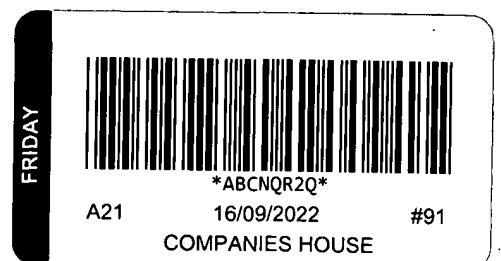


HEPTARES THERAPEUTICS LIMITED

Report and Financial Statements

Year Ended 31 December 2021

Company Registration No: 06267989



HEPTARES THERAPEUTICS LIMITED

REPORT & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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HEPTARES THERAPEUTICS LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Christopher Cargill
Kieran Johnson
Malcolm Weir (resigned 24 March 2022)
Tim Tasker (resigned 24 March 2022)
Matthew Barnes (appointed 24 March 2022)

COMPANY SECRETARY

Mariko Nakafuji (appointed 16 July 2021)
Andrew Brimblecombe (resigned 16 July 2021)

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 that of drug discovery and development. 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 2021 are set out on page 15. The Company's turnover increased to £117.4 million (31 December 2020: £64.5 million), primarily due to the recognition of a \$100 million upfront fee upon entering a collaboration and license agreement with Neurocrine Biosciences, Inc. in November 2021. The profit on ordinary activities after taxation was £56.7 million (31 December 2020: profit £17.8 million). The increase in the current year was primarily due to the increase in turnover.

The balance sheet as at 31 December 2021 showed net assets of £186.1 million (31 December 2020: £121.8 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 2021	Year ended 31 December 2020	Movement
Turnover	£117.4m	£64.5m	Increase of 82%
Profit before tax	£59.0m	£16.5m	Increase of 258%
Average Headcount	168	148	Increase of 14%
Cash at bank	£102.1m	£80.4m	Increase of 27%

In the year ended 31 December 2021 there was an increase 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.

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 any 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 uses forward currency contracts and natural hedges to mitigate foreign currency exchange risk.

Other risks

The coronavirus outbreak presented a risk to the Company as it affected employees, suppliers, customers and the wider economy.

To mitigate its impact and protect staff the Company introduced a number of counter-measures during 2020 which complied 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.

These protocols remained in place during 2021 but some have been subsequently relaxed.

During 2021 the Company did not experience major interruptions to the supply of critical consumables or the progression of research and development programs. Although some uncertainty remains, particularly over the occurrence of new variants of the virus, the situation has normalized in many geographies and management's current assumption is that the future impact of COVID-19 will not be significant. The Directors continue to monitor the situation.

The war in Ukraine, which began in February 2022, has not had a significant impact on the Company. Management has taken measures to ensure that the Company does not trade directly with any Russian suppliers and does not breach any international sanctions. The war has had a wider effect on cost inflation, especially the cost of consumables and energy, and the Directors continue to monitor the situation carefully.

HEPTARES THERAPEUTICS LIMITED

STRATEGIC REPORT

NON-FINANCIAL KEY PERFORMANCE INDICATORS

Collaboration Deals and In-House R&D

On 5 January 2021, the Company regained the worldwide rights to its muscarinic agonist program following a decision by AbbVie to end the collaboration. 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 returned all assets in development under the program, together with all associated intellectual property, and all clinical and preclinical data generated under the partnership.

On 12 January 2021, the Company entered into an agreement with PharmEnable, a UK drug discovery company, to apply their respective technologies to drive novel drug discovery against a challenging G protein-coupled receptor (GPCR) target associated with neurological diseases. Under the agreement, the companies will jointly conduct and share the costs of the discovery and development program and will co-own any resulting products.

On 1 February 2021, the Company entered into a strategic collaboration with Metrion Biosciences Limited, a specialist ion channel CRO and drug discovery company. The Company and Metrion will combine their respective capabilities in a drug discovery program to identify novel, highly specific drug leads for further development against a single ion channel associated with neurological diseases.

On 16 February 2021, the Company's holdings in Orexia Limited and Inexia Limited were exchanged for shares in Centessa Pharmaceuticals plc, 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 remained operational.

