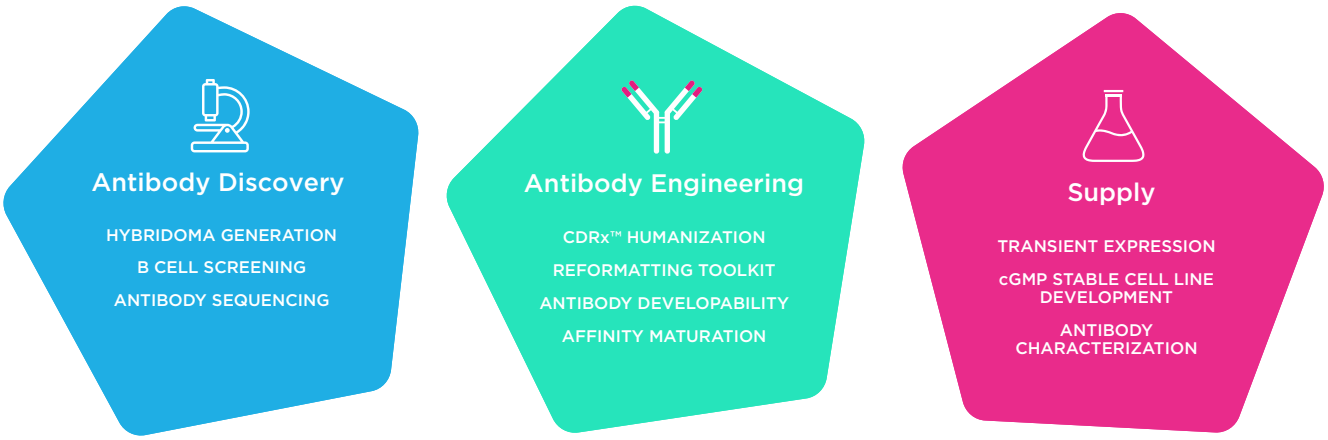
fusion**antibodies**

Annual Report and Accounts 2019

Headlines

For the year

- Significant increase in orders and revenues in H2 FY 2019
- Full year revenues fell by 19% to £2.2m due to weak H1
- £1.5m revenues in H2 FY 2019 was the company's strongest-ever 6 month period
- Loss for the year of £1.3m (2018: £0.7m)
- New Rational Affinity Maturation Platform (RAMP™) introduced in December 2018
- Capacity expansion completed
- Business development team expanded and strengthened
- Cash position at the year-end £2.0m (2018: £4.5m)



Post year end and looking ahead

- Commercial roll out of RAMP™
- New senior recruitment in business development and in marketing
- Mammalian antibody library on track for delivery in 2020

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Fusion at a glance

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 services include:

- Discovery: the creation, screening and sequencing of novel monoclonal antibodies for therapeutic and diagnostic applications;
- Engineering: maximising the performance of an antibody drug including CDRx™ humanisation, Antibody Developability by Design (ADD™) and RAMP™, a new service for FY2020; and
- Supply: the production of material for clinical production or further research, including cGMP ready stable cell line development and transient expression.

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.

Snapshot

- 35 staff based in Belfast, UK
- 91% of our revenues are from outside the UK
- £2.2m generated revenues

Our advantages:

- We are an established contract research organisation, providing a multi-service offering from antibody discovery and development to clinical supply;
- Our customers are pharmaceutical, biotech and diagnostic companies seeking to develop antibody based therapeutic drugs and diagnostics;
- We continue to invest in technological advances to ensure our offering to customers is at the industry's leading edge: RAMP™ was introduced in December 2018 and development of the Antibody Library is on track for 2020; and
- Our clients have progressed their projects into clinical trials confirming the value of the work that we do.

STRATEGIC REPORT
Chairman's Statement

The year has been very significant for the company, as we delivered our on-site expansion plans, introduced RAMP™ and responded to new competition which emerged towards the end of last year. In the first half of the financial year (H1) trading was difficult with pricing pressures and new competition significantly impacting revenues. However our response has been effective and in H2 we recorded the company's highest revenues for a six month period. The combination of a weak H1, planned expenditure on research and investment for growth resulted in a loss for the year of £1.3m as is explained in the Chief Executive Officer's report on page 8.

Strategy and progress

As a result of difficult trading in H1 the full year revenues were 19% lower than in FY 2018. The Board recognised that trading was coming under pressure in the final quarter of FY 2018, both as a result of the impact on management of the AIM admission process and also from new competitive pressures in the market, in particular in relation to antibody humanisation. This resulted in a significant downturn in our revenues in H1.

Management and the Board responded strongly to these challenges. Prices were adjusted and operational improvements were made to improve our efficiency and maintain margin. We strategically realigned our broad technology base and enhanced antibody design with Antibody Developability by Design (ADD™) as a service providing further value to our customers. The business development team benefited from a post IPO expansion with new team members recruited and trained in H1 and coinciding with the expansion and equipping of laboratories improving efficiency and throughput for our customer offering. As a result, the H2 revenues were more than double those for H1 demonstrating a marked turnaround and delivering the highest six months revenue on record. We believe that this can be sustained with the potential for further growth as the use of antibodies and the outsourcing of specific R&D activities in the Pharmaceutical industry continues to grow.

As part of our growth plans, over the past 12 months we have invested in the facilities and delivered a significant expansion of our laboratory and office space on time and well under budget. This gives us the capacity headroom required for future growth. Furthermore, we continue to expand the commercial team and to invest in the science behind the services to deliver ever improving techniques to a fast moving industry. I am pleased to report that the launch of RAMP™, our advanced affinity maturation service to improve performance of antibody based drugs, was announced in December 2018 and will be commercially rolled out fully in the current year. Our scientific skills and creativity can also be seen in the progress of the Antibody Library currently under development for human antibody discovery and which remains on track for 2020.

Strategically we have aligned our business into three core services to meet our customer needs:

- Discovery: the creation, screening and sequencing of novel monoclonal antibodies for therapeutic and diagnostic applications;
- Engineering: maximising the performance of an antibody drug including CDRx™ humanisation, ADD™ and RAMP™; and
- Supply: the production of material for clinical production or further research, including cGMP ready stable cell line development and transient expression.

STRATEGIC REPORT
Chairman's Statement continued

More details on financial performance are given in the Chief Executive Officer's report on pages 8 to 9.

Corporate governance

The long-term success of the business and delivery on strategy depends on good governance. The company complies with the Quoted Companies Alliance Corporate Governance Code 2018 as explained more fully in the Governance Report.

Current trading

The company had a challenging first six months with disappointing revenues in H1 FY2019. Order levels picked up significantly from October 2018 onwards and revenues in H2 FY2019 exceeded all previous six-month periods. To complement the record H2 revenues, order intake also exceeded previous periods. The introduction of the new RAMP™ service towards the end of FY 2019 has been well received by potential customers and is expected to contribute to revenues in the coming year. As explained in the financial results section of the CEO's report, the company returned a loss for the year and the combined use of cash in operations and invested in capital expenditure was £2.5m.

Post year end trading has been in line with expectation. Order acquisition has remained firm and revenue levels maintained incorporating initial contributions from RAMP™. The company continues to innovate and develop its services, and in particular the development of the Mammalian Antibody Library will continue throughout the coming financial year.

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

1 July 2019

STRATEGIC REPORT
Company Overview

Fusion Antibodies is an established Contract Research Organisation (CRO), 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.

Why antibodies?

Since the development of biologic drugs such as human growth hormone and insulin several decades ago, the number of drug targets has increased exponentially. This is driven by the discovery of new genetic information and a better understanding of disease processes and this has led to a need for more targeted therapies.

