

financial statements

Lombard Medical Technologies Limited

For the year ended: 31 December 2016

Company registration number: 04636949



MHA MacIntyre Hudson
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LOMBARD MEDICAL TECHNOLOGIES LIMITED

COMPANY INFORMATION

Director	P Phillips
Registered number	04636949
Registered office	Lombard Medical House 4 Trident Park Basil Hill Road Didcot Oxfordshire OX11 7HJ
Independent auditors	MHA MacIntyre Hudson Chartered Accountants and Statutory Auditors Pennant House 1-2 Napier Court Napier Road Reading Berkshire RG1 8BW

LOMBARD MEDICAL TECHNOLOGIES LIMITED

CONTENTS

	Page
Strategic report	1 - 3
Director's report	4 - 6
Independent auditors' report	7 - 8
Statement of comprehensive income	9
Statement of financial position	10
Statement of changes in equity	11
Notes to the financial statements	12 - 23

LOMBARD MEDICAL TECHNOLOGIES LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

Introduction

The director presents his strategic report on Lombard Medical Technologies Limited (the "Company") for the year ended 31 December 2016.

Business review

The Company is an intermediate holding company of a group of companies specialising in developing, manufacturing, and marketing endovascular stent-grafts used in the repair of aortic aneurysms. The Company recharges corporate costs to its subsidiary investments.

Lombard Medical Inc., a Cayman Island domiciled holding company, is the ultimate parent company of the group.

Results

The audited financial statements for the year ended 31 December 2016 are attached. The Company incurred a loss for the financial year of £4.8 million (2015: £62.6 million) and had net assets of £13.8 million (2015: £18.5 million). The large loss in 2015 relates to a £61.7 million provision taken against the value of amounts due from Group undertakings, primarily related to the market capitalisation of the Group and the transaction value of the recent acquisition of the Group's closest competitor which did not support the amount due. In 2015 the provision of £61.7 million was recognised within exceptional administrative expenses.

Future developments

The Company is expected to continue to act as an intermediary holding company and invest in its subsidiaries.

LOMBARD MEDICAL TECHNOLOGIES LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2016

Principal risks and uncertainties

The Company faces a number of risks and uncertainties. The main risks have been identified as follows:

Funding

The Company relies on funding from its ultimate parent company, Lombard Medical, Inc. If it fails to obtain such funding in the future the Company may need to scale back operations and seek additional sources of funding.

Financing

The Company is dependent on its ultimate parent, Lombard Medical Inc., for financial support. Without this ongoing support, the company will be unable to continue as a going concern for the 12 months from the date of approval of these financial statements.

Lombard Medical Inc's forecasts show that it can continue as a going concern, and continue to support its subsidiaries, for a period of 12 months from the date of approval of these financial statements. This is based on management's expectations regarding future funding, product sales, cost structure, current cash burn rate and operating assumptions. Furthermore, management is seeking funding from a number of external sources, including debt and equity finance and strategic partnerships, expects that this will result in the securing of sufficient funds to enable Lombard Medical Inc. to be able to fund its subsidiaries for the next 12 months.

The financial statements of the Company have therefore been prepared on a going concern basis, because the directors have a reasonable expectation that Lombard Medical, Inc. will be able to continue to fund the Company for a period of no less than 12 months from the date of approval of these financial statements.

Financial risk management

The Company is exposed to a number of financial risks; the Group's finance department has policies and procedures to manage credit risk, foreign exchange risk and liquidity risk and circumstances where it would be appropriate to use financial instruments to manage these. It is the Group's policy that no speculative trading in financial instruments shall be undertaken.

Credit risk

The Company's principal financial assets are trade and other receivables. The majority of these balances related to inter-company balances owed by the Company's principal trading subsidiary, Lombard Medical Limited.

Liquidity risk

The Company maintains a sufficient level of bank and cash balances to be able to meet its day to day working requirements.

Foreign exchange risk

The Company's functional currency is Pounds Sterling (GBP). However, during the year the Company had exposure to other currencies, principally US Dollars (USD). Where possible the Company tries to minimise foreign exchange exposures by matching cash balances and receipts with planned expenditure.

