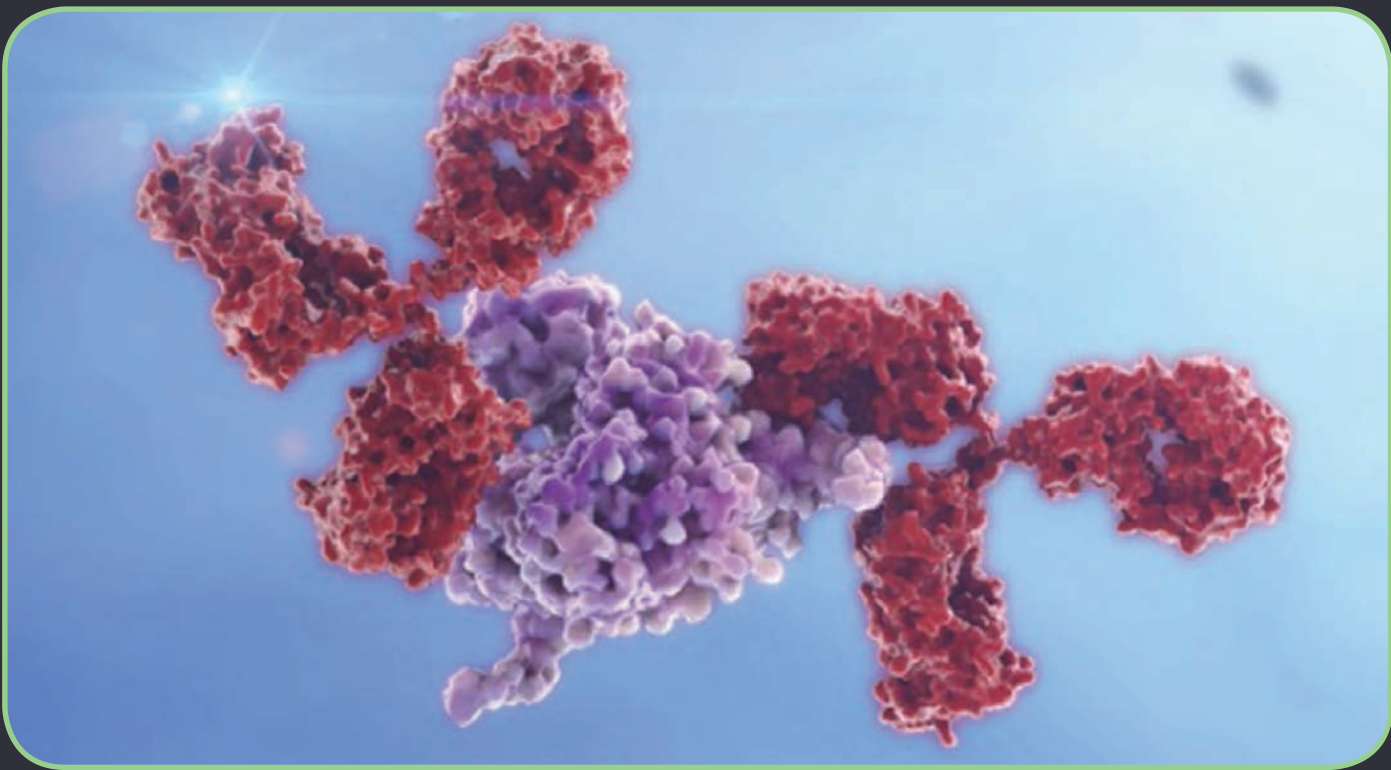
fusion antibodies

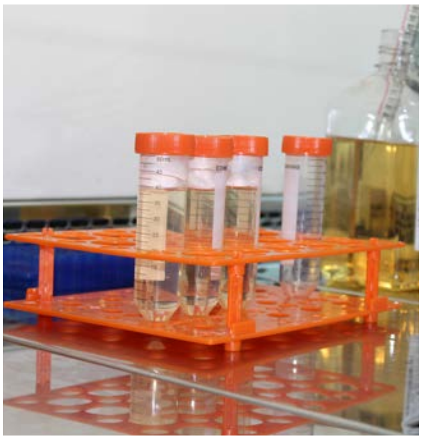
Annual Report and Accounts 2018

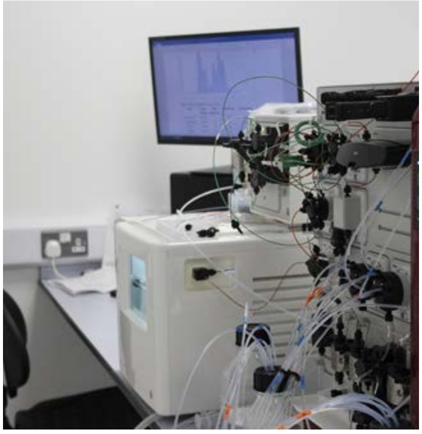


Highlights

For the year

- Revenue growth of 41% to £2.7m
- Admitted to trading on AIM in December 2017
- Raised £5.5m before expenses
- Loss for the financial year of £699,941. Adjusted loss for the financial year of £2,309 excluding accelerated share-based payment charges and IPO costs. Adjusted EDITDA of £132,018 for the year was achieved (2017: £288,473)





Post year end

- Facilities and technical capacity expansion is underway and will be completed by September 2018, earlier than planned and under budget
- New affinity maturation service on time and expected to be introduced by December 2018
- Mammalian antibody library on track for delivery in 2020

Contents

STRATEGIC REPORT
Chairman's Statement

Introduction

Fusion Antibodies is a Contract Research Organisation (CRO) located in Northern Ireland that offers a range of antibody engineering services for all stages of therapeutic and diagnostic antibody development. Our unrivalled experience working with antibodies makes Fusion Antibodies a first choice partner for the development of antibodies for both therapeutic drug and diagnostic applications. Our mission is to enable biopharmaceutical and diagnostic companies to develop innovative products in a timely and cost-effective manner for the benefit of the global healthcare industry.

Fusion Antibodies provides contract services which include:

Antibody engineering and humanisation services as a service;

Guaranteed antibody sequencing service;

Custom expression and purification of recombinant proteins;

Stable cell line development: high yield stable cell lines for biosimilars and recombinant protein expression.

I am delighted to present the first Annual Report for the company following our successful admission to AIM in December 2017. The year to 31 March 2018 was characterised by the delivery of strong revenue growth across the year, our successful admission to AIM and the raising of additional funds to support our on-site expansion plans, drive further organic sales growth, and to fund the development of new services.

Admission to AIM, a market operated by the London Stock Exchange

Fusion Antibodies was established in 2001 to develop monoclonal antibodies to be used as therapeutics in cancer treatment and over the years it built deep in-house expertise in antibody development, protein engineering and protein expression. From 2011, the company ceased drug development activity and focused instead on the provision of services to third parties using its antibody and protein related expertise. In recent years revenues have grown significantly to the point where the company needed to expand its laboratory facilities and to develop further services. The Board concluded that these developments would be optimally funded by seeking a quotation on AIM.

In December 2017, we announced the admission of our shares to trading on AIM and a successful placing with institutional investors, raising a total of £5.5m (before expenses) at a placing price of 82p (the "Placing"). We were pleased with the level of interest generated from new institutional investors and the funds raised are being used to support the expansion of our existing laboratory space, increase our sales and marketing efforts, and to develop new service lines.

Strategy & Progress

I am pleased to report that revenues in 2017/2018 grew by 41% over the previous financial year, despite the significant distraction in the second six months to the senior executive team caused by the AIM admission process and I thank them, and all our employees, for their hard work during the year. The year on year growth rate did slow in the second six months and trading has been slower than anticipated in the early part of the current year.

A large part of the revenue growth came from antibody humanisation and stable cell line development and we continue to believe that there is the potential for further significant organic growth in these areas as the use of antibodies and the outsourcing of specific R&D activities in the Pharmaceutical industry continues to grow. To ensure that we can meet this demand, we have undertaken a significant expansion of our laboratory and office space. The laboratory expansion has been completed, six months earlier than originally planned and within budget.

An additional key driver for revenue growth is expected to come from new products and service areas, and in particular our affinity maturation service and the production of a mammalian antibody library for human antibody discovery. Development continues on both and we are on track to launch the antibody affinity maturation service by the end of 2018, and the mammalian antibody library remains on track for 2020.

We are also investing in our sales and marketing capabilities to generate additional business and we believe that further geographical expansion of our customer base will be a key driver of revenue growth.

More details on financial performance are given in the Chief Executive Officer's report on page 5.

Board changes

At the time of the AIM admission, two of the company's long-standing non-executive directors, Sir John Cadogan and David Moore, stepped down from the board and I would like to thank them both for their service to the company. Immediately after the IPO, Tim Watts was appointed as a non-executive director and became Chair of the Audit Committee. I welcome Tim to the board.

Corporate governance

Good governance underpins the long term success of the business and supports the strategy for growth and the company has adopted the Quoted Companies Alliance's Corporate Governance Code 2018, as explained more fully in the Governance Report.

Outlook

Although there was a slowdown in sales growth in the second half of 2017/2018 which has extended into the first quarter of 2018/2019, management has taken steps to address this, including the recruitment of more sales and marketing staff and focussing on the geographical expansion of our customer base. The company is experiencing increased competition and consequential pricing pressures in the current year but we continue to have a positive outlook for the underlying business drivers. We believe that further growth will come from our antibody humanisation and stable cell line development services, supported by our investments in expanding our facilities and capacity and in our sales and marketing team. The development of the new affinity maturation service is progressing well and should come on line by the end of 2018. Taking these factors together, the board considers that modest revenue growth will be achieved in 2018/2019.

I would like to extend my thanks to all staff at Fusion for their hard work and to our shareholders for their ongoing support.

Dr Simon Douglas
Chairman

15 August 2018

STRATEGIC REPORT
CEO's report and operations review

Introduction & Company Overview

Fusion Antibodies is an established contract research organisation, providing a multi-service offering, from antibody discovery to clinical supply, to blue-chip global pharmaceutical, biotech and diagnostic companies looking to develop antibody based therapeutic drugs and diagnostics.

We provide services covering antibody identification and discovery, lead optimisation via antibody sequencing and engineering, and particularly focus on antibody humanisation, as well as offering scale up and manufacturing services. Our team has developed a proprietary technology platform, the CDRx™ antibody humanisation platform, which can rapidly design and generate humanised antibody constructs using a data base of over 100,000 antibody sequences. We have completed over 100 antibody humanisation commercial projects and have a high success rate using this platform and, as can be seen below, we now have two client humanisation projects in clinical trial and we expect more to follow. In addition, we generate additional revenues from our high value expert witness and technical advisory services, having previously been appointed by the US court of Delaware as expert witnesses in multibillion dollar drug cases.

In May 2018, we were pleased to be informed that the antibody from our very first humanisation project, performed in 2012, has now entered into clinical trials. This will be our second client project to move into the clinical trial stage and we expect more to follow based on customer feedback. Whilst this project did not include any milestone payments, we consider that it is a strong indicator of the company's capabilities.

The company is growing and derives its revenues primarily from fee-for-service payments. Where appropriate, milestone or success-based fees are included in certain contracts.

Business Review

Revenues for the year demonstrated strong organic growth, up by 41% to £2.69m (2017: £1.91m), continuing the growth seen in recent years.