Antibodies are naturally occurring biological molecules which are produced by the immune system in the body to neutralise pathogens such as bacteria and viruses circulating in the blood stream or to remove other foreign bodies. These antibodies are made in the laboratory by identical immune cells, which are intentionally generated, isolated and engineered to ensure they are as specific and homogeneous as possible. Monoclonal antibodies are specialised in targeting a very specific structure on the surface of a cell. For example, in cancer therapy, antibodies can be used to bind selectively to the receptors of the cancer cells, making it possible to mark and to fight specific abnormal cells. Healthy cells are not usually attacked in this process so there are often fewer side effects than in classic chemotherapy. This has led to the rapid growth in the search for, and development of, monoclonal antibodies to target many clinical conditions.

The 2018 Nobel Prizes in Chemistry and in Physiology were both given for work that is highly relevant to antibody therapeutics research and development in recognition of the huge advances created by antibodies in medical treatment.

Antibody based drugs are approved at twice the success rate of small molecule therapies:

- 81 approved antibody therapies on the market at December 2018 (increased from 67 when the company listed in December 2017);
- Over 570 antibody therapies in clinical development; and
- Of those antibody drugs entering phase 1 clinical trials, 1 in 4 is approved for use as a drug, twice the rate of 1 in 8 for small molecules.

The global antibody therapeutic market in 2018 was valued at £115bn with the top eight antibody drugs accounting for $64bn, a year on year increase of 11%. The record breaking drug Humira alone had sales of $20bn. Of the 15 top selling drugs in 2018, 11 were antibody based. The therapeutic market is forecast to expand to $240bn by 2025.

The companies engaged in antibody therapeutic research represent the market for Fusion Antibodies. They range from global pharmaceutical companies, through to asset-centric "virtual" companies to smaller research institutes and university-based research teams. The directors believe that the company's direct addressable research market in the year was approximately $100m (growing annually at 4-8%) and adding RAMP™ potentially increases this by $68m for FY2020.

Development of the company's fully human antibody library, due in 2020, will greatly expand the discovery service it can offer to organisations in its current market. This would be expected to increase the company's directly addressable market to $2.0bn through custom products and licencing activities.

Current services

The company ("Fusion") offers a range of antibody engineering services to companies in research, development and commercialisation of monoclonal antibodies. Key services offered include:

Antibody discovery: the creation and screening of novel antibodies for therapeutic and diagnostics applications. A key to success in this area is to design a suitable toxin or foreign substance (antigen) to induce well targeted antibodies. Fusion uses a combination of extensive 3D modelling and scientific expertise to design effective antigens to successfully generate the specific immune response required.

As this service is at the early stage of drug discovery it ensures that the company is well positioned to provide downstream antibody engineering and expression services as the customer progresses with their development programme;

STRATEGIC REPORT
Company Overview continued

CDRx™ Antibody Humanisation Platform: genetic engineering techniques are used to convert antibodies from other species so that they are suitable for human applications. This process makes these antibodies more similar to human antibodies and thereby reduces the likelihood of rejection before the patient receives the therapeutic benefit.

The company's proprietary CDRx™ platform enables the rapid, accurate and detailed analysis of the variable part of the antibody that gives it its unique specificity (CDR). This platform utilises bespoke software and in-depth knowhow which provides a market leading solution for antibody humanisation. This is borne out in the percentage of customer projects which have progressed to clinical trials;

RAMP™: This is a technically advanced platform to improve performance of antibody-based drugs which the company initially showcased in December 2018. A key aspect of the platform is to improve the binding strength, or affinity, of an antibody to its target. Even modest increases in affinity can greatly improve the efficacy of an antibody, improving its therapeutic effectiveness, and could reduce the dosage of antibody required to have a therapeutic effect thereby reducing the cost. Affinity is not the only factor in the developability or manufacturability of a drug and our rational design approach allows for the optimisation of other biophysical properties; and

Stable cell line development: Progressing a drug through development into cGMP production requires the development of a stable cell line. A stable cell line is an everlasting cell line used to express large amounts of the given antibody required for production. Fusion has expertise in the identification of high expressing, stable clones which are necessary for downstream development. The company offers a range of cell lines including CHOvolution™ and has a cGMP partnership with Celonic AG which offers our customers the option to seamlessly transfer cell lines to a cGMP facility so we can support our customers throughout the entire course of their drug development process.

Future services

The company continues to innovate to develop new services. The most significant project under way is the development of a mammalian antibody library, due in 2020. This will not only remove the need for animal hosts in drug discovery but also reduce the number of development steps and remove the limitations of the alternative approach, phage-display, which is restricted to the use of non-mammalian cells. This restriction can lead to the selection of antibodies which perform poorly when transferred to a mammalian system. The Board believes this would provide significant scientific and commercial benefits for drug developers in terms of speed, therapeutic effectiveness and manufacturability.

Additionally, the company will explore making its proprietary discovery platforms available to drug developers under licence. Licencing drug discovery operations can offer licencees time and cost related benefits. As demand for therapeutic products increases and as future services are developed and marketed, the opportunities for the company are expected to increase in the foreseeable future.

What are the company's competitive advantages?

- A broad range of services from discovery to clinical supply
- High quality client base
- Proprietary humanisation CDRx™ platform
- Proprietary affinity maturation RAMP™ platform
- Technical expertise and scientific know-how
- Continuous improvement in services including those currently under development: new drug discovery technologies including a Mammalian Library Platform

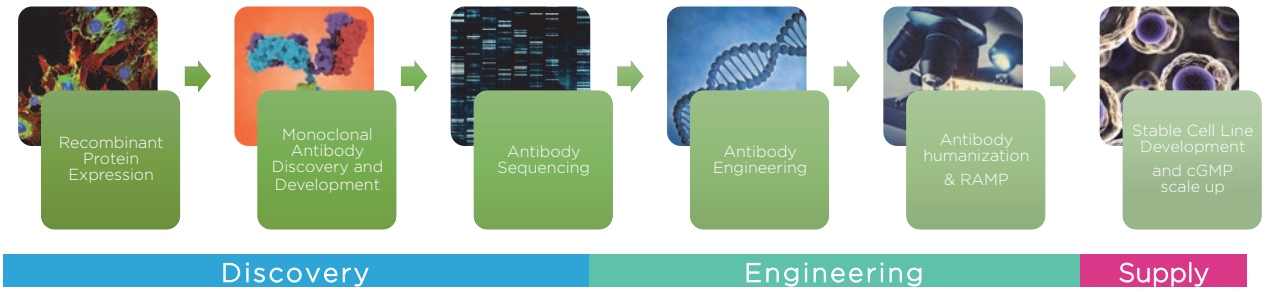
The discovery of antibodies is a long, arduous and cost intensive process. As a result, many developers opt to outsource all or parts of these operations. Fusion Antibodies has developed a suite of service platforms that addresses the need to produce highly manufacturable, scalable therapeutic antibodies from the discovery phase through to the production of stable, high yielding CHO cell lines for clinical supply.

Business model

Fusion performs all its operations through a single trading entity. Initial engagement with prospective customers is usually through a business development (BD) team member although both BD and scientists are involved throughout the client engagement. Our approach throughout the selling and project delivery phases is to work closely alongside the customer team to help them to achieve their desired outcomes.

Understanding the client requirements involves BD staff as well as scientist-to-scientist conversations to arrive at a tailored approach and job specification, with the range of services offered giving the flexibility desired by our customers to accelerate their drug development programmes. This process can last for several months as a customer plans and brings their project to the point where Fusion becomes involved. It is the nature of the industry that some customer projects are cancelled or postponed prior to this point.

A client order is usually divided into a number of development stages, each dependent on the results of the previous stage. On more complex projects there may be points where the customer reviews their project, this can lead to a decision to continue, to proceed on an amended programme of work or to stop.



This structure means that there is significant scientific and commercial uncertainty in forecasting the commencement date of a project and the timing of later stages. The company uses its extensive experience of these uncertainties when scheduling projects, planning purchases and staff and equipment allocation as well as forecasting revenues but the inherent uncertainty in forecasting activity and hence revenue cannot be eliminated.

