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Atlantic Healthcare plc Consolidated Financial Statements

For the year ended 31 December 2019

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Atlantic Healthcare plc
Report and Consolidated Financial Statements
For the year ended 31 December 2019

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Atlantic Healthcare plc
Report and Consolidated Financial Statements
For the year ended 31 December 2019

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

A Boyce
W Ringo
T Wellner
T Wilson Waterworth
C Woler

SECRETARY

James Hansord

REGISTERED OFFICE

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10 Rose & Crown Walk
Saffron Walden
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United Kingdom

BANKERS

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AUDITORS

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PATENT AGENTS

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84 Theobalds Road
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STRATEGIC REPORT

Atlantic Healthcare Plc is the holding company for a group of companies ("the Group") focused on the acquisition, development, registration and commercialisation of products for addressing unmet needs of patients managed by physicians in the hospital and specialist care environments in the United States and Europe, with an existing focus on gastrointestinal disease.

The Group intends to commercialise its products directly in Europe and the United States, and partner in other markets. It has an experienced international Board of Directors and Leadership Team with a deep knowledge of development, regulatory filings and commercialisation of products in North America and European markets.

During the year the Group continued the development of a novel pharmaceutical ingredient with potential clinical advantages and unique differentiating features for the treatment of Inflammatory Bowel Disease (IBD) and other inflammatory GI indications.

It is leading with and taking the enema delivery formulation into Phase 3 trials for Ulcerative Colitis, subject to funding, having been successful in Phase 2 and following discussions with FDA and EMA.

Funds have also supported a trading subsidiary in the supply of product under international Named Patient Supply regulations from which the subsidiary has generated European revenues.

During the year the Group has also continued to progress development of oral tablet formulations of its ingredient to be used for the treatment of Crohn's Disease and Ulcerative Colitis and is planning to initiate Phase 2b studies, subject to funding. These formulations have the potential to broaden the commercial market and deepen the Group's product pipeline.

The Group also broadened its pipeline with the acquisition of renzapride, a novel pharmaceutical ingredient with potential clinical advantages and unique differentiating features for the treatment of GI motility issues associated with a number of orphan GI diseases.

The key risks for the Group are in relation to the carrying value of its investment in subsidiary and intangible assets, and the successful completion of clinical trials and subsequent regulatory approvals. Given the nature of clinical development programmes, there is always a degree of uncertainty and risk attached to the outcome of clinical trials and the decisions of regulatory agencies in granting marketing approvals.

Approved by the Board of Directors
and signed on behalf of the Board



T Wilson Waterworth

Director

31st January 2020

DIRECTORS' REPORT

The directors present their annual report and the financial statements for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

Atlantic Healthcare plc ("Company") is the parent company of a trading group ("Group").

The principal activities of the group comprise the identification, acquisition, development, registration and commercialisation of specialist healthcare products serving the European and North American hospital and specialist care markets.

The Group is headquartered near Cambridge, UK, from where operations are primarily undertaken.

Atlantic Healthcare plc's subsidiary undertakings include Atlantic Pharmaceuticals (Holdings) Limited, Atlantic Clinica Limited, and Atlantic Healthcare Europe BV.

Atlantic Pharmaceuticals Limited and Atlantic Pharmaceuticals USA Limited are both wholly owned UK subsidiaries of Atlantic Pharmaceuticals (Holdings) Limited, of which Atlantic Pharmaceuticals USA Limited is the holding company for US Delaware incorporated subsidiary, Atlantic Pharmaceuticals Inc.

Atlantic Clinica USA Limited is a wholly owned subsidiary of Atlantic Clinica Limited and is the holding company for US Delaware incorporated subsidiary, Atlantic Clinica Inc.

In 2019 the Group completed fund raising of £nil (2018: £3.6m).

RESULTS AND DIVIDENDS

The consolidated financial statements present the results of the Group. The principal trading entity is Atlantic Pharmaceuticals Limited, which manages the clinical trials for the Group. The consolidated statement of comprehensive income for the year is set out on page 9. The directors do not propose a dividend for the period.

The Directors have changed their accounting for inlicensing agreements, after considering pharmaceutical industry general accounting practice, to exclude recognition of future milestones payable, and the related intangible asset, until the milestone is met, as the development work is controlled by the Group and the achievement of milestones is subject to significant uncertainty. The prior year comparatives have been restated accordingly. The change has no impact on consolidated or company net assets or on the loss of the Group for that period. Further details are provided in Note 3

DIRECTORS

The directors who served throughout the year and to the date of this report are as follows:

A Boyce
W Ringo
T Wellner
T Wilson Waterworth
C Woler

FINANCIAL RISK MANAGEMENT

The Group's financial risk management rests with the board of directors, which seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs.

DIRECTORS' REPORT CONTINUED

The Group manages liquidity risk by raising adequate cash through grant, equity and/or debt funding based on forecast requirements as evaluated within the group business plan, continually monitoring cash flows and assessing the level of financial assets and liabilities.

Trade payables are normally payable within 30 days of invoice. At 31 December 2019 all trade and other payable balances do not include accrued interest and are payable in less than six months from the statement of financial position date.

The Group undertakes certain transactions denominated in foreign currencies. Where possible, contracts are negotiated in sterling, which is the Group's functional currency. For purchases denominated in other currencies, currency bank accounts are maintained to serve as a hedge against future exchange rate movements.

QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

The Group has made qualifying third party indemnity provisions for the benefit of its directors which were in place throughout the reporting period.

GOING CONCERN

During the period under review, the Group incurred a net loss of £3.8m and has met its working capital requirements by utilising cash from previous equity funding and R&D tax credits. At the year end, the Cash at bank and in hand was £4m. The Group has prepared cashflow projections that indicate that it has sufficient funds for the foreseeable future to complete preparation activities ahead of undertaking clinical trials. The Group will continue to invest in its product pipeline during 2020 and beyond. Additional funding from existing and new shareholders will be sought during the next twelve months to support clinical trials in relation to further progress the Group's core programmes. On this basis, the Directors have prepared the financial statements on the going concern basis.

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Strategic Report, Directors' Report and the consolidated financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare consolidated financial statements for each financial year. Under that law the directors have elected to prepare the consolidated 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 consolidated financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company and group for that period. In preparing these consolidated 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;
- prepare the consolidated 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 and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the consolidated financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the Company's and the Group'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 auditors are aware of that information.

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

Approved by the Board of Directors
and signed on behalf of the Board



T Wilson Waterworth

Director

31st January 2020

INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF ATLANTIC HEALTHCARE PLC

Opinion

We have audited the financial statements of Atlantic Healthcare Plc ("the Parent Company") and its subsidiaries ("the Group") for the year ended 31 December 2019 which comprise Consolidated statement of comprehensive income, Consolidated statement of financial position, Statement of financial position for the Company, Consolidated statement of changes in equity, Statement of changes in equity for the Company and , and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law International Financial Reporting Standards (IFRSs) as adopted by the European Union

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

- 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 group's or the parent 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.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Strategic Report and Directors' Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

INDEPENDENT AUDITOR'S REPORT CONTINUED

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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in this regard.

