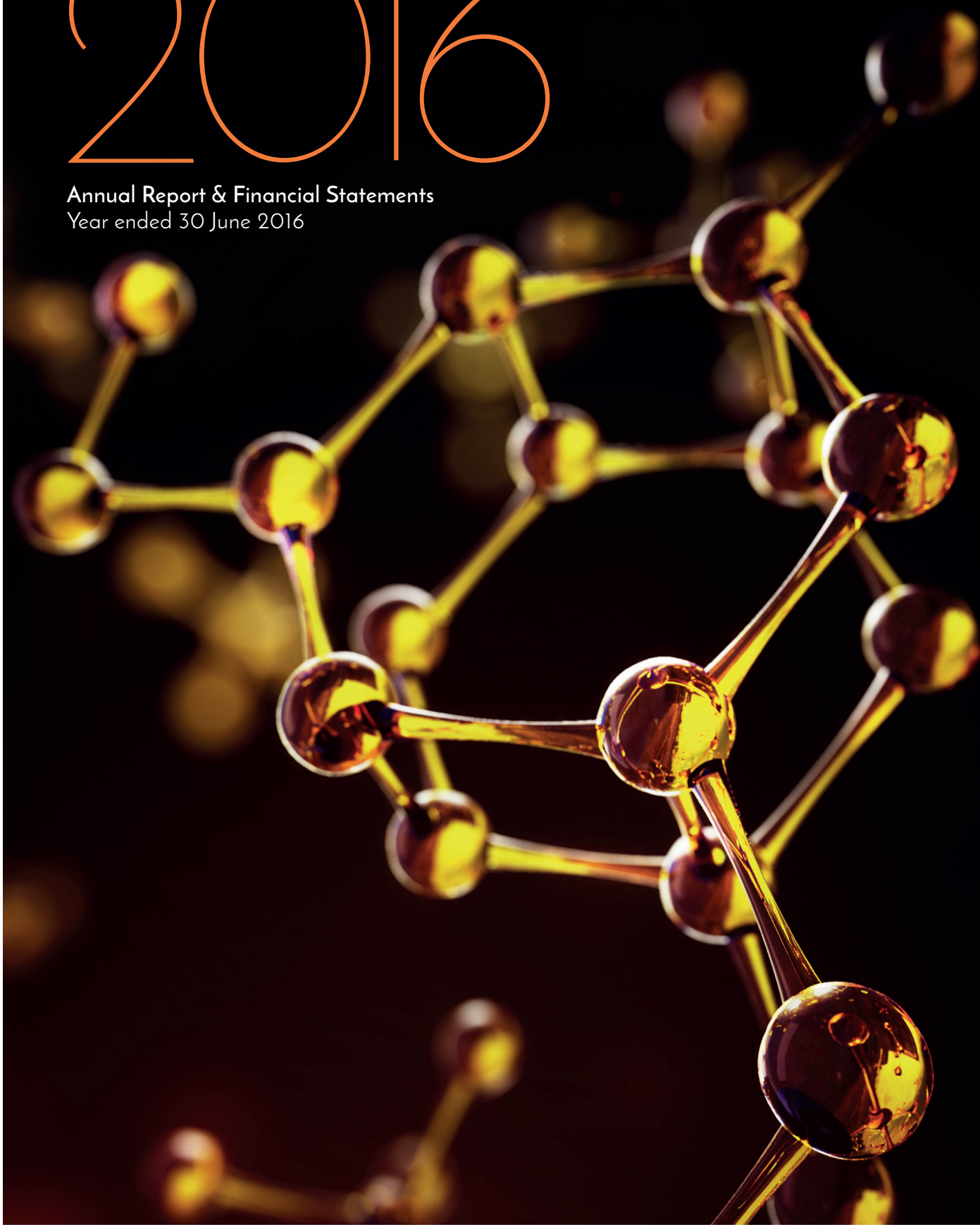




Frontier IP Group plc

# 2016

Annual Report & Financial Statements  
Year ended 30 June 2016



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## Welcome to Frontier IP

Frontier IP develops and manages a portfolio of equity stakes in companies founded on strong, commercially-focused Intellectual Property (“IP”).

Our current portfolio contains companies based on IP from a range of sources including the University of Cambridge, University of Central Lancashire, University of Dundee, Heriot-Watt University of Edinburgh, Plymouth University, Robert Gordon University - Aberdeen and University of St Andrews.

We actively seek out potential portfolio companies and fresh sources of exceptional IP.

The Group earns its equity and revenue by helping businesses grow in value, providing downstream attractive returns for Frontier IP’s stakeholders and shareholders. Equity stakes are earned through providing practical support ahead of applying capital.

The Group is committed to growing its portfolio through:

01

**Establishing formal and informal relationships with universities as sources of IP and deal flow**

02

**Identifying strong IP and helping to create and grow companies built around this IP**

03

**Earning equity in return for strategic and commercial support**

04

**Growing a reputation for active, hands-on support**

05

**Building a wide network of sources of capital**

Our approach is to grow value in our portfolio companies by not just *advising* but *doing*. In addition to providing strategic direction, our experienced team helps companies with a range of activities, usually those which are common points of failure in early-stage businesses. We help companies to adopt a more business-like approach, in particular encouraging early engagement with the potential market through Frontier IP’s established industry networks. Our support includes strategic and commercial expertise, corporate finance and capital raising, and a range of administrative services.

## Our Key Strengths

01

**Portfolio offers strong capital growth potential**

02

**Experienced management team**

03

**Proactive in sourcing potential spin-outs**

04

**Founder equity in return for support, before capital raised**



## STRATEGIC REPORT

The Directors have pleasure in presenting their Strategic Report for the year ended 30 June 2016.

### Highlights

#### Financial

- Total revenue increased by 27% to £2,030,000 (2015: £1,591,000) – reflecting an unrealised profit on the revaluation of investments of £1,809,000 (2015: £1,421,000)
- Revenue from services increased by 30% to £221,000 (2015: £170,000)
- Profit before tax increased by 75% to £1,131,000 (2015: £647,000)
- Basic earnings per share increased to 4.08p (2015: 2.76p)
- Cash balances at 30 June 2016 of £771,000 (2015: £636,000)
- Net assets per share as at 30 June 2016 of 24.9p (2015: 20.9p)

#### Operational

- Placing raised £1,003,000 (gross)
- Commercialisation agreement signed with first Portuguese University – Évora University
- Post period-end, further expansion into the European market through agreement with Universidade NOVA de Lisboa, Faculty of Science and Technology, Portugal

#### Portfolio

- Fair value of portfolio companies increased by 65% to £4,651,000 (2015: £2,812,000)
- Portfolio companies Pulsiv Solar Limited and Nandi Proteins Limited secured funding
- ex scientia Limited secured partnership with Evotec AG

“The Group is making good progress in line with its strategy. I am particularly pleased to report the growth in value of our portfolio. We have expanded our network of universities and have increased the size of the equity stakes we are entitled to receive. Our pipeline continues to show healthy expansion, which we expect to convert to growth in our Core Portfolio in the current financial year. We are also seeing strong commercial progress in our existing Core Portfolio, together building the potential for further uplift in value.”

**Neil Crabb**  
Chief Executive Officer

## OUR BUSINESS AND STRATEGY

### Chairman's Statement

#### Performance

I am pleased to report that Frontier IP has made strong progress during the year in increasing the value of its portfolio and in extending its access to IP, through its first commercialisation partnership in Portugal.

Frontier IP's core strategy is to generate value by providing best-practice IP commercialisation services to institutions and start-ups, by developing a portfolio of companies capable of commercial success and by providing access to capital for these portfolio companies.

#### Portfolio

We have seen continued progress in our Core Portfolio and we are again pleased to report a significant increase in the fair value of our portfolio overall to £4.6 million, representing a 65% increase over the same period last year. Successful fundraisings for Nandi Proteins Limited ("Nandi") and PulsiV Solar Limited ("Pulsiv") and the ex scientia Limited ("ex scientia") partnership with Evotec AG were notable highlights, which together made a significant contribution to the rise in value of our portfolio overall.

#### IP Sources

In line with our strategy of extending our access to sources of high-quality exploitable research we extended our sources of deal flow with the addition of an agreement with the Universidade de Évora, Portugal ("Évora"). The Iberian market is relatively underserved in the IP commercialisation sector and this partnership has been forged to assist with the spin-off and licensing activities emerging from Évora's research. The agreement with Évora is the first to be established by the Group with a university outside of the UK, and will focus on generating value from research in Energy, Environment, Materials and Agriculture, where Évora has a leading reputation. Our activity in the region was extended, post period-end, with a second commercialisation agreement with the Universidade NOVA de Lisboa, Faculty of Science and Technology. This faculty has particular research strengths in Materials, Environment, Energy, Biotechnology, Conservation and Restoration. The Group will receive a share of equity in each spin-off company created by both institutions, as well as a share in the licensing revenue they receive.

In recognition of our developing a deeper relationship with the University of Cambridge, and the region more-widely, in November 2016 we were pleased to open a Group office in Cambridge. We also expanded the team in Cambridge with a new commercialisation professional, who will be primarily focused on our activity in Cambridge.

#### Access to Capital

We continued to provide and support access to capital for our Core Portfolio companies during the year, including Pulsiv and Nandi, with both completing successful fundraisings. Post year-end, Nandi and Heriot-Watt University, Edinburgh were awarded a £1 million grant from Innovate UK under its "Optimising Food Composition: Fat, Sugar, Salt and Fibre" competition. In line with our portfolio growing and maturing, we continue to extend our industry and financial network, through building an extensive network of funders ranging from institutions, industry investors through to private individuals.

#### Results

For the year to 30 June 2016, total revenue increased by 27% to £2,030,000 (2015: £1,591,000) as a result of booking an unrealised profit of £1,809,000 (2015: £1,421,000) on the revaluation of investments, principally due to the movement in fair value of three portfolio companies – Nandi, Pulsiv and ex scientia. Revenue from services, principally board retainers, fund management fees and license income, increased by 30% to £221,000 (2015: £170,000).

The fair value of our portfolio increased by 65% to £4,651,000 (2015: £2,812,000)

Profit before tax increased by 75% to £1,131,000 (2015: £647,000) reflecting the increased revenue and reduced consultancy costs. The basic earnings per share was 4.08p (2015: 2.76p).

## Chairman's Statement (continued)

### Geopolitical Climate

The UK is facing a period of uncertainty following the outcome of the referendum on UK membership of the EU, with economic uncertainty potentially creating more volatility in financial markets and academic institutions concerned about potential impact on research funding. However, the Group sees opportunity in the context of universities looking to diversify their income streams by increasing commercialisation activity and to demonstrate impact. Furthermore, the ability to continue to protect IP should remain unaffected where the European patent system, for example, is not part of EU law and there has been no suggestion by any party that the UK will leave the European Patent Convention which governs European patents and applications.