On 6 July 2021, the Company entered into an R&D collaboration with InveniAI® LLC a global leader in pioneering the application of artificial intelligence (AI) and machine learning (ML) to transform innovation across drug discovery and development. The objective of the collaboration is to identify new therapeutic product concepts for immune diseases where an AI and ML based approach can be applied to generate compelling evidence for the role of G-protein coupled receptors (GPCRs) in relevant immunomodulatory pathways.

On 22 November 2021, the Company entered into a strategic collaboration and licencing agreement with Neurocrine Biosciences, Inc. to develop novel muscarinic receptor agonists, which Neurocrine intends to study in the treatment for schizophrenia, dementia and other neuropsychiatric disorders. The Company received \$100m in upfront cash in 2021 and is eligible to receive up to approximately \$1.5 billion in clinical milestone and \$1.1 billion in sales milestone payments, 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 2021 (31 December 2020: 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 168 staff at its R&D facility in Cambridge during 2021. The Company adopts a robust recruitment policy, which includes checks on the eligibility to work in the UK for all employees.

HEPTARES THERAPEUTICS LIMITED

STRATEGIC REPORT

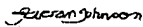
SECTION 172 COMPANIES ACT 2006 STATEMENT

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 major collaboration / licensing agreements signed during 2021 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

DocuSigned by:

Signer Name: Kieran Johnson
Signing Reason: I approve this document
Signing Time: 12 September 2022 | 11:05 BST
8C11B07F8B1345B0B8DFDD33C5B43D77

Kieran Johnson
Director

Date: 12 September 2022

HEPTARES THERAPEUTICS LIMITED

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 December 2021.

DIRECTORS

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

Christopher Cargill
Kieran Johnson
Malcolm Weir (resigned 24 March 2022)
Tim Tasker (resigned 24 March 2022)
Matthew Barnes (appointed 24 March 2022)

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:

	Year Ended 31 December 2021	Year Ended 31 December 2020	
Total energy use covering electricity ¹ , gas ¹ & transport ^{2,3}	2,896,927	2,745,146	kWh
Emissions generated through use of purchased electricity ^{1,3}	368.5	396	tCO ₂ e
Emissions generated through combustion of gas ^{1,3}	238.5	217	tCO ₂ e
Emissions generated through business travel ^{2,3}	0.1	1	tCO ₂ e
Total emissions ³	607.1	614	tCO ₂ e
Total emissions per employee (Intensity ratio) ⁴	3.6	4.1	tCO ₂ e

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 2021 UK Government conversion factors.

4 The monthly average number of employees during the year was 168 (2020: 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 2021 included:

- Continued 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 2021 was based on a 100% renewables tariff. We hope to identify additional opportunities to reduce total emissions per employee in the future.

HEPTARES THERAPEUTICS LIMITED

DIRECTORS' REPORT

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.

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 2021 was £31.5m (31 December 2020: £25.1m). 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 2021 was £56.7m (31 December 2020: £17.8m). The Directors do not recommend the payment of a dividend for the year (31 December 2020: £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, Neurocrine, Pfizer and Takeda.

The Company also held a number of strategic equity investments as at 31 December 2021:

- 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 an equity investment in Centessa Pharmaceuticals plc, which is developing novel therapies for neurological diseases, in collaboration with the Company.
- 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 held an equity investment in Biohaven Pharmaceutical Holding Company Limited, which is developing therapies targeting migraine, 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 September 2023 demonstrating the Company has adequate resources to continue in operational existence for this period based upon its strong cash position at the year end. Accordingly, the Directors believe that it remains appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements.

HEPTARES THERAPEUTICS LIMITED

DIRECTORS' REPORT

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.

POST BALANCE SHEET EVENTS

On 6 January 2022, the Company entered into a strategic research collaboration with Verily, an Alphabet precision health company. The collaboration will research the GPCR biology in immune cells, particularly in the fields of immunology, gastroenterology, immuno-oncology and other disorders with immunoprotective or immunopathogenic mechanisms. There is no revenue associated with this agreement.

On 19 January 2022, the Company signed a lease for space in the Cori Building located at Granta Park. The lease commenced on that date and runs to 30 March 2026. The lease payments on this building will be £157,641 per year.

