AKARI THERAPEUTICS PLC
(formerly Celsus Therapeutics Plc)

CONSOLIDATED REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2015

Registered Number: 05252842

AKARI THERAPEUTICS PLC
(formerly Celsus Therapeutics Plc)

CONSOLIDATED REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

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OFFICERS AND PROFESSIONAL ADVISERS

FOR THE YEAR ENDED 31 DECEMBER 2015

Directors	M Cohen J Lau D Sidransky A Eiran G Roshwalb R Doman A Shaw R Prudo-Chlebosz C Richardson J Hill S Ungar D Byrne
Secretary	SLC Corporate Services Limited R Shaw (appointed 23 March 2016)
Registered Office	42-50 Hersham Road Walton-On-Thames, Surrey KT12 1RZ
Auditors	haysmacintyre 26 Red Lion Square London WC1R 4AG

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2015

The directors present their report and the audited financial statements for the year ended 31 December 2015.

PRINCIPAL ACTIVITY

The group's principal activity of the company is the development and commercialization of life-transforming treatments for a range of rare and orphan autoimmune and inflammatory diseases caused by dysregulation of complement C5, including paroxysmal nocturnal hemoglobinuria ("PNH"), Guillain Barré syndrome ("GBS") and atypical Hemolytic Uremic Syndrome ("aHUS").

DIRECTORS

The directors who served the company during the year and since the year end were as follows:

M Cohen
J Lau (resigned 17 September 2015)
D Sidransky (resigned 17 September 2015)
A Eiran (resigned 15 July 2015)
G Roshwalb
R Doman (resigned 15 July 2015)
A Shaw
R Prudo-Chlebosz (appointed 16 September 2015)
C Richardson (appointed 16 September 2015)
J Hill (appointed 17 September 2015)
S Ungar (appointed 17 September 2015)
D Byrne (appointed 20 April 2016)

SUPPLIER PAYMENT POLICY

It is the Group's policy to agree commercial terms with its suppliers prior to purchase.

CORPORATE GOVERNANCE

The company is not obliged to implement the provisions of the Combined Code. However, the Group is committed to applying the principles of good governance contained in the Combined Code as appropriate to a Group of this size. The Board will continue to review compliance with the Code at regular intervals.

In common with other organisations of a similar size, the Executive Directors are heavily involved in the day to day running of the business and meet regularly on an informal basis as well as at Board Meetings. The Board of Directors meets regularly and is responsible for formulating strategy, monitoring financial performance and approving major items of expenditure.

GOING CONCERN

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Based on the current operating plan and cash flow projections the Directors expect the Company's existing resources, to be sufficient to fund its planned operation for at least 12 months from the date of this report. For this reason they continue to adopt the going concern basis in preparing the accounts.

On 18 September 2015, the company closed a private placement raising gross proceeds of approximately $75,000,000.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU.

The group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the group; the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation. The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the Group and parent Company financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU subject to any material departures disclosed and explained in the parent Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company 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 Group and parent Company and to enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They have general responsibility for taking such steps as are reasonably open to safeguard the assets of the Group and parent Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations the directors are also responsible for preparing a Directors' Report to comply with that law and those regulations. In determining how amounts are presented within terms in the income statement and balance sheet the directors have had regard to the substance of the reported transaction or arrangement in accordance with generally accepted accounting principles or practice.

DISCLOSURE OF INFORMATION TO AUDITORS

So far as each of the directors is aware at the time the report is approved:

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

This report was approved by the board on 16 May 2016 and signed on its behalf.

G Roshwalb
Director and Chief Executive Officer

42-50 Hersham Road
Walton-On-Thames,
Surrey
KT12 1RZ

REVIEW OF BUSINESS

On 15 July 2015, the company held its Annual General Shareholder's meeting.

On 17 February 2015, the company announced that its Phase II clinical trial of MRX-6 Cream 2% in Pediatric Atopic Dermatitis did not reach its primary endpoint.

On 18 September 18, 2015, Celsus Therapeutics Plc ("Celsus") completed its acquisition of all of the capital share of Volution Immuno Pharmaceuticals SA ("Volution"), from RPC Pharma Limited ("RPC"), Volution's sole shareholder, in exchange for ordinary shares, par value £0.01, ("Ordinary Shares"), of Celsus (the "Acquisition"), in accordance with the terms of the Share Exchange Agreement, dated as of 10 July 2015 (the "Agreement"), by and among Celsus and RPC. In connection with the Acquisition, the name of the combined company was changed to Akari Therapeutics, Plc. The Company's American Depositary Shares ("ADSs"), each representing 100 Ordinary Shares, began trading on The NASDAQ Capital Market under the symbol "AKTX" on 21 September 2015.

On 18 September 2015, the company issued 395,881,100 ordinary shares in a private placement raising gross proceeds of $75,000,000.

RESULTS AND DIVIDENDS

Research and development expenses for the year ended 31 December 2015 were approximately $5,799,000 compared to $1,616,000 for the year ended 31 December 2014. This 258%, or $4,183,000, increase was due to higher expenses of approximately $3,511,000 for manufacturing and clinical trial related activities, $346,000 of salary expenses, $189,000 of patent expenses and $137,000 of other expenses.

General and administrative expenses for the year ended 31 December 2015 were approximately $5,502,000 compared to $303,000 for the year ended 31 December 2014. This 1,716%, or $5,199,000, increase was primarily due to higher expenses of legal, consulting, professional and accounting expenses of approximately $1,774,000, $1,044,000 of share-based compensation expense, $809,000 of salary expenses, $750,000 of compensation expenses for advisory services related to the Acquisition, $229,000 of insurance expenses, $132,000 of board expenses, $118,000 of rent expenses, $112,000 of travel related expenses primarily related to the Acquisition and the Financing and $216,000 of other expenses.

Net cash used in operating activities was approximately $4,967,000 during the year ended 31 December 2015 compared to $1,477,000 used by operating activities during the year ended 31 December 2014. The 237% increase in cash flow used in operating activities of approximately $3,489,000 can be primarily attributed to the ongoing research activities to support Coversin, including manufacturing and clinical trial activities

Net cash provided by investing activities was approximately $1,533,000 in the year ended 31 December 2015. This is due to approximately $1,552,000 cash received from the reverse acquisition offset by approximately $19,000 from the purchase of property and equipment and a receivable from related party. In the year ended 31 December 2014 we had no investment activity. We anticipate that our investment activities will include income generated from our investment in interest bearing securities in the future.

