25,532,427	1,403,661	1,501,660	3,464,647	1,170,739	33,505,841

Investments in Subsidiary Undertakings

In December 2016, the Company acquired 100% of the share capital of G7 Therapeutics AG, a company based in Zürich, Switzerland. The consideration paid was CHF 12,000,000 (£9,496,721). This company became a subsidiary of the Company and was renamed Heptares Therapeutics Zürich AG ('Heptares Zürich'). In November 2018, the Company closed the Zürich facility in order to simplify its R&D structure and improve the allocation of capital. The core technology assets of Heptares Zürich, CHESS and SaBRE, were transferred to the Company in February 2019 at fair value. An impairment loss of £4,097,231 has been recognised in the current year in respect of this investment. Heptares Zürich is in the process of being liquidated.

The Group's 100% holding in Sosei R&D Limited ('Sosei R&D') was transferred to the Company in 2018 as part of a Group restructuring. This transaction involved the subsequent transfer of the trade and assets from Sosei R&D to the Company. The value of this company was impaired in December 2018 due to its trade, assets and liabilities being transferred to the Company. Sosei R&D is in the process of being liquidated.

Investments in Subsidiary Undertakings (Continued)

In September 2019, the Company set up a new wholly owned subsidiary, Heptares Therapeutics Ireland Limited ('Heptares Ireland'), incorporated in the Republic of Ireland. This company did not trade during 2020.

Investment in Associated Undertaking

As a result of a Group reorganisation in November 2018 the Group's investment in MiNA (Holdings) Limited ('MiNA') was transferred to the Company at its original cost (£27,500,000). During 2020 MiNA sought to raise additional equity capital but this proved challenging due to COVID-19. The share price at which new investors subscribed for shares in MiNA in 2020 indicated an impairment of £1,967,573. As at 31 December 2020 the Company had a 20.3% shareholding in MiNA. MiNA is incorporated in the United Kingdom and its principal place of business is: Translation & Innovation Hub, 80 Wood Lane, London W12 0BZ.

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

10. INVESTMENTS (CONTINUED)

Investment Securities

Tempero Bio

Pursuant to a licensing transaction during 2020, the Company acquired an equity investment in Tempero Bio, Inc. ('Tempero Bio'). The investment in Tempero Bio is accounted for as an investment under IFRS 9 as management has determined that they do not exercise control or significant influence over the companies and, accordingly, they do not fall within the scope of IFRS 10 Consolidated Financial Statements or IAS 28 Accounting for Associates and Joint Ventures. Management has elected to take fair value movements through Other Comprehensive Income as this treatment best reflects the expected long-term nature of this investment.

Biohaven

Pursuant to a licensing transaction during 2020, the Company acquired shares in Biohaven Pharmaceutical Holding Company, Ltd. ('Biohaven'), a company listed on the NYSE (BHVN). The Company's investment in Biohaven securities is carried at fair value, as determined by the closing market price. Management has elected to take fair value movements through Other Comprehensive Income as this treatment best reflects the expected long-term nature of the investment.

Orexia & Inexia

Pursuant to a licensing transaction in 2019, the Company entered into a structured financing agreement with Medicxi, a Venture Capital fund, to form two independent companies, Orexia Ltd ("Orexia") and Inexia Ltd ("Inexia"). Under the terms of the agreement, Orexia and Inexia obtained certain related intellectual property from the Company as well as access to proprietary know-how and development capabilities, and the Company received an assignment fee plus equity interests in Orexia and Inexia. The investments in Orexia and Inexia are accounted for as investments under IFRS 9 as management has determined that they do not exercise control or significant influence over the companies and, accordingly, they do not fall within the scope of IFRS 10 Consolidated Financial Statements or IAS 28 Accounting for Associates and Joint Ventures. Management has elected to take fair value movements through Other Comprehensive Income as this treatment best reflects the expected long-term nature of these investments.

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

11. INTANGIBLE ASSETS

	Goodwill £	Core Technology £	Total £
Cost			
At 31 December 2019	27,612,688	6,219,662	33,832,350
Additions	-	-	-
At 31 December 2020	27,612,688	6,219,662	33,832,350
Amortisation			
At 31 December 2019	-	(570,136)	(570,136)
Charge for the year	-	(514,466)	(514,466)
At 31 December 2020	-	(1,084,602)	(1,084,602)
Impairment			
At 31 December 2019	-	(976,461)	(976,461)
Charge for the year	-	-	-
At 31 December 2020	-	(976,461)	(976,461)
Net book value			
At 31 December 2019	27,612,688	4,673,065	32,285,753
At 31 December 2020	27,612,688	4,158,599	31,771,287

Goodwill

On 29 November 2018, at the same time as the ownership of Sosei R&D Limited was transferred from Sosei Group Corporation to the Company, the goodwill arising on the original acquisition of this company (previously known as Arakis Limited) was transferred from Sosei Group Corporation to the Company. The value of this goodwill was £27,612,688. Goodwill is not subject to amortisation but is tested annually for impairment. The recoverable amount of the goodwill is assessed with reference to the value in use of the associated cash generating unit.