On 8 February 2022, the Company was notified by its partner Takeda Pharmaceutical Company Limited that a new disease target has been nominated under the ongoing 2019 partnership agreement, for which the Company received a milestone payment.

On 17 May 2022, the Company entered into a strategic research collaboration with Kallyope, an international biopharmaceutical company pioneering work in drug discovery involving the gut-brain axis, to identify and validate novel G protein-coupled receptor (GPCR) targets with a goal of creating new drug discovery programs in the area of gastrointestinal diseases.

On 29 June 2022, the Company was notified by its partner Genentech Inc. that the first milestone had been achieved for one of the target molecules in the ongoing 2019 partnership agreement, for which the company received a milestone payment.

On 22 July 2022, the Company entered into a clinical trial and licence agreement with Cancer Research UK, the world's largest private funder of cancer research, to bring the Company's cancer immunotherapy drug candidate into a first-in-human trial. Under the agreement, Cancer Research UK's Centre for Drug Development will sponsor, design and execute a Phase I/IIa clinical trial of HTL00397322, a novel selective EP4 antagonist.

On 1 August 2022, the Company and AbbVie, a research-based global biopharmaceutical company, entered a new drug discovery collaboration and option-to-license agreement to discover, develop and commercialize novel medicines targeting neurological diseases. The Company is eligible to receive up to \$80 million in upfront and near-term milestone payments and has the potential to receive further downstream payments totalling up to US\$1.2 billion, plus tiered royalties.

On 4 August, 2022, the Group was notified by its partner Neurocrine Biosciences ("Neurocrine") that a US\$30 million milestone had become payable to the Group following Neurocrine's determination that it could proceed as planned with a Phase 2 clinical trial of NBI-1117568 for the treatment of schizophrenia after receiving approval of its Investigational New Drug (IND) Application by the U.S. Food and Drug Administration (FDA).

The war in Ukraine, which began in February 2022, has not had a significant impact on the Company. Management has taken measures to ensure that the Company does not trade directly with any Russian suppliers and does not breach any international sanctions. The war has had a wider effect on cost inflation, especially the cost of consumables and energy, and the Directors continue to monitor the situation carefully.

HEPTARES THERAPEUTICS 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 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

DocuSigned by

Signer Name: Kieran Johnson
Signing Reason: I approve this document
Signing Time: 12 September 2022 | 11:05 BST
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Kieran Johnson
Director

Date: 12 September 2022

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 2021 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 2021 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 September 2023.

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 10, 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

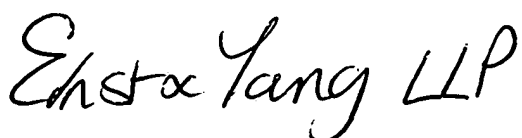
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HEPTARES THERAPEUTICS LIMITED (continued)

- 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 these procedures 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.



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

Date: 12 September 2022

HEPTARES THERAPEUTICS LIMITED

STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME Year Ended 31 December 2021

	Note	Year Ended 31 December 2021 £	Year Ended 31 December 2020 £
TURNOVER	3	117,409,858	64,457,147
Cost of Sales		(5,895,974)	(5,551,623)
Gross profit		<u>111,513,884</u>	<u>58,905,524</u>
Research & Development expenses		(31,492,709)	(25,128,188)
Administrative expenses		(19,529,384)	(14,580,176)
Impairment of investments		(925,905)	(6,064,804)
OPERATING PROFIT	4	<u>59,565,886</u>	<u>13,132,356</u>
Investment income - Dividends receivable	6	-	4,171,678
Interest payable and similar expense	7	(617,847)	(900,177)
Interest receivable	7	8,349	103,955
PROFIT BEFORE TAXATION		<u>58,956,388</u>	<u>16,507,812</u>
Taxation	8	(2,258,751)	1,245,211
PROFIT FOR THE YEAR		<u><u>56,697,637</u></u>	<u><u>17,753,023</u></u>
OTHER COMPREHENSIVE INCOME/(LOSS)			
Fair value movements on investments in securities	10	6,930,295	(82,633)
Total other comprehensive income/(loss)		<u>6,930,295</u>	<u>(82,633)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u><u>63,627,932</u></u>	<u><u>17,670,390</u></u>

All activities derive from continuing operations.