### Outlook

Looking ahead, we continue to work on a number of new opportunities and intend to continue to grow our portfolio by taking more significant stakes and extending our sources of deal flow. In line with our strategy of broadening the range of capital available to our portfolio companies, we expect to see further portfolio fundraisings during the current financial year.

The Group is seeing excellent progress across its business, both in the UK and internationally, and is well-placed for future growth.

**Andrew Richmond**

Chairman

18 November 2016

## Business Model

Frontier IP's business activity is focused on the commercialisation of intellectual property ("IP"). The Group's principal focus is on building a portfolio of companies through:

- Establishing formal and informal relationships with universities as sources of IP and deal flow
- Identifying strong IP and helping to create and grow companies built around this IP
- Earning equity in return for strategic and commercial support
- Providing active, hands-on support
- Building a wide network of sources of capital

The Group earns its equity and revenue by helping businesses to grow in value, providing downstream attractive returns for Frontier IP's shareholders and stakeholders. Equity stakes are earned through providing practical support ahead of arranging capital.

The team works with a range of universities and sources of deal flow and continues to develop new sources of IP from both formal and informal relationships. The source of our portfolio companies, by value, is reasonably evenly balanced between formal and informal relationships and, in line with our strategy to increase the start-up equity share, the Group plans to add new companies to its portfolio where there is clear scope for it to add value and receive a greater equity share in return.

The Group aims to be selective in its engagement with portfolio companies during their life cycle. Effort is focused on and resource applied to those companies where the Group holds a significant equity stake and where Frontier's expertise and access to capital can be applied to accelerate delivery and growth – the Group's current Core Portfolio. The make-up of this Core Portfolio will change over time as need and demand change.

Frontier IP's executive team works closely with its Core Portfolio companies helping them to build their business and deliver on milestones. The Group's approach is to generate additional revenue from its portfolio through board retainers, fees for fundraising and bespoke business development and corporate and strategic advisory work.

In particular, the Group recognises the importance of access to sources of capital to finance early stage businesses as they develop. Frontier IP has built an extensive network of sources of capital ranging from institutions, industry investors through to private individuals and the Group's fundraising activity both enhances value in its portfolio and may also generate revenue for the Group.

## Strategy

Frontier IP's principal strategic objectives are to achieve revenue growth and create long-term value for its stakeholders.

Frontier IP's strategy is to pursue growth by:

- Generating value from its relationships through new spin-outs, significant equity holdings, licensing income and realisations from existing spin-outs
- Building a portfolio capable of commercial success
- Reviewing and extending its portfolio pipeline for sources of high-quality IP
- Using its expertise to assist portfolio companies to grow and achieve realisations

## OUR PERFORMANCE

### Chief Executive Officer's Statement

“ The Group is making good progress in line with its strategy. I am particularly pleased to report the growth in value of our portfolio, as evidenced by the recent fundraisings. We have expanded our network of universities and, where contracted, have increased the size of the equity stakes we are entitled to receive. We continue to see strong commercial progress in our Core Portfolio building the potential for further uplift in value.”

**Neil Crabb**  
Chief Executive Officer

### Key Performance Indicators

KPI	Description	2016 Performance
Fair value of the portfolio	Movement in the value of equity in the portfolio	£4,651,000 (2015: £2,812,000)
Total revenue	Growth in the aggregate of revenue from services and change in fair value of the portfolio	£2,030,000 (2015: £1,591,000)
Profit	Profit before tax for the year	£1,131,000 (2015: £647,000)
Net assets per share	Value of the Group's assets less the value of its liabilities per share outstanding	24.9p (2015: 20.9p)
Total initial equity in new portfolio companies	Aggregate percentage equity earned from new portfolio companies during the year	0% (2015: 80%)

The Group achieved healthy increases in four out of five of its Key Performance Indicators and we expect significant growth in total initial equity in the coming year. The Chairman's Statement and Operational Review contain further information on progress in the business during the year.

The Group's services revenue for the year to 30 June 2016 increased to £221,000 (2015: £170,000) and, with administrative expenses of £900,000 (2015: £945,000), the Group continues to consume significant cash from operating activities, however the Directors continue to pursue opportunities that will assist in reducing the gap.



## Operational Review

### Corporate

Frontier IP completed a placing in March 2016 to support the development and growth of its relationships, advisory roles and portfolio companies. The placing comprised 4,177,500 new ordinary shares of 10p at a price of 24p per share, raising £1,003,000 before expenses.

### Portfolio – Key Developments

During the year two of our portfolio companies PulsiV and Nandi completed successful fundraisings.

#### *Pulsiv*

In October 2015, PulsiV raised £0.5 million, valuing PulsiV at £5 million with Frontier IP retaining an 18.9% holding in the issued share capital. PulsiV, which spun out from Plymouth University, has developed new technology which significantly improves the energy efficiency of photovoltaic solar panels. It does this by maximising the energy generated by the system's inverters, which convert the energy harvested for supply to the grid. Results from PulsiV's first prototype show average increases of up to 30% in energy generation when compared with conventional inverter technology. The technology can be integrated into new systems or retrofitted to existing solar panels. The fundraising has enabled PulsiV to accelerate product development, enabling further prototyping and testing in preparation for the initial production of micro-inverters containing its technologies. According to a recent GTM Research report, Global PV Inverter and MLPE Landscape 2016, global shipments of solar PV inverters will reach 90 gigawatts by 2020 (59.7 gigawatts were shipped in 2015). This represents an average annual growth rate of 11 percent between 2016 and 2020.

#### *Nandi*

Nandi's most recent fundraising, in March 2016, raised £250,000 from new and existing investors at a valuation of £7.57 million, twice the price per share of the previous fundraising in November 2014. Nandi, which spun out from Heriot-Watt University, Edinburgh, is commercialising a patented protein process technology which can reduce sugars, fats and emulsifiers in processed food without adversely impacting taste and texture. Nandi's technology is being rolled out at a time when food companies are under increasing legislative pressure to reduce the level of these ingredients in their products. Nandi's technology enables food industry customers to remain competitive in response to healthier eating trends using sustainable, naturally-occurring proteins in food manufacture. The funding is enabling Nandi to develop further its relationships with multinational food companies, where strong interest has already been shown, and a further funding round is expected in the current financial year 2016/17 to continue this progress.

#### *ex scientia*

We were pleased to note the commercial progress at ex scientia during the year and the significant increase in value of our minor equity stake. In particular, we welcomed the announcement of its partnership with Evotec AG, a collaboration with the objective to discover and develop first-in-class bispecific small molecule immuno-oncology therapies.

### Sources of IP

In the year we added an agreement with the Universidade de Évora. This agreement is the first to be established by the Group with a university outside of the UK. Frontier IP and Évora, which has a leading reputation in Energy, Environment, Materials and Agriculture, will work together to maximise the commercial value of IP developed within or owned by the University. The Group will receive a share of the equity in each spin-off company created by the University, as well as a share in the licensing revenue it receives.

## Operational Review (continued)

Portugal has a strong research base in certain key sectors relevant to the Group's activity, in particular in sustainable energy and food and agriculture, which complements the Group's relationships with utility companies in the region – EDP (Energias de Portugal) and Iberdrola. The Group believes that the region offers significant under-exploited opportunity, relative to the UK which has a strong and mature IP commercialisation market, where Portugal is actively seeking to widen access to early-stage funding and commercialisation expertise.

In line with our business model, our strategy is to seek to increase both the size of equity stakes we receive from our sources of IP and extend our portfolio pipeline for sources of high-quality IP. We continually review our partnerships, both formal and informal, for quality of dealflow and economic viability. This approach ensures that effort is focused where it is most effective and there is most potential value. The opening of a base in Cambridge is a clear demonstration of our commitment to this approach. Our focus on creating a portfolio of companies, where we are actively involved and hold a significant stake capable of delivering substantial value, has led us to opt not to renew our partnership with University of Dundee which came to the end of its 10-year term, post period-end, in November 2016.

We were also pleased to announce, post period-end, the securing of a commercialisation agreement with the Faculty of Science and Technology within the Universidade NOVA de Lisboa ("FCT Nova"), Portugal, Frontier IP's second in Portugal and reflecting the Group's view that there is significant opportunity in the region. The Universidade NOVA de Lisboa is a research-intensive university (QS Top Universities 2016) and FCT Nova has particular research strengths in Engineering, Materials, Energy and Life Sciences. Frontier IP and FCT Nova will work together to maximise the commercial value of intellectual property developed within or owned by FCT Nova. Frontier IP will receive a share of equity in each spin-off company created by FCT Nova, as well as a share in the licensing revenue it receives.

We are seeing high-quality research with commercial application coming through from our formal and informal relationships, in particular from Plymouth and Cambridge universities, where we have significantly increased the spinout equity we receive relative to our historic relationships.

## Access to Funding

We continue to extend and make use of our network in managing funding rounds for our portfolio companies, with a particular focus on our Core Portfolio. The recent investments in Nandi and Pulsiv were a successful demonstration of this approach. Frontier IP manages and builds an extensive network of funders ranging from institutions, industry investors through to private individuals.

# Portfolio Review

## CORE PORTFOLIO

### Alusid Limited (“Alusid”)

Alusid is a spin-out from the Silicate Research Unit of the University of Central Lancashire and was formed to license and commercialise the process to transform waste materials into a highly durable and functional material with applications in the construction industry. Its product, SilicaStone, is a new material made from fused recycled glass and ceramics. SilicaStone was designed as a uniquely adaptable alternative to natural stone products for use as feature walls and interiors. Alusid has shown good commercial progress during the year, has secured raw materials supply agreements and its pilot plant is now fully operational. We were pleased to note the on-going protection of Alusid's IP, in particular the grant of the core patent in the US in September 2016. We were also pleased to note, post-period-end, further recognition of Alusid's progress when it won this year's IChemE Global Award 2016 for Best Business Start-Up against a shortlist of international nominees, which included businesses from the UK, USA and New Zealand.

At 30 June 2016, the Group held 39% of the issued share capital of Alusid.

### Cambridge Sensor Innovation Limited (“CSI”)

Based in Cambridge UK, Cambridge Sensor Innovation was formed to exploit technology developed by Dr. Mark Williamson, a lecturer and researcher at the Department of Chemical Engineering and Biotechnology at the University of Cambridge. Cambridge Sensor Innovation develops sensor technology for use in industrial processes where the composition of the processing atmosphere is important, specifically ovens and kilns. Its suite of products comprises an ultra-low range differential Pressure Sensor, a Humidity Sensor, and an Intelligent Control System. The benefits of the technology include reduction in greenhouse gases and optimisation of the quality and consistency of oven-manufactured goods. The company is targeting multinationals in the food and speciality chemicals markets, but the technology can be applied within any industry which uses ovens and kilns. CSI has refined its sensor design and achieved a small volume of prototype sales to these multinationals.