The main driver of revenue growth came from antibody humanisation fees, substantially the largest contributor to overall sales. Sales from cell-line development services have also grown, albeit from a small base. We also continued to earn fees from providing expert witness services in the field of antibody development.

As announced in our trading update in March 2018, first half sales were particularly strong, with revenues up 70% compared to the comparable period in the previous year. Whilst trading in the second half was up against the previous comparable period, growth was affected by the significant management time required to complete our AIM admission and Placing in December 2017. Whilst this impacted revenues during the period, there was minimal impact on adjusted EBITDA due to the sales mix of higher margin services such as humanisation and cell-line development.

In terms of geographical split, revenues grew in all regions except for the UK, which reflects the expanding global reach of our new business development efforts and our targeting of the large North American market, as well as opportunities within Asia. UK sales were down 15.4% to £0.28m (2017: £0.31m), Europe grew 10.4% to £0.93m (2017: £0.85m) and the US saw sales growth of 9.6% to £0.82m (2017: £0.75m).

The biggest regional driver of growth was from sales to Rest of the World, up significantly from £12k in 2017 to £0.66m for the year ended March 2018. This growth has been achieved through the engagement of agents and distributors across Asia who are targeting a pharmaceutical market that is experiencing a big shift to monoclonal antibodies within therapeutic drug discovery. During the period, the company secured agreements with new clients in Japan and South Korea to provide humanisation and antibody identification services.

Whilst not a large amount, we also received our first milestone payment during the period. Where appropriate, new contracts include a milestone or success-based fees and in selected cases the opportunity to share the risk in future opportunities through future royalties. The Directors believe that these have the potential to provide meaningful additional revenue streams from 2020.

Laboratory and office expansion update

Building work on the expansion of our facility in Belfast, Northern Ireland, has continued to progress according to our accelerated timetable. The laboratory expansion has been completed with the offices and meeting rooms to be completed by September 2018 within budget and earlier than originally planned.

Development of new services

Funds from our Placing are also being directed to the development of new service areas, namely our affinity maturation services and the creation of a mammalian antibody library for human antibody discovery. In addition, we have continued to invest in our CDRx™ humanisation platform to offer Antibody Developability by Design (ADD™) service to differentiate further our technical ability to provide solutions to our clients' antibodies drug candidates by enhancing manufacturability performance.

Development progress on our new antibody affinity maturation service has been good and we are planning to launch this service before the end of the calendar year. Development of our mammalian antibody library remains on track to be available for customers in 2020.

Post-period end events

Also in May, we announced the receipt of additional grants from Invest Northern Ireland ("Invest NI") to support our growth with grants potentially totalling up to £213,000 which can be used to create up to 28 additional jobs and support additional business development over the next 24 months. £168,000 of the grants cover payments for each employee as they are taken on over the next 24 months. The additional 28 jobs, if they are all filled, are expected to take our total workforce to more than 50 people and this is part of our investment programme to deliver future growth. The remaining £45,000 will support additional business development activity to grow our international customer base. This announcement also followed on from confirmation on 1 March 2018 of other grants from Invest NI. We are very grateful for the support provided by Invest NI as we expand the business and these grants are an important part of our strategy of investing for growth.

In June 2018, we announced the notice of termination of our existing collaboration agreement with MAB Discovery GmbH ("MAB"). The agreement specified the terms of engagement regarding our high throughput humanisation of antibodies being developed by MAB, using our CDRx™ platform. We are currently in discussions to develop a revised collaboration agreement. No reduction in revenues is expected as a result.

Financial Results

The year to 2018 was a period of strong organic revenue growth with total sales increasing by 41% to £2.69m (2017: £1.91m). Growth came from customer projects in all geographic regions other than the UK. The fastest growth was seen in the first six months of the financial year as H2 revenue growth was impacted by the demands of the AIM admission process.

The EBITDA loss of £641k (2017 profit: £160k) and adjusted EBITDA profit (adjusted for accelerated share-based payment charges and IPO costs) £132k (2017: £288k) was broadly in-line with expectations. A reconciliation of adjusted profit to adjusted EBITDA is set out in Note 28 to the financial statements. Performance at the EBITDA level reflects the investment that the company has made in future growth, with investment into employees, facilities and research which are expected to deliver further significant revenue growth. The company produced a loss before tax of £711k (2017: profit £126k) and adjusted profit before tax of £62k (2017: £255k). The company generated cash of £77k from operating activities during the year (2017: £37k cash used in operations). Cash and cash equivalents as at 31 March 2018 totalled £4.5m (2017: £0.3m) reflecting the funds raised in our Placing. The company's full results are set out in the financial statements included with this report.

Key Performance Indicators

The key performance indicators (KPIs) regularly reviewed by the board are:

KPI	**2018**	2017
Revenue growth year on year	**41%**	29%
EBITDA	**(£641k)**	£160k
Adjusted EBITDA	**£132k**	£288k
	5% of revenues	15% of revenues
Cash generated/(used in) operations	**£77k**	(£37k)

Outlook

Although there was a slowdown in sales growth in the second half of 2017/18 which extended into the first quarter of 2018/19, management has taken steps to address this, including the recruitment of more sales and marketing staff and focussing on the geographical expansion of our customer base. The company is experiencing increased competiton and consequential pricing pressures in the current year but we continue to have a positive outlook for the underlying business drivers. We believe that further growth will come from our antibody humanisation and stable cell line development services, supported by our investments in expanding our facilities and capacity and in our sales and marketing team. The development of the new affinity maturation is progressing well and should come on line by the end of 2018. Taking these factors together, the board considers that modest revenue growth will be achieved in 2018/2019.

Dr Paul Kerr
Chief Executive Officer

15 August 2018

STRATEGIC REPORT
Principal risks and uncertainties

Risk is an inherent feature of business. The Board meets regularly to review operations and to assess and monitor the business risks faced by the company. Set out below are some key risks, together with associated mitigating factors. This list does not purport to be exhaustive. Financial risks are disclosed in note 20 to the financial statements.

Risks relating to the company and its business

1 Dependence on agreements with third parties

The company enters into agreements, including partnerships and collaborations, with third parties in respect of development, production, marketing, sales and distribution and supply of materials and equipment in order to develop and market products and services and to enable it to reduce the cost incurred by the company in doing this. There are no guarantees that the company will be able to find suitable, commercially viable relationships nor that any parties with whom it enters into commercial arrangements will meet their obligations. This could impact upon the company’s revenue and profitability and potentially leave the company with a financial loss, unable to proceed with development or sale of the products or services and/or needing to enter into litigation with the partner which could have both negative finance and reputational consequences.

2 Potential product liability litigation, regulatory intervention, adverse PR and business interruption

If the company produces any products or services which are defective, or which are alleged to be defective, it may face a liability claim in respect of those products or services. Any serious quality or safety incident may result in adverse reporting in the media, which in turn may damage the company's public relations and could potentially interrupt its business. This in turn could affect the company's financial condition, operational results and prospects, including damage to the company's reputation and/or its brands.

Third parties may assert their own intellectual property infringement claims against the company’s use of technology or products and require the company to cease the infringing activity and/or require the company to enter into licensing and royalty arrangements. The third party could take legal action against the company; if the company is required to defend itself against charges of patent infringement or to protect its own proprietary rights against third parties, substantial costs and significant management time and effort could be incurred regardless of whether the company is successful. Such proceedings are typically protracted and there is no certainty of success. If there is an adverse outcome, this could subject the company to significant liabilities to third parties, and force it to curtail or even cease altogether the development of products or the provision or particular services (if provision of those services is reliant on a particular method which is the subject of the proceedings), or the sale or licensing of products. In addition, the company may be required to develop alternative, non-infringing solutions which may require significant time and substantial, unanticipated resources. It is therefore possible that such claims could have a material adverse effect on the company's business, financial condition or results.

3 Risk that services will not achieve commercial success

The company currently offers a range of services, namely: antibody sequencing, antibody humanisation, stable cell line development, antibody engineering, monoclonal antibody production and transient protein expression. It is also developing new services – antibody affinity maturation and the creation of a mammalian antibody library. The commercial success of each of these services is in part based on factors outside the company's control, including market demand for those services. There can be no assurance that market demand for any of these areas will continue to exist and/or increase, or that the company's services will be favourably received by the market, will be profitable or will produce a reasonable return, if any, on investment. If the service is not commercially successful it could result in a financial loss to the company. Furthermore there can be no assurance that the development of the new services is successful.

Whilst the company considers it offers a competitive pricing model, there is the risk that it will not be able to attract market interest in its services or to maintain or develop that interest if received. For example, a competitor may undercut it with a pricing model it is unable to match; alternatively or additionally, a competitor with access to superior levels of capital may be able to inject more capital into its business and, as a consequence, develop new systems for delivering comparable services to those offered by the company at lower cost and/or more effectively. There is therefore no guarantee that any of the company's services will be commercially successful in the future or that it will continue to be competitive in the markets in which it operates.

4 The company relies on certain key personnel

The company's senior management and key research and development personnel are experienced in different fields of research, development, production, marketing and corporate management in the antibodies industry. As such, the company's success is in part attributable to the expertise and experience of its senior management and key research and development personnel, who carry out key functions in the operations of the company.

The company's research capability, financial condition, operation and prospects may be detrimentally affected if the company loses the services of any of its senior management and/or key research and development personnel, whether through illness or death, or them moving employment. No assurance can be given that the company will be able to retain and incentivise all the staff and key personnel that it needs in order to achieve its business objectives (a) at all or (b) on commercially acceptable terms. This could in turn adversely affect its business, financial condition, results and/or future operations.

As stated above, the company's success is in part attributable to the expertise and experience of its senior management and key research and development personnel. However, it may need to attract and recruit additional personnel, either in addition to existing personnel or to replace departing personnel, across all areas of its business. No assurance can be given that the company will be able to attract and recruit all the staff and key personnel that it needs (with the requisite expertise and experience if applicable) in order to achieve its business objectives (a) at all or (b) on commercially acceptable terms. This could in turn adversely affect its business, financial condition, results and/or future operations.

5 Risks associated with reliance on IT systems, key equipment and laboratory space

The company is reliant upon the use of certain IT systems, equipment and laboratory space which is critical to its ability to carry out its core business, including two external web databases for operation of the Antibody Workbench software comprised in its CDRx™ platform. There is a risk that key IT systems, equipment, and/or the laboratory space itself may become unavailable. In this event, the company's ability to deliver its services may be detrimentally affected, which could in turn have an impact upon its ability to deliver projects on time and which could consequently adversely affect its business, financial condition results, and/or future prospects. There is a risk that the company’s operations may be affected by a fire or flood at its premises.

General risks relating to the biotechnology and pharmaceutical industries

1 There may be a general reduction in the demand for antibody services in the pharmaceutical and biotechnology industries

As a CRO, the company's revenue is primarily generated through contracts with pharmaceutical and biotechnology companies and is dependent upon there being a demand in these industries for its antibody services. There is a risk that there may be a reduction in the demand in the pharmaceutical and biotechnology industries for antibody services, even if expenditure on drug development and discovery is maintained or increased. For example, the discovery of new technologies may reduce altogether the need for the antibody services provided by the company (either currently or in the future), or it may enable drug development companies to meet their requirements for antibody services internally rather than outsourcing these to CROs such as the company.