STRATEGIC REPORT
CEO's Report and Operations Review

This year has been our first full year as a listed company and has come with some early challenges as well as good reason for optimism. Weak H1 revenues required a strong management response while we also implemented the actions planned at the time of listing. As a result of the weak H1 and investment for growth, losses increased this year to £1.3m (2018: £0.7m loss). I am delighted to report a full recovery of revenues in H2 along with the expansion of laboratories, targeted recruitment and continued delivery from our research and development programme. This is an exciting time for the company and I am pleased to work in a team of talented people well equipped to capture the full value of opportunities presented by the growing market in global drug research.

Business review

Revenue performance across the financial year to 31 March 2019 divides very clearly into two six month periods. In the second six months (H2) the company delivered revenues of £1.5m, a new high for the company and indicates a strong recovery from the weak trading (£0.7m) in the first six months (H1). However, revenues for the full year were 19% lower than the previous financial year as a result.

Sales from our humanisation service were again the main contributor to revenues. Our newly introduced Antibody Developability by Design also began to generate modest revenues in the year.

In terms of geographical performance, revenues from North America grew by 23% to become our largest market in the year with a reduction in revenues recorded for the UK, rest of Europe and rest of world. During the year the business development team welcomed new recruits who have been increasing our client contact for increased order acquisition. In particular several trips have been made to Asia as the company builds relationships in Japan and South Korea and develops new opportunities in China.

In addition to the fees charged for performing services, several contracts now carry a royalty or success payment which becomes payable when the customer project reaches a certain milestone. Having received a small milestone payment in FY 2018, the company did not receive any milestone payments in FY 2019. We maintain our interest in several molecules humanised by the company and developed by others, including Mab Discovery, and have added new milestones for work performed this year which will crystallise if these projects proceed to clinical trials in the coming years.

In August 2018 we completed the expansion of our laboratory capacity which has improved the workflows and efficiency so that we maintained our gross profit margin in H2 in the face of competitive pressures. Our newly equipped laboratories provide bespoke facilities for delivery of our RAMP™ service, research and development of new services and a foundation for the future growth of all the company's services.

We continued to invest in both RAMP™ and the development of the fully human antibody library during the year. We view these as a source of substantial growth over the next few years. Following the introduction of RAMP™ we will produce more scientific data in parallel with, and to support, the commercial roll out.

Inventory of consumables was increased at the year end to allow for any supply chain disruption from the UK's planned exit from the European Union, which has now been deferred to October 2019. In the year, 30% of the company's revenues arose from exports to the EU countries. The company continues to monitor potential risks and opportunities arising from leaving the EU. We also continue to develop other export markets to mitigate risks of overexposure to any one geographical market.

Net current assets of £2.5m at 31 March 2019 mainly comprised inventories and cash and cash equivalents.

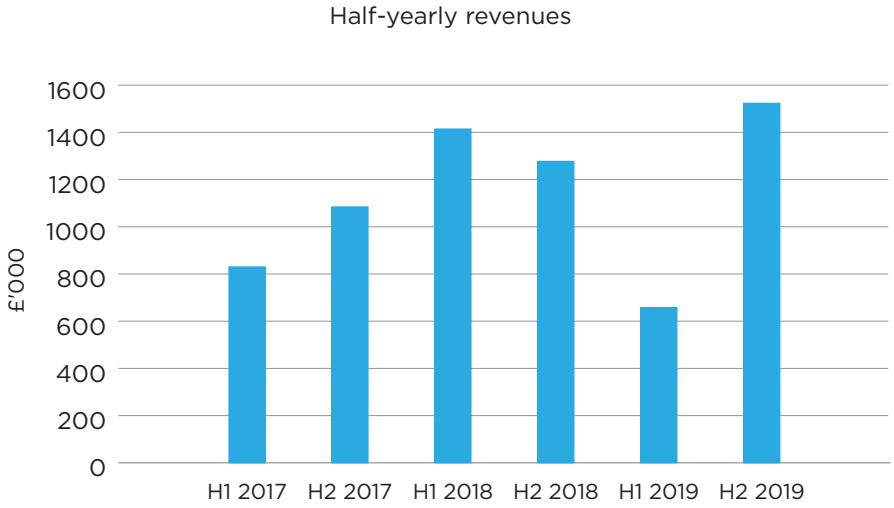
The company ended the year with £2.0m of cash, having used £1.1m of cash in operations during the year and invested almost £1.4m in property, plant and equipment. This cash level puts the company in a strong position to progress plans for growth in existing services and the introduction of new services in 2020.

Post-period end events

- First RAMP™ revenues
- Recruitment of Director of Business Development and Director of Marketing
- Mammalian antibody library on track for delivery in 2020

Financial Results

The decline in revenues seen in the second half of FY 2018 accelerated sharply in H1 FY 2019 for the reasons discussed above. However, the Board addressed the factors contributing to this and H2 FY 2019 recovered strongly to record our strongest ever six month period and a resumption in our organic revenue growth seen in recent years. However, revenues for the year in total were down 19% to £2.2m (2018: £2.7m). Revenues were lower in all geographical markets apart from North America which grew by 23%.



The EBITDA loss for the year was £1.1m (2018: £0.6m loss) as a result of the lower than expected revenues in H1 and the investment the company has made in future growth, investing in employees, facilities and research which are expected to deliver further significant revenue growth. The company produced a loss before tax of £1.5m (2018: £0.7m loss).

The company used £1.1m of cash in operations (2018: £0.1m generated) and invested £1.4m in expenditure on capital equipment and intangible assets. Cash and cash equivalents as at 31 March 2019 totalled £2.0m (2018: £4.5m).

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	**2019**	2018
Revenue change year on year	**(19)%**	41%
EBITDA	**(£1.1m)**	(£0.6m)
Adjusted EBITDA	**(£1.1m)**	£0.1m
Cash (used in)/generated from operations	**(£1.1m)**	£0.1m

Outlook

The directors remain confident that order levels seen in the second half of FY 2019 can be maintained in FY 2020 augmented by new orders for the RAMP™ service, such that significant revenue growth is achievable in the current financial year.

Dr Paul Kerr
Chief Executive Officer

1 July 2019

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 21 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, transient protein expression and affinity maturation. It is also developing 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. 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. 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

STRATEGIC REPORT
Principal Risks and Uncertainties continued

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 12 was approved by the Board on 1 July 2019 and signed on its behalf by:

Dr Paul Kerr
Director

CORPORATE GOVERNANCE
Board of Directors

Dr Simon Douglas
Non-executive Chairman

Simon, 60, 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 (now GE), ICI and Zeneca (now Astra Zeneca), 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 has been the CEO/Executive Chairman on three other venture capital backed Life Science companies, and headed up the trade sale of two of these. He is currently a non-executive director on C-Major Medical, a venture capital backed Medical Device Company. Simon is not considered to be independent as he formerly held the position of CEO.

Dr Paul Kerr
CEO

Paul, 47, 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, 42, 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 and in 2018 he was made Honorary Senior Lecturer in Queen's University, Belfast.

CORPORATE GOVERNANCE
Board of Directors continued

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, 48, 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 Q^2 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, 77, 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

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 will set 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. There have been no key governance related matters, or changes in governance arrangements during the year. The main features of the company's corporate governance arrangements are:

- The chairman retains responsibility for, and takes the lead on, all matters of corporate governance;
- 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 skillsets 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.

The Senior Independent Director serves as a key sounding board for the Chairman and acts as an intermediary for other directors, including in respect of appraisal of the Chairman's performance. The Company Secretary advises the Board, through the Chairman, on legal, governance and procedural matters. The Chairman and the Company Secretary together review the company's governance processes and consider improvements and initiatives to maintain standards at a high level.

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 directors retire annually in accordance with the company's articles of association in order that every director has been elected or re-elected within the last three years. This enables the shareholders to decide on the election of the company's Board.