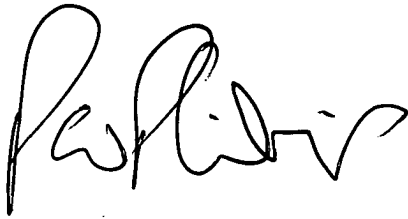
LOMBARD MEDICAL TECHNOLOGIES LIMITED

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016**

Key performance indicators

The Company considers the KPIs and financial measures of administrative expenses, operating loss, and EBITDA to be key for the business. Administrative expenses were £4.7m in the year ended 31 December 2016 (2015: £0.8m). During the same period the Company made an operating loss of £4.7m (2015: £62.5m), and EBITDA of £(4.7)m negative (2015: £(62.5)m negative).

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



P Phillips
Director

Date: 22.9.17

LOMBARD MEDICAL TECHNOLOGIES LIMITED

DIRECTOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

The director presents his report and the financial statements for the year ended 31 December 2016.

Principal activity

The Group's principal activities are the design and development of endovascular stent grafts, their manufacture, and commercialisation either directly through the Group's own sales force or through a network of local distributors supported by clinical specialists from the Group.

As a holding company, the Company's principal activity is the investment in its subsidiary undertakings.

Lombard Medical Technologies Limited is a private limited company incorporated in the United Kingdom under the Companies Act, and it is domiciled within the United Kingdom. Lombard Medical, Inc., a company domiciled in the Cayman Islands, is the ultimate parent of the Group to which the Company belongs.

Business review

The audited financial statements for the year ended 31 December 2016 are attached. The Company incurred a loss for the financial year of £4.8 million (2015: £62.6 million). A review of the key operational highlights and future developments can be found in the Strategic Report.

Dividends

The director does not recommend the payment of a dividend (2015: £nil).

LOMBARD MEDICAL TECHNOLOGIES LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2016

Going concern

The Company is dependent on its immediate parent, Lombard Medical Inc., for financial support. Without this ongoing support, the company will be unable to continue as a going concern for the 12 months from the date of approval of these financial statements.

Lombard Medical Inc's forecasts show that it can continue as a going concern, and continue to support its subsidiaries, for a period of 12 months from the date of approval of these financial statements. This is based on management's expectations regarding future funding, product sales, cost structure, current cash burn rate and operating assumptions.

In December 2016 an investment agreement was signed with a new investor, whereby \$5m of Ordinary share capital was subscribed together with convertible bonds of \$10m.

Furthermore, management is currently in negotiations with existing investors with a view to raising additional finance, or extending the repayment terms of existing loan funding, to enable Lombard Medical Inc. to be able to fund its subsidiaries for the next 12 months.

The financial statements of the Company have therefore been prepared on a going concern basis, because the directors have a reasonable expectation that Lombard Medical Inc. will be able to continue to fund the Company for a period of no less than 12 months from the date of approval of these financial statements.

However, with the exception of the investment agreement signed in December 2016, the aforementioned additional funding is not committed as at the date of these financial statements, and were it not to be secured, Lombard Medical Inc. would deplete its cash reserves by February 2018 and be unable to fund its subsidiaries. The Company would not therefore be able to continue as a going concern.

These conditions represent a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. These financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

Financial risk management

The company's exposure to financial risks and its policies and procedures to manage such risks are discussed in the Strategic report on page 2.

Directors

The directors who served during the year were:

S Hubbert (resigned 18 April 2017)

W Kullback (resigned 5 May 2017)

P Phillips

Directors' indemnities

The Company has granted a qualifying third party indemnity to each of its directors against liability in respect of proceedings brought by third parties which was in force during the financial year and remains in force as at the date of approving the financial statements.

LOMBARD MEDICAL TECHNOLOGIES LIMITED

DIRECTOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

Director's responsibilities statement

The director is responsible for preparing the Strategic report, the Director's report and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the financial statements unless he is satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The director is 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 him to ensure that the financial statements comply with the Companies Act 2006. He is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

Each of the persons who are directors at the time when this Director's report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

The auditors, MHA MacIntyre Hudson Chartered Accountants and Statutory Auditors, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

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



P Phillips
Director

Date: 27.9.17

LOMBARD MEDICAL TECHNOLOGIES LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF LOMBARD MEDICAL TECHNOLOGIES LIMITED

We have audited the financial statements of Lombard Medical Technologies Limited for the year ended 31 December 2016, set out on pages 9 to 23. The relevant financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director and Auditors

As explained more fully in the Director's responsibilities statement on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion except for the failure to produce consolidated financial statements described in the basis of the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter in opinion - going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2.4 to the financial statements concerning the Company's ability to continue as a going concern. The Company is dependent on funding from its immediate parent, Lombard Medical Inc., to be able to continue to trade. Lombard Medical Inc. cannot continue to fund the Company if it does not secure additional funding that is uncommitted as at the date of approval of these financial statements.