At 30 June 2016, the Group held 40% of the issued share capital of CSI.

### Nandi Proteins Limited (“Nandi”)

Spun out of Heriot-Watt University, Edinburgh and led by CTO Dr. Lydia Campbell, Nandi is an established protein technology company, specialising in developing a platform technology which improves the functional properties of proteins in food manufacturing. When its patented process technology is applied to naturally occurring proteins such as whey and egg, which are used extensively as ingredients in food manufacture, the functional properties of these proteins are improved, creating a product which can replace (in whole or in part) sugars, fats and additives (specifically emulsifiers, commonly E471) in end-product. Food manufacturers are under increasing pressure to respond to rising global obesity rates and the associated cost, both human and economic, of diet-related ill-health.

Nandi raised additional funds during the year, enabling it to develop further its relationships with multinational food companies, where strong interest has already been shown, extend its product range and prepare for scale-up. Post period-end, Nandi and Heriot-Watt University Edinburgh were awarded a £1 million grant from Innovate, the UK's innovation agency under its “Optimising Food Composition: Fat, Sugar, Salt and Fibre” competition. The grant funding will enable the development of new processes and products that lead to the availability of healthier food choices for consumers. The project is supported by industry partners Devro plc and Kerry Group plc.

At 30 June 2016, the Group held 20.8% of the issued share capital of Nandi.

## Portfolio Review (continued)

### PoreXpert Limited (“PoreXpert”)

PoreXpert, a spin-out from Plymouth University, was formed to accelerate the commercialisation activity of its Environmental and Fluid Modelling Group which develops software for modelling porous systems. In close partnership with Thermo Scientific, Porometer nv and MicrotracBEL Inc, the company provides software, for sale or through consultancy, which generates a three-dimensional simulation of the voids within a sample, based on porometry, porosimetry or, less directly, electron or optical microscopy. The resulting structure can then be used to simulate properties that include depth filtration efficiency and absolute permeability. The software also has a ‘targeted modification’ feature which allows the user to make alterations to the structure virtually, so they can optimise the properties of a given material in a cost effective manner or simulate future effects such as weathering. Progress over the year has been steady and sales are beginning to build.

At 30 June 2016, the Group held 15% of the issued share capital of PoreXpert.

### PulsiV Solar Limited (“PulsiV”)

PulsiV, which spun-out from Plymouth University and is led by Associate Professor Dr. Zaki Ahmed, develops a technology which significantly improves the energy efficiency of photovoltaic solar panels. It does this by maximising the energy generated by the system’s inverters, which convert the energy harvested for supply to the grid. According to GTM Research’s latest report, The Global PV Inverter and MLPE Landscape 2016, global shipments of solar PV inverters will reach 90 gigawatts by 2020 (59.7 gigawatts were shipped in 2015). This represents an average annual growth rate of 11 percent between 2016 and 2020. The technology can be integrated into new systems or retrofitted to existing solar panels. PulsiV completed its first fundraising during the period, raising £0.5 million, which will allow it to accelerate product development, enabling further prototyping and testing in preparation for the initial production of micro-inverters containing its technologies.

At 30 June 2016, the Group held 18.9% of the issued share capital of PulsiV.

### ex scientia Limited (“ex scientia”)

ex scientia develops new medicines for a wide range of human diseases where improved efficacy is required. ex scientia is the first company to develop a systematic algorithmic discovery platform to automatically design molecules to complex target product profiles. ex scientia has successfully applied its algorithm-driven design principles to developed novel molecules with complex bispecifics, and phenotypic product profiles. Adopting this strategy increases the efficiency and effectiveness of drug discovery. As the industry pioneer of automated drug design, ex scientia aims to create exceptional value for its partners, by delivering effective treatments to the clinic. ex scientia has strong links to industry, including the announcement of the collaboration with Evotec AG during the year.

At 30 June 2016, the Group held 5% of the issued share capital of ex scientia.



## Portfolio Summary

at 30th June 2016

Portfolio Company	% Issued Share Capital	About	Source	Sector
<b>ADUS Deep Ocean Limited</b>	3%	High resolution sonar imaging for inspecting underwater assets	University of Dundee	Energy
<b>Alusid Limited</b>	39%	Recycled materials	UcLan	Materials
<b>Cambridge Sensor Innovation Limited</b>	40%	Sensors for optimising heating processes in industry	University of Cambridge	IT/ Life Sciences
<b>Cambridge Simulation Solutions Limited</b>	40%	Method to simulate and control complex chemical processes	University of Cambridge	IT / Life Sciences
<b>Celerum Limited</b>	10%	Planning and scheduling software, targeting the offshore oil and gas industry	Robert Gordon University	IT
<b>Counterweight Limited</b>	3%	Obesity management programme	Robert Gordon University	Healthcare
<b>ex scientia Limited</b>	5%	Novel informatics and experimental methods for drug discovery	University of Dundee	Life Sciences
<b>Glycobiochem Limited</b>	5%	Molecular and chemical tool software in the treatment of human disease	University of Dundee	Life Sciences
<b>Kinetic Discovery Limited</b>	5%	Biosensor-based drug discovery screening	University of Dundee	Life Sciences
<b>Nandi Proteins Limited</b>	20.8%	Food protein technology	Heriot Watt University, Edinburgh	Life Sciences
<b>PoreXpert Limited</b>	15%	Analysis and modelling of porous materials	University of Plymouth	IT
<b>PulsiV Solar Limited</b>	18.9%	Improved PV solar panel efficiency	University of Plymouth	Energy
<b>Rapid Quality Systems Limited</b>	5%	Software development support application	University of Dundee	IT

## Portfolio Review (continued)

**LIMITED PARTNERSHIP FUNDS****RGU Ventures Investment Fund LP (“RGU Fund”)**

The RGU Fund reached first closing in July 2009. In accordance with Frontier IP’s accounting policies, the Group’s 27.3% investment in the RGU Fund is included in the financial statements at fair value. At 30 June 2016, the carrying value was £22,000 (2015: £47,000), which is £144,000 below cost (2015: £118,000 below cost).

The RGU Fund has one investment in Counterweight Limited, holding 8.5% of the ordinary shares fully diluted, and granted a convertible loan of £80,000 to Celerum Limited.

# Financial Review

## Key Highlights

Profit after tax for the Group for the year to 30 June 2016 was £1,131,000 (2015: £647,000). This result includes a net unrealised profit on the revaluation of investments of £1,809,000 (2015: £1,421,000) and reflects an increase in services revenue to £221,000 (2015: £170,000) and a reduction in administrative expenses to £900,000 (2015: £945,000).

The value of the Group's investments increased to £4,673,000 (2015: £2,859,000). Net assets increased to £7,668,000 (2015: £5,557,000) reflecting the proceeds of the £1,003,000 (gross) placing and the profit for the year.

In March 2016, the Company conducted a placing of 4,177,500 new ordinary shares of 10p for cash at a price of 24p per share raising £1,003,000 before expenses.

## Revenue

Total revenue for the year to 30 June 2016 increased 27% to £2,030,000 (2015: £1,591,000). Revenue from services increased 30% to £221,000 (2015: £170,000). The Group's net unrealised profit on the revaluation of investments increased 27% to £1,809,000 (2015: £1,421,000). Unrealised gains on revaluation of investments of £2,045,000 (2015: £1,531,000) were offset by impairments of £236,000 (2015: £110,000). £786,000 of the gain relates to Nandi Proteins Limited and £331,000 to Pulsiv Solar Limited, both of whom completed a fundraising during the year, and £928,000 of the gain relates to ex scientia Limited.

## Administrative Expenses

Administrative expenses decreased by 5% to £900,000 (2015: £945,000). The decrease is primarily due to savings in consultancy fees following the termination of a contract.

## Earnings Per Share

Basic earnings per share was 4.08p (2015: 2.76p). Diluted earnings per share was 4.04p (2015: 2.71p)

## Statement of Financial Position

The principal items in the statement of financial position at 30 June 2016 are goodwill £1,966,000 (2015: £1,966,000) and financial assets at fair value through profit and loss, principally holdings in portfolio companies, £4,673,000 (2015: £2,859,000). The carrying value of these items is determined by the Directors using their judgement when applying the Group's accounting policies. The considerations taken into account by the Directors when reviewing the carrying value of goodwill are detailed in Note 9. The matters taken into account when assessing the fair value of the portfolio companies are detailed in the accounting policy on investments.

The Group had net current assets at 30 June 2016 of £883,000 (2015: £701,000). The current assets at 30 June 2016 include debtors of £88,000 which are more than 90 days overdue, of which £82,000 is due from Nandi. The non-current trade receivables of £144,000 are also due from Nandi. Nandi is about to commence an additional fundraising and the Directors are confident that Nandi will be able to raise sufficient funds to finance both Nandi's business plan and to commence payment of the debt over an agreed eighteen months.

Net assets of the Group increased to £7,668,000 at 30 June 2016 (30 June 2015: £5,557,000). The number of issued ordinary shares also increased to 30,778,520 at 30 June 2016 (2015: 26,601,020) resulting in net assets per share of 24.9p (2015: 20.9p).

## Cash

The Group's cash balances increased during the year by £135,000 to £771,000 at 30 June 2016. This was as a result of a placing of new shares which raised £947,000 net of expenses. The cash generated by the share placing was used to fund the operation of the business.

## Risk Management

The specific financial risks of price risk, interest rate risk, credit risk and liquidity risk are discussed in the notes to the financial statements. The key broader risks – financial, operational, cash flow and personnel – are considered below.

The principal financial risks of the business are the impairment of the value of goodwill, a fall in the value of the Group's portfolio and recovery of the overdue debt from Nandi. The value of goodwill is linked to the progress of the existing portfolio and to continued identification and acquisition of equity stakes in new portfolio companies. As regards the value of the portfolio itself, the fair value of each portfolio company represents the best estimate at a point in time, and may be impaired if the business does not perform as well as expected, directly impacting the Group's value and profitability. This risk is mitigated as the size of the portfolio increases. A debt payment plan agreed with Nandi in October 2014 has since been suspended as Nandi sought additional funding. The Directors are confident based on recent commercial progress and discussions with new and existing shareholders that Nandi will raise sufficient funds to finance both Nandi's business plan and to recommence payment of the debt in early 2017.

The principal operational risk of the business is management's ability to continue to identify spin-out companies from its formal and informal university relationships, to increase the revenue streams that will generate cash in the short term and achieve realisations from the portfolio.