Net cash provided by financing activities was approximately $69,044,000 during the year ended December 31, 2015 compared to approximately $4,235,000 during the year ended 31 December 2014. This increase is primarily attributed to the net proceeds of approximately $69,574,000 from the financing completed after the acquisition and approximately $3,031,000 net proceeds from shareholder loans offset by approximately $3,561,000 of repayments of shareholder loans and $3,691,000 of proceeds from issuance of shares in 2014.

Cash balances increased to approximately $69,062,000 at 31 December 2015 compared to $3,327,000 at 31 December 2014.

The group made a loss of $29,607k (2014: $1,948k).

No dividends were paid during the year (2014: $Nil). The directors do not propose a final dividend.

See note 12 for details of fund raising.

PRINCIPAL RISKS AND UNCERTAINTIES

Financing

The Group's primary risk is obtaining the necessary additional capital to funds its planned operations in the future. The Directors recognise that the Group may not be able to obtain financing on acceptable terms and in addition, the terms of the Group's financings may be dilutive. The Group may also seek additional funds through arrangements with collaborators and others. These arrangements would generally require the Group to relinquish rights to some of the Group's technologies, product candidates or products. If the Group was unable to obtain additional funding on a timely basis, the Group may be required to curtail or terminate some or all of its research or development programs, including some or all of its product candidates.

On 18 September 2015, the Group issued 395,881,100 ordinary shares in a private placement raising gross proceeds of $75,000,000.

Early stage Group

The Group has a limited operating history upon which an evaluation can be based. The Group's business must also be considered in light of the risks, expenses and problems frequently encountered by companies at an early stage of development. There can be no assurance that the Group will succeed in developing its business, nor that the Group will be able to provide or maintain sufficient resources to maintain operations that may be required in the development and introduction of its products. Typically, a large majority of such companies fail to achieve their business plans and their projections, through a failure to estimate the speed of market penetrations, and the costs associated with penetrating markets.

Drug development

The Group's approach to drug development is complex and unproven and has not been successfully used or, to its knowledge, attempted by any company. The Group's technology is still in the early stages of development, and significant technical challenges remain, which the Group may not be able to overcome without significant costs or delay.

All of the Group's product candidates are in an early stage of development and their risk of failure is high. To date, the data supporting its drug development programs is derived from laboratory and preclinical studies and limited early stage clinical trials that were not designed to be statistically significant. It is impossible to predict when or if any of the product candidates will prove effective or safe in humans or will receive regulatory approval.

The Group may be unable to:

- Find a stable active product or formulation without extensive clinical trials and substantial additional costs, and may not be able to find or create adequate assay for the products for formulation or clinical testing purposes;
- Manufacture, and/or formulate sufficient amounts of its product candidates or upscale or optimize such synthesis so as to enable efficient production of scale;
- Find safe and effective doses and dose ratios for its product candidates without extensive clinical trials and substantial additional costs;
- Obtain sufficient supply or quality of product candidates supply or materials to produce product candidates or other materials necessary to conduct clinical trials; and
- Establish manufacturing capabilities or enter into agreements with third parties to supply materials to make product candidates, or manufacture clinical trial drug supplies.

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Market acceptance
The Group cannot be certain that any of its product candidates will gain market acceptance among physicians, patients, healthcare providers, pharmaceutical companies or others.

The Group's clinical trials in humans may show that the doses or dose ratios selected based on high throughput screening, animal testing or early clinical trials do not achieve the desired therapeutic effect in humans, or achieve this effect only in a small part of the population. The FDA or other regulatory agencies in the United States and foreign jurisdictions may determine that these clinical trials do not support the Group's conclusion. The Group may be required to conduct additional long-term clinical studies and provide more evidence substantiating the safety and effectiveness of the doses or dose ratios selected in a significant patient population.

Intense competition from powerful competitors
Many companies, universities and research organizations developing product candidates have greater resources and significantly greater experience in financial, research and development, manufacturing, marketing, sales, distribution and technical regulatory matters than the Group has. These competitors could commence and complete clinical testing of their products, obtain regulatory approval, and begin commercial-scale manufacturing of their products faster than the Group is able to, thus resulting in a situation whereby the Group may not be able to commercialize its product candidates or achieve a competitive position in the market.

Product liability exposure
The Group faces exposure to product liability and other claims if its product candidates, products or processes are alleged to have caused harm. These risks are inherent in testing, manufacturing, and marketing human therapeutic products. If the Group is sued for any injury caused by its products, product candidates or processes, the Group's liability could exceed its product liability insurance coverage and its total assets. Claims against the Group, regardless of their merit or potential outcome, may also generate negative publicity or damage the Group's ability to obtain physician endorsement of its products or expand its business.

Intellectual Property
The Group may be unable to adequately protect the intellectual property relating to its product candidates, or if it infringes the rights of others, its ability to successfully commercialize its product candidates will be harmed. The Group owns or hold licenses to a number of issued patents and U.S. pending patent applications, as well as foreign patents and foreign counterparts. The Group's success depends in part on its ability to obtain patent protection both in the United States and in other countries for its product candidates, as well as the methods for treating patients in the product indications using these product candidates. The Group's ability to protect its product candidates from unauthorized or infringing use by third parties depends in substantial part on its ability to obtain and maintain valid and enforceable patents. Due to evolving legal standards relating to the patentability, validity and enforceability of patents covering pharmaceutical inventions and the scope of claims made under these patents, the Group's ability to obtain, maintain and enforce patents is uncertain and involves complex legal and factual questions. Even if the Group's product candidates, as well as methods for treating patients for prescribed indications using these product candidates are covered by valid and enforceable patents and have claims with sufficient scope, disclosure and support in the specification, the patents will provide protection only for a limited amount of time. Accordingly, rights under any issued patents may not provide us with sufficient protection for the Group's product candidates or provide sufficient protection to afford it a commercial advantage against competitive products or processes

Liquidity and Public Listing
A very limited public market exists for the Group's securities and it cannot assure that its securities will continue to be listed on the NASDAQ Capital Market or any other securities exchange or that an active trading market will ever develop for any of its securities. The Group's ADSs were approved for listing on the NASDAQ Capital Market on 31 January 2015. The Group cannot assure that it will be successful in meeting the continuing listing standards of the NASDAQ Capital Market. Consequently, the trading liquidity of its ADSs may not improve. The Group may not be successful in maintaining the listing of its ADSs on the NASDAQ Capital Market and cannot assure that its ADSs will be listed on a national securities exchange. There is no assurance that an active trading market for its ADSs will develop, or if such a market develops, that it will be sustained.