LOMBARD MEDICAL TECHNOLOGIES LIMITED

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF LOMBARD MEDICAL
TECHNOLOGIES LIMITED (CONTINUED)**

These conditions, along with the other matters explained in note 2.4 to the financial statements, represent a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and the Director's report for the financial year for which the financial statements are prepared is consistent with those financial statements and such reports have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and the Directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

MHA MacIntyre Hudson

Jason Mitchell FCA (senior statutory auditor) for and on behalf of

**MHA MacIntyre Hudson
Chartered Accountants and Statutory Auditor**

Pennant House
1-2 Napier Court
Napier Road
Reading
Berkshire
RG1 8BW

Date:

29 September 2017

LOMBARD MEDICAL TECHNOLOGIES LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £000	2015 £000
Administrative expenses		(4,717)	(819)
Exceptional administrative expenses		-	(61,713)
Operating loss	4	(4,717)	(62,532)
Interest receivable and similar income		5	25
Interest payable and expenses		(56)	(49)
Loss before tax		(4,768)	(62,556)
Loss for the year		(4,768)	(62,556)

There was no other comprehensive income for 2016 (2015: £nil).

The notes on pages 12 to 23 form part of these financial statements.

LOMBARD MEDICAL TECHNOLOGIES LIMITED
REGISTERED NUMBER: 04636949

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Note	2016 £000	2015 £000
Fixed assets			
Investments	8	2,053	2,102
		<u>2,053</u>	<u>2,102</u>
Current assets			
Debtors: amounts falling due within one year	9	69,013	22,742
Bank and cash balances		849	3,777
		<u>69,862</u>	<u>26,519</u>
Creditors: amounts falling due within one year	10	(55,878)	(8,249)
Net current assets		<u>13,984</u>	<u>18,270</u>
Total assets less current liabilities		<u>16,037</u>	<u>20,372</u>
Creditors - amounts falling due in more than one year	11	(2,262)	(1,829)
Net assets		<u><u>13,775</u></u>	<u><u>18,543</u></u>
Capital and reserves	13		
Called up share capital	13	33,105	33,105
Share premium account		79,900	79,900
Other reserves		11,118	11,118
Retained earnings		(110,348)	(105,580)
		<u><u>13,775</u></u>	<u><u>18,543</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

27.9.17

P Phillips
Director



The notes on pages 12 to 23 form part of these financial statements.

LOMBARD MEDICAL TECHNOLOGIES LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Called up share capital £000	Share premium account £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 January 2015	33,105	79,900	11,118	(43,024)	81,099
Comprehensive loss for the year					
Loss for the year	-	-	-	(62,556)	(62,556)
At 1 January 2016	33,105	79,900	11,118	(105,580)	18,543
Comprehensive loss for the year					
Loss for the year	-	-	-	(4,768)	(4,768)
At 31 December 2016	33,105	79,900	11,118	(110,348)	13,775

LOMBARD MEDICAL TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. General information

Lombard Medical Technologies Limited (the "Company") is an intermediate holding company of a group of companies specialising in developing, manufacturing, and marketing endovascular stent-grafts used in the repair of aortic aneurysms.

The Company is a private limited company incorporated in the United Kingdom under the Companies Act, and it is domiciled within the United Kingdom. Lombard Medical, Inc. is the ultimate parent of the Group to which the Company belongs.

The address of the Company's registered office is Lombard Medical House, 4 Trident Park, Basil Hill Road, Didcot, Oxfordshire, OX11 7HJ. The Company's registered number is 04636949.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

Lombard Medical Technologies Limited is entitled to the exemption from the requirement to produce consolidated financial statements under section 401 of the Companies Act 2006. Accordingly, these financial statements reflect information relating to the Company only, and not its group. Details of the ultimate parent of the Group, Lombard Medical Inc. ("LM Inc."), in whose consolidated financial statements the Company is included are publicly available. The registered office of Lombard Medical Inc is 6440 Oak Canyon, Suite 200, Irvine, CA92618, USA

The following principal accounting policies have been applied:

2.2 Parent company

These financial statements are separate financial statements. Details of the ultimate parent of the Group, Lombard Medical, Inc. ("LM Inc."), in whose consolidated financial statements the Company is included are publicly available. See note 16 for details of the ultimate parent company.