The chairman performs annual one to one interviews with all directors to appraise individual effectiveness. The mix of skills required on the Board is aligned to the needs of the company and delivery of current strategy.

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 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. The CEO and CFO are invited to attend as appropriate and the auditors have the opportunity for direct access to the committee without executive directors present.

Since the last Annual Report, the audit committee has met three times with both members in attendance, in November 2018, March 2019 and June 2019. The auditors were in attendance at all three of these meetings. At the November 2018 meeting the main agenda items were to review the draft financial statements for the six months ended 30 September 2018 and initial planning of the audit for the financial year ended 31 March 2019. In March 2019, the committee reviewed the Audit Plan in detail and also reviewed the company's internal control procedures and the risk management procedures and risk register.

Regarding the financial statements for the year ended 31 March 2019, the key areas of focus for the audit committee at these meetings have been:

- Revenue recognition: the company transitioned to IFRS 15 "Revenues from contracts with customers" on 1 April 2018 involving adoption of a new accounting policy. Management carried out on an impact assessment which identified an adjustment to retained earnings of £20,234;
- The recognition of the deferred tax asset. The recoverability of the deferred tax asset depends on profits generated from future sales growth which will be underpinned by RAMP™ and the human library. Management have prepared forecasts demonstrating a return to taxable profits in coming years and on that basis the committee agreed with the decision to recognise the deferred tax asset; and
- Going concern. Management have prepared forecasts demonstrating that the company has sufficient resources to continue as a going concern.

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

CORPORATE GOVERNANCE
Corporate Governance Statement continued

monitoring strategy. Principal risks and uncertainties are discussed in the Strategic Report and financial risk management policies are detailed in note 21 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.

Meetings and attendance

	Board	Audit committee	Remuneration committee
Meetings held during the year	11	4	2
Attendance:			
Simon Douglas	11/11		
Paul Kerr	11/11		
Richard Buick	11/11		
James Fair	10/11		
Sonya Ferguson	10/11		2/2
Alan Mawson	10/11	4/4	
Colin Walsh	10/11		2/2
Tim Watts	10/11	4/4	

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-committee meetings. 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 13 to 18 was approved by the Board on 1 July 2019 and signed on its behalf by:

Dr Simon Douglas
Chairman

CORPORATE GOVERNANCE
Directors' Report for the year ended 31 March 2019

The directors present their annual report and the audited financial statements of the company for the year ended 31 March 2019.

The company is incorporated and domiciled in the United Kingdom, and its shares are 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 13.

In accordance with the company's Articles of Association Dr Simon Douglas and Dr Richard Buick will retire and offer themselves for re-election at the 2019 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 three share based reward schemes, two of which are now closed to new awards. Details of options issued are included in note 9. Company policy is no longer to award share options to non-executive directors.

The share options granted during the year all contained 1-3 year vesting periods with the options used to motivate and retain key individuals.

CORPORATE GOVERNANCE

Directors' Report for the year ended 31 March 2019 continued

Movement in options held by directors are as follows:

	At 1 April 2018	Exercised in Year	Awarded in year	**At 31 March 2019**	Exercise period	Exercise price per share
Paul Kerr						
2017 Share scheme	125,000	–	–	**125,000**	2018-2027	£0.04
2017 EMI and Unapproved Employee Share Option Scheme	–	–	200,000	**200,000**	2019-2028	£0.545
	125,000	–	200,000	**325,000**		
Richard Buick						
2017 Share Scheme	125,000	–	–	**125,000**	2018-2027	£0.04
2017 EMI and Unapproved Employee Share Option Scheme	–	–	200,000	**200,000**	2019-2028	£0.545
	125,000	–	200,000	**325,000**		
James Fair						
2017 Unapproved Share Scheme	75,000	–	–	**75,000**	2018-2027	0.04
2017 EMI and Unapproved Employee Share Option Scheme	–	–	200,000	**200,000**	2019-2028	£0.545
	75,000	–	200,000	**275,000**		
Sonya Ferguson						
2017 Unapproved Share Scheme	25,000	–	–	**25,000**	2018-2027	£0.04

Directors' remuneration

The remuneration of Directors for the year ended 31 March 2019 was as follows:

		Salary & fees £	Benefits £	Bonus £	Company pension contributions £	Total £
Executive directors						
Paul Kerr	**2019**	**96,500**	**389**	**–**	**5,490**	**102,379**
	2018	87,500	64	–	4,375	91,939
Richard Buick	**2019**	**96,500**	**366**	**14,500**	**5,490**	**116,856**
	2018	87,500	60	–	4,375	91,935
James Fair[1]	**2019**	**86,850**	**469**	**–**	**4,941**	**92,260**
	2018	52,500	77	10,000	2,559	65,136
Non – Executive Directors						
Simon Douglas	**2019**	**30,000**	**–**	**–**	**–**	**30,000**
	2018	22,897	–	–	–	22,897
Sonya Ferguson	**2019**	**23,000**	**–**	**–**	**690**	**23,690**
	2018	7,301	–	–	146	7,447
Alan Mawson[2]	**2019**	**23,000**	**–**	**–**	**–**	**23,000**
	2018	6,663	–	–	–	6,663
Colin Walsh[3]	**2019**	**27,000**	**–**	**–**	**–**	**27,000**
	2018	7,786	–	–	–	7,786
Tim Watts[4]	**2019**	**27,000**	**–**	**–**	**–**	**27,000**
	2018	7,821	–	–	–	7,821
Sir John Cadogan[5]	**2019**	**–**	**–**	**–**	**–**	**–**
	2018	11,250	–	–	–	11,250
Total	**2019**	**409,850**	**1,224**	**14,500**	**16,611**	**442,185**
	2018	291,218	201	10,000	11,455	312,874

[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

[3] Prior to 18 December 2017 Crescent Capital NI Limited were paid for the services of Colin Walsh

[4] Tim Watts was appointed on 18 December 2017

[5] Sir J Cadogan resigned effective 11 December 2017

CORPORATE GOVERNANCE
Directors' Report for the year ended 31 March 2019 continued

Directors and their interests

	At 1 April 2018	% issued share capital	Shareholding at 31 March 2019	% issued share capital
Paul Kerr	532,500	2.41%	532,500	2.41%
Richard Buick	512,125	2.32%	515,125	2.33%
James Fair	–	–	–	–
Simon Douglas	255,800	1.16%	255,800	1.16%
Sonya Ferguson	15,593	0.07%	30,900	0.14%
Alan Mawson	30,488	0.14%	43,988	0.20%
Colin Walsh	–	–	–	–
Tim Watts	12,195	0.06%	27,575	0.12%

Results and dividends

The loss before tax for the year was £1,500k (2018: £711k loss) and Loss Before Interest Taxation Depreciation and Amortisation (EBITDA) of £1,079k (2018: £641k loss).

After an income tax credit of £235k (2018: £11k) the loss for the financial year of £1,264k (2018: £700k loss) has been transferred to reserves. The results for the year are set out the statement of comprehensive income.

No dividends were paid (2018: £nil). The directors do not recommend payment of a final dividend (2018: £nil).

Principal shareholders

At the close of business on 19 June 2019 (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 2019 the company has invested £240k (2018: £69k) in research and development. This is incurred in the development of existing and new antibody engineering services and is expensed until the development project meets the criteria in IAS 38.

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 company has returned a loss of £1,264,382 for the year and at the year-end had net current assets of £2,510,135 including £1,984,338 of cash and cash equivalents. 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 (2018: none).

Corporate governance

The Corporate Governance Report on pages 13 to 18 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 on the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and

CORPORATE GOVERNANCE
Directors' Report for the year ended 31 March 2019 continued

- 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 of information 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

1 July 2019

Company registration number NI039740

Independent Auditor's 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 2019 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 and Accounts (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 March 2019; the Statement of Comprehensive Income, the Cash Flow Statement, 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: £74,000 based on 5% of loss before tax (2018: £3,120, based on adjusted loss before tax).
- 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.
- Recognition of deferred tax assets.