As goodwill is not amortised, the Company has invoked a 'true and fair view override' to overcome the prohibition on the non-amortisation of goodwill in the Companies Act. Had the company amortised goodwill, a period of 15 years and 4 months would have been chosen as the useful life (corresponding to the remaining expected period of the royalty payments as at the date of transfer of the rights from Sosei R&D Limited to the Company). The profit for the year would have been £1,800,827 lower had goodwill been subject to amortisation.

Core Technology

On 26 February 2019, the core technology intangible assets held by Heptares Therapeutics Zürich AG (CHESS & SaBRE) were sold to the Company at fair market (CHF 8.1m). Subsequently, an impairment charge of £976,461 was recorded. The asset is being amortised over an expected economic life of 10 years.

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

12. TANGIBLE FIXED ASSETS

	Leasehold property £	Laboratory equipment £	Fixtures, fittings and equipment £	Assets under construction £	Total £
Cost					
At 31 December 2019	24,635,617	8,551,396	1,830,993	-	35,018,006
Additions	2,142	690,524	312,812	132,611	1,138,089
Disposals	-	(97,150)	(53,303)	-	(150,462)
Transfers	-	132,611	-	(132,611)	-
At 31 December 2020	24,637,759	9,277,372	2,090,502	-	36,005,633
Depreciation					
At 31 December 2019	1,746,971	4,180,874	1,039,274	-	6,967,119
Charge for the year	1,590,738	1,143,036	473,146	-	3,206,920
Disposals	-	(91,082)	(52,862)	-	(143,944)
At 31 December 2020	3,337,709	5,232,828	1,459,558	-	10,030,095
Net book value					
At 31 December 2019	22,888,646	4,370,522	791,719	-	28,050,887
At 31 December 2020	21,300,050	4,044,544	630,944	-	25,975,538

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2020

12. TANGIBLE FIXED ASSETS (CONTINUED)

Right of use assets	Property £	Total £
Cost		
As at 31 December 2019	12,295,294	12,295,294
Additions	-	-
Disposals	-	-
At 31 December 2020	12,295,294	12,295,294
Depreciation		
As at 31 December 2019	(801,865)	(801,865)
Charge for the year	(801,867)	(801,867)
Disposals	-	-
At 31 December 2020	(1,603,732)	(1,603,732)
Net book value		
As at 31 December 2019	11,493,429	11,493,429
At 31 December 2020	10,691,562	10,691,562
Summary:		
Fixed assets - owned		15,283,976
Right of use assets		10,691,562
Total Tangible Fixed Assets		25,975,538

The Company leases the Steinmetz Building in which it is located. The building comprises mixed use laboratory and office space located on a Science Park. The contractual term is for a period of 16 years from the commencement date of 14 May 2018 until the 13 May 2034. In addition, the Company leases an area of adjoining land on which it has constructed an extension. This additional lease is for a period commencing on 16 September 2018 and ending on 13 May 2034. Both leases have a break point at 13 May 2029, where the Company has the right to terminate the leases with 12 months' written notice.

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2020

13. DEBTORS

	31 December 2020 £	31 December 2019 £
<i>Amounts falling due within one year:</i>		
Trade debtors	1,850,303	7,842,035
Amounts owed by parent undertaking	479,808	-
VAT	-	491,112
Corporation tax debtor	1,046,329	10,910,732
R&D tax asset	2,218,596	521,677
Other debtors	169,179	702,200
Prepayments and accrued income	8,736,317	9,094,460
	<u>14,500,532</u>	<u>29,562,216</u>

No interest was charged on the intercompany balance owed by the parent undertaking. This intercompany balance is unsecured.

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 December 2020 £	31 December 2019* £
Lease liabilities	751,915	783,187
Trade creditors	2,581,705	1,991,502
Amounts owed to parent undertaking	29,196,338	33,761,693
VAT	1,710,069	-
Other taxes and social security	317,344	507,629
Other creditors	1,143,876	1,080,498
Accruals and deferred income	9,924,161	6,488,935
	<u>45,625,408</u>	<u>44,613,444</u>

* Certain comparative balances have been restated – see Note 1.