Opinions on other matters 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 Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors for the financial statements

As explained more fully in the DIRECTORS' RESPONSIBILITIES STATEMENT, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent 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 Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT CONTINUED

Auditor's 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 auditor's 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 Financial Reporting Council's website at:

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent 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 Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP

Ian Oliver (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Reading, UK

Date:

31 January 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated statement of comprehensive income

	Notes	2019 £	2018 £
Revenue	5	89,386	49,276
Cost of sales		(18,529)	(34,070)
Gross profit		70,857	15,206
Administrative expenses		(4,113,860)	(6,898,960)
Operating income	7	-	-
Operating loss		(4,043,003)	(6,883,754)
Finance costs	9	(1,223)	-
Finance income	9	34,041	25,739
Loss for the year before taxation	6	(4,010,185)	(6,858,015)
Income tax credit	10	415,183	1,002,244
Loss and total comprehensive loss for the period attributable to the equity holders of the parent		(3,595,002)	(5,855,771)

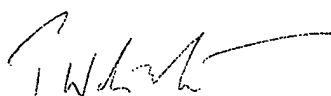
All the activities of the Group are classified as continuing.

The accompanying accounting policies and notes form part of the financial statements.

Consolidated statement of financial position at 31 December 2019

	Notes	2019 £	Restated 2018 £
Assets			
<i>Non-current assets</i>			
Intangible assets	12	3,118,504	1,045,200
Property, plant and equipment	13	10,588	10,209
		<u>3,129,092</u>	<u>1,055,409</u>
<i>Current assets</i>			
Inventories	14	16,291	22,088
Trade and other receivables	15	536,873	1,191,331
Cash and cash equivalents	16	4,012,153	7,413,133
		<u>4,565,317</u>	<u>8,626,552</u>
Total assets		<u>7,694,409</u>	<u>9,681,961</u>
<i>Equity</i>			
Share capital	21	297,284	297,284
Share premium account		23,812,919	23,812,919
Equity reserve		65	65
Share based payment reserve		5,297,368	2,149,492
Retained earnings		(23,154,066)	(19,607,519)
Total Equity		<u>6,253,570</u>	<u>6,652,241</u>
Liabilities			
<i>Non-Current</i>			
Loans and borrowings	18	319	-
Other liabilities	19	-	-
		<u>319</u>	<u>-</u>
<i>Current</i>			
Trade and other payables	17	1,428,154	3,029,720
Loans and borrowings	18	12,366	-
		<u>1,440,520</u>	<u>3,029,720</u>
Total liabilities		<u>1,440,839</u>	<u>3,029,720</u>
Total equity and liabilities		<u>7,694,409</u>	<u>9,681,961</u>

Approved by the Board of directors, authorised for issue and signed on behalf of the Board on 31st January 2020.



T Wilson Waterworth
Director


The accompanying accounting policies and notes form part of the financial statements.

Statement of financial position for the Company at 31 December 2019

	Notes	2019 £	2018 £
Assets			
<i>Non-current assets</i>			
Investments	11	22,259,478	20,396,302
Property, plant and equipment	13	3,942	7,493
		<u>22,263,420</u>	<u>20,403,795</u>
<i>Current assets</i>			
Trade and other receivables	15	55,833	83,754
Cash and cash equivalents	16	3,655,993	4,525,741
		<u>3,711,826</u>	<u>4,609,495</u>
Total assets		<u>25,975,246</u>	<u>25,013,290</u>
<i>Equity</i>			
Share capital	21	297,284	297,284
Share premium account		23,812,919	23,812,919
Equity reserve	21	65	65
Share based payment reserve		2,545,831	1,579,677
Capital contribution		2,073,304	-
Retained earnings		(2,956,059)	(1,510,422)
Total Equity		<u>25,773,344</u>	<u>24,179,523</u>
Liabilities			
<i>Current</i>			
Trade and other payables	17	201,902	833,767
Total liabilities		<u>201,902</u>	<u>833,767</u>
Total equity and liabilities		<u>25,975,246</u>	<u>25,013,290</u>

Loss for the year and total comprehensive loss attributable to equity share holders of Atlantic Healthcare Plc was £1,445,637 (2018: £2,018,288).

Approved by the Board of directors, submitted for issue and signed on behalf of the Board on 31st January 2020.



T Wilson Waterworth
Director

The accompanying accounting policies and notes form part of the financial statements.

Consolidated statement of changes in equity

	Share capital	Share premium account	Equity reserve	Share based payment reserve	Retained earnings	Total equity
	£	£	£	£	£	£
Balance at 1 January 2018	288,558	20,214,834	65	1,381,812	(13,759,927)	8,125,342
Share issues	8,726	3,681,346	-	-	-	3,690,072
Expenses of share issues	-	(83,261)	-	-	-	(83,261)
Share based payment	-	-	-	775,859	-	775,859
Prior year share based payment options now lapsed	-	-	-	(8,179)	8,179	-
Exercise of options and warrants	-	-	-	-	-	-
Transactions with owners	8,726	3,598,085	-	767,680	8,179	4,382,670
Loss for the year	-	-	-	-	(5,855,771)	(5,855,771)
Total comprehensive income for the year	-	-	-	-	(5,855,771)	(5,855,771)
Balance at 31 December 2018	297,284	23,812,919	65	2,149,492	(19,607,519)	6,652,241
Impact of change in accounting policy	-	-	-	-	(11,170)	(11,170)
Balance at 1 January 2019	297,284	23,812,919	65	2,149,492	(19,618,689)	6,641,071
Share issues	-	-	-	-	-	-
Expenses of share issues	-	-	-	-	-	-
Share based payment	-	-	-	1,134,197	-	1,134,197
Warrants issued to acquire intangible asset	-	-	-	2,073,304	-	2,073,304
Prior year share based payment options now lapsed	-	-	-	(59,625)	59,625	-
Exercise of options and warrants	-	-	-	-	-	-
Transactions with owners	-	-	-	3,147,876	59,625	3,207,501
Loss for the year	-	-	-	-	(3,595,002)	(3,595,002)
Total comprehensive income for the year	-	-	-	-	(3,595,002)	(3,595,002)
Balance at 31 December 2019	297,284	23,812,919	65	5,297,368	(23,154,066)	6,253,570

The accompanying accounting policies and notes form part of the financial statements.

Statement of changes in equity for the Company

	Share capital	Share premium account	Equity reserve	Share based payment reserve	Capital Contributions	Retained earnings	Total equity
	£	£	£	£	£	£	£
Balance at 1 January 2018	288,558	20,214,834	65	987,183	-	507,866	21,998,506
Share issues	8,726	3,681,346	-	-	-	-	3,690,072
Expenses of share issues	-	(83,261)	-	-	-	-	(83,261)
Share based payment	-	-	-	592,494	-	-	592,494
Prior year share based payment options now lapsed	-	-	-	-	-	-	-
Exercise of options and warrants	-	-	-	-	-	-	-
Transactions with owners	8,726	3,598,085	-	592,494	-	-	4,199,305
Loss for the year	-	-	-	-	-	(2,018,288)	(2,018,288)
Total comprehensive income for the year	-	-	-	-	-	(2,018,288)	(2,018,288)
Balance at 31 December 2018	297,284	23,812,919	65	1,579,677	-	(1,510,422)	24,179,523
Balance at 1 January 2019	297,284	23,812,919	65	1,579,677	-	(1,510,422)	24,179,523
Share issues	-	-	-	-	-	-	-
Expenses of share issues	-	-	-	-	-	-	-
Share based payment	-	-	-	966,154	-	-	966,154
Intangible acquisition by Group company	-	-	-	-	2,073,304	-	2,073,304
Exercise of options and warrants	-	-	-	-	-	-	-
Transactions with owners	-	-	-	966,154	2,073,304	-	3,039,458
Loss for the year	-	-	-	-	-	(1,445,637)	(1,445,637)
Total comprehensive income for the year	-	-	-	-	-	(1,445,637)	(1,445,637)
Balance at 31 December 2019	297,284	23,812,919	65	2,545,831	2,073,304	(2,956,059)	25,773,344

The accompanying accounting policies and notes form part of the financial statements.