FINANCIAL INSTRUMENTS

The group finances its operations using bank balances generated by the sale of equity in the Group. The cash flow is regularly monitored.

RESEARCH AND DEVELOPMENT

The Group is a clinical-stage biopharmaceutical Group focused on the development and commercialization of life-transforming treatments for a range of rare and orphan autoimmune and inflammatory diseases caused by dysregulation of complement C5, including PNH, GBS and aHUS.

KEY PERFORMANCE INDICATORS

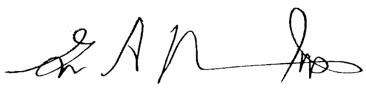
The Group's key financial objectives that the Directors judge to be effective in measuring the delivery of their strategies and managing the business concentrate at the Group level on research and development activities and working capital control.

These key performance indicators are measured and reviewed on a regular basis and enable the business to set and communicate its performance targets and monitor its performance against these targets.

Key financial performance indicators:

Research and Development expenses - $5,799k (2014: $1,616k)
Cash position - $69,062k (2014: $3,327k)

This report was approved by the board on 16 May 2016 and signed on its behalf.



G Roshwalb
Director and Chief Executive Officer

42-50 Hersham Road
Walton-On-Thames,
Surrey
KT12 1RZ

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

AKARI THERAPEUTICS PLC

We have audited the financial statements of Akari Therapeutics Plc for the year ended 31 December 2015 which comprise the Consolidated Income Statement, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statement of Changes in Shareholders' Equity, the Consolidated and Company Cash Flow Statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state 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 auditors
As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit 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
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2015 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report and Strategic 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 matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Ian Cliffe (Senior statutory auditor)
for and on behalf of haysmacintyre, Statutory Auditor
16 May 2016

26 Red Lion Square
London
WC1R 4AG

AKARI THERAPEUTICS PLC
(formerly Celsus Therapeutics Plc)

CONSOLIDATED INCOME STATEMENT OF COMPREHENSIVE LOSS

FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	2015 $000	2014 $000
Research and development expenses		(5,799)	(1,616)
Administrative and general expenses		(5,502)	(303)
Goodwill impairment	16	(19,284)	-
OPERATING LOSS		(30,585)	(1,919)
Net finance income/(expense)	3	978	(29)
NET LOSS		(29,607)	(1,948)
Taxation on ordinary activities	4	-	-
TOTAL LOSS FOR THE YEAR		(29,607)	(1,948)
Other Comprehensive Income:			
Foreign Currency Translation adjustment		111	79
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(29,496)	(1,869)

All losses are derived from continuing activities.

The notes on pages 16 to 31 form an integral part of the accounts.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2015

	Notes	2015 $000	2014 $000
ASSETS			
Non-current assets			
Property, plant and equipment	7	41	-
Patents	6	52	59
		93	59
Current assets			
Other receivables	9	739	9
Cash and cash equivalents		69,062	3,327
		69,801	3,336
TOTAL ASSETS		69,894	3,395
EQUITY			
Capital and reserves attributable to the Company's equity shareholders			
Called up share capital	12	18,341	11,211
Share premium account	13	94,778	2,446
Other reserves	13	157	46
Merger reserve	13	9,128	-
Share based payment reserve	13	4,096	-
Reverse Acquisition reserve	13	(20,983)	-
Retained earnings	13	(41,086)	(11,479)
TOTAL EQUITY		64,431	2,224
LIABILITIES			
Non Current Liabilities			
Warrants	11	685	-
Other long term liabilities	11	49	-
Current liabilities			
Trade and other payables	10	4,729	1,171
TOTAL LIABILITIES		5,463	1,171
TOTAL EQUITY AND LIABILITIES		69,894	3,395

The financial statements were approved and authorised for issue by the Board of Directors on 16 May 2016 and were signed below on its behalf by:

G Roshwalb
Director and Chief Executive Officer

The notes on pages 16 to 31 form an integral part of the accounts.

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2015

	Notes	2015 $000	2014 $000
ASSETS			
Non-current assets			
Property, plant and equipment	7	41	49
Investment in subsidaries	8	20,339	-
		20,380	49
Current assets			
Other receivables	9	4,337	637
Cash and cash equivalents		68,685	6,358
		73,022	6,995
TOTAL ASSETS		93,402	7,044
EQUITY			
Capital and reserves attributable to the Company's equity shareholders			
Called up share capital	12	18,341	927
Share premium account	13	94,778	30,657
Merger reserve	13	9,128	-
Share based payment reserve	13	4,096	2,964
Retained earnings	13	(38,221)	(29,306)
TOTAL EQUITY		88,122	5,242
LIABILITIES			
Non Current Liabilities			
Warrants	11	685	409
Other long term liabilities	11	49	33
Current liabilities			
Trade and other payables	10	4,546	1,360
TOTAL LIABILITIES		5,280	1,802
TOTAL EQUITY AND LIABILITIES		93,402	7,044

The financial statements were approved and authorised for issue by the Board of Directors on 16 May 2016 and were signed below on its behalf by:

G Roshwalb
Director and Chief Executive Officer

The notes on pages 16 to 31 form an integral part of the accounts.