2 The company is subject to regulations governing the pharmaceutical and biotechnology industries

The regulations governing the biotechnology and pharmaceutical industries in the countries in which the company operates may be subject to change without prior notice or consultation. Any such changes or amendments may significantly impact the business of the company. For example, at the moment it is generally easier to both import and export goods within the EU than to other international companies due to the UK being part of the customs union. However, in view of the ongoing Brexit negotiations and the uncertainty surrounding the effect these will have on the free movement of goods, it is not clear whether such rules will significantly change and, if so, exactly how they will differ. There may also be increased costs to the company of complying with any changes in the regulatory requirements of the biotechnology and pharmaceutical industries which could have an impact on the financial prospects of the company.

The strategic report on pages 2 to 7 was approved by the board on 15 August 2018 and signed on its behalf by:

Paul Kerr
Director

CORPORATE GOVERNANCE
Board of Directors

Dr Simon Douglas
Non-executive Chairman

Simon, 59, was appointed Non-executive Chairman in September 2011 having previously been CEO. He has over 30 years' experience in the biotech industry, including 10 years working for Amersham International, ICI and Zeneca (now AstraZeneca), in a variety of commercial and technical positions, and over five years with Tepnel Life Sciences plc (now Hologic Inc), a London Stock Exchange listed diagnostic company where he was Chief Executive. He is currently on the board of venture capital backed diagnostic company Biofortuna Ltd and an advisor to two medical device start up companies. Simon is not considered to be independent as he formerly held the position of CEO.

Dr Paul Kerr
CEO

Paul, 46, was appointed Chief Executive Officer in September 2011 having worked in the company in technical and business development roles. He is an industry specialist with over 20 years' experience in the biopharmaceutical industry including former roles developing monoclonal antibodies at The Queen's University of Belfast and the Veterinary Sciences Division, Stormont laboratory.

Dr Richard Buick
CTO

Richard, 41, was appointed director and Chief Technical Officer in September 2011 having worked in the company since 2002 where he was responsible for overseeing contract research services. He previously had four years' experience discovering novel antibodies from synthetic libraries for diagnostic purposes. Richard has been appointed as a legal expert witness in a number of drug patent dispute cases.

James Fair
CFO and Company Secretary

James, 52, was appointed director and Chief Financial Officer in August 2017 having been head of finance for eight years. He qualified as a chartered accountant with Price Waterhouse and has held senior management positions in internal audit, business, and professional practice.

Sonya Ferguson[1]
Senior Independent Director

Sonya, 47, joined the company as a non-executive director in 2016 and is an experienced senior director working in the pharmaceuticals industry. She is currently senior director of Q2 Solutions, a Quintiles Quest joint venture, which is a leading global clinical trials laboratory services organisation, having formerly worked for Quintiles itself and Randox Laboratories. Sonya is the senior independent director on the board.

Dr Alan Mawson[2]
Non-executive director

Alan, 76, is a venture capital fund manager, the founder and now non-executive chair of Clarendon Fund Managers Limited and joined the company as a non-executive director in 2004 as a representative of Clarendon. Clarendon is the fund manager for Nitech Growth Fund LP and Viridian Growth Fund LP both of which are shareholders in the company. Due to Clarendon's shareholding in the company, Alan is not considered to be independent under the QCA Code.

1 member of the Remuneration Committee
2 member of the Audit Committee

CORPORATE GOVERNANCE
Board of Directors continued

Colin Walsh[1]
Non-executive director

Colin, 63, is chief executive and founder of Crescent Capital NI Limited and has been an active venture capital investor in the high-tech sector for the past 28 years. He joined the company as a non-executive director in 2007 as a representative of Crescent Capital. Crescent Capital is the fund manager of Crescent Capital II LP and Crescent Capital III LP both of which are shareholders in the company. Due to Crescent Capital's shareholding in the company, Colin is not considered to be independent under the QCA Code.

Tim Watts[2]
Non-executive director

Tim, 61, has over 25 years' experience in the pharmaceutical and biotech sectors, and joined the company as a non-executive director in December 2017. He qualified as chartered accountant with Coopers & Lybrand before moving to HJ Heinz, then ICI, was appointed Finance Director of the Zeneca Pharmaceuticals business in 1998 and became Group Financial Controller of AztraZeneca plc in 2002. Between 2007 and 2017 he held positions as CFO of Archimedes Pharma then Oxford Biomedica plc from which he retired in September 2017. In August 2018 Tim was appointed Interim CFO at Shield Therapeutics. Tim is an independent director.

1 member of the Remuneration Committee
2 member of the Audit Committee

CORPORATE GOVERNANCE
Corporate Governance Statement

Compliance Statement

The Board seeks to follow best practice in corporate governance appropriate to the company's size and in accordance with the regulatory framework that applies to AIM companies. The company has adopted the Quoted Companies Alliance's Corporate Governance Code 2018 ("QCA Code) and sets out on its website how, with regard to the size and the nature of the company's business, it applies the principles and disclosures as set out in the QCA Code. Given its size and the nature of its current operations, the company has not adopted the full UK Corporate Governance Code. The main features of the company's corporate governance arrangements are:

- The Board meets regularly and at least nine times per year for formal board meetings. It will consider strategy, performance and approve financial statements, dividends and significant changes in accounting practices and key commercial matters, such as decisions on the introduction of new services. There is a formal schedule of matters reserved for decision by the board in place;
- The company has an audit committee and remuneration committee, further details of which are provided below; and
- The company does not have a nomination committee, as the Board does not consider it appropriate to establish one at this stage of the company's development. The Board as a whole takes decisions regarding the appointment of new directors and this will follow a thorough assessment of a potential candidate's skill and suitability for the role.

Board composition

The company is managed by a Board of directors and they have the necessary skills and experience to effectively operate and control the business. There are currently eight directors at the date of this report being: Simon Douglas, Paul Kerr, Richard Buick, James Fair, Sonya Ferguson, Alan Mawson, Colin Walsh and Tim Watts. The Board comprises five non-executive directors, including the chair, and three executive directors. The composition of the board was reviewed and the board refreshed prior to the AIM admission in December 2017 and the board believe the split of non-executive to executive directors is appropriate for the current requirements of the company. Board members are expected to attend relevant continuing professional development to ensure their technical skills are kept up to date as well as attending relevant industry and regulatory conferences and briefings. As the needs of the company evolve a set of performance and skills criteria is prepared annually by the Chairman and one to one evaluations are held with directors to assess how skill sets meet the needs of the company and identify where skills need to be added to the existing board.

The Board considers Sonya Ferguson and Tim Watts are independent in character and judgement. Sonya Ferguson was appointed as the senior independent director on 11 December 2017. Whilst Colin Walsh and Alan Mawson are not deemed independent for the purposes of the QCA Code, the Board considers that their detailed experience and long standing knowledge of the business are essential in guiding the overall strategy of the company. Simon Douglas is not deemed independent as he is a former CEO of the company.

As the business develops, the composition of the Board will remain under review to ensure that it remains appropriate to the managerial requirements of the company. All new directors appointed since the previous Annual General Meeting are required to seek election at the next Annual General Meeting and one third of the other directors retire annually in accordance with the company's articles of association. This enables the shareholders to decide on the election of the company's board. The company has previously availed of the exemption available to private companies from holding an Annual General Meeting so all eight directors will seek election at the next Annual General Meeting which is the first general meeting as a public company.

Board committees

The company has an Audit Committee and a Remuneration Committee with formally delegated duties and responsibilities. The composition of these committees may change over time as the composition of the Board changes. The reports of the Audit Committee and Remuneration Committee are included within the Governance report and Directors' Report rather than as separate sections of the Annual Report.

Audit Committee

The audit committee has responsibility for, among other things, the monitoring of the financial integrity of the financial statements of the company, and the involvement of the company's auditors in that process. It focuses, in particular, on compliance with the accounting policies and ensuring that an effective system of external audit and financial control is maintained, including considering the scope of the annual

CORPORATE GOVERNANCE
Corporate Governance Statement continued

audit and the extent of non-audit work undertaken by external auditors and advising on the appointment of external auditors. Given the size and nature of the company the Audit Committee has recommended and the Board accepts that an internal audit function is not appropriate for the company.

The audit committee meets at least twice a year at the appropriate times in the financial reporting and audit cycle. The audit committee comprises two members, who are both non-executive directors: Tim Watts (chair) and Alan Mawson. David Moore resigned as a member of the board on 11 December 2017 and was replaced as a member of the audit committee by Tim Watts on 18 December 2017.

Since the admission to AIM, the Audit Committee has met twice, in April 2018 and June 2018. At the April meeting the main item was to discuss and agree the audit strategy for the year ended 31 March 2018 proposed by the auditors. It was agreed that the main areas of focus should be revenue recognition and the correct identification of exceptional costs arising from the IPO and accounting for accelerated share-based payments. The main topic for the June meeting was to review the auditors' work to date. The auditors were able to confirm that the audit had been satisfactory and that, in particular, they had reviewed the above areas of focus with no issues arising. The Committee also reviewed the Company's system of internal controls at this meeting and concluded that they are appropriate for a company of Fusion's size and complexity.

Internal controls and financial risk management

The directors are responsible for the company's system of internal controls, the setting of appropriate policies on these controls and regular assurance that the system is functioning effectively and that it is effective in managing business risk. Risk management is embedded as part of the Board culture and is on the agenda of every meeting to ensure that it is at the centre of arriving at and monitoring strategy. Principal risks and uncertainties are discussed in the Strategic Report and financial risk management policies are detailed in note 20 of the Notes to the Financial Statements. The audit committee monitors the company's internal control procedures, reviews the internal control procedures and reports its conclusions and recommendations to the Board.

Remuneration Committee

The remuneration committee has responsibility for the determination of remuneration packages for each of the executive directors, including pension rights and any compensation payments, recommending and monitoring the level and structure of remuneration of senior management, and the implementation of the employer share option scheme, or other performance related schemes. It meets at least twice a year. The report of the remuneration committee is included in the Directors' Report below.

The remuneration committee comprises two members who are non-executive directors: Colin Walsh (chair) and Sonya Ferguson. Sir John Cadogan retired as a member of the board on 11 December 2017 and as a member of the remuneration committee at that date.

Meetings and attendance

	Board	Audit committee	Remuneration committee
Meetings held during the year	13	2	3
Attendance:			
Simon Douglas	12/13		
Paul Kerr	13/13		
Richard Buick	13/13		
James Fair	8/8		
Sonya Ferguson	13/13		1/1
Alan Mawson	13/13	2/2	2/2
Colin Walsh	13/13		3/3
Tim Watts	3/3		
Sir John Cadogan	9/9		2/2
David Moore	8/9	2/2	

Non-executive directors are expected to spend a minimum of one day a month on company activities in addition to preparation for and attendance at board and sub-committees. The Chairman will spend an additional day per month although in practice this is usually exceeded.

Communication with shareholders

Good and effective communication with shareholders is a high priority of the Board. Good communication with investors and analysts is an essential part of the operation of the company. The company is committed to providing up to date corporate information to existing and potential shareholders and maintains a website (www.fusionantibodies.com) which contains an Investor Relations section. Existing and potential investors can use the website to access company information and reports and to contact the company.