Consolidated statement of cashflows

	Notes	2019 £	2018 £
Net cash used in operations	23	<u>(4,421,159)</u>	<u>(5,792,422)</u>
Tax			
R&D Tax Credit received		<u>1,002,244</u>	<u>1,734,818</u>
Investing activities			
Interest received		34,041	25,739
Purchase of property, plant and equipment		<u>(3,106)</u>	<u>(6,928)</u>
Net cash for investing activities		<u>30,935</u>	<u>18,811</u>
Financing activities			
Proceeds for issue of shares		-	3,690,073
Share issue costs		-	(83,261)
Payment of lease liabilities		(11,777)	-
Interest paid		<u>(1,223)</u>	<u>-</u>
Net cash from financing activities		<u>(13,000)</u>	<u>3,606,812</u>
Net increase in cash and cash equivalents		(3,400,980)	(431,981)
Opening cash and cash equivalents		<u>7,413,133</u>	<u>7,845,114</u>
Closing cash and cash equivalents		<u>4,012,153</u>	<u>7,413,133</u>

The accompanying accounting policies and notes form part of the financial statements.

Notes to the financial statements

1 General information

Atlantic Healthcare plc (the "Company") is a limited liability company, incorporated and domiciled in England. Its registered office is Atlantic House, 10 Rose & Crown Walk, Saffron Walden, Nr Cambridge, CB10 1JH, United Kingdom. The Company, its IP holding subsidiaries, Atlantic Pharmaceuticals (Holdings) Limited, Atlantic Clinica Limited and its trading subsidiary Atlantic Pharmaceuticals Limited (together the "Group") undertake activities that include the identification, acquisition, clinical development, market registration and sales and distribution of specialist healthcare products serving the European and North American hospital and specialist care markets. Atlantic Healthcare Limited changed its name to Atlantic Healthcare plc and became a public limited liability company on 12 June 2013.

Other entities within the group, all 100% subsidiaries and currently dormant are summarised below:

Entity	Country of incorporation
Atlantic Healthcare Europe BV	Netherlands
Atlantic Pharmaceuticals USA Limited *	England & Wales
Atlantic Pharmaceuticals Inc *	USA
Atlantic Clinica USA Ltd *	England & Wales
Atlantic Clinica Inc *	USA

* Indirect shareholding

2 Basis of preparation

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

Standards and interpretations currently in issue but not yet effective

There are no new Standards relevant to the Group, which are yet to become mandatory, and have not been applied in the financial year reported.

IFRS 16 became mandatory during the year and the Group is in line with this standard, with a date of initial application of 1 January 2019, and deemed that it does not cause a material impact to the financial statements.

The group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. The details of the changes in accounting policies are disclosed in note 3.

The Group has premises occupied under an operating lease which has been reflected on the statement of financial position (further details in note 25). The amount was not material to the financial statements.

	1 January 2019 £
Operating lease commitment at 31 December 2018	26,335
Discounted using the incremental borrowing rate at 1 January 2019	(1,873)
Lease liabilities recognised as at 1 January 2019	<u>24,462</u>

The preparation of financial information 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 Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the historical financial information, are disclosed in note 4.

Notes to the financial statements

3 Principal accounting policies

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of the financial statements. The principal accounting policies for the Group are set out below:

Going concern

The financial statements have been prepared on a going concern basis which the directors believe is appropriate for the following reasons. The Group continues its development activities to create commercial products. At the year end the Cash at bank and in hand was £4m. The Group has prepared cashflow projections that indicate that it has sufficient funds for the foreseeable future.

Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings. Subsidiary undertakings are entities which the Company has the power to control. The Company obtains and exercises control through voting rights. Where subsidiary undertakings are acquired during the year, the profit or loss attributable to shareholders includes the results from operations from the date of acquisition. Where subsidiary undertakings are disposed of during the year, the profit or loss attributable to shareholders includes the results from operations to the date of disposal.

Segmental reporting

The Group has one operating segment, that of speciality healthcare product development and sales. All of the assets of the Group are related to that operating segment. Given the size of the business, there is no independent management of product lines and the chief decision maker is considered to be the Chief Executive Officer. For management purposes, the Group uses the same measurement policies as those used in its financial information.

Revenue

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for goods supplied and services provided, net of discounts and excluding VAT. Product revenue is recognised upon the despatch of goods where there are no other conditions of sale. When the right to revenue is contingent on the successful outcomes of a patient's treatment, revenue is deferred until the clinical outcome is confirmed, generally on agreement of payment by the health insurance company on behalf of a patient.

Operating expenses

Operating expenses are recognised in the statement of comprehensive income upon utilisation of the service or at the date of their origin.

Operating income

Other Operating income comprises government grants received from Innovate UK, the UK government's innovation agency and Research and Development Expenditure Tax Credit (RDEC). The Innovate UK grant was awarded to the Group, following a competitive process, to support the Pouchitis Phase 3 trial.

Grant income is recognised on an accruals basis, with the amounts recognised in the statement of comprehensive income at the time the relevant expenditure is incurred. RDEC income is accrued annually on preparation of the Group's RDEC claim based on its research and development expenditure for the year.

Tax credits claimed under the SME research and development scheme continue to be reflected within the income tax line.

Intangible assets

Purchased intangible assets

Rights to intellectual property rights purchased by the Group under licence agreement are valued initially at the cost to acquire those rights.

Notes to the financial statements

3 Principal accounting policies continued

Event-based intangible assets

The Directors have changed their accounting for inlicensing agreements, after considering pharmaceutical industry general accounting practice, to exclude recognition of future milestones payable, and the related intangible asset, until the milestone is met, as the development work is controlled by the Group and the achievement of milestones is subject to significant uncertainty. The prior year comparatives have been restated accordingly. The change has no impact on consolidated or company net assets or on the loss of the Group for that period

Where the Group has liabilities under the licence agreement to make payments should certain future milestones be achieved, payments are only recognised at the point that the milestone is met.

Impairment review

At each reporting date, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit) for which the estimates of future cash flows have not been adjusted. The data is based on patient populations, expected revenue generation and reflects the directors' assessment of asset-specific risk factors.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the statement of comprehensive income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

An intangible asset with a definite life has amortisation charged to the statement of profit and loss on the straight-line basis. Amortisation commences once intangible assets are available for use, being also the point at which revenue is being generated from products. Amortisation is charged as follows:

- drug licences acquired – over the term of the patents or the period of regulatory exclusivity, whichever is longer

Notes to the financial statements

3 Principal accounting policies continued

Research and development

Expenditure on research is charged to the statement of comprehensive income in the period in which it is incurred.

Development expenditure is only capitalised when the criteria for recognition as an asset are met, being when the Group can demonstrate:

- the technical feasibility of completing the project so that it will be available for use or sale;
- its intention to complete the development of, and its ability to use or sell the asset;
- how the asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development; and
- that costs associated with the asset and its development can be measured reliably.

Development expenditure which is not capitalised, because it fails to meet one or more of the above criteria, is charged to the statement of comprehensive income in the period in which it occurs.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment. Depreciation is provided at rates calculated to write off the cost of the assets, less their estimated residual value, over their expected useful lives on the following bases:

- Fixtures and fittings - 33% straight line
- Office and computer equipment - 50% straight line
- Leasehold improvements – 50% straight line

Material residual value estimates are updated as required, but at least annually. The gain or loss arising on the disposal of an asset is deemed as the difference between the sales proceeds and the carrying amount of the asset is recognised in the statement of comprehensive income.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are assigned using the first in, first out basis. Where inventory has been purchased and payment has been satisfied by the issuing of shares the fair value of the inventory is assessed on the fair value of the shares issued; the fair value of the shares is based on the value of other shares issued at a similar point in time. Allowance is made for obsolete and slow-moving stocks where applicable.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the statement of financial position date.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets and are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Notes to the financial statements

3 Principal accounting policies continued

Deferred tax liabilities are provided in full, with no discounting. Current and deferred tax assets and liabilities 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 statement of financial position date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the statement of comprehensive income for the period.