2.3 Financial reporting standard 101 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member

LOMBARD MEDICAL TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. Accounting policies (continued)

2.4 Going concern

The Company is dependent on its immediate parent, Lombard Medical Inc., for financial support. Without this ongoing support, the company will be unable to continue as a going concern for the 12 months from the date of approval of these financial statements.

Lombard Medical Inc's forecasts show that it can continue as a going concern, and continue to support its subsidiaries, for a period of 12 months from the date of approval of these financial statements. This is based on management's expectations regarding future funding, product sales, cost structure, current cash burn rate and operating assumptions.

In December 2016 an investment agreement was signed with a new investor, whereby \$5m of Ordinary share capital was subscribed together with convertible bonds of \$10m.

Furthermore, management is currently in negotiations with existing investors with a view to raising additional finance, or extending the repayment terms of existing loan funding, to enable Lombard Medical Inc. to be able to fund its subsidiaries for the next 12 months.

The financial statements of the Company have therefore been prepared on a going concern basis, because the directors have a reasonable expectation that Lombard Medical Inc. will be able to continue to fund the Company for a period of no less than 12 months from the date of approval of these financial statements.

However, with the exception of the investment agreement signed in December 2016, the aforementioned additional funding is not committed as at the date of these financial statements, and were it not to be secured, Lombard Medical Inc. would deplete its cash reserves by February 2018 and be unable to fund its subsidiaries. The Company would not therefore be able to continue as a going concern.

These conditions represent a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. These financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

2.5 Foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of total comprehensive loss.

2.6 Operating leases

Payments arising under operating leases are charged to the statement of comprehensive loss account as incurred. The Company has no finance leases.

LOMBARD MEDICAL TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. Accounting policies (continued)

2.7 Valuation of investments

In the Company's financial statements investments are carried at historic cost less any provision for impairment. Such investments include both investments in shares issued by the subsidiary undertaking and other parent entity interests that in substance form part of the parent entity's investment in the subsidiary. Losses relating to impairment are immediately recognised in the Company's Statement of comprehensive income.

2.8 Prepayments and other receivables

Prepayments include costs paid relating to subsequent financial periods and are measured at cost.

Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Receivables are assessed for indicators of impairment at each balance sheet date. Receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated future cash flows of the receivables have been affected. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of comprehensive loss account. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

2.9 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

2.10 Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Creditors are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

2.11 Borrowing costs

The conversion option of a convertible instrument is assessed to determine if it meets the definition of equity. Where the conversion meets the definition of equity, the fair value of the liability portion is determined using a market interest rate for an equivalent non-convertible instrument. This amount is recorded as a liability on an amortized cost basis until extinguished on conversion or maturity of the instrument. The remainder of the proceeds is allocated to the conversion option; this is recognized and included in shareholders' equity. Where the conversion option of a convertible instrument is not assessed to meet the definition of equity, the conversion option is a derivative and the residual amount is the liability.

Capital debt instruments are included at fair value and measured at amortized cost. Costs associated with the issue of capital debt instruments offset against the proceeds of the instrument.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are taken to the share premium account and shown in equity as a deduction from the proceeds.

LOMBARD MEDICAL TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. Accounting policies (continued)

2.12 Taxation

Income tax is recognised or provided at amounts expected to be recovered or paid using the tax rates and tax laws that have been enacted or substantively enacted at the year-end date.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income 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.

2.13 Financial instruments

The Company recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire. The Company's accounting policies in respect of financial instruments transactions are explained below:

Financial assets

The Company classifies all of its financial assets as loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the Statement of comprehensive income. On confirmation that the trade receivable will not be collected, the gross carrying value of the asset is written off against the associated provision.

Financial liabilities

The Company classifies all of its financial liabilities as liabilities at amortised cost.

Financial liabilities at amortised cost including bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried into the Statement of financial position.

LOMBARD MEDICAL TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3. Judgements in applying accounting policies and key sources of estimation uncertainty

The preparation of the financial statements in conformity with FRS 101 requires management to make judgements, estimates and assumptions. These judgements, estimates and assumptions affect the reported amounts of assets and liabilities as well as income and expenses in the financial statements provided.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. The actual outcome is not expected to differ significantly from the estimates and assumptions made.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or the period of revision and future periods if this revision affects both current and future periods.

Judgements in applying accounting policies

Going concern

A key judgement in the preparation of these financial statements is the going concern assumption, the rationale for which is set out in paragraph 2.4 above.