AKARI THERAPEUTICS PLC
(formerly Celsus Therapeutics Plc)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

	Share Capital $000	Share Premium $000	Other Reserves $000	Merger Reserve $000	Share Based Payment Reserve $000	Reverse Acquis-ition Reserve $000	Retained Loss $000	Total $000
At I January 2014	1,119	8,846	(33)	-	-	-	(9,531)	401
Total comprehensive loss for the year	-	-	79	-	-	-	(1,948)	(1,869)
Issue of shares (related to the recapitalisation of Volution)	10,092	(6,400)	-	-	-	-	-	3,692
At 31 December 2014	11,211	2,446	46	-	-	-	(11,479)	2,224
Total comprehensive loss for the year	-	-	111	-	-	-	(29,607)	(29,496)
Shares in issue by parent prior to reverse acquisition	927	30,657	-	-	3,056	-	-	34,640
Reverse acquisition adjustment	(11,211)	(2,446)	-	-	-	(20,983)	-	(34,640)
Issue of shares on reverse acquisition	11,211	-	-	9,128	-	-	-	20,339
Issue of shares (relating to financing, net of issue costs)	6,144	63,430	-	-	-	-	-	69,574
Issue of shares for advisory fees (net of costs)	59	691	-	-	-	-	-	750
Share based payments	-	-	-		1,040	-	-	1,040
At 31 December 2015	18,341	94,778	157	9,128	4,096	(20,983)	(41,086)	64,431

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

	Share Capital $000	Share Premium $000	Merger Reserve $000	Share Based Payment Reserve $000	Retained Loss $000	Total $000
At I January 2014	675	22,636	-	2,552	(20,344)	5,519
Total comprehensive loss for the year	-	-	-	-	(8,962)	(8,962)
Share based payments	-	-	-	412	-	412
Issue of shares (net of costs)	252	8,021	-	-	-	8,273
At 31 December 2014	927	30,657	-	2,964	(29,306)	5,242
Total comprehensive loss for the year	-	-	-	-	(8,915)	(8,915)
Share based payments	-	-	-	1,132	-	1,132
Issue of shares on reverse acquisition	11,211	-	9,128	-	-	20,339
Issue of shares (relating to financing, net of issue costs)	6,144	63,430	-	-	-	69,574
Issue of shares for advisory fees (net of costs)	59	691	-	-	-	750
At 31 December 2015	18,341	94,778	9,128	4,096	(38,221)	88,122

The notes on pages 16 to 31 form an integral part of the accounts.

AKARI THERAPEUTICS PLC
(formerly Celsus Therapeutics Plc)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2015

	2015	**2014**
	\$000	**\$000**
Cash flows from operating activities		
Loss before taxation	(29,607)	(1,948)
Adjustments for:		
Changes in fair value of warrants	(1,115)	-
Share-based payment	1,040	-
Compensation expense	750	-
Goodwill impairment	19,283	-
Depreciation	10	5
Movement in trade and other receivables	914	(8)
Movement in trade and other payables	3,755	474
Other liabilities	3	-
Net cash used in operating activities	(4,967)	(1,477)
Cash flow from investing activities		
Cash received from reverse acquisition	1,552	-
Receivable from related party	(8)	-
Purchase of property and equipment	(11)	-
Net cash provided by investing activities	1,533	-
Cash flows from financing activities		
Proceeds from shareholder loans	3,031	432
Payments of shareholder loans	(3,561)	-
Proceeds from issue of shares	75,000	3,691
Issue costs	(5,426)	-
Proceeds from share subscription	-	112
Cash generated from financing activities	69,044	4,235
Effect of exchange rates on cash and cash equivalents	125	15
Net increase in cash and cash equivalents	65,735	2,773
Cash and cash equivalents at beginning of period	3,327	554
Cash and cash equivalents at end of period	69,062	3,327

The notes on pages 16 to 31 form an integral part of the accounts.

AKARI THERAPEUTICS PLC
(formerly Celsus Therapeutics Plc)

PARENT COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2015

	2015 $000	2014 $000
Cash flows from operating activities		
Loss before taxation	(10,646)	(9,526)
Adjustments for:		
Changes in fair value of warrants	451	(690)
Share based payments	1,132	412
Compensation expense	750	-
Issuance of shares granted to service provider	-	56
Depreciation	19	9
Movement in trade and other receivables	(3,700)	102
Movement in trade and other payables	3,203	162
Taxation	1,563	
Exchange rate differences	(8)	17
Net cash used in operating activities	(7,236)	(9,458)
Cash flow from investing activities		
Purchase of property, plant and equipment	(11)	(58)
Net cash provided by investing activities	(11)	(58)
Cash flows from financing activities		
Proceeds from issue of shares	75,000	8,217
Issue costs	(5,426)	-
Cash generated from financing activities	69,574	8,217
Net increase in cash and cash equivalents	62,327	(1,299)
Cash and cash equivalents at beginning of period	6,358	7,657
Cash and cash equivalents at end of period	68,685	6,358

The notes on pages 16 to 31 form an integral part of the accounts.

1. ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements are prepared on a historical cost basis and in accordance with applicable accounting standards.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. A summary of the more important accounting policies is set out below.

(b) Basis of consolidation

The Group financial statements consolidate the financial statements of Akari Therapeutics Plc and its subsidiaries (the "Group") for the year ended 31 December 2015. The consolidated financial statements include the accounts of the Company, Volution and Volution Immuno Ltd (a UK Ltd Company), its wholly-owned subsidiary, which was incorporated in London on 22 August 2014.

The accounts of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All inter-company balances and transactions, including unrealised profits arising from them, are eliminated. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

As a consequence of applying reverse acquisition accounting, the results for the Group for the year ended 31 December 2015 comprise of the results of Volution to its year ended 31 December 2015 plus the results of Akari Therapeutics PLC from 18 September 2015, the date of acquisition, to 31 December 2015.

(c) Foreign currency translation

Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of Akari is U.S. dollars as that is the primary economic environment in which the Company operates as well as the currency in which it has been financed. The functional currency of Volution is Swiss Francs, as that was the primary economic environment in which the Company operated.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Group companies
The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated as follows:

(a) assets and liabilities at the balance sheet date are translated at the closing rate at 31 December 2015;
(b) income and expenses for each income statement are translated at average exchange rates; and
(c) all resulting exchange differences are recognised in other comprehensive income.