Financial assets

The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. Other than financial assets in a qualifying hedging relationship, the Group's accounting policy for each category is as follows:

Fair value through profit or loss

This category comprises in-the-money derivatives and out-of-the-money derivatives where the time value offsets the negative intrinsic value (see "Financial liabilities" section for out-of-the-money derivatives classified as liabilities). They are carried in the statement of financial position at fair value with changes in fair value recognised in the consolidated statement of comprehensive income in the finance income or expense line. The Group does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

Amortised cost

These assets arise principally from the provision of goods and services to customers (eg trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. 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 for current and non-current trade receivables are recognised based on objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows. Based on the scale of this area, this is not materially different to the simplified approach within IFRS 9.

The Group's financial assets measured at amortised cost comprise trade and other receivables and cash and cash equivalents in the consolidated statement of financial position.

Cash and cash equivalents includes cash in hand and deposits held at call with banks.

IFRS 9 became mandatory during the prior year and did not cause a material impact to the financial statements.

Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired.

Notes to the financial statements

3 Principal accounting policies continued

Other than financial liabilities in a qualifying hedging relationship (see below), the Group's accounting policy for each category is as follows:

Fair value through profit or loss

This category comprises a milestone payable. It is carried in the consolidated statement of financial position at fair value with changes in fair value offset against a recognised intangible asset fair value for the same item.

Other financial liabilities

Other financial liabilities are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such 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 in the consolidated statement of financial position. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Trade payables and other short-term monetary liabilities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Fair value measurement

A number of assets and liabilities included in the Group's financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

- Level 1: Quoted prices in active markets for identical items (unadjusted)
- Level 2: Observable direct or indirect inputs other than Level 1 inputs
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17.

Notes to the financial statements

3 Principal accounting policies continued

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an asset, the Group assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
 - the Group has the right to operate the asset; or
 - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for leases of land and buildings in which it is a lessee, the Group elects not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependant on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed a right to use the asset if one of the following was met:
- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- facts and circumstance indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

As a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Notes to the financial statements

3 Principal accounting policies continued

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in 'plant, property and equipment' and lease liabilities in the statement of financial position.

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of less than 12 months or less and leases of low value assets. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Under IAS 17

In the comparative period rentals payable under operating leases where substantially all of the benefits and risks of ownership remain with the lessor were charged to the statement of comprehensive income on a straight-line basis over the term of the relevant lease.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Foreign currencies

Transactions in currencies other than the functional currency of the Company are initially recorded using the rate of exchange prevailing at the date of the transaction. At each reporting date monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange prevailing at the reporting date and the gains or losses on translation are included in the statement of comprehensive income.

Notes to the financial statements

3 Principal accounting policies continued

Equity

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares;
- "Share premium account" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue;
- "Equity reserve" represents sums received on the issue of warrant instruments classified as equity offering the warrant holder the ability to subscribe for additional share capital;
- "Share based payment reserve" represents equity-settled share-based remuneration until such share options are exercised; and
- "Retained earnings" represents retained profits and losses.

Share based payments

The Company operates employee share schemes under which it makes equity-settled share-based payments to certain employees.

IFRS 2 requires companies to recognise the fair value of the services received by reference to the fair value of the share options and warrants issued. In determining the fair value the directors give consideration to the likelihood and the timing of an event occurring which will enable the share options and warrants to be exercised, and to the exercise price of that instrument compared with the value of shares issued around the same time point.

Where employees and other parties are rewarded using share-based payments, the fair values of the services received are determined indirectly by reference to the fair value of the instrument granted to the recipient of the share-based payment. This fair value is assessed at the grant date, using the Black-Scholes method, and excludes the impact of non-market vesting conditions.

The expense is allocated over the vesting period, based on the best available estimate of the number of share options and warrants expected to vest. Estimates are subsequently revised if there is any indication that the number of share options and warrants expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options and warrants ultimately vesting are different from that estimated to vest.

Upon exercise of share options or warrants, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as share premium.

Where share options or warrants have been modified, the share options or warrants previously issued are treated as expiring and new options or warrants are issued to replace those deemed expired. An assessment is then made of the fair value at the point of replacement of (a) the share options or warrants which have been replaced, and (b) the share options or warrants which have been issued as replacements. The difference in the fair values is then regarded as the value of the share based payment and charged to the statement of comprehensive income over the remaining vesting period.

Where goods are received in exchange for the grant of any share-based payment they are measured at fair value.

Notes to the financial statements

3 Principal accounting policies continued

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Amounts due at the statement of financial position date for short-term employee benefits, including holiday entitlement, are current liabilities, measured at the undiscounted amount that the Company assesses as its employer obligation outstanding at the year end.

Employee benefits – defined contribution plan

Contributions to defined contribution plans are recognised as an expense in the period in which they are incurred, which represents the amounts payable by the group to the fund in respect of the year.

4 Significant accounting estimates and judgements

When preparing the financial statements, the directors make a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses. The following are the estimates and judgements in applying the accounting policies of the Group which have the most significant effect on the financial information.

Estimation uncertainty

Intangible assets

Event-based intangible assets

In assessing the cost of the rights to intellectual property included in intangible assets, an estimate is made of the expected cashflows based on the likelihood of the future events occurring, and the date on which the events could occur. Both of these factors are difficult to estimate as there are conditions which could prevent the events from occurring, or have a material impact on when the events occur.

Impairment of intangible assets

In assessing impairment of intangible assets, the directors estimate the future cash flows expected to be generated from the asset once all regulatory approvals for clinical use have been satisfied. Estimation uncertainty relates to assumptions about future clinical results as well as the assessment about the patient population and expected revenue stream. The Group has not recognised any impairment loss on intangibles since all products currently remain in clinical development.

There are a number of factors which could have an adverse impact on the valuation of the intangible asset. Those factors are all based on future events, and the future is difficult to predict with a high degree of accuracy.

Share options and warrants

Share options and warrants vest over periods from immediately on grant to up to four years or on an exit event, trade sale or Initial Public Offering ("IPO") if earlier. The fair value of options is determined using the Black-Scholes valuation model, which requires a number of estimates and assumptions. The significant estimates in the model are the expected option life, and the expected volatility.

Deferred tax asset

The extent to which deferred tax assets can be recognised is based on an assessment of the probability of the Group's future taxable income, against which the deferred tax assets can be utilised. No deferred tax asset is currently recognised.

Notes to the financial statements

4 Significant accounting estimates and judgements continued

Significant management judgement

Intangible assets

Research and development expenditure

The Board uses its judgement in the assessment of the extent, if any, to which research and development expenditure meets the recognition requirements for the capitalisation of development costs. Development expenditure has not been capitalised as regulatory and other uncertainties relating to the current stage of the Group's development projects mean that all the criteria for capitalisation of development expenditure as required by International Financial Reporting Standards have not been met.

Going concern

The Board uses its judgement in the assessment of the suitability of the going concern basis in the preparation of the financial information. In exercising this judgement the Board considers the availability of funds, the expected cash flows based on budgets and forecasts prepared and other operational factors which may impact on the success of the Group.