Early-stage spin-out companies are particularly sensitive to downturns in the economic environment and any downturn would mean considerable uncertainty in the capital markets resulting in a lower level of funding activity for such companies and a less favourable exit environment. The impact of this may be to constrain the growth and value of the Group's portfolio and to reduce the potential for revenue from funding advisory work. The Group seeks to mitigate these risks by maintaining relationships with co-investors, industry partners and financial institutions.

A reduction in public funding to the Higher Education sector may result in reduced research funding, universities changing their approach to commercialisation or consolidation among Higher Education institutions. Any uncertainty in the sector may have an impact on the operation of the Group's commercialisation partnerships in terms of lower levels of commercialisation activity and a reduced focus on commercialisation or consolidation affecting the Group's contracted partnerships. The Group seeks to minimise these risks through its success-based reward mechanism and seeking to ensure that its university partners receive an appropriate level of service.

Until the Group generates cash through an investment realisation it will rely on raising additional capital to fund the Group's operations. The uncertainty centres on the ability of management to increase its cash generating service revenue streams to reduce the Group's reliance on raising money from capital markets. In order to manage this risk the Group continues to pursue its aim of growing service revenue to reduce the requirement for additional capital before taking account of any investment realisations.

The Group is dependent on its executive team for its success and there can be no assurance that it will be able to retain the services of these key personnel. Incentives for senior staff include share options and the Executive Directors hold direct interests in shares in the Company.

### By order of the Board

**Neil Crabb**  
Director



## OUR GOVERNANCE

### Board of Directors

#### **K Andrew Richmond, Non-executive Chairman (Age 50)**

Andrew Richmond has substantial experience of the healthcare, stockbroking and private equity industries. He is Chairman of Hub North Scotland, a Lay Member of the Court of the University of Dundee and a Non-Executive Director of Scotland's Charity Air Ambulance.

#### **Neil Crabb, Chief Executive Officer (Age 49)**

Neil Crabb has considerable investment management experience, particularly in technology and smaller companies. From 1990 to 1994, he worked for Equitable Life Assurance Society, latterly as investment analyst with investment authority for approximately one-third of the Society's UK smaller company holdings. Neil spent from 1995 to 1996, with Duncan Lawrie Limited where he was an investment manager with responsibility for a range of managed portfolios, invested primarily in UK smaller companies. In 1996 he co-founded Sigma Capital Group plc.

#### **Jacqueline McKay, Chief Operating Officer (Age 57)**

Jacqueline McKay has substantial experience in private equity and of the university IP sector in particular, including structuring and executing university partnership agreements and venture funds. She has been working with the Group since its inception to develop new and existing university relationships for the Group. Prior to this, Jacqueline spent 12 years with the Bank of Scotland and joined Sigma Capital Group plc in 2000, where latterly she was Corporate Development Director.

#### **David Cairns, Portfolio Director (Age 52)**

David Cairns previously worked for Optos plc ("Optos"), the retinal imaging company, where he was instrumental in building the business from start-up, serving on the board until its flotation on the London Stock Exchange. As Chief Technical Officer, David played a key role in creating and developing the company's innovative product IP, leading to Optos being recognised by the World Economic Forum as a "Technology Pioneer" in the Biotechnology and Health category in 2005.

#### **James Fish, Finance Director and Company Secretary (Age 59)**

James Fish is a chartered accountant with over 25 years' experience in senior financial positions and a wide range of commercial experience including venture capital funded small/medium-sized enterprises and start-up companies. He was latterly interim Finance Director at The One Place Capital Limited, an online technology start-up. He qualified as a chartered accountant with KPMG and holds a degree in Accounting and Finance from Heriot-Watt University, Edinburgh.

#### **Michael Bourne, Non-executive director (Age 58)**

Michael Bourne has almost 30 years' experience in investment management and particular expertise in technology, life sciences and clean technology. He is currently Partner of Accretion Capital LLP and a Director of Cloudfind Ltd. He is also an Advisory Board Member of V2R, the US technology transfer venture company. Prior to these roles, in 1995, he founded asset management company, Reabourne Technology Investments Limited, where he was also Chief Investment Officer. For nine years until 2009, he was also a member of the techMARK Advisory Committee.

**Board of Directors (continued)****Dr. Campbell Wilson, Non-executive director (Age 62)**

Campbell Wilson is a Director and former Chair of the UK Pharmaceutical Licensing Group and has worked in the UK pharmaceutical industry for approximately 35 years. The last 17 years of his career were in business development at AstraZeneca, the global research-based biopharmaceutical company, latterly as Executive Business Development Director within the company's central Business Development function. He led strategic collaboration and licensing activities at the unit, driving multiple technology and oncology therapy area collaborations and product licensing deals, including high profile and innovative agreements. Before his involvement in business development, Campbell worked in senior level scientific roles in cardiovascular drug discovery at AstraZeneca, and earlier at Beecham Pharmaceuticals (now GSK). Campbell holds a PhD in Cardiovascular Pharmacology and has lectured and published extensively over his career. As well as chairing the UK Pharmaceutical Licensing Group, he participates in the European Pharma Licensing Council and is a consultant to Medius Associates Limited, the pharmaceutical and healthcare consultancy.

## Board of Committees

Andrew Richmond, Michael Bourne and Campbell Wilson are members of the audit and remuneration committees. Andrew Richmond chairs the audit committee and Michael Bourne chairs the remuneration committee.

## Advisers

### Registrars

Share Registrars Limited  
Suite E  
First Floor  
9 Lion and Lamb Yard  
Farnham  
Surrey GU9 7LL

### Auditor

Moore Stephens LLP  
150 Aldersgate Street  
London  
EC1A 4AB

### Solicitors

CMS Cameron McKenna LLP  
Saltire Court  
20 Castle Terrace  
Edinburgh EH1 2EN

### Nominated Adviser and Joint Broker

Cantor Fitzgerald Europe  
One Churchill Place  
Canary Wharf,  
London E14 5RB

### Joint Broker

Peterhouse Corporate Finance Limited  
31 Lombard Street  
London EC3V 9BQ

### Secretary & Registered office

James Fish  
c/o CMS Cameron McKenna LLP  
78 Cannon Street  
London EC4N 6AF

### Main trading address

93 George Street  
Edinburgh  
EH2 3ES



## Directors' Report

The Directors present their annual report on the affairs of the Group, together with the audited financial statements, for the year ended 30 June 2016.

### Results and dividends

The Group made a profit for the year of £1,131,000 (2015: £647,000). The Directors do not recommend the payment of a dividend (2015: nil). The Directors are confident of the prospects for the Group for the current year.

### Directors

The Directors who held office during the year and the current Directors of the Company are listed on pages 15 and 16. Details of Directors' interests in share options and in shares are given in the Directors' Remuneration Report.

### Employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort will be made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

### Risk factors

Information on the Group's financial risk management objectives and policies relating to market risk, credit risk and liquidity risk is provided in Note 1 to the financial statements. The broader risks of the business are considered in the Strategic Report.

### Treasury activities and financial instruments

The Group's financial instruments comprise cash, equity investments and other items such as trade debtors and trade creditors that arise directly from its operations. The Group has no borrowings. At 30 June 2016, the Group had positive cash balances of £771,000 (2015: £636,000). The Group's policy is to keep surplus funds on instant access and short-term deposit to earn the prevailing market rate of interest. It is the Group's policy not to speculate in derivative financial instruments. The Group is not exposed to any foreign exchange risks as it has no transactions in foreign currency.

### Directors' indemnity insurance

The Company had a Directors and Officers insurance policy and a Professional Indemnity Insurance policy in place throughout the year and at the date of these financial statements.

## Directors' Report (continued)

### Going concern

The Group's strategy is to develop a growing portfolio of spin-out companies that will provide cash inflows through realisation of investments and in the meantime will make use of the Group's services in return for cash fees. However, based on forecast income and expenditure for the next 12 months, the Group's cash income will be insufficient to cover the Group's expenditure. Consequently, the Group will need to raise additional capital in order to continue in operational existence for at least the next 12 months. The Directors anticipate undertaking an equity placing during the first half of 2017 and intend to seek authority to allot securities at the forthcoming Annual General Meeting in December 2016. The Directors do not expect that the Group's services to its portfolio companies will generate sufficient cash income to cover its non-discretionary outgoings in the medium term and have concluded that it will be necessary to continue to raise capital periodically until such time as the Group's costs and other liabilities can be met from income or realisations. Taking into account the current financing environment and the Group's trading position, the Directors do not regard their ability to raise this capital to be a material uncertainty from a going concern perspective. Consequently the Directors continue to adopt the going concern basis in preparing the group's financial statements.

### Subsequent events

Subsequent events are disclosed in note 20 to the Financial Statements.

### Corporate governance

Although not required to do so, the Company seeks within the practical confines of being a small company to act in compliance with the principles of good governance and the code of best practice as contained in the UK Corporate Governance Code.

## Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' Report and Strategic 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 prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group for that period.

In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State that the financial statements comply with International Financial Reporting Standards as adopted by the European Union; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

### Awareness of relevant audit information

At the date of signing of this report and insofar as each of the Directors is aware:

- There is no relevant audit information of which the auditor is unaware.
- The Directors have taken all steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

### Auditor

A resolution to appoint Moore Stephens LLP as auditor will be proposed at the Annual General Meeting.

### By order of the Board

**James Fish**  
Company Secretary  
18 November 2016

## Directors' Remuneration Report

### Directors' remuneration

The Remuneration Committee decides the remuneration policy that applies to the Executive Directors. The current members of the Remuneration Committee are Andrew Richmond, Michael Bourne and Campbell Wilson.

### Salaries and benefits

The Remuneration Committee meets at least once a year in order to consider and set the remuneration packages. Remuneration comprises basic salary, pension contributions and benefits in kind. An analysis of remuneration by director is given in Note 5 of these financial statements.

### Contract of service

Neil Crabb's, Jacqueline McKay's, David Cairns' and James Fish's service agreements are subject to a three-month notice period.

### Share options

The Company has two share option schemes, the Frontier IP Group plc Employee Share Option Scheme 2011 which is an Enterprise Management Incentive (EMI) share option scheme, and the Frontier IP Group plc Unapproved Share Option Scheme 2011. No unapproved options have been granted in the year and none are held at 30 June 2016. EMI share options were granted in the year to four directors.