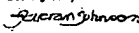
HEPTARES THERAPEUTICS LIMITED

BALANCE SHEET As at 31 December 2021

	Note	31 December 2021 £	31 December 2020 £
FIXED ASSETS			
Investments	10	39,500,458	33,505,841
Intangible assets	11	31,256,821	31,771,287
Tangible assets	12	23,819,523	25,975,538
		<u>94,576,802</u>	<u>91,252,666</u>
CURRENT ASSETS			
Debtors	13	17,816,839	14,500,532
Cash at bank		102,062,739	80,410,492
		<u>119,879,578</u>	<u>94,911,024</u>
CREDITORS: amounts falling due within one year	14	<u>(14,895,055)</u>	<u>(45,625,408)</u>
NET CURRENT ASSETS		<u>104,984,523</u>	<u>49,285,616</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		199,561,325	140,538,282
CREDITORS: amounts falling due after more than one year	15	(12,858,285)	(18,188,945)
PROVISIONS	16	(615,660)	(597,794)
NET ASSETS		<u>186,087,380</u>	<u>121,751,543</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	92,487,261	28,151,424
Other reserve	17	(43,963,592)	(43,963,592)
SHAREHOLDERS' FUNDS		<u>186,087,380</u>	<u>121,751,543</u>

The financial statements of Heptares Therapeutics Limited, registered number 06267989, were approved by the Board of Directors and authorised for issue on 12 September 2022.

Signed on behalf of the Board of Directors

DocuSigned by:

 Signer Name: Kieran Johnson
 Signing Reason: I approve the document
 Signing Time: 12 September 2022 11:05 BST
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Kieran Johnson
 Director

HEPTARES THERAPEUTICS LIMITED

STATEMENT OF CHANGES IN EQUITY As at 31 December 2021

	Called up share capital £	Share premium account £	Retained earnings £	Other reserve £	Total Equity £
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 movement on investment 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
Profit for the year	-	-	56,697,637	-	56,697,637
Fair value movements on investments in securities (note 10)	-	-	6,930,295	-	6,930,295
Share-based payments (note 9)	-	-	1,264,362	-	1,264,362
Deferred tax on fair value movement in investments	-	-	(654,250)	-	(654,250)
Deferred tax on share-based payments	-	-	97,793	-	97,793
Balance at 31 December 2021	416,406	137,147,305	92,487,261	(43,963,592)	186,087,380

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2021

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 2021.

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

1. ACCOUNTING POLICIES (CONTINUED)

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 September 2023 demonstrating the Company has adequate resources to continue in operational existence for this period based upon its strong cash position at the year end. 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.

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.

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

1. ACCOUNTING POLICIES (CONTINUED)

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. 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 in 2019 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 in 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.

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 Centessa Pharmaceuticals plc, 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.

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

1. ACCOUNTING POLICIES (CONTINUED)

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 to certain eligible employees using the shares of its parent company, Sosei Group Corporation. 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.

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.

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, except for low value items which are charged against income on a straight line basis over the lease term.

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.

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 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.

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

1. ACCOUNTING POLICIES (CONTINUED)

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.

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 2021

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.

Presentation of recharged 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 £5,383,856 (31 December 2020: £4,558,676).

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 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 investment in Tempero Bio, Inc. is carried at fair value. This 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 (12.5%).

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

3. TURNOVER

Turnover is attributable to the following geographical markets:

	Year Ended 31 December 2021 £	Year Ended 31 December 2020 £
UK	7,807,549	12,245,759
Rest of Europe	16,148,725	24,282,986
Rest of the World	93,453,584	27,928,402
	<u>117,409,858</u>	<u>64,457,147</u>

	Year Ended 31 December 2021 £	Year Ended 31 December 2020 £
Upfront Fees and Milestone Income	96,625,038	39,028,991
Royalty Income	16,100,725	18,519,979
FTE Income	4,657,638	6,890,714
Grant Income	26,457	17,463
	<u>117,409,858</u>	<u>64,457,147</u>