1. ACCOUNTING POLICIES (continued)

(d) Financial instruments

Cash and cash equivalents

Cash and cash equivalents are measured at fair value. Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Trade and other receivables

Trade and other receivables are recognised and carried at original invoice value less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Trade and other payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed, but excluding services provided under executory contracts, where the performance of their respective obligations by both parties to the contract remain partially complete at the balance sheet date. Liabilities recognised are unsecured, non-interest bearing and are stated at cost.

The Company's liability related to options and warrants are warrants related to equity and debt financing rounds and are recognised on the balance sheet at their fair value, with changes in the fair value accounted for in the statement of comprehensive loss and included in financing income or expenses.

Share capital

Ordinary shares are classified as equity.

(e) Research and development expenditure

Research costs are charged to operations as incurred. Research and development expenses include, among other costs, costs incurred by outside laboratories and other accredited facilities in connection with clinical trials and preclinical studies.

Under IAS 38, development costs are only capitalised after technical and commercial feasibility of the asset for sale or use have been established. The company must intend and be able to complete the asset and either use it or sell it and be able to demonstrate how the asset will generate future economic benefit. If the company cannot distinguish between the research and the development phase, then all costs are expensed as research costs.

(f) Property, plant and equipment:

Property, plant and equipment are measured at cost, including directly attributable costs, less accumulated depreciation and excluding day-to-day servicing expenses.

Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

Computers, peripheral and scientific equipment - 33%
Office furniture and equipment - 25%

The Group reviews all long-lived assets for impairment whenever events or circumstances indicate the carrying amount of such assets may not be recoverable. Recoverability of assets to be held or used is measured by comparison of the carrying value of the asset to the future undiscounted net cash flows expected to be generated by the asset. If such asset is considered to be impaired, the impairment recognised is measured by the amount by which the carrying value of the asset exceeds the discounted future cash flows expected to be generated by the asset.

(g) Patent Acquisition Costs

Patent acquisition costs and related capitalised legal fees are amortised on a straight-line basis over the shorter of the legal or economic life. The estimated useful life is twenty two years.

The Company expenses costs associated with maintaining and defending patents subsequent to their issuance in the period incurred.

1. ACCOUNTING POLICIES (continued)

(h) Investments

Investments in subsidiary undertakings are stated at cost less provisions for impairment.

(i) Share-based payments

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

Where the terms and conditions of options and warrants are modified before they vest, the increase in the fair value of the options and warrants, measured immediately before and after the modification, is also charged to the consolidated income statement over the remaining vesting period.

When the options and warrants are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options and warrants are exercised.

When share options and warrants lapse, any amounts credited to the share-based payments reserve are released to the retained earnings reserve.

(k) Finance income and expenses

Finance income is comprised of changes in fair value of financial liabilities that are measured at fair value through profit or loss and exchange rate gains.

Finance expenses are comprised of amortisation expenses in relation to the Loan Notes and issuance expenses in relation to the Warrants

Gains and losses on exchange rate differences are reported on a net basis.

(l) Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to profit and loss account as incurred.

(m) Deferred taxation

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. The deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction does not affect either the accounting or taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

1. ACCOUNTING POLICIES (continued)

(n) Key sources of estimation uncertainty

The preparation of financial statements requires management and the Board of Directors to make estimates and judgments that affect reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. These estimates are based on historical experience and various other assumptions that management and the Board believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, significantly impacting earnings and financial position.

Management believes that the following areas, all of which are discussed and separately marked in the respective sections of Note 1 "Accounting Policies," comprise the most difficult, subjective or complex judgments it has to make in the preparation of the financial statements: valuation of intangible and other non-current assets, deferred taxation, and collecting trade receivables.

(o) Goodwill and business combinations

Business combinations on or after 1 January 2004 are accounted for under IFRS 3 ("Business combinations") using the purchase method. Any excess of the cost of business combinations over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised in the balance sheet as goodwill and is not amortised.

After initial recognition, goodwill is not amortised but is stated at cost less any accumulated impairment loss, with the carrying value being reviewed for impairment, at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill is allocated to the related cash generating units monitored by management. Where the recoverable amount of the cash generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the income statement.

Intangible assets are tested annually for impairment and other non-current assets are tested where an indication of impairment arises. The assessment of impairment is made by comparing the carrying amount of cash generating units (including any associated goodwill) to the higher of their value in use and their fair value. Value in use represents the net present value of future discounted cash flows.

Any impairment of non-current assets are recognised in the income statement and as above, are reviewed for impairment.

2. EXPENSES BY NATURE

	2015 $000	2014 $000
Employee benefit expense (see below)	551	-
Depreciation	10	-
Amortisation	7	5
Exchange loss	91	23
Auditors' remuneration		
- audit fees	27	-
- other services	-	-

2. EXPENSES BY NATURE (continued)

	2015 $000	2014 $000
Employee benefit expense (including directors)		
Wages and salaries	520	-
Social security costs	31	-
	551	-
The average number of persons (including directors) employed by the group during the year was as follows:		
Office and administration	9	3
Key management remuneration		
Salaries	122	-

The key management figure includes only directors. The highest paid director received $35,000 (2014: $Nil) in annual remuneration.

3. NET FINANCE (EXPENSE)/INCOME

	2015 $000	2014 $000
Change in value of liability related to warrants (note 16)	1,115	-
Exchange rate movement	(91)	(24)
Interest Income	21	-
Interest Expense	(23)	(5)
Other taxes	(44)	-
	978	(29)

4(a). TAXATION

	2015 $000	2014 $000
The taxation charge/(income) comprises:		
Current tax	-	-
Adjustment to previous years	-	-
	-	-

The tax assessed in the year is different from the standard rate of corporation tax in the UK of 20.25% in 2015 and 21.5% in 2014. The differences are explained below:

	2015	2014
Loss on ordinary activities before tax	(29,607)	(1,948)
Loss on ordinary activities before tax multiplied by the standard companies' rate of tax in the UK	(5,995)	(419)
Effects of:		
Losses carried forward	5,995	419
Current year taxation	-	-

5. LOSS ATTRIBUTABLE TO THE PARENT COMPANY

The parent Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The parent Company has made a loss for the year of $29,929k (2014: $9,526k).