Investment in Subsidiaries

Impairment review

In assessing impairment of investment in subsidiaries, the directors estimate the future cash flows expected to be generated from the asset once all regulatory approvals for clinical use have been satisfied. Estimation uncertainty relates to assumptions about future clinical results as well as the assessment about the patient population and expected revenue stream. The Group has not recognised any impairment loss on investments since all products currently remain in clinical development.

There are a number of factors which could have an adverse impact on the valuation of the investment. Those factors are all based on future events, and the future is difficult to predict with a high degree of accuracy.

Notes to the financial statements

5 Segmental analysis

The Group operates in one operating segment. All of the assets of the Group are related to that operating segment and are held in the UK.

The analysis of revenue by activity and customer location for this one business segment is:

	2019	2018
	£	£
Analysis of revenue		
Product sales	89,386	49,276
	<u>89,386</u>	<u>49,276</u>
	2019	2018
	£	£
Geographical analysis by destination		
United Kingdom	21,518	15,733
Rest of Europe	67,868	33,543
	<u>89,386</u>	<u>49,276</u>

During 2018 and 2019 100% of the Group's revenues arose from a single entity who supplies the products on behalf of the Group. This is a requirement of authorities regulating the manner in which goods are supplied under Named Patient Regulations.

6 Loss for the year before taxation

The loss for the year before taxation for the Group is stated after charging:

	2019	2018
	£	£
Depreciation	16,019	37,754
Net loss/(gain) on foreign currency translation	61,152	(147,589)
Research and development expenditure	1,405,033	3,906,799
Taxation Services	10,250	8,250
Auditor's remuneration:		
- Audit services	23,000	61,000
- Taxation services	-	-
- Other non-audit services	-	-

Notes to the financial statements

7 Other Operating Income

	2019	2018
	£	£
Research and development expenditure credit	-	-
Grant income	-	-
	-	-

8 Directors and Employees

Staff costs, including directors, comprised the following:

	2019	2018
	£	£
Wages and salaries	1,456,137	1,225,483
Social security costs	145,132	140,926
Share based payments	1,134,197	775,859
Pension costs	23,041	18,255
	2,758,507	2,160,523

At the year end the outstanding balance due to the pension schemes was £2,051 (2018: £5,938).

The average number of employees, including directors, during the year was as follows:

	2019	2018
	Number	Number
Administration	15	17

Share-based payments

Share options and warrant instruments are granted at the discretion of the Board to employees and certain consultants of the Group. All options and warrants vest over periods from date of grant of up to four years or on an exit event, trade sale or IPO if earlier.

Information regarding directors and key management

Directors remuneration comprises salaries for executive team and fees payable for services as director

	2019	2018
	£	£
Directors fees and salaries	475,357	362,844
Social security costs	54,691	44,297
Pension contributions	9,996	9,996
	540,044	417,137

Notes to the financial statements

8 Directors and Employees continued

Key management are considered to be the directors of the Group

	2019	2018
	£	£
Board fees and salaries	540,044	423,075
Share based payment expense	-	493,853
Other management services	-	75,000
	<u>540,044</u>	<u>991,928</u>

During the year Toby Wilson Waterworth was a member of a defined contribution pension scheme to which the Group contributed during the period. No other Directors were members of any defined contribution pension schemes to which the Group contributed to during any of the periods.

9 Net finance costs

	2019	2018
	£	£
Interest receivable	34,041	25,739
Interest payable	(1,223)	-
	<u>32,818</u>	<u>25,739</u>

10 Income tax credit

There is no tax charge for either period due to losses arising. The Group made a repayment claim in respect of research and development tax credits in 2019 and 2018.

The relationship between the expected tax credit based on the effective tax rate of the Group at 19.00% (2018: 19.00%) and the tax credit actually recognised in the income statement can be reconciled as follows:

	2019	2018
	£	£
Loss for the year before taxation	(4,010,185)	(6,858,015)
Tax rate	19%	19%
Expected tax credit	(761,935)	(1,303,023)
Fixed asset differences	1,967	8,113
Temporary differences not recognised in the computation	(667)	(382,997)
Expenses not deductible for tax purposes	227,800	310,160
Income not deductible for tax purposes	(18,559)	-
Research and development tax credit adjustment	(145,504)	(387,562)
Deferred tax not recognised on losses	281,715	753,065
Actual tax credit	<u>(415,183)</u>	<u>(1,002,244)</u>

Notes to the financial statements

11 Investments

Shares in subsidiary companies	Shares in subsidiaries £	Capital contribution £	Total £
At 1 January 2018	1,045,202	13,939,217	14,984,419
Capital contribution	-	5,411,883	5,411,883
At 31 December 2018	1,045,202	19,351,100	20,396,302
Capital contribution	-	1,863,176	1,863,176
At 31 December 2019	1,045,202	21,214,276	22,259,478

As at 31 December 2018 and 2019, Atlantic Pharmaceuticals Limited designated the monies advanced from Atlantic Healthcare plc as a capital contribution. Atlantic Pharmaceuticals Limited is a wholly owned subsidiary of Atlantic Pharmaceuticals (Holdings) Limited.

The company owns 100% of the issued share capital of the companies listed below:

		2019 £	2018 £
Aggregate capital and reserves			
Atlantic Pharmaceuticals (Holdings) Limited	Non trading	101	101
Atlantic Clinica Limited	Non trading	1	1
Atlantic Pharmaceuticals Limited	Trading	(371,761)	1,824,819

12 Intangible assets

	2019 £	Restated 2018 £
Licence		
Licences and intellectual property rights	3,118,504	1,045,200
Total	3,118,504	1,045,200

Notes to the financial statements

12 Intangible assets continued

Licenses and intellectual property rights

	Group		Total
	Alicaforsen	Renzapride	
	£	£	£
Cost:			
As at 1 January 2018 (restated)	1,045,200	-	1,045,200
Additions	-	-	-
Disposals	-	-	-
At 31 December 2018 (restated)	1,045,200	-	1,045,200
Additions	-	2,073,304	2,073,304
Disposals	-	-	-
At 31 December 2019	1,045,200	2,073,304	3,118,504
Depreciation:			
As at 1 January 2018	-	-	-
Provided in the year	-	-	-
Disposals	-	-	-
At 31 December 2018	-	-	-
Provided in the year	-	-	-
Disposals	-	-	-
At 31 December 2019	-	-	-
Net book amount:			
At 31 December 2019	1,045,200	2,073,304	3,118,504
At 31 December 2018 (restated)	1,045,200	-	1,045,200

The Group holds rights under a perpetual exclusive, worldwide licence to develop and commercialise Alicaforsen Products. The initial cost for the licence representing a prepayment was an upfront fee of US\$2,000,000. Further payments also become due on reaching certain milestones; reaching those milestones enables the Group to generate revenues from commercialising the product and hence value can be generated.

During the year the Group also acquired renzapride for development and commercialisation. The initial cost for the licence was an upfront fee of US\$3,000,000 settled via equity. Further payments also become due on reaching certain milestones; reaching those milestones enables the Group to generate revenues from commercialising the product and hence value can be generated.

These milestones are recognised within Intangible assets as each milestone is met which results in an increase in the value of the intellectual property (see note 24).

The intangible asset has been restated in the prior year due to a revision of the accounting policy regarding recognition of milestone payments. As the milestone previously recognised has not been met, no intangible asset or contingent liability is now recognised.

For the purpose of the annual impairment review consideration is given to (i) the potential incremental cash flows resulting from the commercialisation of the product assuming regulatory approval is obtained to enable commercialisation in the EU and U.S., (ii) the expected probability of successfully completing the clinical trials resulting in regulatory approval. The potential incremental cash flows are based on existing prices secured and a comparison with other products in a similar market. The probability of the regulatory approval is based on directors' estimates projected on the status of clinical trials completed.