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

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

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
Recognition of deferred tax assets The company has recognised a deferred tax asset of £1,342,385 as at 31 March 2019, principally in respect of cumulative tax losses of approximately £8,165,000 as at 31 March 2019. The recognition of the deferred tax assets requires a degree of judgement, particularly in light of the company's losses during the current and preceding year.	The recognition of the deferred tax asset is dependent on the company's ability to make future taxable profits. We obtained the company's profit and cash flow forecasts for the 3 year period ending 31 March 2022 and: • We checked the mathematical accuracy of the forecasts and assessed the reasonableness of the key assumptions. The key assumptions included; i) revenue growth and ii) operating expenditure; and • We held discussions with management on the reasonableness of those forecasts and the key assumptions. As part of our procedures we considered the sensitivity of the forecasts to changes in key assumptions. Based on the forecasts, we agreed with the company's assessment that they expect to make sufficient taxable profits in future years against which the deferred tax can be utilised.

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.

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.

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

Overall materiality	£74,000 (2018: £3,120).
How we determined it	5% of loss before tax (2018: 5% of adjusted loss before tax).
Rationale for benchmark applied	We believe that loss before tax is the primary measure used by the Directors is assessing the performance of the entity, and is a generally accepted auditing benchmark. For the year ended 31 March 2018 adjusted loss before tax, which reflects the add back of IPO related costs and acceleration of share based payment charges on IPO, was considered to be the primary measure used by the Directors is assessing the performance of the entity.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £3,700 (2018: £152) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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.

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

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 2019 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 pages 23 and 24, 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.

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

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

1 July 2019

Statement of Comprehensive Income

For the year ended 31 March 2019

	Notes	2019 Before non-recurring items £	2019 Non-recurring items (note 29) £	2019 After non-recurring items £	2018 Before non-recurring items £	2018 Non-recurring items (note 29) £	2018 After non-recurring items £
Revenue	4	**2,181,838**	**–**	**2,181,838**	2,690,744	–	2,690,744
Cost of sales		**(1,377,836)**	**–**	**(1,377,836)**	(1,207,331)	–	(1,207,331)
Gross profit		**804,002**	**–**	**804,002**	1,483,413	–	1,483,413
Other operating income		**86,406**	**–**	**86,406**	54,626	–	54,626
Administrative expenses		**(2,398,842)**	**–**	**(2,398,842)**	(1,475,646)	(772,936)	(2,248,582)
Operating (loss)/profit	5	**(1,508,434)**	**–**	**(1,508,434)**	62,393	(772,936)	(710,543)
Finance income	8	**12,596**	**–**	**12,596**	4,043	–	4,043
Finance costs	8	**(4,033)**	**–**	**(4,033)**	(4,862)	–	(4,862)
(Loss)/profit before tax		**(1,499,871)**	**–**	**(1,499,871)**	61,574	(772,936)	(711,362)
Income tax credit/(expense)	10	**235,489**	**–**	**235,489**	(63,883)	75,304	11,421
Loss for the financial year		**(1,264,382)**	**–**	**(1,264,382)**	(2,309)	(697,632)	(699,941)
Total comprehensive expense for the year		**(1,264,382)**	**–**	**(1,264,382)**	(2,309)	(697,632)	(699,941)
				Pence			Pence
Loss per share							
Basic	11			**(5.7)**			(4.3)

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

The accompanying notes on pages 33 to 55 form an integral part of the financial statements.

Statement of Financial Position

As at 31 March 2019

	Notes	2019 £	2018 £
Assets			
Non-current assets			
Intangible assets	12	**6,214**	–
Property, plant and equipment	13	**1,587,999**	546,734
Deferred tax assets	15	**1,342,385**	1,156,047
		2,936,598	1,702,781
Current assets			
Inventories	16	**242,669**	81,815
Trade and other receivables	17	**1,056,382**	926,220
Current tax receivable		**22,645**	6,906
Cash and cash equivalents		**1,984,338**	4,490,931
		3,306,034	5,505,872
Total assets		**6,242,632**	7,208,653
Liabilities			
Current liabilities			
Trade and other payables	18	**729,360**	536,299
Borrowings	19	**66,539**	33,758
		795,899	570,057
Net current assets		**2,510,135**	4,935,815
Non-current liabilities			
Borrowings	19	**72,636**	43,529
Provisions for other liabilities and charges	20	**20,000**	20,000
		92,636	63,529
Total liabilities		**888,535**	633,586
Net assets		**5,354,097**	6,575,067
Equity			
Called up share capital	22	**883,648**	883,648
Share premium reserve		**4,872,327**	4,872,327
(Accumulated losses)/retained earnings		**(401,878)**	819,092
Total equity		**5,354,097**	6,575,067

The accompanying notes on pages 33 to 55 form an integral part of these financial statements.

The financial statements on pages 29 to 55 were approved by the Board on 1 July 2019, 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 2019

	Called up share capital £	Share premium reserve £	(Accumulated losses)/retained earnings £	Total equity £
At 1 April 2018	**883,648**	**4,872,327**	**819,092**	**6,575,067**
Restatement (see note 30)	**–**	**–**	**(23,632)**	**(23,632)**
At 1 April 2018 restated	**883,648**	**4,872,327**	**795,460**	**6,551,435**
Loss and total comprehensive expense for the year	**–**	**–**	**(1,264,382)**	**(1,264,382)**
Share options – value of employee services	**–**	**–**	**97,634**	**97,634**
Tax charge relating to share option scheme	**–**	**–**	**(30,590)**	**(30,590)**
Total transactions with owners, recognised directly in equity	**–**	**–**	**67,044**	**67,044**
At 31 March 2019	**883,648**	**4,872,327**	**(401,878)**	**5,354,097**
At 1 April 2017	547,655	6,161,269	(5,003,002)	1,705,922
Loss and total comprehensive expense 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

The accompanying notes on pages 33 to 55 form an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 March 2019

	2019 £	2018 £
Cash flows from operating activities		
Loss for the year	**(1,264,382)**	(699,941)
Adjustments for:		
Share based payment expense	**97,634**	330,176
Cost of raising capital	**–**	609,836
Depreciation	**429,385**	69,625
Amortisation of intangible assets	**1,830**	–
Finance income	**(12,596)**	(4,043)
Finance costs	**4,033**	4,862
Income tax credit	**(235,489)**	(11,421)
Increase in inventories	**(160,854)**	(11,554)
Increase in trade and other receivables	**(157,938)**	(225,322)
Increase in trade and other payables	**193,061**	14,974
Cash (used in)/generated from operations	**(1,105,316)**	77,192
Income tax received	**6,966**	–
Net cash (used in)/generated from operating activities	**(1,098,350)**	77,192
Cash flows from investing activities		
Purchase of intangible assets	**(8,044)**	–
Purchase of property, plant and equipment	**(1,372,533)**	(444,595)
Net cash used in investing activities	**(1,380,577)**	(444,595)
Cash flows from financing activities		
Proceeds from issue of share capital	**–**	4,598,650
Repayment of borrowings	**(36,229)**	(25,182)
Finance income – interest received	**12,596**	4,043
Finance costs – interest paid	**(4,033)**	(4,862)
Net cash (used in)/generated from financing activities	**(27,666)**	4,572,649
Net (decrease)/increase in cash and cash equivalents	**(2,506,593)**	4,205,246
Cash and cash equivalents at the beginning of the year	**4,490,931**	285,685
Cash and cash equivalents at the end of the year	**1,984,338**	4,490,931

The accompanying notes on pages 33 to 55 form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 March 2019

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 company has returned a loss of £1,264,382 for the year and at the year-end had net current assets of £2,510,135 including £1,984,338 of cash and cash equivalents. 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 2019, and have not been applied in preparing these financial statements. One of these, IFRS 16 'Leases', is expected to have a significant effect on the financial statements of the company as set out below:

- *IFRS 16, 'Leases'* replaces IAS17 'Leases' and related interpretations. It will introduce a single lessee accounting model, eliminating the previous classification of leases as either operating or finance. This will result in operating leases previously treated solely through profit and loss being recorded in the statement of financial position in the form of a right-of-use asset and a lease liability, subject to certain exemptions. 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.