The company has introduced a programme of face to face communication. This includes one on one and group meetings with investors in the UK as well as attendance at investor and industry conferences.

The corporate governance report on pages 8 to 13 was approved by the board on 15 August 2018 and signed on its behalf by:

Dr Simon Douglas
Chairman

CORPORATE GOVERNANCE
Directors' Report for the year ended 31 March 2018

The directors present their annual report and the audited financial statements of the company for the year ended 31 March 2018.

The company is incorporated and domiciled in the United Kingdom. On 11 December 2017 the company re-registered as a public limited company and on 18 December 2017 the shares were listed on AIM, a market operated by London Stock Exchange.

Principal activity

The principal activity of the company is the research, development and manufacture of recombinant proteins and antibodies, particularly in the areas of cancer and infectious diseases.

Review of the business and future developments

A review of the business and its outlook, including commentary on the key performance indicators, and the principal risks and uncertainties facing the company is included in the statements within the Strategic Report and included in this report by cross reference.

Directors

Biographical information on each of the directors at the date of signing this report is set out on page 11.

In addition, those directors who left the board during the year are as follows:

- Professor Sir John Cadogan CBE FRS - non-executive director, resigned 11 December 2017; and
- Mr David Moore - non-executive director, resigned 11 December 2017.

In accordance with the company's Articles of Association all the directors will retire and offer themselves for re-election at the 2018 Annual General Meeting.

Directors' remuneration

The remuneration committee comprises Colin Walsh as Chair and Sonya Ferguson. The committee is responsible for reviewing the company's remuneration policy, the emoluments of the Executive Directors and other senior management and the company's pension arrangements and for making recommendations thereon to the Board. The committee also makes recommendations to the Board in respect of awards of option under the EMI and Unapproved Employee Share Option Scheme under which employees and Executive Directors may be granted options to acquire Ordinary Shares. It also reviews the terms of service contracts with senior employees and the Executive Directors and any compensation arrangements resulting from the termination by the company of such contracts.

Policy on executive directors and senior management remuneration

When determining the Board policy for remuneration, the Committee considers all factors which it deems necessary including relevant legal and regulatory requirements and the provisions and recommendations of relevant guidance. The objective of this policy is to help attract, retain and motivate the executive and senior management of the company without paying more than necessary. The remuneration policy bears in mind the company's appetite for risk and is aligned to the company's long term strategic goals. A significant proportion of remuneration is structured to link rewards to corporate and individual performance and be designed to promote the long-term success of the company.

Bonus payments

All executive directors and senior management are eligible for a discretionary annual bonus. Annual cash bonuses are paid on the achievement of pre-set strategic objectives. The Committee, in conjunction with the Board, reviews and sets these objectives at the start of each financial year.

Long term incentives

At the reporting date the company had two share based reward schemes (now closed to new awards) under which options had been granted and a third scheme in place ("2017 EMI and Unapproved Employee Share Option Scheme") under which no grants have yet been made. Details of options issued under the two closed schemes are included in note 9. Since the company's admission to AIM, in accordance with UK best practice on corporate governance, company policy has changed so that it is no longer policy to award share options to non-executive directors.

The share options granted during the year all contained 1-2 year vesting periods with the options used to motivate and retain key individuals.

Movement in options held by directors are as follows:

Note: during the year each £1 Ordinary Share of the company was subdivided into 25 Ordinary Shares of £0.04. The table below is presented with the balance at 1 April 2017 restated to show the equivalent number and exercise price for £0.04 Ordinary Shares.

	At 1 April 2017	Exercised in Year	Awarded in year	**At 31 March 2018**	Exercise period	Exercise price per share
Paul Kerr						
2005 Share Scheme	486,250	(486,250)	–	–	n/a	£0.04 to £0.24
2017 Share scheme	–	–	125,000	**125,000**	2018-2027	£0.04
	486,250	(486,250)	125,000	**125,000**		
Richard Buick						
2005 Share Scheme	486,250	(486,250)	–	–	n/a	£0.04 to £0.24
2017 Share scheme	–	–	125,000	**125,000**	2018-2027	£0.04
	486,250	(486,250)	125,000	**125,000**		
James Fair						
2017 Unapproved Share Scheme	–	–	75,000	**75,000**	2018-2027	£0.04
Simon Douglas						
2005 Unapproved Share Scheme	275,000	(275,000)	–	–	n/a	£0.04
Sir John Cadogan						
2005 Unapproved Share Scheme	112,500	(112,500)	–	–	n/a	£0.04
Sonya Ferguson						
2017 Unapproved Share Scheme	–	–	25,000	**25,000**	2018-2027	£0.04

CORPORATE GOVERNANCE

Directors' Report for the year ended 31 March 2018 continued

Directors' remuneration

The remuneration of Directors for the year ended 31 March 2018 was as follows:

		Salary & fees £	Benefits £	Bonus £	Company pension contributions £	Total
Executive directors						
Paul Kerr	**2018**	**87,500**	**64**	**–**	**4,375**	**91,939**
	2017	51,750	–	12,900	15,403	80,053
Richard Buick	**2018**	**87,500**	**60**	**–**	**4,375**	**91,935**
	2017	64,815	–	12,900	2,640	80,355
James Fair[1]	**2018**	**52,500**	**77**	**10,000**	**2,559**	**65,136**
	2017	–	–	–	–	–
Non – Executive Directors						
Simon Douglas	**2018**	**22,897**	**–**	**–**	**–**	**22,897**
	2017	20,000	–	–	3,029	23,029
Sonya Ferguson	**2018**	**7,301**	**–**	**–**	**146**	**7,447**
	2017	12,500	–	–	250	12,750
Alan Mawson[2]	**2018**	**6,663**	**–**	**–**	**–**	**6,663**
	2017	–	–	–	–	–
Colin Walsh[3]	**2018**	**7,786**	**–**	**–**	**–**	**7,786**
	2017	–	–	–	–	–
Tim Watts[4]	**2018**	**7,821**	**–**	**–**	**–**	**7,821**
	2017	-	–	–	–	–
Sir John Cadogan[5]	**2018**	**11,250**	**–**	**–**	**–**	**11,250**
	2017	15,000	–	–	–	15,000
David Moore[6]	**2018**	**–**	**–**	**–**	**–**	**–**
	2017	–	–	–	–	–
Total	**2018**	**291,218**	**201**	**10,000**	**11,455**	**312,874**
	2017	164,065	–	25,800	21,322	211,187

1 James Fair was appointed 1 August 2017

2 Prior to 18 December 2017 Clarendon Fund Managers were paid for the services of Alan Mawson as is explained in note 25

3 Prior to 18 December 2017 Crescent Fund Managers were paid for the services of Colin Walsh as is explained in note 25

4 Tim Watts was appointed on 18 December 2017

5 Sir J Cadogan resigned effective 11 December 2017

6 David Moore resigned effective 11 December 2017

Directors and their interests

Note: during the year each £1 Ordinary Share of the company was subdivided into 25 Ordinary Shares of £0.04. The table below is presented with the balance at 1 April 2017 restated to show the equivalent number and exercise price for £0.04 Ordinary Shares.

	At 1 April 2017 (or date of appointment if later)	% issued shared capital	Shareholding at 31 March 2018 (or date of resignation if earlier)	% issued share capital
Paul Kerr	46,250	0.34%	532,500	2.41%
Richard Buick	25,875	0.19%	512,125	2.32%
James Fair	–	–	–	–
Simon Douglas	30,800	0.22%	255,800	1.16%
Sonya Ferguson	–	–	15,593	–
Alan Mawson	–	–	30,488	0.14%
Colin Walsh	–	–	–	–
Tim Watts	12,195	0.06%	12,195	0.06%
Sir John Cadogan	741,300	5.41%	853,800	5.55%
David Moore	–	–	–	–

Results and dividends

The loss before tax for the year was £711k (2017: profit £126k) after charging non recurring items (including IPO costs and accelerated share based payment charges in respect of schemes vesting on IPO) of £773k (2017: £129k). After adjusting for non-recurring charges (which are more fully explained in note 28 to the accounts) the company would have reported an adjusted profit before tax of £62k (2017: £255k) and adjusted Earnings Before Interest Taxation Depreciation and Amortisation (EBITDA) of £132k (2017: £288k).

After an income tax credit of £55k (2017: expense of £6k) the loss for the financial year of £656k (2017: profit £120k) has been transferred to reserves. The results for the year are set out the statement of comprehensive income.

No dividends were paid (2017: £nil). The directors do not recommend payment of a final dividend (2017: £nil).

Changes in capital

During the year the company performed a capital reduction. Under this capital reduction the company's entire share premium as of 25 October 2017 of £6.16m was cancelled and credited to the profit and loss reserve.

During the year the company subdivided each of the Ordinary shares of £1 into 25 Ordinary shares of £0.04 each.

During the year the company had two issues of shares. 1,692,500 Ordinary shares of £0.04 were issued upon the exercise of share options for total proceeds of £107k, including a premium of £39k. In December 2017, the company issued 6,707,317 Ordinary shares of £0.04 through the Placing and admission to AIM. The gross share proceeds raised in the Placing was £5.5m including a share premium of £5.23m.

CORPORATE GOVERNANCE
Directors' Report for the year ended 31 March 2018 continued

Principal shareholders

At the close of business on 14 August 2018 (being the latest practical date prior to the signing of this report) the company had received notification of the following substantial interests representing over 3% of the issued share capital:

	Number of Ordinary 4p shares	Percentage held
Crescent II LP	2,652,325	12.01
Viridian Growth Fund LP	1,831,500	8.29
Canaccord Genuity Group Inc	1,414,939	6.41
Amati AIM VCT plc	1,341,463	6.07
Prof Jim Johnston	1,317,325	5.96
Unicorn AIM VCT plc	1,219,512	5.52
Baronsmead Venture Trust plc	1,219,512	5.52
Octopus Investments Ltd	1,219,512	5.52
Invest Northern Ireland	974,450	4.41
Crescent III LP	731,707	3.31
Qubis Ltd	709,375	3.21

Pension

The company operates a defined contribution pension scheme.

Research and development

During the year ended 31 March 2018 has incurred research and development costs of £69k (2017: £70k). This is incurred in the development of existing and new antibody engineering services. There was no expenditure on intangible assets in the two years ended 31 March 2018.

Financial risk management

The company's approach to risk management is described in Principal risks and uncertainties within the Strategic Report and is included in this report by cross reference.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for 12 months from the reporting date. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. In arriving at this conclusion the Directors have reviewed detailed forecast models for the company. These models are based on best estimates of future performance and have been adjusted to reflect various scenarios and outcomes that could potentially impact the forecasts.

Payments to suppliers

The company seeks to abide by the payment terms agreed with suppliers when it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions.

Directors' indemnity

Every director and other officer of the company is entitled to be indemnified out of the assets of the company against all losses or liabilities properly incurred by him or her in or about the discharge of the duties of his or her office. The company has insurance cover in place to mitigate such costs.

Political donations

There were no political donations made by the company during the year (2017: none).

Corporate governance

The Corporate Governance Report on pages 8 to 13 forms part of the Directors' Report and is included in this report by cross reference.

Post balance sheet events

There were no material post balance sheet events.