Notes to the financial statements

12 Intangible assets continued

The key assumptions in calculating recoverable amount are the probability of successful clinical development and the potential market opportunity. Given the size of this opportunity, the value is not sensitive to growth rates or discount rates.

The carrying value of the rights under the licence includes the upfront payment and the estimate of the above milestone payments taking into account the likelihood and timing of the underlying events.

13 Property, plant and equipment

	2019 £	2018 £
Property, plant and equipment owned	3,942	10,209
Right-of-use assets	6,646	-
Total	10,588	10,209

Property, plant and equipment owned

	Leasehold improvements £	Office and computer equipment £	Fixtures and fittings £	Total £
Cost:				
As at 1 January 2018	4,377	59,038	74,251	137,666
Additions	-	7,471	-	7,471
Disposals	-	(1,526)	-	(1,526)
At 31 December 2018	4,377	64,983	74,251	143,611
Additions	1,180	1,925	-	3,105
Disposals	-	-	-	-
At 31 December 2019	5,557	66,908	74,251	146,716
Depreciation:				
As at 1 January 2018	4,377	44,986	47,267	96,630
Provided in the year	-	13,486	24,268	37,754
Disposals	-	(982)	-	(982)
At 31 December 2018	4,377	57,490	71,535	133,402
Provided in the year	197	6,459	2,716	9,372
Disposals	-	-	-	-
At 31 December 2019	4,574	63,949	74,251	142,774
Net book amount:				
At 31 December 2019	983	2,959	-	3,942
At 31 December 2018	-	7,493	2,716	10,209

Notes to the financial statements

13 Property, plant and equipment continued

Right-of-use assets

	Group	
	Property £	Total £
Cost:		
At 31 December 2018	-	-
Impact of change in accounting policy	13,293	13,293
Additions	-	-
Disposals	-	-
At 31 December 2019	13,293	13,293
Depreciation:		
At 31 December 2018	-	-
Impact of change in accounting policy	-	-
Provided in the year	6,647	6,647
Disposals	-	-
At 31 December 2019	6,647	6,647
Net book amount:		
At 31 December 2019	6,646	6,646
At 31 December 2018	-	-

Property, plant and equipment owned

	Leasehold improvements £	Company Office and computer equipment £	Fixtures and fittings £	Total £
Cost:				
As at 1 January 2018	4,377	59,038	868	64,283
Additions	-	7,471	-	7,471
Disposals	-	(1,526)	-	(1,526)
At 31 December 2018	4,377	64,983	868	70,228
Additions	1,180	1,925	-	3,105
Disposals	-	-	-	-
At 31 December 2019	5,557	66,908	868	73,333
Depreciation:				
As at 1 January 2018	4,377	44,986	868	50,231
Provided in the year	-	13,486	-	13,486
Disposals	-	(982)	-	(982)
At 31 December 2018	4,377	57,490	868	62,735
Provided in the year	197	6,459	-	6,656
Disposals	-	-	-	-
At 31 December 2019	4,574	63,949	868	69,391
Net book amount:				
At 31 December 2019	983	2,959	-	3,942
At 31 December 2018	-	7,493	-	7,493

Notes to the financial statements

14 Inventories

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Raw materials	-	-	-	-
Finished goods	16,291	22,088	-	-
	<u>16,291</u>	<u>22,088</u>	<u>-</u>	<u>-</u>

Product purchased for clinical trial use is excluded from Inventory and expensed to the statement of comprehensive income when incurred. In 2019 a total of £18,529 (2018: £34,070) inventory cost was included as a cost of sale in the statement of comprehensive income. There has been no charge to the statement of comprehensive income resulting from write down of inventory.

15 Trade and other receivables

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Trade receivables	21,466	617	-	-
Corporation tax	415,183	1,002,244	-	-
Other receivables	100,224	188,470	55,833	83,754
	<u>536,873</u>	<u>1,191,331</u>	<u>55,833</u>	<u>83,754</u>

All amounts are short-term. The carrying value of trade receivables is considered a reasonable approximation of fair value. All of the receivables have been reviewed for indicators of impairment. No trade receivables were found to be impaired and no provision (2018: £nil) has been recorded in the financial statements.

In addition, some of the unimpaired trade receivables are past due as at the reporting date. The age of trade receivables past due but not impaired is as follows:

	2019	2018
	£	£
Not more than 1 month	5,320	1,680
Between 1-3 months	16,146	4,663
Between 3-6 months	-	-

Notes to the financial statements

16 Cash and cash equivalents

Cash and cash equivalents include the following components:

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Cash at bank and in hand	4,012,153	7,413,133	3,655,993	4,525,741

Amounts held on 12 month maturity were £nil (2018: £nil) and 30 day notice bank accounts were £2.9m at 0.6%, 0.8% and 1.4% (2018: £2.32m at 1.2% and 0.8%). No other amount included in cash and cash equivalents is held on bank deposit which were subject to any notice periods or penalty on withdrawal of sums.

17 Trade and other payables

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Trade payables	773,345	1,443,657	92,353	105,942
Social security and other taxes	63,477	76,628	7,094	19,033
Other payables	591,332	1,509,435	102,455	708,792
	1,428,154	3,029,720	201,902	833,767

18 Loans and borrowings

	2019	2018
	£	£
Lease liability - maturity analysis - contractual undiscounted cash flows		
Within one year	12,366	-
Between one and five years	319	-
In over five years	-	-
	12,685	-
	2019	2018
	£	£
Lease liabilities included within the statement of financial position at 31 December		
Current	12,366	-
Non-current	319	-
	12,685	-

Notes to the financial statements

18 Loans and borrowings continued

	2019	2018
	£	£
Amounts recognised in profit or loss		
Interest on lease liabilities	1,223	-
	<u>1,223</u>	<u>-</u>

	2019	2018
	£	£
Amounts recognised in the statement of cash flows		
Total cash outflow for leases	13,000	-
	<u>13,000</u>	<u>-</u>

19 Other liabilities

	2019	Restated 2018
	£	£
Milestone obligations	-	-

Other liabilities include the cashflow estimate of the milestone obligations arising under the licence agreement for the Intellectual Property Rights over Alicaforsen Products (note 12).

The contingent liability has been restated in the prior year due to a revision of the accounting policy regarding recognition of milestone payments. As the milestone previously recognised has not been met, no intangible asset or related financial liability is now recognised.

20 Deferred tax

There were no deferred tax assets or liabilities recognised by the Group at 31 December 2019 (2018: £nil). A deferred tax asset would be recognised only when sufficient taxable profits are expected to be generated to relieve the trading losses.

The Group may also benefit from a taxable deduction when the outstanding employee share options are exercised. Such a benefit would create an additional tax deductible expense.

The level of trading tax losses available to the Group were approximately £16,237,266 at 31 December 2019 (2018: £14,550,822).

Notes to the financial statements

21 Equity

Share capital	2019 £	2018 £
Authorised, issued and fully paid		
29,643,879 Ordinary shares of £0.01 each (2018: 29,643,879)	296,439	296,439
84,536 Hurdle shares of £0.01 each (2018: 84,536)	845	845
Total shares of £0.01 at 31 December	<u>297,284</u>	<u>297,284</u>
	Number	£
Ordinary shares of £0.01 at 1 January 2018	28,771,259	287,713
New share issues	872,620	8,726
Ordinary shares of £0.01 at 31 December 2018	<u>29,643,879</u>	<u>296,439</u>
New share issues	-	-
Ordinary shares of £0.01 at 31 December 2019	<u>29,643,879</u>	<u>296,439</u>
Hurdle shares of £0.01 at 1 January 2018	84,536	845
New share issues	-	-
Hurdle shares of £0.01 at 31 December 2018	<u>84,536</u>	<u>845</u>
New share issues	-	-
Hurdle shares of £0.01 at 31 December 2019	<u>84,536</u>	<u>845</u>

In the year ended 31 December 2018, the Company issued 872,620 Ordinary shares of £0.01 at £4.25 per share.