6. INTANGIBLE FIXED ASSETS

GROUP	Patent acquisition costs $000	Total $000
Cost		
At 1 January 2015	95	95
Additions	-	-
At 31 December 2015	95	95
Amortisation		
At 1 January 2015	(36)	(36)
Charge for the year	(7)	(7)
At 31 December 2015	(43)	(43)
Net Book Value		
At 31 December 2015	52	52
At 31 December 2014	59	59

7. PROPERTY PLANT AND EQUIPMENT

GROUP	Office furniture and equipment $000	Total $000
Cost		
On acquisition	70	70
Additions	10	10
At 31 December 2015	80	80
Depreciation		
On acquisition	(31)	(31)
Charge for the year	(10)	(10)
At 31 December 2015	(41)	(41)
Net Book Value		
At 31 December 2015	41	41
At 31 December 2014	-	-

7. PROPERTY PLANT AND EQUIPMENT COMPANY

	Office furniture and equipment $000	Total $000
Cost		
At 1 January 2015	70	70
Additions	10	10
At 31 December 2015	80	80
Depreciation		
At 1 January 2015	(22)	(22)
Charge for the year	(19)	(19)
At 31 December 2015	(41)	(41)
Net Book Value		
At 31 December 2015	41	41
At 31 December 2014	49	49

8. INVESTMENTS IN SUBSIDIARIES

Company	Investments in Subsidiary Undertakings $000
At 1 January 2015	-
Additions	20,339
At 31 December 2015	**20,339**

The Company directly owns 100% of the issued share capital of the following subsidiary undertakings, which have been included in the consolidated financial statements:

	Principal activity	Country of incorporation	Holdings	%
Volution Immuno Pharmaceuticals SA	Development of pharmaceutical drugs	Switzerland	Ordinary	100
Volution Immuno Pharmaceuticals Ltd	Development of pharmaceutical drugs	United Kingdom	Ordinary	100
Celsus Therapeutics Inc.	Dormant	United States	Ordinary	100
Morria Biopharma Ltd.	Dormant	Israel	Ordinary	100

9. TRADE AND OTHER RECEIVABLES

	Group 2015 $000	Group 2014 $000	Company 2015 $000	Company 2014 $000
Trade and other receivables	10	9	3,645	3
Corporation tax receivable	-	-	-	564
Prepayments and accrued income	729	-	692	70
	739	9	4,337	637

10. CURRENT LIABILITIES

	Group 2015 $000	Group 2014 $000	Company 2015 $000	Company 2014 $000
Trade payables	4,321	596	4,155	981
Accrued expenses	408	575	391	356
Other creditors	-	-	-	23
	4,729	1,171	4,546	1,360

11. NON CURRENT LIABILITIES

	Group 2015 $000	Group 2014 $000	Company 2015 $000	Company 2014 $000
Warrants (note 14)	685	-	685	409
Deferred rent liability	49	-	49	33
	734	-	734	442

12. CALLED UP SHARE CAPITAL

Issued and fully paid	**No of shares**	**Share Capital $**
Volution Immuno Pharmaceuticals SA		
As at 1 January 2015 and 31 December 2015	722,345,600	11,210,804
Akari Therapeutics Plc		
As at 1 January 2015	55,636,283	926,567
Share split:		
Ordinary shares of £0.01 each – as at 1 January 2015	55,636,283	926,567
Ordinary Shares issued to acquire Volution Immuno Pharmaceuticals SA	722,345,600	11,210,804
Ordinary Share subscriptions	395,881,100	6,144,075
Issue of share capital for advisory fees	3,830,400	59,448
Ordinary shares as at 31 December 2015	1,177,693,383	18,340,894

12. CALLED UP SHARE CAPITAL (Continued)

Under reverse acquisition accounting principles the share capital presented at 31 December 2015 is that of the legal parent, Akari Therapeutics plc and the comparative is that of the legal subsidiary Volution Immuno Pharmaceuticals SA.

The Company has 5,000,000,000 shares of authorised capital.

On 18 September 2015, in connection with the acquisition, 722,345,600 Ordinary shares were issued to acquire Volution.

On 18 September 2015, the Company completed a private placement of 395,881,100 Ordinary shares for gross proceeds of $75 million at a price of $0.18945 per share.

On 18 September 2015, the Company issued 3,830,400 Ordinary shares to MTS Health Partners ("MTS"), as partial compensation for financial advisory services to the Company in connection with the acquisition with a value of $750,000 at a price of $0.1958 per share. The Company also paid MTS $500,000 in cash. These amounts were recorded in general and administrative expenses in the statement of comprehensive loss.

13. RESERVES

The following describes the nature and purpose of each reserve within equity:

Share premium - Accumulated amounts subscribed for share capital in excess of the nominal value of the share capital issued.

Retained loss – Includes all current and prior period losses

Other reserves - Accounts for all other gains and losses reported by the group and not recognised elsewhere. Includes accumulated gains and losses arising from the retranslation of the net assets of overseas entities.

Share based payment reserve – This includes all movement for share options granted during the period.

Merger reserve – Merger reserve represents the premium on the shares issued to acquire Volution Immuno Pharamaceuticals SA in accordance with the provisions of S612 of the Companies Act 2006.

Reverse acquisition reserve – As disclosed in Note 16, the reverse acquisition reserve relates to the reverse acquisition between Celsus Therapeutics PLC and Volution Immuno Pharmaceuticals SA on 18 September 2015.

14. WARRANTS

Upon completion of the Acquisition, the Company assumed certain warrants that were issued in connection with several private placements by Celsus and certain investors where it sold ordinary shares and warrants. Some of the issued warrants contain non-standard anti-dilution clauses.

As of 18 September 2015, the Acquisition date, warrants to purchase 5,617,977 ordinary shares had full ratchet anti-dilution protection (which would be triggered by a share or warrant issuance at less than $0.1958 price share or exercise price per share). The issuance of ordinary shares in connection with the Financing triggered the full ratchet anti-dilution protection resulting in an additional 188,303 ordinary shares issuable upon exercise of such warrants for a total of 5,806,280 and reducing the exercise price to $0.18945. As of 31 December 2015, the fair value of the warrants was $685,141. The net change in fair value was recognised as change in fair value of option and warrant liabilities in the Company’s consolidated statement of comprehensive loss. The warrants expire on 3 April 2017.