Annual general meeting

The resolutions to be proposed at the Annual general meeting together with the explanatory notes, will appear in the Notice of the Annual general meeting which will be circulated with the annual report when sent to all shareholders.

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare the financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the 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 applicable IFRSs as adopted by the European Union have been followed; subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. The Directors are also generally responsible for safeguarding the assets of the company 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 company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position, performance, business model and strategy.

Each of the directors, whose names and functions are listed in Board of Directors confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces.

Statement of disclosure to auditors

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Independent Auditors

PricewaterhouseCoopers LLP has expressed its willingness to continue in office as auditor.

On behalf of the Board

James Fair
Company Secretary

15 August 2018

Company registration number NI039740

Independent Auditors' Report to the Members of Fusion Antibodies plc

Report on the audit of the financial statements

Opinion

In our opinion, Fusion Antibodies plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the statement of financial position as at 31 March 2018; the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

- Overall materiality: £3,120 (2017: £6,930), based on 5% of profit before tax, adjusted for non-recurring listing costs and share based payment charges in respect of schemes that vested on IPO.
- The company is a single reporting entity. It has a subsidiary undertaking which is dormant and not consolidated on the basis that it is not material.
- Exceptional costs.
- Share based payment charges.
- Risk of fraud in revenue recognition.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Exceptional costs The company has incurred a significant amount of costs in relation to the IPO as well as recorded a significant share based payment charge on IPO. The nature of these costs and their size means the company has determined these to be exceptional costs and are added back for performance measures. The estimation of what constitutes exceptional costs involves a degree of judgement. In addition there is specific guidance on the use of Alternative Performance Measures ("APMs") and the disclosures required.	We agreed exceptional costs to supporting documentation and calculation. No errors were identified. We assessed the disclosure of these costs as exceptional and based on their non-recurring nature and size we agreed with the company's conclusion that they were exceptional. We agreed that the disclosure of Alternative Performance Measures were consistent with the guidance and requirements, issued by the Financial Reporting Council and the European Securities and Markets Authority, in particular that there was no more prominence given to these APMs over statutory measures and that the APMs were clearly reconciled in a note to the financial statements.
Share based payment charges Share based payment accounting requires a number of estimates to be made in calculating the fair value of options at grant date. The most significant assumption used is the calculation of the fair value of the underlying shares at grant date. These options were granted pre IPO and therefore there was no market for the shares.	We agreed the calculations of share based payment charges. No errors were identified. We agreed that the inputs (in particular the fair value of the share at grant date) used in the calculation of the fair value of the options at grant date were appropriate and supportable.
Risk of fraud in revenue recognition Under ISAs (UK) risk of fraud in revenue recognition is considered to be a significant risk unless rebutted. The risk of fraud in revenue recognition relates to the cut-off assertion as manual adjustments are required to correctly recognise revenue in respect of services not complete as at the year end.	We agreed pre year end (March 2018) and post year end (April 2018) revenue transactions to supporting documentation to ensure that revenue was recognised in the correct period. In addition we agreed the manual cut-off adjustment to supporting documentation to ensure revenue was recognised in the correct period. No errors were identified.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

The company is a single reporting entity. It has a subsidiary undertaking which is dormant and not consolidated on the basis that it is not material. As a single entity all of the company's key transaction cycles (revenue/receivables, purchases/payables and inventory) were a focus for our audit procedures. There were no financial statement line items that were not in scope for audit procedures.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Independent Auditor's Report to the Members of Fusion Antibodies plc continued

Materiality (continued)

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£3,120 (2017: £6,930).
How we determined it	5% of profit before tax, adjusted for non-recurring listing costs and share based payment charges in respect of schemes that vested on IPO.
Rationale for benchmark applied	We believe that profit before tax (adjusted for non-recurring listing costs and share based payment charges in respect of schemes vesting on IPO) is the primary measure used by the shareholders in assessing the performance of the entity. It is appropriate these costs are added back as these are of a non-recurring nature.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £150 (2017: £350) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included. Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 19, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Kevin MacAllister (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast

15 August 2018

Statement of Comprehensive Income

For the year ended 31 March 2018

	Notes	2018 Before non-recurring items £	2018 Non-recurring items (note 28) £	2018 After non-recurring items £	2017 Before non-recurring items £	2017 Non-recurring items (note 28) £	2017 After non-recurring items £
Revenue	4	**2,690,744**	**–**	**2,690,744**	1,913,956	–	1,913,956
Cost of sales		**(1,207,331)**	**–**	**(1,207,331)**	(952,459)	–	(952,459)
Gross profit		**1,483,413**	**–**	**1,483,413**	961,497	–	961,497
Other operating income		**54,626**	**–**	**54,626**	45,674	–	45,674
Administrative expenses		**(1,475,646)**	**(772,936)**	**(2,248,582)**	(751,688)	(128,953)	(880,641)
Operating (loss)/profit	5	**62,393**	**(772,936)**	**(710,543)**	255,483	(128,953)	126,530
Finance income	8	**4,043**	**–**	**4,043**	–	–	–
Finance costs	8	**(4,862)**	**–**	**(4,862)**	(615)	–	(615)
(Loss)/profit before tax		**61,574**	**(772,936)**	**(711,362)**	254,868	(128,953)	125,915
Income tax credit/(expense)	10	**(63,883)**	**75,304**	**11,421**	(66,360)	60,399	(5,961)
(Loss)/profit for the financial year		**(2,309)**	**(697,632)**	**(699,941)**	188,508	(68,554)	119,954
Total comprehensive (expense)/ income for the year		**(2,309)**	**(697,632)**	**(699,941)**	188,508	(68,554)	119,954
				Pence			Pence
(Loss)/earnings per share							
Basic	11			**(4.3)**			0.9
Diluted	11			**(4.2)**			0.8

The statement of comprehensive income has been prepared on the basis that all operations are continuing operations.

The accompanying notes on pages 28 to 48 form an integral part of the financial statements.

Statement of Financial Position

As at 31 March 2018

	Notes	**2018**	2017
		£	£
Assets			
Non-current assets			
Property, plant and equipment	12	**546,734**	107,253
Deferred tax assets	14	**1,156,047**	1,118,864
		1,702,781	1,226,117
Current assets			
Inventories	15	**81,815**	70,261
Trade and other receivables	16	**926,220**	571,998
Current tax receivable		**6,906**	2,078
Cash and cash equivalents		**4,490,931**	285,685
		5,505,872	930,022
Total assets		**7,208,653**	2,156,139
Liabilities			
Current liabilities			
Trade and other payables	17	**536,299**	430,217
Borrowings	18	**33,758**	–
		570,057	430,217
Net current assets		**4,935,815**	499,805
Non-current liabilities			
Borrowings	18	**43,529**	–
Provisions for other liabilities and charges	19	**20,000**	20,000
Total liabilities		**633,586**	450,217
Net assets		**6,575,067**	1,705,922
Equity			
Called up share capital	21	**883,648**	547,655
Share premium reserve		**4,872,327**	6,161,269
Retained earnings/(accumulated losses)		**819,092**	(5,003,002)
Total equity		**6,575,067**	1,705,922

The accompanying notes on pages 28 to 48 form an integral part of these financial statements.

The financial statements on pages 14 to 48 were approved by the Board on 15 August 2018, and signed on its behalf:

Dr Paul Kerr
Director

James Fair
Director

Registered in Northern Ireland, number NI039740

Statement of Changes in Equity

For the year ended 31 March 2018

	Called up share capital £	Share premium reserve £	(Accumulated losses)/Retained earnings £	Total equity £
At 1 April 2017	**547,655**	**6,161,269**	**(5,003,002)**	**1,705,922**
Loss for the year	**–**	**–**	**(699,941)**	**(699,941)**
Capital reduction	**–**	**(6,161,269)**	**6,161,269**	**–**
Issue of share capital	**335,993**	**5,270,359**	**–**	**5,606,352**
Cost of issuing share capital	**–**	**(398,032)**	**–**	**(398,032)**
Share options – value of employee services	**–**	**–**	**330,176**	**330,176**
Tax credit relating to share option scheme	**–**	**–**	**30,590**	**30,590**
Total transactions with owners, recognised directly in equity	**335,993**	**(1,288,942)**	**6,522,035**	**5,569,086**
At 31 March 2018	**883,648**	**4,872,327**	**819,092**	**6,575,067**
At 1 April 2016	547,655	6,161,269	(5,251,909)	1,457,015
Profit for the year	–	–	119,954	119,954
Share options – value of employee services	–	–	128,953	128,953
Total transactions with owners, recognised directly in equity	–	–	128,953	128,953
At 31 March 2017	547,655	6,161,269	(5,003,002)	1,705,922

The accompanying notes on pages 28 to 48 form an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 March 2018

	2018 £	2017 £
Cash flows from operating activities		
(Loss)/profit for the year	**(699,941)**	119,954
Adjustments for:		
Share based payment expense	**330,176**	128,953
Cost of raising capital	**609,836**	–
Depreciation	**69,625**	32,990
Finance income	**(4,043)**	–
Finance costs	**4,862**	615
Income tax (credit)/expense	**(11,421)**	5,961
Increase in inventories	**(11,554)**	(70,261)
Increase in trade and other receivables	**(225,322)**	(294,373)
Increase in trade and other payables	**14,974**	38,787
Cash generated from/(used in) operations	**77,192**	(37,374)
Income tax received	–	–
Net cash generated from/(used in) from operating activities	**77,192**	(37,374)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(444,595)**	(90,271)
Net cash used in investing activities	**(444,595)**	(90,271)
Cash flows from financing activities		
Proceeds from issue of share capital	**4,598,650**	–
Repayment of borrowings	**(25,182)**	–
Finance income – interest received	**4,043**	–
Finance costs – interest paid	**(4,862)**	(615)
Net cash generated from/(used in) financing activities	**4,572,649**	(615)
Net increase/(decrease) in cash and cash equivalents	**4,205,246**	(128,260)
Cash and cash equivalents at the beginning of the year	**285,685**	413,945
Cash and cash equivalents at the end of the year	**4,490,931**	285,685

The accompanying notes on pages 28 to 48 form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 March 2018

1 General information

Fusion Antibodies plc is a company incorporated and domiciled in the UK, having its registered office at Marlborough House, 30 Victoria Street, Belfast BT1 3GG.

The principal activity of the company is the research, development and manufacture of recombinant proteins and antibodies, particularly in the areas of cancer and infectious diseases.

2 Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

Basis of preparation

The financial statements have been prepared on the historical cost convention, modified to include certain financial instruments at fair value.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £1.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and IFRS Interpretations Committee (IFRIC) as adopted by the European Union and with the Companies Act 2006 applicable to companies reporting under IFRS.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for 12 months from the reporting date. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. In arriving at this conclusion the Directors have reviewed detailed forecast models for the company. These models are based on best estimates of future performance and have been adjusted to reflect various scenarios and outcomes that could potentially impact the forecasts.

Changes in accounting policy and disclosures

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 April 2018, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the company, except the following, set out below:

- *IFRS 9*, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The standard is effective for accounting periods beginning on or after 1 January 2018. The company will apply the standard retrospectively for the first time in the half year report ending 30 September 2018 and the annual report ending 31 March 2019.