Details of EMI share options held by Directors who were in office at 30 June 2016 are set out below:

Director	Grant date	Number of options	Exercise price	Exercise date	Expiry date
Neil Crabb	15.01.2013	456,825	15.00p	15.01.2016 – 14.01.2023	14.01.2023
Neil Crabb	01.04.2014	128,175	26.88p	01.04.2017 – 31.03.2024	31.03.2024
Neil Crabb	07.04.2016	350,000	26.63p	07.04.2019 - 06.04.2026	06.04.2026
Jacqueline McKay	15.01.2013	195,782	15.00p	15.01.2016 – 14.01.2023	14.01.2023
Jacqueline McKay	01.04.2014	54,218	26.88p	01.04.2017 – 31.03.2024	31.03.2024
Jacqueline McKay	07.04.2016	150,000	26.63p	07.04.2019 - 06.04.2026	06.04.2026
David Cairns	15.01.2013	195,782	15.00p	15.01.2016 – 14.01.2023	14.01.2023
David Cairns	01.04.2014	54,218	26.88p	01.04.2017 – 31.03.2024	31.03.2024
David Cairns	07.04.2016	75,000	26.63p	07.04.2019 - 06.04.2026	06.04.2026
Jim Fish	01.04.2014	250,000	26.88p	01.04.2017 – 31.03.2024	31.03.2024
Jim Fish	07.04.2016	150,000	26.63p	07.04.2019 - 06.04.2026	06.04.2026

The market price of the Company's shares at 30 June 2016 was 25.50p. The range of prices during the year was 18.50p to 31.00p.



### Directors' interests in shares

The Directors in office at 30 June 2016 had the following interests in the ordinary shares of 10p each in the Company at the year end.

	2016 Number	2015 Number
Neil Crabb	2,834,168	2,834,168
David Cairns	840,238	840,238
Jacqueline McKay	12,855	12,855
Andrew Richmond	1,000,000	1,000,000
Michael Bourne	270,238	270,238
James Fish	100,000	100,000

All of the above interests are beneficial.

### Andrew Richmond

Chairman

18 November 2016

## OUR FINANCIALS

### Independent Auditor's Report

to the shareholders of Frontier IP Group plc

We have audited the financial statements of Frontier IP Group Plc for the year ended 30 June 2016 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Statements of Cash Flows, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

#### Respective responsibilities of directors and auditor

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

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 30 June 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matters prescribed by the Companies Act 2006**

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

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

We have nothing to report in respect of the following where, under the Companies Act 2006 we are required to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent company or returns adequate for audit have not been obtained from branches not visited by us; or
- The parent company's financial statements are not in agreement with the accounting records; 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.

**Neil Tustian**

Senior Statutory Auditor  
for and on behalf of Moore Stephens LLP  
Chartered Accountants and Statutory Auditor

Moore Stephens LLP  
150 Aldersgate Street  
London  
EC1A 4AB

18 November 2016

## GROUP STATEMENTS

### Consolidated Statement of Comprehensive Income

For the year ended 30 June 2016

	Notes	2016 £'000	2015 £'000
<b>Revenue</b>			
Revenue from services		221	170
<b>Other operating income</b>			
Unrealised profit on the revaluation of investments	11	1,809	1,421
<b>Total revenue</b>		<b>2,030</b>	<b>1,591</b>
Administrative expenses	4	(900)	(945)
<b>Profit from operations</b>		<b>1,130</b>	<b>646</b>
Interest income on short term deposits		1	1
<b>Profit from operations and before tax</b>		<b>1,131</b>	<b>647</b>
Taxation	6	-	-
<b>Profit and total comprehensive income attributable to the equity holders of the parent</b>		<b>1,131</b>	<b>647</b>
<b>Profit per share attributable to the equity holders of the Company:</b>			
Basic earnings per share	7	4.08p	2.76p
Diluted earnings per share	7	4.04p	2.71p

All of the Group's activities are classed as continuing.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 to not present the Company statement of comprehensive income. The total comprehensive loss of the Company for the year was £690,000 (2015: income £1,150,000).

# Consolidated Statement of Financial Position

At 30 June 2016

	Notes	2016 £'000	2015 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Tangible fixed assets	8	2	2
Goodwill	9	1,966	1,966
Financial assets at fair value through profit and loss	11	4,673	2,859
Trade receivables	12	144	29
		6,785	4,856
<b>Current assets</b>			
Trade receivables and other current assets	12	223	188
Cash and cash equivalents		771	636
		994	824
<b>Total assets</b>		<b>7,779</b>	<b>5,680</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	13	(111)	(123)
		(111)	(123)
<b>Net assets</b>		<b>7,668</b>	<b>5,557</b>
<b>Equity</b>			
Called up share capital	14	3,078	2,660
Share premium account	14	5,729	5,200
Reverse acquisition reserve	15	(1,667)	(1,667)
Share based payment reserve	15	78	45
Retained earnings	15	450	(681)
<b>Total equity</b>		<b>7,668</b>	<b>5,557</b>

# Company Statement of Financial Position

At 30 June 2016

	Notes	2016 £'000	2015 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Tangible fixed assets	8	-	-
Investment in subsidiaries	10	2,383	2,383
Financial assets at fair value through profit and loss	11	1,877	1,545
Trade receivables	12	1,200	1,460
		5,460	5,388
<b>Current assets</b>			
Trade receivables and other current assets	12	91	32
Cash and cash equivalents		754	611
		845	643
<b>Total assets</b>		<b>6,305</b>	<b>6,031</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	13	(32)	(48)
<b>Net assets</b>		<b>6,273</b>	<b>5,983</b>
<b>Equity attributable to equity holders of the Company</b>			
Called up share capital	14	3,078	2,660
Share premium account	14	5,729	5,200
Share-based payment reserve	15	78	45
Retained earnings	15	(2,612)	(1,922)
<b>Total equity</b>		<b>6,273</b>	<b>5,983</b>

The financial statements on pages 26 to 50 were approved by the Board of Directors and authorised for issue on 18 November 2016 and were signed on its behalf by:

**James Fish**  
Finance Director  
18 November 2016

Registered number: 06262177



# Consolidated and Company Statements of Changes in Equity

For the year ended 30 June 2016

Group	Share capital £'000	Share premium account £'000	Reverse acquisition reserve £'000	Share-based payment reserve £'000	Retained earnings £'000	Total equity attributable to equity holders of the Company £'000
At 1 July 2014	2,253	4,794	(1,667)	125	(1,436)	4,069
Issue of shares	407	406	-	-	-	813
Share-based payments	-	-	-	28	-	28
Transfer on expiry of warrants in prior year	-	-	-	(108)	108	-
Profit/total comprehensive income for the year	-	-	-	-	647	647
At 30 June 2015	2,660	5,200	(1,667)	45	(681)	5,557
Issue of shares	418	529	-	-	-	947
Share-based payments	-	-	-	33	-	33
Profit/total comprehensive income for the year	-	-	-	-	1,131	1,131
<b>At 30 June 2016</b>	<b>3,078</b>	<b>5,729</b>	<b>(1,667)</b>	<b>78</b>	<b>450</b>	<b>7,668</b>

Company	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Retained earnings £'000	Total equity attributable to equity holders of the Company £'000
At 1 July 2014	2,253	4,794	125	(3,180)	3,992
Issue of shares	407	406	-	-	813
Share-based payments	-	-	28	-	28
Transfer on expiry of warrants in prior year	-	-	(108)	108	-
Profit/total comprehensive income for the year	-	-	-	1,150	1,150
At 30 June 2015	2,660	5,200	45	(1,922)	5,983
Issue of shares	418	529	-	-	947
Share-based payments	-	-	33	-	33
Loss/total comprehensive expense for the year	-	-	-	(690)	(690)
<b>At 30 June 2016</b>	<b>3,078</b>	<b>5,729</b>	<b>78</b>	<b>(2,612)</b>	<b>6,273</b>

## Consolidated and Company Statements of Cash Flows

For the year ended 30 June 2016

	Notes	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
<b>Cash flows from operating activities</b>					
Cash used in operations	18	(805)	(730)	(804)	(732)
Taxation paid	6	-	-	-	-
Net cash used in operating activities		(805)	(730)	(804)	(732)
<b>Cash flows from investing activities</b>					
Purchase of tangible fixed assets	8	(2)	(1)	-	-
Purchase of financial assets at fair value through profit and loss	11	(5)	(33)	-	-
Net cash used in investing activities		(7)	(34)	-	-
<b>Cash flows from financing activities</b>					
Proceeds from issue of equity shares		1,003	854	1,003	854
Costs of share issue		(56)	(41)	(56)	(41)
Net cash generated from financing activities		947	813	947	813
Net increase in cash and cash equivalents		135	49	143	81
Cash and cash equivalents at beginning of year		636	587	611	530
Cash and cash equivalents at end of year		771	636	754	611

## Accounting Policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

### Basis of accounting

The financial statements of the Group and the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and in accordance with the Companies Act 2006.

The financial statements have been prepared on the historical cost basis, except where IFRS requires an alternative treatment. The principal variations from historical cost relate to financial instruments.

### Basis of consolidation

The Group financial statements consolidate the financial statements of Frontier IP Group Plc and its subsidiary undertakings. Subsidiary undertakings are consolidated using acquisition accounting from the date of control. An entity is classed as under the control of the Group when all three of the following elements are present: power over the entity, exposure, or rights to, variable returns from its involvement with the entity and the ability of the Group to use its power over the entity to affect the amount of those variable returns.

The Group acts as general partner to the limited partnership RGU Ventures Investment Fund LP in which it holds a 27% interest. The Directors consider that the minority limited partnership interest does not create an exposure of such significance to the variability of returns from those interests that it indicates that the Group acts as anything other than an agent for the other limited partner in the arrangement. This is further supported by the inability of the general partner to change the terms of the investment policy other than with agreement of the other limited partner.

### Segmental reporting

The Group operates in one market sector, the commercialisation of university Intellectual Property, and wholly within the UK. Therefore, revenue, profit on ordinary activities before tax and net assets do not need to be analysed by segment.

### Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment annually. Goodwill arising on acquisition is allocated to cash-generating units. The recoverable amount of the cash-generating unit to which goodwill has been allocated is tested for impairment annually, or on such other occasions that events or changes in circumstances indicate that it might be impaired. Any impairment is recognized immediately as an expense and is not subsequently reversed.

### Property and equipment

Property and equipment is stated at cost less depreciation and any provision for impairment.

## Accounting Policies (continued)

### Depreciation

Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis over its expected useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. The rates of depreciation are as follows:

Fixtures and office equipment	50% per annum
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### Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position at fair value when the Group becomes a party to the contractual provisions of the instrument.

### Trade receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortised cost less an allowance for doubtful debts.

### Cash

Cash and cash equivalents comprise cash at bank and in hand and short term deposits.

### Investments

Investments are held with a view to the ultimate realization of capital gains and are recognised and derecognised on the trade date. They are classified as financial assets at fair value through profit and loss and are initially measured at fair value and any gains and losses arising from subsequent changes in fair value are presented in the statement of comprehensive income in the period in which they arise. Investments are classified as non-current assets.