Notes to the Financial Statements continued

For the year ended 31 March 2019

2 Significant accounting policies continued

Management are in the process of assessing the full impact of the new standard but expects that the only lease currently in force that will be affected is for the company premises in Belfast. At 31 March 2019 minimum future lease payments on this property total £250,000.

The nature of the expense of the above cost will change for being an operating expense to predominantly depreciation with an interest expense on the lease liability.

On application of the standard, the company expects that operating costs would be lower by approximately £75,000 per annum and depreciation would be higher by a similar amount compared to the results reported under IAS17.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the provision of services in the ordinary course of the company's activities. Revenue is shown net of value-added tax.

The company's performance obligations for its revenue streams are deemed to be the provision of specific services or materials to the customer. Revenue billed to the customer is allocated to the various performance obligations, based on the relative fair value of those obligations, and is then recognised as follows:

- Where a contractual right to receive payment exists, revenue is recognised as over the period services are provided using the percentage of completion method, based on the input method using time spent; and
- Where no contractual right to receive payment exists, revenue is recognised upon completion of each separate performance obligation, which is typically when implementation services are complete or data has been provided to the customer.

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:

- 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.

2 Significant accounting policies continued

Intangible assets

Software

Software developed for use in the business is initially recognised at historical costs, net of amortisation and provision for impairment. Subsequent development 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 company and the cost of the item can be measured reliably.

Software is amortised over its expected useful economic life, which is currently estimated to be 4 years.

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 company 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 the operation 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 straight line 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.

Notes to the Financial Statements continued

For the year ended 31 March 2019

2 Significant accounting policies continued

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 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 recoverable amount of the cash-generating unit or individual asset 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.

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.

2 Significant accounting policies continued

Financial assets

Classification

The company classifies its financial assets in the following measurement categories:

- Those to be measured at amortised costs; and
- Those to be measured subsequently at fair value (either through Other Comprehensive Income of through profit and loss).

The classification depends on the company's business model for managing the financial assets and the contractual terms of the cash flows. The company reclassifies its financial assets when and only when its business model for managing those assets changes.

Recognition and measurement

At initial recognition, the company measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Subsequent measurement of financial assets depends on the company's business model for managing those financial assets and the cash flow characteristics of those financial assets. The company only has financial assets classified at amortised cost. These assets are those held for contractual collection of cash flows, where those cash flows represent solely payments of principal and interest and are held at amortised cost. Any gains or losses arising on derecognition is recognised directly in profit or loss. Impairment losses are presented as a separate line in the profit and loss account.

Impairment

The company assesses on a forward looking basis, the expected credit losses associated with its debt instruments carried at amortised cost. For trade receivables the company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from the initial recognition of the receivables. For other receivables the company applies the three stage model to determine expected credit losses.

Inventories

Inventories comprise consumables.

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

Financial liabilities comprise Trade and other payables and borrowings due within one year end after one year, which are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method. The company does not use derivative financial instruments or hedge account for any transactions. Trade payables represent obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year. If not, they are presented as non-current liabilities.

Notes to the Financial Statements continued

For the year ended 31 March 2019

2 Significant accounting policies continued

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.

(Accumulated losses)/retained earnings

(Accumulated losses)/retained earnings 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.

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. The directors expect profits to be generated from future sales growth which will be underpinned by RAMP™ and the human library. Therefore, 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.

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	**2019 £**	2018 £
UK (domicile)	**202,666**	278,414
Rest of Europe	**658,399**	934,877
North America	**1,008,586**	817,933
Rest of World	**312,187**	659,520
	2,181,838	2,690,744

In the year there were no customers to whom sales exceeded 10% of revenues. In 2018 one customer exceeded 10% of revenues, that customer accounted for £308,049 or 11.45% of revenues.

Notes to the Financial Statements continued

For the year ended 31 March 2019

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

	2019 £	2018 £
Employee benefit costs		
- wages and salaries	**1,246,833**	887,383
- social security costs	**118,006**	96,072
- other pension costs	**49,167**	33,915
- share based payments	**97,634**	330,176
	1,511,640	1,347,546
Depreciation of property, plant and equipment	**429,385**	69,625
Other operating expenses		
Operating lease rentals – land & buildings	**74,861**	73,224
Rates, utilities and property maintenance	**66,032**	36,126
IT costs	**16,212**	17,236
Fees payable to the company's auditors		
- for the audit of the financial statements	**19,250**	18,350
- non-audit services	**6,750**	–
- for the provision of reporting accountants' services in respect of the IPO	**–**	222,000
	26,000	240,350
Raw materials and consumables used	**912,589**	628,428
Increase in inventories	**(160,854)**	(11,554)
Patent costs	**7,300**	15,601
Marketing costs	**162,144**	132,347
(Profit)/loss on foreign exchange	**(158)**	36,892
Costs associated with IPO other than reporting accountants' services	–	387,836
Other expenses	**731,527**	482,256
Total cost of sales and administrative expenses	**3,776,678**	3,455,913

6 Average staff numbers

	2019	2018
Employed in UK (including executive directors)	**33**	24
Non-executive directors	**5**	6
	38	30

7 Remuneration of directors and key senior management

Directors

	2019 £	2018 £
Emoluments	**425,574**	301,419
Pension contributions	**16,611**	11,455
Fees paid to third parties for services of directors	**–**	50,525
	442,185	363,399

Highest paid director

The highest paid director received the following emoluments:

	2019 £	2018 £
Emoluments	**111,366**	87,564
Pension contributions	**5,490**	4,375
	116,856	91,939

Key senior management

Key senior management is considered to be the directors of the company with total remuneration for the year of £442,185 (2018: £363,399).

8 Finance income and costs

Income	2019 £	2018 £
Bank interest receivable	**12,596**	4,043

Costs	2019 £	2018 £
Interest expense on other borrowings	**4,033**	4,857
Bank interest payable	**–**	5
	4,033	4,862

9 Share based payments

At the reporting date the company had three share based reward schemes: two schemes under which options were previously granted and are now closed to future grants and a third scheme in place in which grants were made in the current year:

- 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".

Notes to the Financial Statements continued

For the year ended 31 March 2019

9 Share based payments continued

Options awarded during the year under the 2017 EMI and Unapproved Employee Share Option Scheme have no performance conditions other than the continued employment within the company. Options vest one, two and three 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.

The total share-based remuneration recognised in the Statement of Comprehensive Income was £97,634 (2018: £330,176). The most recent options granted in the year were valued using the Black-Scholes method. The share price on grant used the share price of open market value, expected volatility of 35.0% and a compound risk free rate assumed of 0.88%.

	2019 Weighted average exercise price £	**2018 Number**	2018 Weighted average exercise price £	2018 Number
Outstanding at beginning of the year	**0.040**	**505,000**	1.60	74,300
Subdivision of each £1 into £0.04 shares	**–**	**–**	0.06	1,857,500
Granted during the year	**0.545**	**1,230,000**	0.04	508,750
Exercised during the year	**–**	**–**	0.06	(1,692,500)
Lapsed during the year	**0.040**	**(16,250)**	0.08	(168,750)
Outstanding at the end of the year	**0.401**	**1,718,750**	0.04	505,000

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

Expiry	**Nominal share value**	**Exercise price £**	**2019 Number**	2018 Number
May 2027	**£0.04**	**0.040**	**488,750**	505,000
December 2028	**£0.04**	**0.545**	**1,230,000**	–
Total			**1,718,750**	505,000

Of the total number outstanding 244,375 (2018: none) had vested at the year end.