IFRS 9 is applicable to financial assets and financial liabilities, and covers classification, measurement and derecognition.

On adoption of IFRS 9, the main areas of change that are relevant for the company are:

- requirement to use an expected credit loss method for impairment calculation; and
- broadening of hedge accounting application with more focus on risk management alignment.

2 Significant accounting policies continued

If applied at 31 March 2018 it is estimated that the credit loss impairment would have been less than £3,500. The full impact will be subject to a further assessment and is dependent on the instruments and balances open at the transition date.

- *IFRS 15,* 'Revenue from contracts with customers', deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard is effective for accounting periods beginning on or after 1 January 2018. The company will apply the standard retrospectively for the first time in the half year report ending 30 September 2018 and the annual report ending 31 March 2019.

  The new standard will replace existing accounting standards used to determine the measurement and timing of revenue recognition, and requires an entity to align the recognition of revenue to the transfer of goods or services at an amount that the entity expects to be entitled to in exchange for those goods or services. The standard also requires enhanced revenue disclosure.

  For the company's revenue streams an initial review has been performed on a sample of service agreements and upon adoption there will be a minor delay in the recognition of revenue due to a change in the percentage of completion method currently being used. If applied at 31 March 2018 this is estimated to reduce revenues for the year then ended by £24,400 Given the customised nature of some of the contracts open at any given date, the company is continuing to assess the full impact on these areas of revenue in future periods.
- *IFRS 16*, 'Leases', will introduce a single lessee accounting model, eliminating the previous classification of leases as either operating or finance. The standard is effective for accounting periods beginning on or after 1 January 2019. The company will apply the standard retrospectively for the first time in the half year report ending 30 September 2019 and the annual report ending 31 March 2020.

  The standard will require recognition of an asset and a related liability unless the lease term is 12 months or less or the underlying asset value is low. An initial impact review indicates that the only lease currently in force that will be affected is for the company premises in Belfast.

  Given that the transition date will be 1 April 2019, the final transition impact assessment is still in progress and will be dependent on the transition method selected by the company and the leases in existence at the transition date.

  The standard was endorsed by the EU on 31 October 2017.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered, net of returns, discounts and rebates allowed by the company and value added taxes. Where the consideration receivable in cash or cash equivalents is deferred, and the arrangement constitutes a financing transaction, the fair value of the consideration is measured as the present value of all future receipts using the imputed rate of interest. The company recognises revenue when (i) the significant risks and rewards of ownership have been transferred to the buyer; (ii) the company retains no continuing involvement or control over the goods; (iii) the amount of revenue can be measured reliably; and (iv) it is probable that future economic benefits will flow to the company.

Revenue in respect of the services the company provide are recognised using the percentage of completion method applied to each stage of its agreements with customers.

Grant income

Revenue grants received by the company are recognised in a manner consistent with the grant conditions. Once conditions have been met, revenue is recognised in the Statement of Comprehensive Income and shown as Other Operating Income.

Research and development

Research expenditure is written off as incurred. Development expenditure is recognised in the Statement of Comprehensive Income as an expense until it can be demonstrated that the following conditions for capitalisation apply:

Notes to the Financial Statements continued

For the year ended 31 March 2018

2 Significant accounting policies continued

- It is technically feasible to complete the scientific product so that it will be available for use;
- Management intends to complete the product and use or sell it;
- There is an ability to use or sell the product;
- It can be demonstrated how the product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the product are available; and
- The expenditure attributable to the product during its development can be reliably measured.

Property, plant and equipment

Property, plant and equipment are initially recognised at historical cost, net of depreciation and any impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Subsequently, property plant and equipment are measured at cost or valuation net of depreciation and any impairment losses.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Software acquired with hardware is considered to be integral to that operations of that hardware and is capitalised with that equipment. Software acquired separately from hardware is recognised as an intangible asset and amortised over its estimated useful life.

Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost less estimated residual value of each asset on a straightline basis over its expected economic useful life as follows:

Leasehold improvements	The lesser of the asset life and the remaining length of the lease
Plant and machinery	4 years
Fixtures, fittings & equipment	4 years

Impairment of non-financial assets

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

All individual assets or cash-generating units are tested whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. Value in use is based on estimated future cash flows from each cash-generating unit or individual asset, discounted at a suitable rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures is directly linked to the company's latest approved budgets, adjusted as necessary to exclude any restructuring to which the company is not yet committed. Discount rates are determined individually for each cash-generating unit or individual asset and reflect their respective risk profiles as assessed by the directors.

Impairment losses for cash-generating units are charged pro rata to the assets in the cash-generating unit. Cash generating units and individual assets are subsequently reassessed for indications that an impairment loss previously recognised may

2 Significant accounting policies continued

no longer exist. Impairment charges are included in administrative expenses in the Statement of Comprehensive Income. An impairment charge that has been recognised is reversed if the cash-generating unit's or individual asset's recoverable amount exceeds its carrying amount.

Current tax and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the UK, where the company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences arising between the carrying amounts of assets and liabilities and their tax bases. Deferred tax is determined using tax rates (and laws) that have been enacted, or substantively enacted, by the reporting 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 only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities.

Share based employee compensation

The company operates equity-settled share-based compensation plans for remuneration of its Directors and employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. The fair value is appraised at the grant date and excludes the impact of any non-market vesting conditions (e.g. profitability and remaining an employee of the company over a specified time period).

Share based compensation is recognised as an expense in the Statement of Comprehensive Income with a corresponding credit to equity. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Other vesting conditions include the restriction for certain options to vest only on a takeover or listing of the company on a recognised stock market.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates.

The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium when the options are exercised.

Financial assets

The company classifies its financial assets as loans and receivables. The classification depends on the purpose for which the asset was acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The company's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the Statement of Financial Position.

Notes to the Financial Statements continued

For the year ended 31 March 2018

2 **Significant accounting policies** continued

Financial assets are initially recognised at fair value. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently measured at amortised cost using the effective interest method.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cashflows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Cash and cash equivalents

In the statement of cash flows, 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. In the statement of financial position, overdrafts are shown within borrowings in current liabilities.

Inventories

Inventories comprise consumables.

2 Significant accounting policies continued

Consumables inventory is stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Cost represents the amounts payable on the acquisition of materials. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in selling and distribution.

Financial liabilities

All of the company's financial liabilities are classified as financial liabilities carried at amortised cost. The company does not use derivative financial instruments or hedge accounts for any transactions. Financial liabilities comprise Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Provisions

A provision is recognised in the Statement of Financial Position when the company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability. The increase in the provision due to the passage of time is recognised as a finance cost.

Provisions for dilapidation charges that will crystallise at the end of the period of occupancy are provided for in full.

Employee benefits – Defined contribution plan

The company operates a defined contribution pension scheme which is open to all employees and directors. The assets of the schemes are held by investment managers separately from those of the company. The contributions payable to these schemes are recorded in the Statement of Comprehensive Income in the accounting period to which they relate.

Foreign currency translation

The company's functional currency is the pound sterling. Transactions in foreign currencies are translated at the exchange rate ruling at the date of transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the reporting date. Exchange differences arising on the settlement or on translating monetary items at rates different from those at which they were initially recorded are recognised in administrative expenses in the Statement of Comprehensive Income in the period in which they arise.

Equity

Equity comprises the following;

Called up share capital

Share capital represents the nominal value of equity shares.

Share premium

Share premium represents the excess over nominal value of the fair value of consideration received of equity shares, net of expenses of the share issue.

Retained earnings/(accumulated losses)

Retained earnings/(accumulated losses) represents retained profits and losses.

Leases

Leases in which a significant portion of the risks and rewards of ownership remain with the lessor are classified as operating leases and are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

Notes to the Financial Statements continued

For the year ended 31 March 2018

3 Critical accounting estimates and judgements

Many of the amounts included in the financial statements involve the use of judgement and/or estimates. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ from the amounts included in the financial statements. Information about such judgements and estimation is contained in the accounting policy and/or the notes to the financial statements and the key areas are summarised below:

Critical judgements in applying accounting policies

The directors do not consider there are any critical judgements in applying accounting policies.

Critical accounting estimates and assumptions

- *Deferred Taxation.* The company has significant tax losses which are able to be carried forward to be offset against future profits of the company. A deferred tax asset has been calculated based on estimates of future profits against which these losses can be utilised. Deferred tax represents a significant asset of the company and therefore movements being charged through the Statement of Comprehensive Income also have the potential to affect reported profit or loss. Profits may be offset at future taxation rates of either 19% or 17%. Should £100,000 of taxable profits be forecast to be realised at the lower rate rather than the higher then the deferred taxation asset would reduce by £2,000.

- *Costs associated with the IPO.* During the year the company incurred significant costs in association with issuing new shares and listing on AIM. As these two transactions occurred at the same time costs from the company's advisers contained elements relating to both the issue of shares and the listing of the shares. Where a clear division was apparent costs were allocated on that basis and, for all other costs an apportionment was made based on the directors' estimation of the proportion of work associated with each transaction. Costs in relation to the issue of new shares has been deducted from share premium and the remainder has been charged to the income statement.

- *Share Based Payments.* The company operates an employee share option scheme and has recognised an annual cost in the Income Statement. The calculation of the costs is based on a number of estimates and assumptions, of which one has a significant impact on the amounts recorded in the financial statements:

  - o Fair value of the shares at date of grant. As a private company an open market share price was not available when options were awarded so the company has historically applied the Black-Scholes method based on the most recent price at which capital was raised. A 5% fluctuation in the fair value of shares at grant date would have resulted in the cumulative charge to the income statement being approximately £45,000 higher or lower (2017: £36,000).

4 Revenue

All of the activities of the company fall within one business segment, that of research, development and manufacture of recombinant proteins and antibodies.

Geographic analysis	**2018** **£**	2017 £
UK (domicile)	**278,414**	309,150
Rest of Europe	**934,877**	846,628
North America	**817,933**	746,405
Rest of World	**659,520**	11,773
	2,690,744	1,913,956

In the year sales to one customer exceeded 10% of revenues, that customer accounted for £308,049 or 11.45% of revenues. In 2017 one customer exceeded 10% of revenues, that customer accounted for £198,334 or 10.37% of revenues.

5 Operating (loss)/profit is stated after charging/(crediting)

	2018 £	2017 £
Employee benefit costs		
- wages and salaries	**887,383**	643,081
- social security costs	**96,072**	61,975
- other pension costs	**33,915**	34,733
- share based payments	**330,176**	128,953
	1,347,546	868,742
Depreciation of property, plant and equipment	**69,625**	32,990
Other operating expenses		
Operating lease rentals – land & buildings	**73,224**	40,000
Rates, utilities and property maintenance	**36,126**	19,910
IT costs	**17,236**	7,387
Fees payable to the company's auditors		
- for the audit of the financial statements	**18,350**	9,000
- for the provision of reporting accountants' services in respect of the IPO	**222,000**	–
	240,350	9,000
Raw materials and consumables used	**628,428**	591,099
Increase in inventories	**(11,554)**	(70,261)
Patent costs	**15,601**	45,966
Marketing costs	**132,347**	75,202
Loss/(profit) on foreign exchange	**36,892**	(21,113)
Costs associated with IPO other than reporting accountants' services	**387,836**	–
Other expenses	**482,256**	234,178
Total cost of sales and administrative expenses	**3,455,913**	1,833,100

6 Average staff numbers

	2018	2017
Employed in UK		
(including executive directors)	**24**	15
Non-executive directors	**6**	6
	30	21

Notes to the Financial Statements continued

For the year ended 31 March 2018

7 Remuneration of directors and key senior management

Directors

	2018 £	2017 £
Emoluments	**301,419**	189,865
Pension contributions	**11,455**	21,322
Fees paid to third parties for services of directors	**50,525**	38,500
Total	**363,399**	249,687

Highest paid director

The highest paid director received the following emoluments:

	2018 £	2017 £
Emoluments	**87,564**	77,715
Pension contributions	**4,375**	2,640
Total	**91,939**	80,355

Key senior management

Key senior management is considered to be the directors of the company with total remuneration for the year of £363,399 (2017: £249,687).