4. OPERATING PROFIT

	Year Ended 31 December 2021 £	Year Ended 31 December 2020 £
Operating profit is stated after charging/(crediting):		
Research and development expenditure	31,492,709	25,128,188
Depreciation (note 12)	3,082,885	3,206,920
Amortisation (note 11)	514,466	514,466
Impairment (note 10)	935,678	6,064,804
Exchange losses	66,978	951,118
Leases of low value items not recognised under IFRS16	6,712	5,112
Research & development expenditure credit	(225,830)	(88,131)
Share-based payments	1,264,362	2,581,404
Fees payable to the Company's auditor:		
Audit	283,100	233,100
Non audit fees	-	-
	<u>-</u>	<u>-</u>

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

5. STAFF COSTS

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

	Year Ended 31 December 2021 Number	Year Ended 31 December 2020 Number
Laboratory and scientific management	136	118
Administration, including business development	32	30
	<u>168</u>	<u>148</u>

The aggregate remuneration comprised:

	Year Ended 31 December 2021 £	Year Ended 31 December 2020 £
Wages and salaries	11,811,911	9,340,098
Social security costs	1,351,267	1,139,913
Pension costs	1,046,040	1,313,544
Share based payments	1,264,362	2,581,407
	<u>15,473,580</u>	<u>14,374,962</u>

Directors' remuneration for qualifying services:

Remuneration and other benefits	1,723,635	1,581,099
Contributions to defined contribution pension schemes	3,266	7,000
	<u>1,726,901</u>	<u>1,588,099</u>

Remuneration of the highest paid director:

Remuneration and other benefits	553,757	553,093
Contributions to defined contribution pension scheme	-	-
	<u>553,757</u>	<u>553,093</u>

	Number	Number
Number of directors exercising share options during the year	4	1
Number of directors receiving share awards for qualifying activities during the year	4	4

None of the Directors is accruing retirements benefits under a Company sponsored defined benefit scheme. The share awards comprised Restricted Stock Units (RSUs) as defined in Note 9. The highest paid director in 2021 received share awards for qualifying activities and exercised share options in that year. The highest paid director in 2020 received share awards for qualifying activities and exercised share options in that year.

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

5. STAFF COSTS (CONTINUED)

Two of the directors were not paid a salary by the Company during the year (or prior year), as their salaries were paid by Sosei Group Corporation (SGC) in both years. A portion of their salaries has been attributed to their qualifying services to the Company and included in the director remuneration disclosures above. This allocation was not posted directly to the Company accounts but forms part of the basis of the management charge from SGC to the Company.

6. DIVIDENDS RECEIVABLE

During the year, the company received dividends of £nil from its subsidiary, Heptares Therapeutics Zürich AG (2020: £4,171,678).

7. INTEREST

	Year Ended 31 December 2021 £	Year Ended 31 December 2020 £
Interest payable and similar expense		
Interest payable to group undertakings	194,033	515,385
Interest payable on leases	361,723	384,792
Other interest payable	62,091	-
Total interest payable and similar expense	617,847	900,177
Interest receivable		
Bank interest receivable	6,646	103,955
Other interest receivable	1,703	-
Total interest receivable	8,349	103,955

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

8. TAXATION

	Year Ended 31 December 2021 £	Year Ended 31 December 2020 £
Current tax		
Current tax on profits for the year	940,794	(413,345)
Tax adjustment relating to prior year	2,096,779	(831,866)
Total current tax charge/(credit)	3,037,573	(1,245,211)
Deferred tax		
Recognised on result for the year	(1,306,478)	(304,921)
Adjustment in respect of previous periods	(1)	249,939
Effect of changes in tax rates	527,657	54,982
Total deferred tax charge/(credit)	(778,822)	-
Total tax charge/(credit)	2,258,751	(1,245,211)

Factors affecting tax credit for the year

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 2020 - 19%). The difference is explained below:

Profit before tax	58,956,388	16,507,812
Profit multiplied by the standard rate of corporation tax in the United Kingdom of 19% (year ended 31 December 2020 - 19%)	11,201,714	3,136,484
Effects of:		
Adjustments in respect of prior years	2,096,778	(581,926)
Expenses not deductible	143,837	1,221,123
Income not taxable	-	(792,619)
R&D	(7,949,167)	(4,905,196)
Tax rate changes	527,657	54,982
Effects of group relief/other reliefs	(176,422)	-
Share relief scheme	(730,879)	462,218
Amounts not recognized	(2,854,767)	159,723
Total tax charge/(credit)	2,258,751	(1,245,211)

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

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 rate, thereby maintaining the current rate of 19%.