Recoverability of inter-company debt

In concluding that the inter-company debtor balances are recoverable, management have exercised judgement in their consideration of the ability of the counterparty to continue to trade as a going concern.

Key sources of estimation uncertainty

Impairment of investments

Determining whether investments are impaired requires an estimation of the value of the future cash flows expected to be generated by the underlying business and a suitable discount rate to be used in arriving at the net present value.

LOMBARD MEDICAL TECHNOLOGIES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

4. Operating loss

The operating loss is stated after charging:

	2016	2015
	£000	£000
Exchange differences	4,446	649
Fees payable to the Company's auditors and its associates for other services:		
- Tax compliance services	5	24
- Non audit services	-	42
Operating lease payments		
- Land and buildings	241	241

Commencing in the year ended 31 December 2015, the fee payable to the auditors for the audit of the Group is borne by the ultimate parent, Lombard Medical Inc, and no recharge is made.

5. Employees and directors

There were no employees in the year excluding directors (2015: nil). The directors received no emoluments for their services from the Company (2015: £nil). Remuneration of the directors is borne by the ultimate parent of the Group, Lombard Medical Inc.

LOMBARD MEDICAL TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

6. Taxation

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2015 - lower than) the standard rate of corporation tax in the UK of 20.00% (2015 - 20.25%). The differences are explained below:

	2016 £000	2015 £000
Loss on ordinary activities before tax	(4,768)	(62,556)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.00% (2015 - 20.25%)	(954)	(12,668)
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	129	12,497
Movement in deferred tax asset not recognised	825	-
Unrelieved tax losses carried forward	-	171
Total tax charge for the year	-	-

Factors that may affect future tax charges

The tax rate for the current year is lower than the prior year due to changes in the UK corporation tax rate which decreased from 21% to 20% from 1 April 2015.

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2015 on 26 October 2015. These included reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020. A further corporation tax rate change was announced in April 2016 budget to further reduce the main rate to 17% from 1 April 2020 which was substantively enacted on 6 September 2016. The Company has no deferred taxes at the balance sheet date (2015: £nil).

Taxation losses of approximately £12,483,000 (2015: £12,654,000) are available to carry forward against future profits of the Company. The deferred taxation asset at 18% (2015: 18%) of £1,480,000 (2015: £2,305,000) has not been recognised in respect of these losses as the directors consider that realisation is, as yet, uncertain.

7. Exceptional items

In 2015 an exceptional loss of £61,713,000 was recorded in the Statement of comprehensive loss for the impairment of the amount due from Lombard Medical Limited. This has arisen from a review of the amounts due from Group undertakings given the overall market capitalisation of the Group.

LOMBARD MEDICAL TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

8. Fixed asset investments

	Investments in subsidiary companies £000
Cost or valuation	
At 1 January 2016	4,663
At 31 December 2016	4,663
Impairment	
At 1 January 2016	2,561
Charge for the period	49
At 31 December 2016	2,610
Net book value	
At 31 December 2016	2,053
At 31 December 2015	2,102

The following were subsidiary undertakings of the Company:

Subsidiary undertakings

Name	Country of incorporation	Principal activity
Lombard Medical Limited	England & Wales (1)	Endovascular stent grafts
PolyBioMed Limited	England & Wales (1)	Dormant
LionMedical Limited	England & Wales (1)	Investment holding company
Lombard Medical Technologies Inc	United States of America (2)	Endovascular stent grafts
Lombard Medical (Scotland) Limited	Scotland (3)	Endovascular stent grafts
Lombard Medical Technologies GmbH	Germany (4)	Endovascular stent grafts

All of the subsidiaries are wholly owned by the Company. The above companies operate principally in their country of incorporation. All interests are held by the Company.

The registered offices of the subsidiaries are as follows:

1. Lombard Medical House, 4 Trident Park, Basil Hill Road, Didcot, Oxfordshire, OX11 7HJ
2. 6440 Oak Canyon, Irvine, CA 92618
3. 272 Bath Street, Glasgow, G2 4JR
4. Otto-Lindenmeyer-Str 28, 86153, Augsburg

LOMBARD MEDICAL TECHNOLOGIES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

9. Debtors

	2016 £000	2015 £000
Amounts owed by group undertakings	68,924	22,589
Other debtors	13	64
Prepayments	76	89
	69,013	22,742

Amounts due from subsidiary undertakings are unsecured, interest free and are repayable upon demand.