The Hurdle shares do not have any voting rights or right to receive dividends. Hurdle shareholders are entitled to a return of capital only after payment of the first £100 per share to Ordinary shareholders and then only up to a sum equal to LDC's investment in the Hurdle shares, being £100 per share. On an Initial Public Offering (IPO) of the Company's Ordinary shares, Hurdle shareholders are entitled to a return of capital as above; if the return to Ordinary shareholders is less than £100 per share, the Company has the right to buy back the Hurdle shares for £1.00.

Equity reserve

In the year ended 31 December 2015, warrants classified as equity were issued to LDC, entitling it to subscribe for 3,935,220 Ordinary shares at a strike price of £0.01 per share. £39,352 was received on grant of the warrants to satisfy the exercise price. In the year ended 31 December 2019 no warrants relating to Ordinary shares have been exercised (2018: nil).

Notes to the financial statements

22 Share based payments

During the year ended 31 December 2018, Share options were issued to group employees in respect of 103,485 ordinary shares with an average strike price of £4.25 per share at a risk-free interest rate of 1.35%.

During the year ended 31 December 2018, Share options were issued to group employees in respect of 118,257 ordinary shares with an average strike price of £4.25 per share at a risk-free interest rate of 1.29%.

During the year ended 31 December 2019, Warrants in respect of 60,389 ordinary shares were issued to consultants with an average strike price of £0.01 per share at a risk-free interest rate of 1.28%.

During the year ended 31 December 2019, Warrants in respect of 45,000 ordinary shares were issued to contractors with an average strike price of £4.25 per share at a risk-free interest rate of 0.90%.

During the year ended 31 December 2019, Warrants in respect of 6,393 ordinary shares were issued to consultants with an average strike price of £0.01 per share at a risk-free interest rate of 0.72%.

During the year ended 31 December 2019, Warrants in respect of 554,111 ordinary shares were issued related to the acquisition of renzapride with an average strike price of £0.01 per share at a risk-free interest rate of 0.72%.

During the year ended 31 December 2018, Warrants in respect of 305,189 ordinary shares were issued to investors with an average strike price of £4.25 per share at a risk-free interest rate of 1.53%.

During the year ended 31 December 2018, Warrants in respect of 9,775 ordinary shares were issued to consultants with an average strike price of £0.01 per share at a risk-free interest rate of 1.47%.

During the year ended 31 December 2018, Warrants in respect of 6,345 ordinary shares were issued to investors with an average strike price of £4.25 per share at a risk-free interest rate of 1.53%.

During the year ended 31 December 2018, Warrants in respect of 16,471 ordinary shares were issued to investors with an average strike price of £0.01 per share at a risk-free interest rate of 1.27%.

The share based payment charge associated with the options and warrants is calculated using Black Scholes Valuation Model.

Expected volatility was determined by comparison to a similar Group also engaged in the speciality pharmaceutical market and trading on the AIM market of the London Stock Exchange. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The risk free rate is based on that of the gross redemption yield of an undated UK government loan stock.

Notes to the financial statements

22 Share based payments continued

	2019: 1 January to 31 December 2019		2018: 1 January to 31 December 2018	
	Number of share options and warrants	Weighted average exercise price	Number of share options and warrants	Weighted average exercise price
Nominal value per share	£0.01 No.	£	£0.01 No.	£
Outstanding at beginning of the period	2,704,645	2.80	1,268,703	0.73
Granted during the period	665,893	0.30	1,472,713	4.17
Exercised during the period	-	-	-	-
Lapsed during the period	(84,121)	4.25	(36,771)	3.76
Outstanding at end of the period	3,286,417	2.26	2,704,645	2.80
Exercisable at the end of the period	1,805,110	2.71	1,084,904	0.80

The factors used in the Black-Scholes model are as follows:

	2019	2018
Weighted average share price	£4.25	£4.25
Expected volatility	45%	45%
Expected life	0 - 3 years	0 - 3 years
Risk free rate	0.72 - 1.53%	1.27 - 1.53%
Expected dividend yields	0%	0%
Weighted average fair value	£2.07	£1.39

Notes to the financial statements

23 Net cash from operations

	2019 £	2018 £
Loss for the year before tax	(4,010,185)	(7,312,842)
<i>Adjustments for the year</i>		
Share based payment expense	1,134,197	1,230,686
Interest receivable	(34,041)	(25,739)
Interest payable	1,223	-
Depreciation	16,019	37,754
Operating cashflows before working capital	(2,892,787)	(6,070,141)
(Increase)/decrease in inventories	5,797	(1,383)
(Increase)/decrease in receivables excluding tax	67,397	49,344
Increase/(decrease) in trade and other payables	(1,601,566)	229,758
	(4,421,159)	(5,792,422)

24 Related party transactions

Details of transactions with the directors of the Group are set out below.

The Group, during the year, was invoiced £nil (2018: £75,000) for consultancy and management fees provided by T A Wilson Waterworth and £nil (2018: £nil) for reimbursement of costs incurred on behalf of the Group by Parker Davies Lande Limited, a company of which T A Wilson Waterworth is a director. The balance accrued at the year end for services provided within the year but not yet invoiced, was £nil (2018: £nil) and for reimbursement of costs incurred on behalf of the Group was £nil (2018: £nil). The amounts due at the statement of financial position date were £nil (2018: £nil).

The Group was also invoiced £nil (2018: £5,345) by Parker Davies Lande Limited for Company Secretary fees, management fees and services provided by F Wilson Waterworth. The balance accrued at the year end for services provided within the year but not yet invoiced, was £nil (2018: £nil). The amounts due at the statement of financial position date were £nil (2018: £nil).

The Group, during the year was invoiced £nil (2018: £nil) for directors' fees to W Finance & Strategic, a company of which Charles Woler is a director and £2,433 (2018: £2,039) for reimbursement of costs incurred on behalf of the Group. The balance accrued at the year end for services provided within the year but not yet invoiced, was £nil (2018: £nil). The amounts due at the statement of financial position date were £nil (2018: £nil).

The Group, during the year was invoiced £nil (2018: £nil) for directors' fees to Wellner Capital Advisers Ltd, a company of which T Wellner is a director and £1,214 (2018: £6,459) for reimbursement of costs incurred on behalf of the Group. The balance accrued at the year end for services provided within the year but not yet invoiced, was £nil (2018: £nil). The amounts due at the statement of financial position date were £nil (2018: £nil).

The Group, during the year was invoiced £nil (2018: £nil) for directors' fees by A Boyce and £282 (2018: £405) for reimbursement of costs incurred on behalf of the Group. The balance accrued at the year end for services provided within the year but not yet invoiced, was £nil (2018: £nil). The amounts due at the statement of financial position date were £nil (2018: £nil).

Notes to the financial statements

24 Related party transactions continued

The Group, during the year was invoiced £nil (2018: £nil) for directors' fees by W Ringo and £nil (2018: £3,789) for reimbursement of costs incurred on behalf of the Group. The balance accrued at the year end for services provided within the year but not yet invoiced, was £nil (2018: £nil). The amounts due at the statement of financial position date were £nil (2018: £nil).

The above transactions were carried out on an arm's length basis and on normal commercial terms. The above-noted related party transactions include remuneration directors received in respect of Board duties; the total of these fees is shown in note 8.