8 Finance income and costs

Income	2018 £	2017 £
Bank interest receivable	**4,043**	–

Cost	2018 £	2017 £
Interest expense on other borrowings	**4,857**	615
Bank interest payable	**5**	–
	4,862	615

9 Share based payments

During the year all remaining grants under the historic 2005 schemes "historic options" either lapsed or were exercised prior to the IPO. In addition, at the reporting date the company had two share based reward schemes under which options were granted during the year and are now closed to future grants and a third scheme in place for future use under which no grants had been made at the reporting date:

- A United Kingdom tax authority approved scheme for executive directors and senior staff;
- An unapproved scheme for awards to those, such as non-executive directors, not qualifying for the unapproved scheme; and
- A United Kingdom tax authority approved scheme for executive directors and senior staff which incorporates unapproved options for grants to be made following listing of the company shares, "2017 EMI and Unapproved Employee Share Option Scheme".

9 **Share based payments** continued

Options awarded during the year under both the approved and unapproved schemes have no performance conditions other than the continued employment within the company. Options vest one to two years from the date of grant, which may accelerate for a change of control. Options lapse if not exercised within ten years of grant, or if the individual leaves the company prior to the vesting date, except under certain circumstances such as leaving by reason of redundancy.

At the reporting date no grants had been made under the 2017 EMI and Unapproved Employee Share Option Scheme.

The total share-based remuneration recognised in the Statement of Comprehensive Income was £330,176 (2017: £128,953). The most recent options granted in the year were valued using the Black-Scholes method. With no open market valuation, the share price on grant used a share price based on a multiple of FY 2017 revenues consistent with that used to set the share price at listing, expected volatility of 13.4% and a compound risk free rate assumed of 1.53%.

	2018 Weighted average exercise price £	**2018 Number**	2017 Weighted average exercise price £	2017 Number
Outstanding at beginning of the year	**1.60**	**74,300**	1.59	75,300
Subdivision of each £1 into £0.04 shares	**0.06**	**1,857,500**		
Granted during the year	**0.04**	**508,750**	–	–
Exercised during the year	**0.06**	**(1,692,500)**	–	–
Lapsed during the year	**0.08**	**(168,750)**	1.00	(1,000)
Outstanding at the end of the year	**0.04**	**505,000**	1.60	74,300

The options outstanding at the end of each year were as follows:

Expiry	**Nominal share value**	**Exercise price £**	**2018 Number**	2017 Number
April 2017	**£1.00**	**1.00**	**–**	5,000
February 2018	**£1.00**	**6.00**	**–**	2,300
February 2018	**£1.00**	**1.00**	**–**	4,000
September 2018	**£1.00**	**1.00**	**–**	2,000
October 2019	**£1.00**	**4.00**	**–**	3,400
October 2019	**£1.00**	**1.00**	**–**	12,250
May 2021	**£1.00**	**2.20**	**–**	19,250
November 2024	**£1.00**	**1.00**	**–**	26,100
May 2027	**£0.04**	**0.04**	**505,000**	–
Total			**505,000**	74,300

Of the total number outstanding none (2017: none) had vested at the year end.

Notes to the Financial Statements continued

For the year ended 31 March 2018

10 Income tax (credit)/expense

	2018	2017
	£	£
Current tax – UK corporation tax	**(4,828)**	(2,078)
Deferred tax – origination and reversal of temporary differences	**(6,593)**	8,039
Income tax (credit)/expense	**(11,421)**	5,961

The difference between (loss)/profit before tax multiplied by the base rate of 19% (2017: 20%) and the income tax credit/(expense) is explained in the reconciliation below:

	2018	2017
	£	£
Factors affecting the tax charge for the year		
(Loss)/profit before tax	**(711,362)**	125,915
(Loss)/profit before tax multiplied by standard rate of UK corporation tax of 19% (2017: 20%)	**(135,159)**	25,183
Provisions and expenditure not deductible for tax purposes – permanent	**119,665**	(323)
Provisions and expenditure not deductible for tax purposes – temporary	**(210,784)**	–
Reduction in deferred tax asset due to change in enacted rate	**–**	22,228
RDEC/R&D tax credit	**(4,828)**	(2,078)
Adjustment in recognition of deferred tax	**219,685**	(39,049)
Income tax (credit)/expense	**(11,421)**	5,961

11 Earnings per share

	2018	2017
	£	£
(Loss)/profit for the financial year	**(699,941)**	119,954

(Loss)/earnings per share	**pence**	pence
Basic	**(4.3)**	0.9
Diluted	**(4.2)**	0.8

	Number	Number
Issued ordinary shares at the end of the year	**22,091,192**	13,691,375
Weighted average number of shares in issue during the year	**16,117,206**	13,691,375
Dilutive effect of share options	**399,732**	1,178,350
Diluted weighted average number of shares in issue during the year	**16,516,938**	14,869,725

Basic earnings per share is calculated by dividing the basic earnings for the year by the weighted average number of shares in issue during the year. During the year the company subdivided its ordinary shares of £1 into 25 ordinary shares of £0.04. The number of shares for 2017 has been restated by a factor of 25 for ease of comparison of earnings per new share.

Diluted earnings per share is calculated on the same basis as the basic earnings per share with a further adjustment to the weighted average number of fully paid ordinary shared to reflect the effect of partially dilutive ordinary share options.

12 Property, plant and equipment

	Assets under construction £	Leasehold improvements £	Plant & machinery £	Fixtures, fittings & equipment £	Total £
Cost					
At 1 April 2017	**–**	**156,059**	**483,770**	**60,723**	**700,552**
Additions	**205,129**	**–**	**229,220**	**74,757**	**509,106**
Disposals	–	**–**	**(21,745)**	**(27,793)**	**(49,538)**
At 31 March 2018	**205,129**	**156,059**	**691,245**	**107,687**	**1,160,120**
Accumulated depreciation					
At 1 April 2017	–	**156,059**	**389,532**	**47,708**	**593,299**
Depreciation charged in the year	–	**–**	**63,064**	**6,561**	**69,625**
Disposals	–	**–**	**(21,745)**	**(27,793)**	**(49,538)**
At 31 March 2018	–	**156,059**	**430,851**	**26,476**	**613,386**
Net book value					
At 31 March 2018	**205,129**	**–**	**260,934**	**81,211**	**546,734**
At 31 March 2017	–	–	94,238	13,015	107,253

	Leasehold improvements £	Plant & machinery £	Fixtures, fittings & equipment £	Total £
Cost				
At 1 April 2016	156,059	403,456	50,766	610,281
Additions	–	80,314	9,957	90,271
At 31 March 2017	156,059	483,770	60,723	700,552
Accumulated depreciation				
At 1 April 2016	148,123	368,048	44,138	560,309
Depreciation charged in the year	7,936	21,484	3,570	32,990
At 31 March 2017	156,059	389,532	47,708	593,299
Net book value				
At 31 March 2017	**–**	**94,238**	**13,015**	**107,253**
At 31 March 2016	7,936	35,408	6,628	49,972

Plant & machinery with a net book value of £100,303 is held under hire purchase agreements or finance leases (2017: none).

The depreciation expense is included in administrative expenses in the statement of comprehensive income in each for the financial years shown.

Notes to the Financial Statements continued

For the year ended 31 March 2018

13 Investment in subsidiary

The company has the following investment in a subsidiary:

	2018 £	2017 £
Fusion Contract Services Limited	**1**	1
100% subsidiary		
Dormant company		
Marlborough House, 30 Victoria Street, Belfast BT1 3GG		

Group accounts are not prepared on the basis that the subsidiary company is dormant and not material to the financial statements.

14 Deferred tax

	2018 £	2017 £
At 1 April	**1,118,864**	1,126,903
Credited/(charged) to the statement of comprehensive in the year	**6,593**	(8,039)
Credited to equity in the year	**30,590**	–
At 31 March	**1,156,047**	1,118,864

The movement in deferred tax assets and liabilities during the financial year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets and liabilities	Accelerated tax depreciation £	Tax losses £	Share based payments £	RDEC tax credit £	Total £
At 1 April 2016	16,086	1,034,639	76,178	–	1,126,903
(Charged)/credited to Statement of Comprehensive Income	(16,724)	(50,392)	58,557	520	(8,039)
At 1 April 2017	**(638)**	**984,247**	**134,735**	**520**	**1,118,864**
(Charged)/credited to Statement of Comprehensive Income	**(40,126)**	**155,058**	**(109,546)**	**1,207**	**6,593**
Credited to equity	**–**	**–**	**30,590**	**–**	**30,590**
At 31 March 2018	**(40,764)**	**1,139,305**	**55,779**	**1,727**	**1,156,047**

Deferred tax assets are recognised for the carry forward of corporation tax losses to the extent that the realisation of a future benefit is probable. The deferred tax asset arising from future utilisation of taxable losses of £6,596,169 (2017: £5,414,228) is dependent on future taxable profits arising in the UK. The directors are of the opinion that it is more likely than not that there will be sufficient future taxable profits against which the tax losses can be deducted and accordingly, a deferred tax asset has been recognised.

Deferred tax assets are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted, or substantively enacted, at the reporting date. The change of rate from 19% to 17%, effective from 1 April 2020, was substantively enacted as part of the Finance Act 2016.

Deferred tax liabilities and assets expected to reverse after more than 12 months: £1,136,487 (2017: £913,843).

15 Inventories

	2018 £	2017 £
Raw materials and consumables	**81,815**	68,661
Materials for sale	–	1,600
	81,815	70,261

The cost of inventories recognised as an expense for the year was £628,428 (2017: £591,099).

16 Trade and other receivables

	2018 £	2017 £
Trade receivables	**513,870**	527,092
Provision for impairment of trade receivables	**(2,994)**	(17,045)
Trade receivables – net	**510,876**	510,047
Other receivables	**133,357**	49,712
Prepayments and accrued income	**281,987**	12,239
	926,220	571,998

The fair value of receivables approximates to their carrying value.