The Group has interests of over 20% but these are not accounted for as associates as the Group elects to hold such investments at fair value in the statement of financial position. IAS28 Investments in Associates and Joint Ventures permits investments held by entities which are similar to venture capital organisations to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit and loss.

The fair value of unquoted equity investments is established in accordance with International and Private Equity and Venture Capital Valuation Guidelines ("IPEV Guidelines"). The Group uses valuation techniques that management consider appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs taking into account any discounts required for non-marketability and other risks inherent in early stage businesses. The Group's investments are primarily in seed, start-up and early-stage companies often with no short term earnings, revenue or positive cash flow making it difficult to assess the value of its activities and to reliably forecast cash flows. Consequently the Group considers that the price of a recent third party funding provides the best estimate of fair value. The Group normally receives its initial equity prior to any third party funding and some companies progress without third party funding. In selecting the most appropriate valuation technique in estimating fair value the Group uses a standard valuation matrix to categorise companies. The valuation matrix is as follows.

1. When the Group has received its initial equity prior to transfer of IP to the company, the company is valued at a notional £50,000 derived from the transaction price at which the Group has recently received equity stakes from its university partnerships and which the Group considers to be a materially correct representation of fair value. This notional value may therefore change over time.
2. Once the IP is transferred to the company, the valuation is increased by between £50,000 and £300,000 depending on the value attributed to the IP. The valuation technique used is the comparable company valuation, specifically comparing the entry price at which investors would typically invest in investor-ready pre-revenue companies with IP and adjusting for management's assessment of the company's IP. The range of values may therefore change over time.
3. When the company commences trading, the Group considers if this indicates a change in fair value. If there is evidence of value creation the Group may consider increasing the value and would seek comparable company valuations to estimate fair value.
4. If the company receives third party funding, the price of that investment will provide the basis for the valuation, the valuation technique being the transaction price paid for an identical instrument. The period of time for which it remains appropriate to continue to use the price of the third party funding round depends on the specific circumstances of the investment. The Group considers whether any changes or events subsequent to the investment would indicate a change in fair value. Any adjustment made is, whenever possible, based on objective data from the company in addition to management's judgement.
5. As the company develops and generates predictable cash flows a combination of valuation techniques are applied as appropriate, such as discounted cash flow, industry specific valuation models and comparable company valuation multiples.

Investment in subsidiary companies is stated at cost less provision for any impairment in value. If the recoverable amount of an investment in a subsidiary is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately in the statement of comprehensive income. Where an impairment loss subsequently reverses, the carrying amount of the investment in subsidiary is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized in prior years.

### **Financial liabilities and equity**

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations rather than the financial instrument's legal form. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

### **Trade payables**

Trade payables are not interest bearing and are stated at their fair value.

### **Equity instruments**

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### **Current and deferred tax**

The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using rates that have been enacted or substantively enacted by the statement of financial position date.

## Accounting Policies (continued)

Deferred tax is accounted for using the statement of financial position liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

Deferred tax is calculated at the rates that are expected to apply when the asset or liability is settled.

Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

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

## Share options

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value 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 Group's estimate of shares or options that will eventually vest. Fair value is measured using the Black-Scholes-Merton 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.

## Revenue recognition

Fees for services provided by the Group are measured at the fair value of the consideration received or receivable, net of value added tax.

Fund management fees, directors' fees and retainers are recognised when the service is provided. Fees for corporate finance work are recognised when the service is provided and the respective transaction has completed.

Where the consideration for services is equity in companies spun out by a university, the Group values the company on initial spin-out at £50,000.

## Retirement benefit costs

The Group operates a defined contribution retirement benefit scheme. The amount charged to the income statement in respect of retirement benefit costs are the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either prepayments or accruals in the statement of financial position.

## Net assets per share

Net assets per share represents the net assets at the year-end divided by the number of ordinary shares in issue at the year end.



## New standards

A number of new standards and amendments to existing standards have been published which are mandatory, but are not effective for the year ended 30 June 2016. The Directors do not anticipate that the adoption of these revised standards and interpretations will have a significant impact on the figures included in the financial statements in the period of initial application other than the following:

### *IFRS 9 Financial Instruments*

The standard is effective for periods beginning on or after 1 January 2018 but is yet to be endorsed by the EU. The standard makes substantial changes to the measurement of financial assets and financial liabilities. There will only be three categories of financial assets whereby financial assets are recognised at either fair value through profit and loss, fair value through other comprehensive income or measured at amortised cost. On adoption of the standard, the Group will have to re-determine the classification of its financial assets based on the business model for each category of financial asset. This is not considered likely to give rise to any significant adjustments other than reclassifications.

Most financial liabilities will continue to be carried at amortised cost, however, some financial liabilities will be required to be measured at fair value through profit or loss, for example derivative financial instruments, with changes in the liabilities' credit risk recognised in other comprehensive income.

### *IFRS 15 – Revenue from contracts with customers*

The standard has been developed to provide a comprehensive set of principles in presenting the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is based around the following steps in recognising revenue:

1. Identify the contract with the customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price; and
5. Recognise revenue when a performance obligation is satisfied.

On application of the standard the disclosures are likely to increase. The standard includes principles on disclosing the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, by providing qualitative and quantitative information.

The standard is effective for periods beginning on or after 1 January 2018. It was endorsed by the EU in September 2016, although a set of subsequent clarifications issued by the IASB has yet to be endorsed.

### *IFRS 16 – Leases*

The standard is effective for periods beginning on or after 1 January 2019, (and can be applied before that date if the Company also applies IFRS 15 revenue from Contracts with Customers) although it is yet to be endorsed for application by the EU. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases applying IAS 17. Leases are 'capitalised' by recognising the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments. IFRS 16 replaces the typical straight-line operating lease expense for those leases applying IAS 17 with a depreciation charge for lease assets (included within operating costs) and an interest expense on lease liabilities (included within finance costs).

## Notes to the Financial Statements

### 1. Financial risk management

#### Financial risk factors

##### Going concern

As described in the Directors' Report, the Group will require to raise additional capital in order to continue in operational existence for at least the next 12 months. The Directors anticipate undertaking an equity placing during the first half of 2017 and intend to seek authority to allot securities at the forthcoming Annual General Meeting in December 2016. Taking into account the current financing environment and the Group's trading position, the Directors do not regard their ability to raise this capital to be a material uncertainty from a going concern perspective. Consequently the Directors continue to adopt the going concern basis in preparing the group's financial statements.

The Group's business activities are set out in the Strategic Report. These activities expose the Group to a number of financial risks. The following describes the Group's objectives, policies and processes for managing these risks and the methods used to measure them. The Group has only operated in the UK and transacted in sterling. It has therefore not been exposed to any foreign exchange risk.

#### (a) Market risk

##### *Interest rate risk*

As the Group has no borrowings it only has limited interest rate risk. The impact is on income and operating cash flow and arises from changes in market interest rates. Cash resources are held in floating rate accounts.

##### *Price risk*

The Group is exposed to equity securities price risk because of equity investments classified on the consolidated statement of financial position as financial assets at fair value through profit and loss. The maximum exposure is the fair value of these assets which is £4,673,000 (2015: £2,859,000).

#### (b) Credit risk

The Group's credit risk is primarily attributable to its trade receivables and cash equivalents. The Group's current cash and cash equivalents are held with one UK financial institution, the Bank of Scotland plc, which has a credit rating of "P1" from credit agency Moody's, indicating that Moody's consider that the bank has a "superior" ability to repay short-term debt obligations. The concentration of credit risk from trade receivables varies throughout the year depending on the timing of transactions and invoicing of fees. Details of major customers to the Group are set out in Note 3. The Group's customers are primarily early stage and start-up companies and Group management determine impairment of trade receivables through taking into account both trading and fund raising prospects in addition to the financial position and other factors. Management's assessment of impairment is aided through representation on the board and/or through providing advisory services.

The maximum exposure to credit risk for cash equivalents, trade receivables and other current assets is represented by their carrying amount.

#### (c) Capital risk management

The Group is funded by equity finance only. Total capital is calculated as 'total equity' as shown in the consolidated statement of financial position. The Group's objectives for managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to manage the cost of capital. In order to maintain the capital structure the Group may issue new shares as required. The Group currently has no debt. There were no changes in the Group's approach to capital management during the year.

**(d) Liquidity risk**

The Group seeks to manage liquidity risk to ensure sufficient liquidity is available to meet the requirements of the business in the context of a continuing planned net cash outflow and to invest cash assets safely and profitably. The Board reviews available cash to ensure there are sufficient resources for working capital requirements. At 30 June 2016 and 30 June 2015 all amounts shown in the consolidated statement of financial position under current assets and current liabilities mature for payment within one year except where stated in Note 12.

**2. Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates and judgements.

**Critical accounting estimates and assumptions**

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

**(i) Valuation of unquoted equity investments**

In applying valuation techniques to determine the fair value of unquoted equity investments the Group makes estimates and assumptions regarding the future potential of the investments. As the Group's investments are in seed, start-up and early stage businesses it can be difficult to assess the outcome of their activities and to make reliable forecasts. Given the difficulty of producing reliable cash flow projections for use in discounted cash flow valuations, this technique is applied with caution. Adjustments made to fair value are, by their very nature, subjective and determining the fair value is a critical accounting estimate. Reasonable possible shifts, which themselves are estimates, are included in Note 11.

**(ii) Impairment of goodwill**

The Group tests annually whether goodwill has suffered any impairment, in accordance with the stated accounting policy. The recoverable amount is determined using value in use models which require a number of estimations and assumptions about the timing and amount of future cash flows. As future cash inflows relate primarily to capital gains on the sale of unquoted equity investments, these estimates and assumptions are subject to a high degree of uncertainty. Note 9 describes the key assumptions and sensitivity applied.

**(iii) Allowance for doubtful debts**

The Group estimates an allowance for doubtful debts when the collectability of trade receivables is in doubt. As the Group's trade receivables arise from services to a concentrated number of seed, start-up and early stage businesses the estimates made are subject to a high degree of uncertainty. The allowance for doubtful debts is disclosed in Note 12.

**Critical accounting judgments**

The Group believes that the most significant judgment areas in the application of its accounting policies are establishing the fair value of its unquoted equity investments and the consideration of any impairment to goodwill. The matters taken into account by the Directors when assessing the fair value of the unquoted equity investments are detailed in the accounting policy on investments. The considerations taken into account by the Directors when reviewing goodwill are detailed in Note 9. In addition, the Directors judge that the Group is exempt from applying the equity method of accounting for associates in which it has

## Notes to the Financial Statements (continued)

**2. Critical accounting estimates and judgements (continued)**

interests of over 20% as they consider the Group to be similar to a venture capital organization and elects to hold such investments at fair value in the statement of financial position. IAS28 Investments in Associates and Joint Ventures permits investments held by entities which are similar to venture capital organisations to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit and loss.