10. Creditors: Amounts falling due within one year

	2016 £000	2015 £000
Trade creditors	7	297
Amounts owed to group undertakings	55,765	7,905
Accruals	106	47
	55,878	8,249

Amounts due to the parent company are unsecured, interest free and are repayable upon demand.

LOMBARD MEDICAL TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

11. Loans - due in more than one year

	2016	2015
	£000	£000
Other loans	2,262	1,829
	2,262	1,829

On 28 March 2013, the Company received \$2.5 million from the total \$5.0 million convertible loan facility granted by its exclusive distribution partner in Japan, Medico's Hirata Inc. ("Medicos"). The loan accrues interest of 3% per annum, payable when the loan is repaid or converted. The loan is repayable seven years from the receipt of regulatory approval for Aorfix in Japan which was granted in August 2014. Conversion of the loan is at Medicos' discretion and will be based on the share price at the time of conversion.

The convertible loan note is considered a financial liability with no equity component as there is a contractual obligation to deliver a variable number of shares at the market price if the loan note is converted. The fair value of the loan note is therefore the same whether the settlement of the obligation is made in cash or in shares at the time of repayment.

12. Financial instruments

	2016	2015
	£000	£000
Financial assets		
Financial assets measured at fair value through profit or loss	849	3,777
Financial assets that are debt instruments measured at amortised cost	68,937	23
	69,786	3,800
Financial liabilities		
Financial liabilities measured at amortised cost	55,878	8,249
	55,878	8,249

Financial assets measured at fair value through profit or loss comprise cash held at bank.

Financial assets that are debt instruments measured at amortised cost comprise other debtors and amounts owed by group companies.

Financial liabilities measured at amortised cost comprise trade creditors, accruals and amounts due to group companies.

LOMBARD MEDICAL TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

13. Share capital and reserves

	2016 £	2015 £
i) Shares classified as equity		
Allotted, called up and fully paid		
44,743,187 Ordinary shares of £0.20 each	8,948,637	8,948,637
373,857,388 A Deferred shares of £0.00862 each	3,222,651	3,222,651
136,186,011 B Deferred shares of £0.01 each	1,361,860	1,361,860
2,174,694,973 C Deferred shares of £0.009 each	19,572,255	19,572,255
	<u>33,105,403</u>	<u>33,105,403</u>

The Company is authorised to issue 2,729,481,559 total shares. On 24 April 2014, the Lombard Medical, Inc.'s, Initial Public Offering ("IPO") of shares on the NASDAQ Global market was priced. To facilitate the NASDAQ IPO, Lombard Medical, Inc., a new Cayman Islands domiciled holding company, was created and the existing shares in Lombard Medical Technologies plc were exchanged for new shares in Lombard Medical, Inc. under a UK High Court approved Scheme of Arrangement. Following the Scheme of Arrangement, the trading in shares of Lombard Medical Technologies plc on the London Stock Exchange's AIM market was cancelled and Lombard Medical Technologies plc reregistered as a private company, Lombard Medical Technologies Limited. When the Scheme of Arrangement became effective, Lombard Medical Technologies plc's 44,743,187 ordinary shares of 20 pence each were exchanged for 11,185,965 ordinary shares of \$0.01 each in Lombard Medical, Inc., as part of 4 for 1 share exchange.

ii) Share premium

The share premium account consists of the proceeds from the issuance of shares in excess of their par value less associated issue costs.

iii) Other reserves

The other reserves account arose on the conversion of convertible preference shares to ordinary shares and represents the difference between the fair value of the preference shares and the nominal value of the ordinary shares issued.

14. Commitments under operating leases

At 31 December 2016 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2016 £000	2015 £000
Not later than 1 year	241	241
Later than 1 year and not later than 5 years	1,204	1,204
Later than 5 years	241	482
	<u>1,686</u>	<u>1,927</u>

LOMBARD MEDICAL TECHNOLOGIES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

15. Related party transactions

As permitted by FRS 101, related party transactions with wholly-owned members of the Lombard Medical, Inc. Group have not been disclosed.

There have been no transactions with other related parties.

16. Controlling party

The immediate parent undertaking and ultimate controlling party and the smallest and largest Group to consolidate these financial statements is Lombard Medical, Inc., a company registered in the Cayman Islands. Copies of Lombard Medical, Inc. consolidated financial statements can be obtained from the Company secretary at Lombard Medical House, 4 Trident Park, Didcot, Oxfordshire, OX11 7HJ or on the website at www.lombardmedical.com.