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. Deferred taxes have been measured at the tax rates substantively enacted at the balance sheet date.

Deferred tax

	31 December 2021 £	31 December 2020 £
Fixed assets	3,132,927	(2,752,821)
Temporary differences – trading	(928,204)	81,918
Losses	(3,081,338)	2,318,375
Investments	654,250	-
R&D expenditure credit	-	352,528
	<u>222,365</u>	<u>-</u>

A deferred tax asset of £222,365 has been recognised on the balance sheet as at 31 December 2021 (2020 - £nil). In addition, the Company has unrecognised tax losses carried forward of £nil (year ended 31 December 2020 - £840,648) 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 2020	-	-	-	-	-	-
Charged/(credited) to P&L	-	-	(222,365)	-	-	(222,365)
At 31 December 2021	<u>-</u>	<u>-</u>	<u>(222,365)</u>	<u>-</u>	<u>-</u>	<u>(222,365)</u>

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

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 2021	Rights remaining at 31 Dec 2020
Issue 30	30 June 2018	-	1,028	-	285,600
Issue 31	30 June 2020	-	1	12,400	12,400
Issue 33	30 June 2020	-	3,069	11,600	11,600
Issue 35	15 Dec 2020	-	2,673	400	400

285,600 rights were exercised during the year (31 December 2020: 31,600). The weighted average share price at the date of exercise of these options was JPY 1,684 (31 December 2020: JPY 1,653).

During 2021, Restricted Stock Units (RSUs) were issued by the Company. No PSUs were issued in the current or prior year.

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 2021	Year ended 31 December 2020
RSU		
Number of units granted	155,156	205,612
Weighted average fair value of grant (JPY)	1,826	1,435

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

10. INVESTMENTS

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

	Heptares Zürich	Sosei R&D	Heptares Ireland	MiNA	Inexia	Orexia	Centessa	Biohaven	Tempero Bio	Total
Cost	100% Subsidiary £	100% Subsidiary £	100% Subsidiary £	Associate £	Investment £	Investment £	Investment £	Investment £	Investment £	£
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
Additions/Transfers	-	-	-	-	(3,481,893)	(3,481,893)	6,963,786	-	-	-
Fair value movement	-	-	-	-	2,078,232	1,980,233	789,885	2,112,305	(30,360)	6,930,295
Disposals	-	(9,773)	-	-	-	-	-	-	-	(9,773)
At 31 December 2021	9,496,721	-	90	27,500,000	-	-	7,753,671	5,576,952	1,140,379	51,467,813
Impairment										
At 31 December 2020	(9,073,877)	-	-	(1,967,573)	-	-	-	-	-	(11,041,450)
Impairment	(422,844)	(9,773)	-	(503,061)	-	-	-	-	-	(935,678)
Disposals	-	9,773	-	-	-	-	-	-	-	9,773
At 31 December 2021	(9,496,721)	-	-	(2,470,634)	-	-	-	-	-	(11,967,355)
Carrying Amount										
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
At 31 December 2021	-	-	90	25,029,366	-	-	7,753,671	5,576,952	1,140,379	39,500,458

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'), with its registered office at Grabenstrasse 11a, Schlieren, 8952 Zürich, Switzerland. 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 £422,844 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'), with its registered office at Satago Cottage, 360a Brighton Road, Croydon CR2 6AL, 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 was liquidated on 2 May 2021.

In September 2019, the Company set up a new wholly owned subsidiary, Heptares Therapeutics Ireland Limited ('Heptares Ireland'), incorporated in the Republic of Ireland, with its registered office at 88 Harcourt Street, Dublin 2, Ireland. This company did not trade during 2021 or 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 2021 indicated an impairment of £503,061. As at 31 December 2021 the Company had a 18.3% 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 2021

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 it does not exercise control or significant influence over the company and, accordingly, it does 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.

Centessa

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.