**3. Major customers**

During the year the Group had three major customers that accounted for 87% of its revenue from services (2015: four customers accounted for 85%). The revenues generated from each customer were as follows:

	2016 £'000	2015 £'000
Customer 1	102	99
Customer 2	47	15
Customer 3	43	15
Customer 4	-	14
	192	143

**4. Administration expenses**

Expenses included in administrative expenses are analysed below.

	2016 £'000	2015 £'000
Employee costs	592	583
Share-based payments	33	28
Consultant	5	53
Travel and entertainment	18	25
Depreciation	2	2
Bad debts written off	-	3
Allowance for doubtful debts	9	10
Audit services:		
- for the audit of the Company and consolidated accounts	26	26
- the audit of the Company's subsidiaries pursuant to legislation	6	3
Non-audit services:		
- tax services	7	7
- consultancy services	8	7
Legal, professional and financial costs	154	168
Premises operating lease	13	11
Administration costs	27	19
	900	945

## 5. Directors and employees

The average number of people employed by the Group during the year was:

	2016 Number	2015 Number
Business and corporate development	5	5
	2016 £'000	2015 £'000
Wages and salaries	399	392
Social security	57	56
Pension costs – defined contribution plans	35	35
Non-executive directors' fees	88	88
Other benefits	13	12
Share option expense	34	28
	626	611

The key management of the Group comprises the Frontier IP Group Plc Board of Directors. The remuneration of the individual Board members is shown below.

Remuneration comprises basic salary, pension contributions and benefits in kind, being private health insurance and life assurance. The type of remuneration is constant from year to year. Ad hoc bonuses may be paid to reward exceptional performance. Such bonuses are decided by the Remuneration Committee on the recommendation of the Chief Executive Officer. Share options are also awarded to employees from time to time. The granting of share options to individual employees is determined taking into account seniority, commitment to the business and recent performance.

The total remuneration for each director is shown below.

	Salary		Other benefits		Total		Pension	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000
<b>Executive</b>								
N Crabb	101	100	3	2	104	102	10	10
J McKay	74	73	3	3	77	76	7	7
D Cairns	56	55	-	-	56	55	6	5
J Fish	86	85	2	2	88	87	9	8
<b>Non-executive</b>								
A Richmond	40	40	-	-	40	40	-	-
M Bourne	24	24	-	-	24	24	-	-
C Wilson	24	24	-	-	24	24	-	-
	405	401	8	7	413	408	32	30

## Notes to the Financial Statements (continued)

**6. Taxation**

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The differences are explained below.

	2016 £'000	2015 £'000
Profit before tax	1,131	647
Profit before tax at the effective rate of corporation tax in the UK of 20% (2015: 20.75%)	226	134
Effects of:		
Non-taxable income	(507)	(297)
Expenses not deductible for tax purposes	19	12
Trading losses carried forward	262	157
Other adjustments	-	(6)
Tax charge for the year	-	-

The tax asset relating to the Group losses is not recognised, in accordance with Group policy. The Group has a tax asset for cumulative unrelieved management expenses and other tax losses of £710,000 (2015: £612,000) available for use to offset future profits. These amounts are stated using a corporation tax rate of 19% of total losses of £3,739,000 (2015: 20% of total losses of £3,060,000).

There is a deferred tax liability on the difference between base cost and fair value of certain financial assets at fair value through profit and loss which are not exempt from tax through substantial shareholder exemption. There are excess management expenses carried forward in the Company and there is the ability to transfer gains arising in the Group to the Company which would be offset by excess management expenses and no tax liability would be expected to arise.

**7. Earnings per share****(a) Basic**

Basic earnings per share is calculated by dividing the profit attributable to the shareholders of Frontier IP Group Plc by the weighted average number of shares in issue during the year.

	Profit attributable to shareholders £'000	Weighted average number of shares	Basic earnings per share amount in pence
<b>Year ended 30 June 2016</b>	<b>1,131</b>	<b>27,722,650</b>	<b>4.08</b>
Year ended 30 June 2015	647	23,414,536	2.76



## (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has only one category of dilutive potential ordinary shares: share options. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market value share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Profit attributable to shareholders £'000	Weighted average number of shares adjusted for share options	Diluted earnings per share amount in pence
<b>Year ended 30 June 2016</b>	<b>1,131</b>	<b>27,998,277</b>	<b>4.04</b>
Year ended 30 June 2015	647	23,854,707	2.71

**8. Tangible fixed assets**

	Fixtures and equipment £'000
<b>Group</b>	
<b>Cost</b>	
At 1 July 2014	3
Additions	1
Disposals	-
At 30 June 2015	4
Additions	2
Disposals	(1)
At 30 June 2016	5
<b>Depreciation</b>	
Accumulated depreciation at 1 July 2014	1
Charge for the year to 30 June 2015	1
Disposals	-
Accumulated depreciation at 30 June 2015	2
Charge for the year to 30 June 2016	2
Disposals	(1)
Accumulated depreciation at 30 June 2016	3
<b>Net book value</b>	
At 30 June 2016	<b>2</b>
At 30 June 2015	2

## Notes to the Financial Statements (continued)

## 9. Goodwill

	Group £'000	Company £'000
<b>Cost</b>		
At 1 July 2014, 30 June 2015 and at 30 June 2016	<b>1,966</b>	-
<b>Impairment</b>		
At 1 July 2014, 30 June 2015 and at 30 June 2016	-	-
<b>Carrying value</b>		
At 30 June 2016	<b>1,966</b>	-
At 30 June 2015	1,966	-

The Group conducts an annual impairment test on the carrying value of goodwill based on the recoverable amount of the Group as one cash generating operating unit. The net present value of projected cash flows is compared with the carrying value of the Group's investments and goodwill. In arriving at a net present value of projected cash flows, two value-in-use models were considered – a weighted distribution of outcomes and values and an individual company dilution model – and within each model assumptions were used for future spin-outs and for the existing portfolio.

The assumptions used in the models are set out below:

	2016		2015	
	Future Spin-Outs	Existing Portfolio	Future Spin-Outs	Existing Portfolio*
Initial spin-out equity, being the product of the number of spin-outs and initial equity acquired.	60%	-	75%	-
Equity in existing portfolio	-	1% - 40%*	-	1% - 40%*
Failure rate	40%	Average of 34%	40%	Average of 34%
Dilution	35%	Average of 30%	35%	Average of 30%
Years to exit	5	5 (minimum of 3 years from measurement date)	5	5 (minimum of 3 years from measurement date)
Rate of return	22%	20%	20%	20%
Discount rate (pre tax)	12%	12%	12%	12%
Range of exit values applied to low, medium, high outcomes	£6m-£30m	£5.5m-£30m	£6m-£30m	£5.4m-£30m
Value at first/next funding round in individual company dilution model	£1.5m	Carrying values of individual companies at 30 June 2016. Average of £1.7m	£1.2m	Carrying values of individual companies at 30 June 2015. Average of £2.1m

\* Actual range of equity at 30 June.

Projected cash flows are based upon management approved budgets for service income and overheads for a period of three years and key assumptions over potential investment outcomes in the future. When determining the key assumptions management has used both past experience and management judgement. In particular, the Group has no history of exits due to the early stage profile of the Group's portfolio. No increase or growth has been factored into the model with regard to the key assumptions, or for the projected cash flows after the 3 year budgeted period.

The percentage change required in each assumption in order to cause the recoverable amount to equal the carrying amount in at least one of the models is shown below:

<b>Assumption</b>	<b>Change Required</b>
Initial spin-out equity, being the product of the number of spin-outs and initial equity acquired.	-36%
Failure rate	+40%
Dilution	+57%
Years to exit	+80%
Rate of return	-33%
Discount rate (pre tax)	+39%
Range of exit values applied to low, medium, high outcomes	-31%
Value at first funding round in individual company dilution mode	-36%

The board considers that a reasonably possible change in the rate of return assumption or the range of exit value assumptions would cause the carrying amount of the cash generating unit to exceed its recoverable amount. The amount by which the recoverable amount exceeds the carrying amount in the individual company dilution model is £3.4m and a 33% decrease in the rate of return from 22% to 15% would cause the recoverable amount to equal the carrying amount. The amount by which the recoverable amount exceeds the carrying amount in the portfolio model is £4.1m and a 31% decrease in the range of exit values from between £6.0m and £30.0 to between £4.1m and £20.7m would cause the recoverable amount to equal the carrying amount.

The Board considers that the net present value of cash flow from the Group's one cash generating unit is greater than its carrying value.

## 10. Investment in subsidiaries

	<b>Company 2016 £'000</b>	<b>Company 2015 £'000</b>
At 1 July 2015	<b>2,383</b>	2,383
Provision for impairment	-	-
At 30 June 2016	<b>2,383</b>	2,383

### Group investments

The Company has investments in the following subsidiary undertakings.

## Notes to the Financial Statements (continued)

## 10. Investment in subsidiaries (continued)

	Country of incorporation	Proportion of ordinary Shares directly held by the Company	Proportion of ordinary Shares held by the Group
<b>Frontier IP Limited</b> - principal activity is commercialisation of IP	Scotland	100%	
<b>Frontier IP Investments Limited</b> - principal activity is investment in University of Dundee Venture Fund and RGU Ventures Investment Fund	Scotland	100%	
<b>Frontier IP Founder Partners Limited</b> - principal activity is founder partner in University of Dundee Venture Fund and RGU Ventures Investment Fund	Scotland	100%	
<b>Frontier IP Management Limited</b> - principal activity is an intermediate holding company	Scotland	100%	
<b>Frontier IP GP RG Limited</b> - principal activity is the general partner of the RGU Ventures Investment Fund	Scotland		100%
<b>Frontier IP GP Dundee Limited</b> - dormant (dissolved on 23 August 2016)	Scotland		100%

## 11. Financial assets at fair value through profit and loss

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
At 1 July 2015	2,859	1,325	1,545	134
Additions	5	113	-	-
Fair value increase	1,809	1,421	332	1,411
At 30 June 2016	4,673	2,859	1,877	1,545

The investments held are valued individually at fair value in accordance with the Group's accounting policy on investments and have been categorised as being level 3, that is, valued using unobservable inputs. All gains and losses relate to assets held at the year end, and the fair value movement has been shown in the income statement as other operating income.