The Company accounts for the liability warrants issued in accordance with IAS 39, “’Financial Instruments: Recognition and Measurement” as a freestanding liability instrument that is measured at fair value at each reporting date, based on its fair value, with changes in the fair values being recognised in the Group's consolidated statement of comprehensive loss as financing income or expense.

The fair value of warrants granted was measured using the Binomial method of valuation.

Fair values were estimated using the following assumptions for the options as of 31 December 2015:

Expected dividend yield	0%
Expected volatility	233.0%
Risk-free interest	0.75%
Expected life	1.26 years

The Company’s financial assets and liabilities measured at fair value on a recurring basis, consisted of the following types of instruments as of the following dates:

	31 December 2015	31 December 2014
Warrants (anti-dilution protection)	$ 685,141	-

Warrants to service providers and investors -

The warrants assumed in the Acquisition and outstanding as of 31 December 2015 are as follows:

Grant date	Number of warrants	Exercise Price	Expiration date
2012 warrants	1,383,086	$ 1.72 - $2.25	16 January 2017- 30 November 2017
2013 warrants	399,160	$ 2.00	16 January 2018-17 September 2018

15 SHARE OPTIONS

Upon completion of the Acquisition, the Company assumed the former Celsus 2014 Equity Incentive Plan (the "Plan"). In accordance with the Plan, the number of shares that may be issued upon exercise of options under the Plan, shall not exceed 141,142,420 shares. As of 31 December 2015, 79,780,222 ordinary shares are available for future issuance under the Plan. The option plan is administered by the Company's board of directors and grants are made pursuant thereto by the compensation committee. The per share exercise price for the shares to be issued pursuant to the exercise of an option shall be such price equal to the fair market value of the Company's ordinary shares on the grant date and set forth in the individual option agreement. Options terminate ten years after the grant date and typically vest over three to four years.

At the year end the company had the following share options in issue to certain directors and employees.

	Number of shares		Weighted average exercise price
Options outstanding as of 1 January 2015	2,516,690	$	1.47
Granted Following the Acquisition	59,710,698	$	0.31
Forfeited	(865,190)	$	1.22
Options outstanding as of 31 December 2015	61,362,198	$	0.34
Exercisable options as of 31 December 2015	2,882,017	$	0.74

The following is a summary of the Company's share options granted separated into ranges of exercise price:

Exercise price (range)	Options outstanding as of 31 December 2015	Weighted average remaining contractual life (years)	Weighted average exercise price	Options exercisable as of 31 December 2015	Remaining contractual life (years for exercisable options	Weighted average exercise price
$			$			$
0.19	5,882,073	9.89	0.19	1,627,185	9.89	0.19
0.32	53,828,625	9.72	0.32	-	-	-
0.60-0.75	380,000	8.23	0.71	380,000	8.23	0.71
1.19-1.56	311,500	4.24	1.40	311,500	4.24	1.40
2.00	960,000	7.73	2.00	563,332	7.73	2.00
	61,362,198			2,882,017		

On 21 September 2015, the Company granted 52,883,513 options to its employees at an exercise price of $0.3221 that vest quarterly over 4 years. In addition, the Company granted 945,112 options to its non-employee directors at an exercise price of $0.3221 that vest in 1 year. On 16 November 2015, the Company granted 1,627,185 options to a non-employee at an exercise price of $0.19 that fully vested on 31 December 2015. On 25 November 2015, the Company granted 4,254,888 options to its non-employee directors at an exercise price of $0.19165 that vest annually over 3 years.

15. SHARE OPTIONS (Continued)

The Company accounts for awards of equity instruments issued to employees and directors under the fair value method of accounting and recognise such amounts in its Consolidated Statements of Comprehensive Loss. The Company measures compensation cost for all share-based awards at fair value on the date of grant and recognise compensation expense in its Consolidated Statements of Comprehensive Loss using the straight-line method over the service period over which it expects the awards to vest.

The Company estimates the fair value of all time-vested options as of the date of grant using the Black-Scholes option valuation model, which was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Option valuation models require the input of highly subjective assumptions, including the expected share price volatility, which is calculated based on the historical volatility of the Company's common share. The Company uses a risk-free interest rate, based on the U.S. Treasury instruments in effect at the time of the grant, for the period comparable to the expected term of the option. Given its limited history with share option grants and exercises, the Company uses the "simplified" method in estimating the expected term, the period of time that options granted are expected to be outstanding, for its grants.

The Company classifies its share-based payments as either liability-classified awards or as equity-classified awards. The Company remeasures liability-classified awards to fair value at each balance sheet date until the award is settled. The Company measures equity-classified awards at their grant date fair value and do not subsequently remeasure them. The Company has classified its share-based payments which are settled in common share as equity-classified awards and share-based payments that are settled in cash as liability-classified awards. Compensation costs related to equity-classified awards generally are equal to the grant-date fair value of the award amortised over the vesting period of the award. The liability for liability-classified awards generally is equal to the fair value of the award as of the balance sheet date multiplied by the percentage vested at the time. The Company charges (or credits) the change in the liability amount from one balance sheet date to another to compensation expense. Below are the assumptions used for the options assumed and granted in the year ended 31 December 2015:

	2015
Expected dividend yield	0%
Expected volatility	71.28%-81.79%
Risk-free interest	1.51%-2.27%
Expected life	5.5-10 years

During the year ended 31 December 2015, the Company recorded approximately $854,000 in share based compensation expenses for employees and directors; and recorded approximately $186,000 in share based compensation expenses for non-employees. As of 31 December 2015, there was approximately $11,149,000 unrecognised compensation cost related to unvested share-based compensation arrangements granted under the Company's share option plans.

16. BUSINESS COMBINATION

Based on the terms of the Acquisition and since the Volution shareholders owned approximately 91.68% of the fully-diluted capitalisation of the Company immediately following the closing of the Acquisition, Volution is considered to be the acquiring company for accounting purposes, and the transaction has been accounted for as a reverse acquisition under the acquisition method of accounting for business combinations in accordance with IFRS 3. Accordingly, the assets and liabilities of Celsus have been recorded as of the acquisition date at fair value.