At the reporting date, trade receivables of £2,994 (2017: £27,045) were impaired. The individually impaired receivables related to customers which were in unexpectedly difficult circumstances. It is assessed that £nil (2017: £10,000) is expected to be recovered. The ageing of these receivables is as follows:

	2018 £	2017 £
6 to 12 months	**2,994**	–
More than 12 months	–	27,045
	2,994	27,045

The carrying amount of trade and other receivables are denominated in the following currencies:

	2018 £	2017 £
UK pound	**501,574**	343,804
Euro	**72,489**	51,278
US dollar	**42,119**	164,677
Japanese Yen	**28,051**	–
	644,233	559,759

Notes to the Financial Statements continued

For the year ended 31 March 2018

16 Trade and other receivables continued

The aging of unimpaired trade receivables which were past due at the reporting date was as follows:

	2018	2017
	£	£
Not more than 3 months	**196,915**	21,030
3 to 6 months	**33,039**	148
6 to 9 months	**3,927**	–
	233,881	21,178

Movements on the provision for impairment of trade receivables are as follows:

	2018	2017
	£	£
At 1 April	**17,045**	44,243
Provision	**2,994**	17,045
Write off as uncollectible	**(17,045)**	(44,243)
At 31 March	**2,994**	17,045

The creation and release of provision for impaired receivables has been included in administrative expenses in the Statement of Comprehensive Income.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The company does not hold any collateral as security.

17 Trade and other payables

	2018	2017
	£	£
Trade payables	**281,284**	245,633
Social security and other taxes	**28,493**	34,951
Other payables	**15,654**	16,683
Accruals and deferred income	**210,868**	132,950
	536,299	430,217

The fair value of payables approximates to their carrying value.

Invest Northern Ireland hold a mortgage dated 9 December 2009 for securing all monies due or to become due from the company on any account. At the reporting date a balance of £6,879 (2017: £24,235) was due to Invest Northern Ireland.

18 Borrowings

Hire purchase contracts	2018 £	2017 £
At 1 April	–	–
Additions in year	**102,469**	–
Interest	**4,097**	–
Repayments	**(29,279)**	–
At 31 March	**77,287**	–
Amounts due in less than 1 year	**33,758**	–
Amounts due after more than 1 year	**43,529**	–
	77,287	–

All borrowings are denominated in UK pounds. Using a discount rate of 5.5% per annum the fair value of borrowings at the reporting date is £72,502.

Borrowings are secured by a fixed and floating charge over the whole undertaking of the company, its property, assets and rights in favour of Northern Bank Ltd trading as Danske Bank.

19 Provisions for liabilities

	2018 £	2017 £
Due after more than 1 year	**20,000**	20,000

Leasehold dilapidations relate to the estimated cost of returning a leasehold property to its original state at the end of the lease in accordance with the lease terms. The company's premises are held under a lease expiring 31 July 2022. The costs of dilapidations would be incurred on vacating the premises.

20 Financial instruments

The company is exposed to risks that arise from its use of financial instruments. This note describes the company's objectives, policies and processes for managing those risks and methods used to measure them. There have been no substantive changes in the company's exposure to financial instrument risks and the methods used to measure them from previous periods unless otherwise stated in this note.

The principal financial instruments used by the company, from which the financial instrument risk arises, are trade receivables, cash and cash equivalents and trade and other payables. The fair values of all the company's financial instruments are the same as their carrying values.

Notes to the Financial Statements continued

For the year ended 31 March 2018

20 Financial instruments continued

Financial instruments by category

Financial instruments categories are as follows:

As at 31 March 2018	**Loans and receivables £**	**Assets at fair value through profit or loss £**	**Derivatives used for hedging £**	**Available for sale £**	**Total £**
Trade receivables	**510,876**	**–**	**–**	**–**	**510,876**
Other receivables	**133,357**	**–**	**–**	**–**	**133,357**
Cash and cash equivalents	**4,490,931**	**–**	**–**	**–**	**4,490,931**
Total	**5,135,164**	**–**	**–**	**–**	**5,135,164**

As at 31 March 2017	Loans and receivables £	Assets at fair value through profit or loss £	Derivatives used for hedging £	Available for sale £	Total £
Trade receivables	510,047	–	–	–	510,047
Other receivables	49,712	–	–	–	49,712
Cash and cash equivalents	285,685	–	–	–	285,685
Total	845,444	–	–	–	845,444

As at 31 March 2018	**Liabilities at fair value through profit or loss £**	**Derivatives used for hedging £**	**Other financial liabilities at amortised cost £**	**Total £**
Trade payables	**–**	**–**	**281,284**	**281,284**
Other payables	**–**	**–**	**15,654**	**15,654**
Accruals	**–**	**–**	**200,197**	**200,197**
Secured borrowings	**–**	**–**	**77,287**	**77,287**
Total	**–**	**–**	**574,422**	**574,422**

As at 31 March 2017	Liabilities at fair value through profit or loss £	Derivatives used for hedging £	Other financial liabilities at amortised cost £	Total £
Trade payables	–	–	245,633	245,633
Other payables	–	–	16,683	16,683
Accruals and deferred income	–	–	132,950	132,950
Total	–	–	395,266	395,266

20 **Financial instruments** continued

Capital management

The company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the company may issue new shares or sell assets to provide working capital.

Consistent with others in the industry at this stage of development, the company has relied on issuing new shares and cash generated from operations.

General objectives, policies and processes – risk management

The company is exposed through its operations to the following financial instrument risks: credit risk; liquidity risk and foreign currency risk. The policy for managing these risks is set by the Board following recommendations from the Chief Financial Officer. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the company's competitiveness and flexibility. The policy for each of the above risks is described in more detail below.

Credit risk

Credit risk arises from the company's trade and other receivables, and from cash at bank. It is the risk that the counterparty fails to discharge their obligation in respect of the instrument.

The company is mainly exposed to credit risk from credit sales. It is company policy to assess the credit risk of new customers before entering contracts. Also, for certain new customers the company will seek payment at each stage of a project to reduce the amount of the receivable the company has outstanding for that customer.

At the year end the company's bank balances were all held with Northern Bank Ltd trading as Danske Bank (Moody's rating P-1).

Liquidity risk

Liquidity risk arises from the company's management of working capital, and is the risk that the company will encounter difficulty in meeting its financial obligations as they fall due.

At each board meeting, and at the reporting date, the cash flow projections are considered by the Board to confirm that the company has sufficient funds and available funding facilities to meet its obligations as they fall due.

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The company seeks to transact the majority of its business in its reporting currency (£Sterling). However, many customers and suppliers are outside the UK and a proportion of these transact with the company in US Dollars, Euros and Japanese Yen. For that reason the company operates current bank accounts in US Dollars and Euros as well as in its reporting currency. To the maximum extent possible receipts and payments in a particular currency are made through the bank account in that currency to reduce the amount of funds translated to or from the reporting currency. Cash flow projections are used to plan for those occasion when funds will need to be translated into different currencies so that exchange rate risk is minimised.

If the exchange rate between Sterling and the Dollar, Euro or Japanese Yen had been 10% higher/lower at the reporting date the effect on profit and equity would have been approximately £7,393 (2017: £7,300) higher/lower, £23,017 (2017: £ 17,400) higher/lower and £2,550 (2017: £nil) higher/lower respectively.

Notes to the Financial Statements continued

For the year ended 31 March 2018

21 Called up share capital

	2018 £	2017 £
Allotted, called up and fully paid		
– 547,655 Ordinary shares of £1	**–**	547,655
– 22,091,192 Ordinary shares of £0.04	**883,648**	–
	883,648	547,655

During the year the company subdivided each ordinary share of £1 into 25 ordinary shares of £0.04 and issued and allotted 8,399,817 shares for £5,606,352.

	Number of shares in issue	Nominal value £
At 1 April 2017	547,655	547,655
Subdivision of ordinary shares	**13,691,375**	**547,655**
£0.04 ordinary shares issued in the year	**8,399,817**	**335,993**
At 31 March 2018	**22,091,192**	**883,648**

22 Capital commitments

At 31 March 2018 the company had contracted for but not incurred capital expenditure of £232,653 (2017: £nil).

23 Operating lease commitments

	2018 £	2017 £
Minimum operating lease payments falling due		
Within 1 year – land and property	**75,000**	40,000
In 1 to 2 years – land and property	**75,000**	–
In 2 to 5 years – land and property	**175,000**	–

24 Retirement benefits obligations

The company operates a defined contribution scheme, the assets of which are managed separately from the company. During the year the company charged £33,915 to the Statement of Comprehensive Income (2017: £34,733) in respect of Company contributions to the scheme. At the reporting date there was £5,779 (2017: £4,481) payable to the scheme and included in other payables.

25 Transactions with related parties

The company had the following transactions with related parties during the year:

Invest Northern Ireland ("Invest NI") is a shareholder in the company. The company received invoices for rent and estate services amounting to £78,957 (2017: £49,295). A balance of £6,879 (2017: £24,235) was due and payable to Invest NI at the reporting date. The company claimed various grants during the year from Invest NI amounting to £47,591 (2017: £45,674). A balance of £2,660 was due on submitted claims from Invest NI (2017: £nil).

Director Colin Walsh is also a director of Crescent Capital. During the year Crescent Capital charged the company £10,800 (2017: £10,000) for his services as a director and other consultancy and at the reporting date an amount of £2,000 (2017: £5,000) was payable to Crescent Capital.

Director Alan Mawson is also a director of Clarendon Fund Managers. During the year Clarendon Fund Managers charged the company £33,607 (2017: £33,641) for his services as a director and at the reporting date an amount of £nil (2016: £27,000) was payable to Clarendon Fund Managers.

26 Events after the reporting date

There have been no events from the reporting date to the date of approval which need to be reported.

27 Ultimate controlling party

There is no ultimate controlling party.

28 Adjusted results

	2018	2017
	£	£
(Loss)/profit before tax	**(711,362)**	125,915
Accelerated share based payment charge (note a)	**163,100**	128,953
IPO costs (note b)	**609,836**	–
	61,574	254,868

(a) In advance of the IPO, share options granted before 31 March 2017 (historic options) were accelerated so they vested and were exercised before the company listed on AIM. As a result the expense charged to the Statement of Comprehensive Income for the two years ended 31 March 2018 was significantly increased over the annual charge to profits that would be expected. In order to understand the underlying performance of the business, these exceptional charges have been adjusted to arrive at the adjusted results. The total expense for share based payments for the year was £330,176 (2017: £128,853) which includes the charge for options granted in the year (2017: £nil) in addition to the £163,100 above.

(b) In the year an expense of £609,836 was charged to the Statement of Comprehensive Income for professional fees in relation to listing on AIM, a market operated by the London Stock Exchange. These charges are non-recurrent and do not include ongoing adviser fees in respect of the AIM listing.

Notes to the Financial Statements continued

For the year ended 31 March 2018

28 Adjusted results continued

Reconciliation of adjusted profit to adjusted EBITDA

	2018	2017
	£	£
Profit before tax before non-recurring items	**61,574**	254,868
Finance income	**(4.043)**	–
Finance expense	**4,862**	615
Depreciation	**69,625**	32,990
Adjusted EBITDA	**132,018**	288,473

Company Information

Directors
Dr Simon Douglas (*Non-Executive Chairman*)
Dr Paul Kerr (*Chief Executive Officer*)
Dr Richard Buick (*Chief Technical Officer*)
Mr James Fair (*Chief Financial Officer*)
Ms Sonya Ferguson (*Non-Executive Director*)
Dr Alan Mawson (*Non-Executive Director*)
Mr Colin Walsh (*Non-Executive Director*)
Mr Tim Watts (*Non-Executive Director*)

Company secretary
Mr James Fair

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