Financial assets at fair value through profit and loss comprise the following:

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Limited partnership interests	22	47	-	-
Unquoted equity investments	4,651	2,812	1,877	1,545
	4,673	2,859	1,877	1,545

The movement during the year is set out below:

### Limited Partnership Interests

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
At 1 July	47	34	-	-
Additions during the year	5	33	-	-
Fair value decreases during the year	(30)	(20)	-	-
At 30 June	22	47	-	-

### Unquoted Equity Investments

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
At 1 July	2,812	1,291	1,545	134
Additions during the year	-	80	-	-
Fair value increases during the year	2,045	1,531	332	1,411
Fair value decreases during the year	(206)	(90)	-	-
At 30 June	4,651	2,812	1,877	1,545

The table below sets out the movement in the value of unquoted equity investments by valuation matrix stage during the year:

### Unquoted Equity Investments

	Valuation matrix stage					Total £'000
	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Stage 4 £'000	Stage 5 £'000	
30 June 2015	5	183	305	2,319	-	2,812
Initial recognition of fair value through revenue	-	-	-	-	-	-
Fair value increase/(decrease) through other operating income	-	-	(206)	1,117	928	1,839
Transfers between stages	-	-	6	(206)	200	-
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
30 June 2016	5	183	105	3,230	1,128	4,651

## Notes to the Financial Statements (continued)

**11 Financial assets at fair value through profit and loss (continued)**

The table below provides information about unquoted equity investment fair value measurements. (See the accounting policy on investments for a description of the valuation matrix stages)

Valuation matrix stage	No of Investments	Fair value £'000	Unobservable inputs	Reasonable possible shift	
				%	+/- £000
Stage 1	1	5	Initial valuation of new spin-outs at £50,000	20%	1
Stage 2	3	183	Management's assessment of the value of IP transferred.	25%	46
Stage 3	8	105	Management's assessment of performance against milestones, discussions of likely imminent fund raising and considerations of impairment.	30%	32
Stage 4	4	3,230	The price of latest funding round provides unobservable input into the valuation of any individual investment. However, subsequent to the funding round, management are required to re-assess the carrying value of investments at each period end, including assessment of any impairment indicators, which result in unobservable inputs into the valuation methodology. The main unobservable input relates to the assessment of impairment.	10%	323
Stage 5	1	1,128	Discounted comparable public company valuation. Unobservable inputs into discounted cash flow are forecasts of future cash flows, probabilities of project failure and evaluation of the time cost of money.	30%	338
<b>30 June 2016</b>		<b>4,651</b>			<b>740</b>

Significant unobservable inputs:

The price of funding rounds for Nandi in March 2016 and Pulsiv in October 2015 provided significant unobservable inputs into the valuation of these investments at 30 June 2016 of £1,573,000 and £945,000 respectively. IP risk sharing agreements provided significant unobservable inputs into the valuation of ex scientia of £1,128,000.

## 12. Trade receivables and other current assets

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Trade receivables	336	184	70	6
Receivables from Group undertakings	-	-	1,200	1,460
VAT	7	1	6	-
Prepayments and accrued income	22	29	15	20
Other debtors	2	3	-	6
	367	217	1,291	1,492
Less trade receivables – non current	(144)	(29)	-	-
Less receivables from Group undertakings – non current	-	-	(1,200)	(1,460)
Current portion	223	188	91	32

### Trade receivables

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Trade receivables not due	34	18	17	6
Trade receivables past due 1–30 days	18	12	8	-
Trade receivables past due 31–60 days	14	12	4	-
Trade receivables past due 61–90 days	44	1	34	-
Trade receivables past due over 90 days	238	160	7	-
Gross trade receivables at 30 June 2016	348	203	70	6
Allowance for doubtful debt at 1 July 2015	19	10	-	-
Debts provided for in the year	12	14	-	-
Debts written off in the year	(19)	(5)	-	-
Allowance for doubtful debt at 30 June 2016	12	19	-	-
Net trade receivables at 30 June 2016	336	184	70	6

The allowance for doubtful debt relates entirely to trade receivables which are past due. £267,000 of trade receivables are due from Nandi. Nandi is about to commence an additional fundraising and the Directors are confident that Nandi will be able to raise sufficient funds to finance both Nandi's business plan and to commence payment of the debt over an agreed eighteen months. Receivables from Group undertakings carries interest of 2.5% (2015: 2.5%).



## Notes to the Financial Statements (continued)

**13. Trade and other payables**

	<b>Group 2016 £'000</b>	<b>Group 2015 £'000</b>	<b>Company 2016 £'000</b>	<b>Company 2015 £'000</b>
Trade payables	<b>12</b>	34	<b>4</b>	19
Social security and other taxes	<b>20</b>	18	-	-
Accruals and deferred income	<b>79</b>	71	<b>28</b>	29
	<b>111</b>	123	<b>32</b>	48

**14. Share capital and share premium**

	<b>Number of shares issued and fully paid</b>	<b>Ordinary shares of 10p £'000</b>	<b>Share premium £'000</b>	<b>Total £'000</b>
At 30 June 2015	26,601,020	2,660	5,200	7,860
Issue of shares in the year	4,177,500	418	529	947
<b>At 30 June 2016</b>	<b>30,778,520</b>	<b>3,078</b>	<b>5,729</b>	<b>8,807</b>

On 23 March 2016, the Company conducted a placing of 4,177,500 new ordinary shares of 10p for cash at a price of 24p per share raising £1,003,000 before expenses of £56,000. The Company has one class of ordinary shares which carry equal voting rights, equal rights to income and distribution of assets on a winding-up. The authorised share capital of the company at 30 June 2016 is 35,906,428 ordinary shares of 10p each.

**15. Reserves**

The reverse acquisition reserve was created on the reverse takeover of Frontier IP Group Plc. The fair value of equity-settled share-based payments is expensed on a straight line basis over the vesting period and the amount expensed in each year is transferred to the share-based payment reserve. The movement in reserves for the years ended 30 June 2016 and 2015 is set out in the Consolidated and Company Statement of Changes in Equity on page 29.

**16. Share options**

Frontier IP has two option schemes, the Frontier IP Group Plc Employee Share Option Scheme 2011 and the Frontier IP Group Plc Unapproved Share Option Scheme 2011. The first is an enterprise management incentive scheme and the second an unapproved share scheme. Under the schemes, options are granted at no less than market value of the shares at the date of grant. No payment is required from option holders on the grant of an option. The options are exercisable starting three years from the date of the grant with no performance conditions. The schemes run for a period of ten years.

Movements in the number of share options outstanding and their related weighted average exercise prices were as follows:

	<b>2016 Weighted average exercise price Pence per share</b>	<b>2016 Options ('000s)</b>	<b>2015 Weighted average exercise price Pence per share</b>	<b>2015 Options ('000s)</b>
At 1 July	<b>19.33</b>	<b>1,335,000</b>	19.33	1,335,000
Granted	<b>26.63</b>	<b>975,000</b>	-	-
At 30 June	<b>21.90</b>	<b>2,310,000</b>	19.33	1,335,000

Of the 2,310,000 outstanding options (2015: 1,335,000) 848,389 had vested at 30 June 2016 (2015: Nil).

Share options outstanding at the end of the year have the following expiry date and exercise prices:

	<b>Exercise price Pence per share</b>	<b>2016 Number</b>	<b>2015 Number</b>
2023	15.00	<b>848,389</b>	848,389
2024	26.88	<b>486,611</b>	486,611
2026	26.63	<b>975,000</b>	-

The weighted average fair value of options granted to executive Directors and employees during the year determined using the Black-Scholes-Merton valuation model was 10.7p per option. The significant inputs into the model were exercise price shown above, weighted average share price of 26.6p, volatility of 51%, dividend yield of 0%, expected life of 3 years and annual risk free interest rate of 0.85%. Future volatility has been estimated based on 3 years' historical monthly data.

## 17. Operating Lease Commitments

	<b>2016 Land &amp; Buildings £'000</b>	<b>2015 Land &amp; Buildings £'000</b>
Commitments under non-cancellable operating leases expiring:		
Within one year	<b>3,876</b>	3,520
Within two to five years	-	-
After five years	-	-
	<b>3,876</b>	3,520

## Notes to the Financial Statements (continued)

**18. Cash used in operations**

	<b>Group 2016 £'000</b>	<b>Group 2015 £'000</b>	<b>Company 2016 £'000</b>	<b>Company 2015 £'000</b>
Profit/(Loss) before tax	<b>1,131</b>	647	<b>(690)</b>	1,150
<i>Adjustments for:</i>				
Share-based payments	<b>33</b>	28	<b>33</b>	28
Depreciation	<b>2</b>	2	-	-
Fair value (gain) on financial assets through profit and loss	<b>(1,809)</b>	(1,421)	<b>(332)</b>	(1,411)
Cost of share issue	-	-	-	-
<i>Changes in working capital:</i>				
Trade and other receivables	<b>(150)</b>	1	<b>201</b>	(512)
Trade and other payables	<b>(12)</b>	13	<b>(16)</b>	13
Cash flows from operating activities	<b>(805)</b>	(730)	<b>(804)</b>	(732)

**19. Related party transactions**

Neil Crabb is a director of Counterweight Limited, Intelligent Flow Solutions Limited, PoreXpert Limited, PulsiV Solar Limited, Celerum Limited, Nandi Proteins Limited and Alusid Limited, all of which are portfolio companies of the Group. The Group charged fees to these companies and was owed amounts from these companies as follows:

	<b>Fees charged 2016 £'000</b>	<b>Fees charged 2015 £'000</b>	<b>Amounts owed 2016 £'000</b>	<b>Amounts owed 2015 £'000</b>
Nandi Proteins Limited	<b>102</b>	99	<b>267</b>	165
Counterweight Limited	<b>15</b>	15	<b>12</b>	14
Intelligent Flow Limited	-	8	-	19
Pulsiv Solar Limited	<b>47</b>	2	<b>16</b>	-
Alusid Limited	<b>43</b>	-	<b>47</b>	-

The £12,000 owed by Counterweight has been fully provided for. £19,000 owed by Intelligent Flow at 30 June 2015 was written off during the year.

**20. Subsequent events**

Frontier IP GP Dundee Limited was dissolved on 23 August 2016.

## COMPANY INFORMATION

### Five Year Record

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Total revenue	2,030	1,591	786	117	223
Profit/(loss) from operations	1,130	646	27	(368)	(380)
Net finance income	1	1	-	-	-
Profit/(loss) before tax	1,131	647	27	(368)	(380)
Attributable to:					
Equity holders of the Company	1,131	647	27	(368)	(380)
Net assets employed	7,668	5,557	4,069	2,751	2,507
Basic earnings/(loss) per ordinary share (pence)	4.08	2.76	(0.13)	(3.51)	(5.45)

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