Terms and conditions of the above financial liabilities:

- The terms and conditions of the lease liabilities are disclosed in note 15.
- Trade creditors are non-interest bearing. The Company's standard payment terms are 45-days from invoice.
- The intercompany loans are repayable on demand. These comprise three separate loans on which interest of 2.33%, LIBOR + 1.5% and TIBOR + 1.5% is charged. The amounts are unsecured.
- Other taxes and social security comprise the amounts owing to HMRC and are settled within one month.
- Other creditors mostly comprise staff bonuses which are settled within one month of the year end.
- Accruals relate to trading activities (non-interest bearing, standard payment terms).
- Deferred income comprises the upfront payments received from customers, for which the revenue is recognised over an extended period corresponding to the lifetime of the contract (which is 3 years from the balance sheet date). Refer to note 15 for deferred income classified within amounts falling due after more than one year.

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2020

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	31 December 2020 £	31 December 2019* £
Lease liabilities	11,162,241	11,914,156
Deferred income	7,026,704	5,548,060
	<u>18,188,945</u>	<u>17,462,216</u>

* Certain comparative balances have been restated – see Note 1.

Leased assets are effectively secured as the rights to the leased asset revert to the lessor in the event of a default.

	£
Cost	
At 31 December 2019	12,697,343
At 1 January 2020	12,697,343
Arising on acquisition	-
Interest charged	366,070
Lease payments	(1,149,257)
At 31 December 2020	<u>11,914,156</u>

	31 December 2020 £
Analysis of lease liabilities:	
Less than one year	751,915
One to five years	3,268,720
More than five years	7,893,521
	<u>11,914,156</u>

The discount rate for the leases disclosed above is 2.95%. The Company has two lease contracts that include termination options through a break clause. These options were negotiated by management to provide flexibility in managing the leased assets. Management's judgement is that it is reasonably certain that the lease will be continued for its full term, and that the break clause will not be exercised.

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2020

16. PROVISIONS

	31 December 2020 £	31 December 2019 £
Dilapidations and clean-up costs	597,794	580,447
	<u>597,794</u>	<u>580,447</u>

The dilapidations provision at 31 December 2020 represents management's best estimate of the liability to be incurred to return the R&D facility to its original state. This is likely to be settled in 2034 when the lease contract on the facility ends. Management deem the discounting effect of this provision to be immaterial.

	Provision for dilapidations £	Deferred tax £	Total £
At 31 December 2019	580,447	-	580,447
Additions during the year	17,347	-	17,347
Released during the year recognised in profit or loss	-	-	-
At 31 December 2020	<u>597,794</u>	<u>-</u>	<u>597,794</u>

17. CALLED UP SHARE CAPITAL & RESERVES

	31 December 2020 £	31 December 2019 £
Called up, allotted and part paid		
41,640,598 Ordinary shares of £0.01 each	<u>416,406</u>	<u>416,406</u>

The Company has one class of ordinary shares which carries no right to fixed income.

The share premium reserve contains the premium arising on issue of equity shares net of issue expenses.

Retained earnings represents cumulative profits or losses, net of dividends paid and other adjustments.

The other reserve represents the net result of the pooling of interests trade and asset acquisition of the company's subsidiary, Sosei R&D Limited.

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2020

18. LEASE COMMITMENTS

	31 December 2020 £	31 December 2019 £
Low value lease commitments falling due:		
- within one year	1,822	1,822
- between one and five years	5,011	5,011
- after five years	-	-

19. POST BALANCE SHEET EVENTS

In January 2021, the Company announced that it would be regaining the worldwide rights to its muscarinic agonist program following a decision by AbbVie to end the collaboration. The program was licensed to Allergan in April 2016, and Allergan was acquired by AbbVie in May 2020. AbbVie's decision to return the worldwide rights was based on business decisions regarding AbbVie's pipeline strategy and not on any efficacy, safety or other data related to the collaboration program. AbbVie will return all assets in development under the program, together with all associated intellectual property licensed by the Company to Allergan, and all clinical and preclinical data generated under the partnership. Management's strategy is to further develop and re-partner of the program.

In January 2021, the Company's holdings in Orexia Limited and Inexia Limited were exchanged for shares in Centessa Pharmaceuticals Limited, a newly created umbrella company formed by the merger of 10 privately held biotech businesses (including Orexia / Inexia) in which Medicxi, a life sciences focused venture capital firm, held stakes. The related licensing agreements remain operational.

Whilst the impact of COVID-19 has been limited to date, circumstances could change and further delays or other issues could be experienced by the Company in future periods. The Directors continue to monitor the situation in order to mitigate the effects on the Company, wherever possible.

20. ULTIMATE CONTROLLING PARTY

The immediate and ultimate parent company of the smallest and largest group to consolidate these financial statements, and ultimate controlling party is Sosei Group Corporation, which is incorporated and registered in Japan. Copies of the financial statements of Sosei Group Corporation can be obtained from the Group's website: www.soseiheptares.com or from PMO Hanzomon 11F, 2-1 Kojimachi, Chiyoda-ku, Tokyo 102-0083, Japan.