10 Income tax (credit)/expense

	2019 £	2018 £
Current tax – UK corporation tax	**(22,705)**	(4,828)
Deferred tax – origination and reversal of temporary differences	**(212,784)**	(6,593)
Income tax credit	**(235,489)**	(11,421)

The difference between loss before tax multiplied by the base rate of 19% and the income tax credit is explained in the reconciliation below:

	2019 £	2018 £
Factors affecting the tax charge for the year		
Loss before tax	**(1,499,871)**	(711,362)
Loss before tax multiplied by standard rate of UK corporation tax of 19%	**(284,975)**	(135,159)
Provisions and expenditure not deductible for tax purposes – permanent	**14,020**	119,665
Provisions and expenditure not deductible for tax purposes – temporary	**(32,432)**	(210,784)
RDEC/R&D tax credit	**(22,705)**	(4,828)
Adjustment in recognition of deferred tax	**90,603**	219,685
Income tax credit	**(235,489)**	(11,421)

11 Earnings per share

	2019 £	2018 £
Loss for the financial year	**(1,264,382)**	(699,941)

Loss per share	**pence**	Pence
Basic	**(5.7)**	(4.3)

	Number	Number
Issued ordinary shares at the end of the year	**22,091,192**	22,091,192
Weighted average number of shares in issue during the year	**22,091,192**	16,117,206

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.

Notes to the Financial Statements continued

For the year ended 31 March 2019

12 Intangible assets

	Software £
Cost	
At 1 April 2018	–
Additions	**8,044**
At 31 March 2019	**8,044**
Accumulated amortisation	
At 1 April 2018	–
Amortisation charged in the year	**1,830**
At 31 March 2019	**1,830**
Net book value	
At 31 March 2019	**6,214**
At 31 March 2018	–

13 Property, plant and equipment

	Assets under construction £	Leasehold improvements £	Plant & machinery £	Fixtures, fittings & equipment £	Total £
Cost					
At 1 April 2018	**205,129**	**156,059**	**691,245**	**107,687**	**1,160,120**
Additions	**–**	**350,799**	**1,016,608**	**103,243**	**1,470,650**
Assets brought into use	**(205,129)**	**205,129**	**–**	**–**	**–**
Disposals	**–**	**–**	**(1,587)**	**(8,545)**	**(10,132)**
At 31 March 2019	**–**	**711,987**	**1,706,266**	**202,385**	**2,620,638**
Accumulated depreciation					
At 1 April 2018	**–**	**156,059**	**430,851**	**26,476**	**613,386**
Depreciation charged in the year	**–**	**127,233**	**260,886**	**41,266**	**429,385**
Disposals	**–**	**–**	**(1,587)**	**(8,545)**	**(10,132)**
At 31 March 2019	**–**	**283,292**	**690,150**	**59,197**	**1,032,639**
Net book value					
At 31 March 2019	**–**	**428,695**	**1,016,116**	**143,188**	**1,587,999**
At 31 March 2018	205,129	–	260,394	81,211	546,734

13 Property, plant and equipment continued

	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	–	260,394	81,211	546,734
At 31 March 2017	–	–	94,238	13,015	107,253

Plant & machinery with a net book value of £185,818 is held under hire purchase agreements or finance leases (2018: £100,303).

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

14 Investment in subsidiary

The company has the following investment in a subsidiary:

	2019 £	2018 £
Fusion Contract Services Limited 100% subsidiary Dormant company Marlborough House, 30 Victoria Street, Belfast BT1 3GG	**1**	1

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

15 Deferred tax assets

	2019 £	2018 £
At 1 April	**1,156,047**	1,118,864
Restatement (see note 30)	**4,144**	–
Credited to the statement of comprehensive income in the year	**212,784**	6,593
(Charged)/credited to equity in the year	**(30,590)**	30,590
At 31 March	**1,342,385**	1,156,047

Notes to the Financial Statements continued

For the year ended 31 March 2019

15 Deferred tax assets continued

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 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 1 April 2018	**(40,764)**	**1,139,305**	**55,779**	**1,727**	**1,156,047**
Restatement (see note 30)	**–**	**4,144**	**–**	**–**	**4,144**
(Charged)/credited to Statement of Comprehensive Income	**(31,440)**	**244,538**	**(5,626)**	**5,312**	**212,784**
Charged to equity	**–**	**–**	**(30,590)**	**–**	**(30,590)**
At 31 March 2019	**(72,204)**	**1,387,987**	**19,563**	**7,039**	**1,342,385**

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 £8,164,633 (2018: £6,596,169) is dependent on future taxable profits arising in the UK. The directors expect profits to be generated from future sales growth which will be underpinned by RAMP™ and the human library. Therefore, 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: £1,379,086 (2018: £1,136,487).

16 Inventories

	2019 £	2018 £
Raw materials and consumables	**242,669**	81,815

The cost of inventories recognised as an expense for the year was £751,735 (2018: £616,874).

17 Trade and other receivables

	2019 £	2018 £
Trade receivables	**728,584**	513,870
Loss allowance	**(2,271)**	(2,994)
Trade receivables – net	**726,313**	510,876
Other receivables	**90,498**	133,357
Prepayments and accrued income	**239,571**	281,987
	1,056,382	926,220

The fair value of trade and other receivables approximates to their carrying value.

At the reporting date trade receivables loss allowance/impairment as follows:

	2019 £	2018 £
Individually impaired	**–**	2,994
Expected credit loss allowance	**2,271**	–
	2,271	2,994

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

	2019 £	2018 £
UK pound	**613,045**	504,568
Euros	**95,497**	72,489
US dollar	**110,540**	42,119
Japanese Yen	**–**	28,051
	819,082	647,227

The expected credit loss allowance has been calculated as follows:

	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	More than 120 days past due	Total
Expected loss rate	0.1%	0.2%	0.2%	0.4%	2.1%	
Gross carrying amount (£)	321,048	246,971	2,401	106,556	51,608	728,584
Loss allowance (£)	439	376	5	384	1,067	2,271

Notes to the Financial Statements continued

For the year ended 31 March 2019

17 Trade and other receivables continued

Movements on trade receivables loss allowance is as follows:

	2019 £	2018 £
At 1 April	**2,994**	17,045
Restatement for IFRS 9 (note 30)	**3,398**	–
At 1 April (restated)	**6,392**	17,045
Movement in loss allowance	**(1,127)**	2,994
Write off as uncollectible	**(2,994)**	(17,045)
At 31 March	**2,271**	2,994

The creation and release of the loss allowance for trade receivables has been included in administrative expenses in the Statement of Comprehensive Income. Other receivables are considered to have low credit risk and the loss allowance recognised during the year was therefore limited to trade receivables.

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.

18 Trade and other payables

	2019 £	2018 £
Trade payables	**461,824**	281,284
Social security and other taxes	**–**	28,493
Other payables	**25,205**	15,654
Accruals and deferred income	**242,331**	210,868
	729,360	536,299

The fair value of trade and other 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 £24,901 (2018: £6,879) was due to Invest Northern Ireland.

19 Borrowings

Hire purchase contracts	2019 £	2018 £
At 1 April	**77,287**	–
Additions in year	**98,117**	102,469
Interest charged in year	**4,033**	4,097
Repayments	**(40,262)**	(29,279)
At 31 March	**139,175**	77,287
Amounts due in less than 1 year	**66,539**	33,758
Amounts due after more than 1 year	**72,636**	43,529
	139,175	77,287

19 Borrowings continued

All borrowings are denominated in UK pounds. Using a discount rate of 6.0% per annum the fair value of borrowings at the reporting date is £131,845 (2018: £72,502 discounted at 5.5%).

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.

20 Provisions for other liabilities and charges

	2019	2018
	£	£
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.