Accordingly, the acquisition consideration for accounting purposes consisted of the Celsus Ordinary Shares and the fair value of vested options and warrants issued by Celsus that were outstanding at the date of the Acquisition immediately prior to closing. Assets and liabilities of Celsus were measured at fair value and added to the assets and liabilities of Volution, and the historical results of operations of Volution were reflected in the results of operations of the Company following the Acquisition.

In connection with the consummation of the Acquisition, the Company issued 722,345,600 Ordinary Shares to RPC, Volution's sole shareholder, in exchange for the outstanding shares of common share of Volution.

Purchase Consideration

The purchase price for Celsus on 18 September 2015, the closing date of the Acquisition, was as follows:

Fair value of Celsus common share outstanding	$	20,034,625	(a)
Fair value of Celsus share options		277,461	(2,516,690 options)
Fair value of Celsus warrants		27,054	(1,782,246 warrants)
Total purchase price	$	20,339,140	

(a) computed by multiplying 55,636,283 ordinary shares of Celsus at acquisition by the closing price on 18 September 2015 of $0.3601.

Allocation of Purchase Consideration

Under the acquisition method of accounting, the total purchase price was allocated to tangible and identifiable intangible assets acquired and liabilities assumed of Celsus on the basis of their estimated fair values as of the transaction closing date on 18 September 2015. The excess of the total purchase price over the fair value of assets acquired and liabilities assumed was allocated to excess consideration.

The following table summarises the allocation of the purchase consideration to the assets acquired and liabilities assumed based on their fair values as of 18 September 2015:

Cash and cash equivalents	$	1,410,577
Restricted cash		142,079
Prepaid expenses and other assets acquired		1,672,028
Goodwill		19,283,280
Liability related to options and warrants		(1,800,154)
Other assumed liabilities		(368,670)
Total	$	20,339,140

The Company believes that the historical values of Celsus's current assets and current liabilities approximate fair value based on the short-term nature of such items. Excess consideration is calculated as the difference between the fair value of the consideration expected to be realised and the values assigned to the identifiable tangible and intangible assets acquired and liabilities assumed. The Company has recorded this non-cash charge in the statements of comprehensive loss due to the fact that Goodwill could not be justified and was considered fully impaired.

17. FINANCIAL INSTRUMENTS

a. Classification of financial assets and liabilities:

The financial assets and financial liabilities in the statement of financial position are classified by groups of financial instruments pursuant to IAS 39:

	2015 $000	**2014 $000**
Financial assets:		
Other receivables	739	9
Financial liabilities:		
Trade payables, other payables, warrants and other long term liabilities	5,463	1,171

Financial risks factors:

The Company's activities expose it to foreign exchange risk. The Company's comprehensive risk management plan focuses on activities that reduce to a minimum any possible adverse effects on the Company's financial performance.

1. Foreign currency risk:

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities when expenses are denominated in a different currency from the Company's functional currency. The Company believes that no reasonable change in foreign currency exchange rates would have a material impact on the profit and loss or equity. The Company manages its foreign currency risk by managing bank accounts that are denominated in a currency other than its respective functional currency, primarily Great Britain Pound.

2. *Credit risk:*

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or supplier contract, leading to a financial loss. Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents. Cash and cash equivalents and short-term deposits are deposited with major banks in Europe and the United States, and invested mostly in U.S. dollars and Great Britain Pounds. Such deposits may be in excess of insured limits and are not insured in other jurisdictions. Generally, these deposits may be redeemed upon demand and therefore bear low risk.

3. *Market risk:*

The Group's financial instruments comprise equity investments, cash and various items such as trade debtors and trade creditors that arise directly from its operations. The main risk arising from the Groups financial instruments is liquidity risk. The Group has not entered into any derivative transactions.

18. OPERATING LEASE COMMITMENTS

Future minimum lease payable under non-cancelable office operating lease of the next five years, and thereafter, as of 31 December 2015:

Year-ended 31 December 2015	London $000	United States $000
2016	39	297
2017	39	313
2018	39	330
2019	10	225
Total	127	1,166

19. RELATED PARTY TRANSACTIONS

Accounting Services - An entity related to a shareholder provided accounting and bookkeeping services of approximately $131,000 and $25,000, respectively, to the Group during the years ended 31 December 2015 and 31 December 2014.

Other – As of 31 December 2015, there is a receivable balance in the amount of $10,366 with RPC, a major shareholder. The Company paid certain registration fees on RPC’s behalf and is treating this as short term in nature with no interest. This is recorded under "Other receivables" within current assets on the balance sheet.

At a Volution shareholder meeting held on 22 June 2015, Volution raised short-term working capital in the form of loans from shareholders of approximately $3 million which was repaid in October 2015. All 2014 shareholder loans in Volution were repaid in April 2015. Interest expense relating to these loans for the years ended 31 December 2015 and 2014 amounted to $53,948 and $5,436, respectively.

Legal fees - An entity related to a shareholder and director provided legal services of approximately $352,000 to the Company during the year ended 31 December 2015. The amount outstanding of $19,000 is included within trade payables as at 31 December 2015.

20. POST BALANCE SHEET EVENTS

In January 2016, the Company entered into a new lease for the offices in London, expiring in March 2019.
In March 2016, the Company granted 11,000,000 stock options to certain employees and in April 2016 granted 1,300,000 stock options to a new director.

21. STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards, amendments and interpretations issued but not yet effective up to the date of issuance of the group's financial statements are listed below. This listing is of standards, amendments and interpretations issued, which the group reasonably expects to be applicable at a future date. The group intends to adopt those standards when they become effective.

- Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets', on depreciation and amortisation
- Amendments to IFRS 10, 'Consolidated financial statements'
- IFRS 9 'Financial instruments'
- Amendment to IAS 1, 'Presentation of financial statements' on the disclosure initiative
- IFRS 16 'Leases'

The impact on the group's financial statements of the future adoption of these and other new standards and interpretations is under review. With the exception of the IFRS 16 the group does not expect the impact of such changes on the financial statements to be material.

22. ULTIMATE CONTROLLING PARTY

The Directors do not believe there to be an ultimate controlling party.