On 16 February 2021, the Company's holdings in Orexia Limited and Inexia Limited were exchanged for shares in Centessa Pharmaceuticals plc, 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. During 2021 Centessa listed its shares on Nasdaq (CNTA). The Company's investment in Centessa securities is carried at fair value, as determined by the closing market price. The related licensing agreements remained operational.

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

11. INTANGIBLE ASSETS

	Goodwill £	Core Technology £	Total £
Cost			
At 31 December 2020	27,612,688	6,219,662	33,832,350
Additions	-	-	-
At 31 December 2021	27,612,688	6,219,662	33,832,350
Amortisation			
At 31 December 2020	-	(1,084,602)	(1,084,602)
Charge for the year	-	(514,466)	(514,466)
At 31 December 2021	-	(1,599,068)	(1,599,068)
Impairment			
At 31 December 2020	-	(976,461)	(976,461)
Charge for the year	-	-	-
At 31 December 2021	-	(976,461)	(976,461)
Net book value			
At 31 December 2020	27,612,688	4,158,599	31,771,287
At 31 December 2021	27,612,688	3,644,133	31,256,821

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 2021

12. TANGIBLE FIXED ASSETS

	Leasehold property £	Laboratory equipment £	Fixtures, fittings and equipment £	Total £
Cost				
At 31 December 2020	24,637,759	9,277,372	2,090,502	36,005,633
Additions	6,560	701,962	221,579	930,101
Disposals	-	(3,603)	(65,539)	(69,142)
At 31 December 2021	24,644,319	9,975,731	2,246,542	36,866,592
Depreciation				
At 31 December 2020	3,337,709	5,232,828	1,459,558	10,030,095
Charge for the year	1,593,149	1,138,729	351,007	3,082,885
Disposals	-	(372)	(65,539)	(65,911)
At 31 December 2021	4,930,858	6,371,185	1,745,026	13,047,069
Net book value				
At 31 December 2020	21,300,050	4,044,544	630,944	25,975,538
At 31 December 2021	19,713,461	3,604,546	501,516	23,819,523

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2021

12. TANGIBLE FIXED ASSETS (CONTINUED)

Right of use assets	Property £	Total £
Cost		
As at 31 December 2020	12,295,294	12,295,294
Additions	-	-
Disposals	-	-
At 31 December 2021	12,295,294	12,295,294
Depreciation		
As at 31 December 2020	(1,603,732)	(1,603,732)
Charge for the year	(801,868)	(801,868)
Disposals	-	-
At 31 December 2021	(2,405,600)	(2,405,600)
Net book value		
As at 31 December 2020	10,691,562	10,691,562
At 31 December 2021	9,889,694	9,889,694
Summary:		
Fixed assets - owned		13,929,829
Right of use assets		9,889,694
Total Tangible Fixed Assets		23,819,523

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 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 2021

13. DEBTORS

	31 December 2021 £	31 December 2020 £
<i>Amounts falling due within one year:</i>		
Trade debtors	7,852,373	1,850,303
Amounts owed by parent undertaking	2,320	479,808
Corporation tax debtor	-	1,046,329
R&D tax asset	-	2,218,596
Other debtors	195,941	169,179
Prepayments and accrued income	9,543,840	8,736,317
Deferred tax asset	222,365	-
	<u>17,816,839</u>	<u>14,500,532</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 2021 £	31 December 2020 £
Lease liabilities	774,386	751,915
Trade creditors	1,505,121	2,581,705
Amounts owed to parent undertaking	-	29,196,338
Corporation tax creditor	109,480	-
VAT	104,564	1,710,069
Other taxes and social security	359,074	317,344
Other creditors	2,469,527	1,143,876
Accruals and deferred income	9,572,903	9,924,161
	<u>14,895,055</u>	<u>45,625,408</u>

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 were repayable on demand. These comprised three separate unsecured loans on which interest of 2.33%, LIBOR + 1.5% and TIBOR + 1.5% was charged. These loans were repaid in full, together with interest, on 10 June 2021 and 25 June 2021.
- Other taxes and social security comprise the amounts owing to HMRC and are typically settled within one month.
- Other creditors mostly comprise staff bonuses which are typically 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 extends to 2 years from the balance sheet date). Please 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 2021