21 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.

Financial instruments by category

Financial instruments categories are as follows:

As at 31 March 2019	**Amortised cost** **£**	**Total** **£**
Trade receivables	**726,313**	**726,313**
Other receivables	**90,498**	**90,498**
Accrued income	**2,264**	**2,264**
Cash and cash equivalents	**1,984,338**	**1,984,338**
Total	**2,803,413**	**2,803,413**

As at 31 March 2018	Loans and receivables £	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

The categories of financial assets changed as a result of the introduction of IFRS 9. The company has not changed its classification of financial assets and financial assets previously categorised as "Loans and receivables" are now categorised as "Amortised cost".

Notes to the Financial Statements continued

For the year ended 31 March 2019

21 Financial instruments continued

As at 31 March 2019	Other financial liabilities at amortised cost £	Total £
Trade payables	**461,824**	**461,824**
Other payables	**25,205**	**25,205**
Accruals	**242,331**	**242,331**
Borrowings	**139,175**	**139,175**
Total	**868,535**	**868,535**

As at 31 March 2018	Other financial liabilities at amortised cost £	Total £
Trade payables	281,284	281,284
Other payables	15,654	15,654
Accruals	200,197	200,197
Borrowings	77,287	77,287
Total	574,422	574,422

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.

21 Financial instruments continued

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 occasions 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 or Euro had been 10% higher/lower at the reporting date the effect on profit and equity would have been approximately £13,855 (2018: £7,393) higher/lower and £15,534 (2018: £23,017) higher/lower respectively.

22 Called up share capital

	2019	2018
	£	£
Allotted, called up and fully paid		
– 22,091,192 Ordinary shares of £0.04	**883,648**	883,648

There were no changes in the issued share capital during the year.

Notes to the Financial Statements continued

For the year ended 31 March 2019

23 Capital commitments

At 31 March 2019 the company had contracted for but not incurred capital expenditure of £27,657 (2018: £232,653).

24 Operating lease commitments

	2019 £	2018 £
Minimum operating lease payments falling due:		
Within 1 year – land and property	**75,000**	75,000
In 1 to 2 years – land and property	**75,000**	75,000
In 2 to 5 years – land and property	**100,000**	175,000
	250,000	325,000

25 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 £49,167 to the Statement of Comprehensive Income (2018: £33,915) in respect of company contributions to the scheme. At the reporting date there was £8,282 (2018: £5,779) payable to the scheme and included in other payables.

26 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 £85,711 (2018: £78,957). A balance of £7,185 (2018: £6,879) was due and payable to Invest NI at the reporting date. The company claimed various grants during the year from Invest NI amounting to £86,406 (2018: £47,591). A balance of £64,436 was due on submitted claims from Invest NI (2018: £2,660).

Director Colin Walsh is also a director of Crescent Capital NI Limited. During the year Crescent Capital NI Limited charged the company £3,028 (2018: £10,800) for other consultancy work and at the reporting date an amount of £nil (2018: £2,000) was payable to Crescent Capital NI Limited.

27 Events after the reporting date

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

28 Ultimate controlling party

There is no ultimate controlling party.

29 Adjusted results

	2019 £	2018 £
Loss before tax	**(1,499,871)**	(711,362)
Accelerated share based payment charge (note a)	**–**	163,100
IPO costs (note b)	**–**	609,836
Adjusted (loss)/profit before tax	**(1,499,871)**	61,574

29 Adjusted results continued

(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 year 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.

(b) In the year ended 31 March 2018 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.

30 Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 Financial Instruments ("IFRS 9") and IFRS 15 Revenue from Contracts with Customers ("IFRS 15") on the company's financial statements.

(a) Impact on financial statements

As a result of the adoption of IFRS 9 and IFRS 15, a restatement of prior year financial statements was not required. As explained later in this note, the company elected to adopt IFRS 9 and IFRS 15 without restating comparative information. The reclassifications and the adjustments arising from adoption of these standards are therefore not reflected in Statement of Financial Position as at 31 March 2018, nor in the Statement of Comprehensive Income for the year ended 31 March 2018, but are recognised in the opening Statement of Financial Position on 1 April 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

Impact on the opening balance on the statement of financial as at 1 April 2018:

Balance sheet extract	31 March 2018 £	IFRS 9 £		IFRS 15 £		1 April 2018 £
	As originally presented	Accounting adjustment	Presentation/ reclassification	Accounting adjustment	Presentation/ reclassification	Restated
Non-current assets						
Deferred tax assets	1,156,047	–	–	4,144	–	1,160,191
Current assets						
Trade receivables	510,876	(3,398)	–	–	–	507,478
Contract assets	–	–	–	(24,378)	24,378	–
Other receivables	133,357	–	–		(24,378)	108,979
Equity						
Retained earnings	819,092	(3,398)	–	(20,234)	–	795,460

Notes to the Financial Statements continued

For the year ended 31 March 2019

30 Changes in accounting policies continued

(b) IFRS 9 Financial Instruments – impact of adoption

IFRS 9 replaces the provisions of IAS 39 that relate to the classification and measurement of financial assets and financial liabilities, financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 'Financial Instruments' from 1 April 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in note 2. In accordance with the transitional provisions in IFRS 9 (7.2.15), comparative figures have not been restated.

The total impact on the company's retained earnings is shown in 30(a) above.

Impairment of financial assets

Trade receivables is the only financial asset of the company that is subject to the new expected credit loss model of IFRS 9, as other receivables are considered to be very low credit risk.

The company was required to revise its impairment methodology for trade receivables under IFRS 9. The impact of the change in impairment methodology on retained earnings and equity is shown in the table in 30(a) above.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, no impairment loss was identified.

The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The company has therefore concluded that the expected loss rate for trade receivables are a reasonable approximation of the loss rates for the contract assets.

On that basis, the loss allowance as at 1 April 2018 was determined as follows for both trade receivables and contract assets:

1 April 2018	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	More than 120 days past due	Total
Expected loss rate	0.3%	0.4%	0.5%	0.9%	4.9%	
Gross carrying amount (£)	276,905	181,617	13,345	1,761	37,158	510,786
Loss allowance (£)	879	636	61	15	1,807	3,398

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the company, and a failure to make contractual payments for a period of greater than 120 days past due.

30 Changes in accounting policies continued

(c) IFRS 15 Revenue from Contracts with Customers – impact of adoption

The adoption of IFRS15 'Revenue from Contracts with Customers' from 1 April 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in note 2. In accordance with the transitional provisions in IFRS 15 (Appendix C 7), comparative figures have not been restated.

The total impact on the company's retained earnings is shown in 30(a) above. At 31 March 2018 the company had recognised an amount of £24,378 included in other debtors, which was reclassified as Contract assets upon adoption of IFRS 15 and then reduced to £nil as it no longer met the recognition criteria of the new accounting policy. As a result of this adjustment, the deferred tax asset arising from the taxable losses of the company increased by £4,144 being £24,378 at an expected corporation tax rate of 17%.

Accounting for performance obligations within a customer contract

Each contract between the company and a customer may comprise a number of distinct performance obligations, i.e. a transfer of a service to the customer. As each of these performance obligations is met the company recognises the revenues to which it is entitled to under the contract. Customer contracts are typically set out in stages which align with scientific processes or procedures. In recognition of the scientific uncertainty of research and development, within each stage there may be one or more distinct performance obligations whereby the company will perform certain actions or meet certain milestones within a stage. Where such an action entitles the company to receive revenues from the customer regardless of the ultimate success of the entire contract, each of these is treated as a performance obligation and accordingly revenue is recognised. This represents a change in accounting policy as in the year ended 31 March 2018, and previous periods, the company recognised services provided on a percentage of completion method applied to each stage of its agreements with customers.

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 MBE *(Non-Executive Director)*
Mr Timothy Watts *(Non-Executive Director)*

Company secretary
Mr James Fair

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