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

	31 December 2021 £	31 December 2020 £
Lease liabilities	10,387,855	11,162,241
Deferred income	2,470,430	7,026,704
	<u>12,858,285</u>	<u>18,188,945</u>

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 2020	11,914,156
Arising on acquisition	-
Interest charged	343,858
Lease payments	(1,095,773)
At 31 December 2021	<u>11,162,241</u>

	31 December 2021 £
Analysis of lease liabilities:	
Less than one year	774,386
One to five years	3,375,963
More than five years	7,011,892
	<u>11,162,241</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 2021

16. PROVISIONS

	31 December 2021 £	31 December 2020 £
Dilapidations and clean-up costs	615,660	597,794
	<u>615,660</u>	<u>597,794</u>

The dilapidations provision at 31 December 2021 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 £	Total £
At 31 December 2020	597,794	597,794
Additions during the year	17,866	17,866
Released during the year	-	-
Recognised in profit or loss	-	-
	<u>615,660</u>	<u>615,660</u>
At 31 December 2021		

17. CALLED UP SHARE CAPITAL & RESERVES

	31 December 2021 £	31 December 2020 £
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 2021

18. LEASE COMMITMENTS

	31 December 2021	31 December 2020
	£	£
Low value lease commitments falling due:		
- within one year	1,822	1,822
- between one and five years	3,189	5,011
- after five years	-	-
	<u> </u>	<u> </u>

19. POST BALANCE SHEET EVENTS

On 6 January 2022, the Company entered into a strategic research collaboration with Verily, an Alphabet precision health company. The collaboration will research the GPCR biology in immune cells, particularly in the fields of immunology, gastroenterology, immuno-oncology and other disorders with immunoprotective or immunopathogenic mechanisms. There is no revenue associated with this agreement.

On 19 January 2022, the Company signed a lease for space in the Cori Building located at Granta Park. The lease commenced on that date and runs to 30 March 2026. The annual lease charge is £157,641.

On 17 May 2022, the Company entered into a strategic research collaboration with Kallyope, an international biopharmaceutical company pioneering work in drug discovery involving the gut-brain axis, to identify and validate novel G protein-coupled receptor (GPCR) targets with a goal of creating new drug discovery programs in the area of gastrointestinal diseases.

On 29 June 2022, the Company was notified by its partner Genentech Inc. that the first milestone had been achieved for the one of the target molecules in the ongoing 2019 partnership agreement, for which the company received a milestone payment.

On 22 July 2022, the Company entered into a clinical trial and licence agreement with Cancer Research UK, the world's largest private funder of cancer research, to bring the Company's cancer immunotherapy drug candidate into a first-in-human trial. Under the agreement, Cancer Research UK's Centre for Drug Development will sponsor, design and execute a Phase I/IIa clinical trial of HTL00397322, a novel selective EP4 antagonist.

On 1 August 2022, the Company and AbbVie, a research-based global biopharmaceutical company, entered a new drug discovery collaboration and option-to-license agreement to discover, develop and commercialize novel medicines targeting neurological diseases. The Company is eligible to receive up to \$80 million in upfront and near-term milestone payments and has the potential to receive further downstream payments totalling up to US\$1.2 billion, plus tiered royalties.

On 4 August, 2022, the Group was notified by its partner Neurocrine Biosciences ("Neurocrine") that a US\$30 million milestone had become payable to the Group following Neurocrine's determination that it could proceed as planned with a Phase 2 clinical trial of NBI-1117568 for the treatment of schizophrenia after receiving approval of its Investigational New Drug (IND) Application by the U.S. Food and Drug Administration (FDA).

The war in Ukraine, which began in February 2022, has not had a significant impact on the Company. Management has taken measures to ensure that the Company does not trade directly with any Russian suppliers and does not breach any international sanctions. The war has had a wider effect on cost inflation, especially the cost of consumables and energy, and the Directors continue to monitor the situation carefully.

HEPTARES THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS **Year ended 31 December 2021**

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.oseiheptares.com or from PMO Hanzomon 11F, 2-1 Kojimachi, Chiyoda-ku, Tokyo 102-0083, Japan.