25 Contingent liabilities

Under the terms of their licence agreements the Group is committed to make further milestone payments on each clinical product reaching agreed milestones. The milestone is recognised as an intangible asset, where the milestone increases the value of the intellectual property, and a liability once each milestone is met. Where the milestone is not deemed to be value-enhancing, the amount is expensed as research and development expense.

Under the terms of the alicaforsen licence a milestone payment of US\$1,100,000 is due on New Drug Application approval for Pouchitis indication and further milestone payments of US\$825,000 per indication become due on New Drug Application approval for each product in each indication other than Pouchitis. The Group is entitled to a single \$500,000 credit that may be applied to the first 50% of each milestone payment until such credit is exhausted. For example, if the Group achieves the NDA approval milestone for an indication other than Pouchitis, the Group may apply the \$500,000 credit toward the first 50% of the applicable \$825,000 milestone payment (i.e., 50% of \$825,000 = \$412,500), such that after the credit is applied the Group will owe a total milestone payment of \$412,500, and will have a remaining credit of \$87,500 (i.e., \$500,000 - \$412,500 = \$87,500) to apply to the first 50% of another milestone payment under this Agreement. At the option of the Group, these milestones may be satisfied through the issue of shares in the Company. The Group continues to develop other potential indications in which alicaforsen may be appropriate. The Group commenced clinical development and Phase 1 tablet formulation in the second additional indication during the course of 2018.

Furthermore, under the terms of the licence, royalty payments as a percentage the revenues arising from the supply of products developed are due. These are treated and disclosed as contingent liabilities and provision for the royalty expense is recognised only when an underlying sale is made as the contract is considered executory.

Under the Renzapride agreement, the Group is required to make up to \$48 million in milestone payments for the development of gastrointestinal indications, a number of which are expected to be orphan designations. In addition, the agreement includes a commercial milestone payment upon reaching a sales target, and single digit royalties on product sales.

Notes to the financial statements

26 Risk management objectives and policies

Financial instruments

The Group is exposed through its operations to the following financial risks:

- Credit risk
- Interest rate risk
- Foreign exchange risk, and
- Liquidity risk.

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

(i) Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- Trade receivables
- Cash and cash equivalents; and
- Trade and other payables.

(ii) Financial instruments by category

Financial assets

	Fair value through profit or loss		Amortised cost	
	2019	2018	2019	2018
	£	£	£	£
Cash and cash equivalents	-	-	4,012,153	7,413,133
Trade receivables	-	-	21,466	617
	-	-	4,033,619	7,413,750

Financial liabilities

	Fair value through profit or loss		Amortised cost	
	2019	2018	2019	2018
	£	£	£	£
Trade and other payables	-	-	1,364,677	2,953,092
Non-current liabilities				
Milestone obligations	-	-	-	-
	-	-	1,364,677	2,953,092

Notes to the financial statements

26 Risk management objectives and policies continued

(iii) Financial instruments not measured at fair value

Financial instruments not measured at fair value includes cash and cash equivalents, trade and other receivables, and trade and other payables.

Due to their short-term nature, the carrying value of cash and cash equivalents, trade and other receivables, and trade and other payables approximates their fair value.

For details of the fair value hierarchy, valuation techniques, and significant unobservable inputs related to determining the fair value of milestone obligations, which are classified in level 3 of the fair value hierarchy, please see below.

(iv) Financial instruments measured at fair value

The fair value hierarchy of financial instruments measured at fair value is provided below.

	Level 1		Level 2		Level 3	
	2019	2018	2019	2018	2019	2018
	£	£	£	£	£	£
Financial Liabilities						
Milestone obligations	-	-	-	-	-	-
	-	-	-	-	-	-

There were no transfers between levels during the period.

The reconciliation of the opening and closing fair value balance of level 3 financial instruments is provided below:

	Milestone Payment £
At 31 December 2018 (restated) and 31 December 2019	-

The contractual obligation of the milestone payments are disclosed in note 24.

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives reports from the Chief Executive Officer and the Director of Finance at Board meetings through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Notes to the financial statements

26 Risk management objectives and policies continued

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from credit sales. It is Group policy, implemented locally, to assess the credit risk of new customers before entering contracts. Such credit ratings are taken into account by local business practices.

The Group's exposure to credit risk is limited to the carrying amounts of financial assets recognised at the statement of financial position date, as summarised below:

	2019	2018
	£	£
Trade and other receivables	21,466	617
Cash and cash equivalents	4,012,153	7,413,133
	<u>4,033,619</u>	<u>7,413,750</u>

The Group's management considers that all the above financial assets that are not impaired for each of the statement of financial position dates under review are of good credit quality, including those that are past due. See note 15 for fuller information of financial assets that are past due.

The Group's principal financial assets are cash deposits, trade and other receivables. Risks associated with cash deposits are limited as the banks used are UK-based 'mainstream' high street commercial banks.

Interest rate risk

The Group's exposure to market risk for the changes in interest rates relates primarily to the Group's bank deposits. All balances held are subject to variable interest rates.

Given the low interest rates, the loss reported for the years is not considered sensitive to reasonably modest changes in interest rates.

Liquidity risk

Liquidity risk arises from the Group's management of working capital out of cash arising from its equity fundraising activities. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet forecast cashflows. Net cash requirements are compared to available cash and updated on a regular basis in order to determine additional funding requirements.

Foreign exchange risk

Foreign exchange risk arises when individual Group entities enter into transactions denominated in a currency other than their functional currency.

During the course of normal operations the Group makes a small amount of purchases in currencies other than GBP. In addition to the normal operation costs the Group is required to make payments relating to the licence on reaching certain milestone events. The directors regularly review the likelihood and timing of such events occurring.

Notes to the financial statements

26 Risk management objectives and policies continued

Where there is the prospect of a material contract in a currency other than GBP, the directors assess the risk of changes in the exchange rate and would use standard methods of protecting the Group from adverse changes in the exchange rates.

At 31 December of each reporting period, the following creditors in currencies other than GBP were outstanding:

	2019 £	2018 £
Payable within 6 months:		
Payable in USD	648,639	1,052,314
Payable in EUR	609	32,436
Payable in CHF	8,524	-
	<u>657,772</u>	<u>1,084,750</u>
Payable in more than 12 months		
Milestone obligations – payable in USD	-	-

The following table illustrates the sensitivity of profit and equity in regards to the Group's financial assets and liabilities and the US\$/GBP exchange rates 'all other things being equal'. It assumes a +/- 10% change in the exchange rate. The sensitivity analysis is based on the Group's foreign currency financial instruments held at each reporting date. If the GBP had weakened against the US Dollar by 10% then this would have had the following impact:

	2019 £	2018 £
Payable within 6 months:	<u>64,864</u>	<u>105,231</u>
Payable in more than 12 months	<u>18,017</u>	<u>18,655</u>

The impact on the statement of comprehensive income for each reporting period ended 31 December as a result of a weakening of US\$/GBP and Euro/GBP exchange rates, is limited to the payables within 6 months, as exchange movements in the milestone payable are offset against movements in the related intangible asset, as follows:

	2019 £	2018 £
Loss for the year	<u>105,231</u>	<u>105,231</u>
Equity	<u>105,231</u>	<u>105,231</u>

Notes to the financial statements

27 Capital management policies and procedures

The Group's capital management objective is to ensure the Group's ability to continue as a going concern. Given that the Group is still in a development phase and remains loss making, to achieve this objective the Group generally aims to have sufficient cash to allow it to continue operations and avoid payment obligations which would exceed funds available. The majority of the Group's funding has been through permanent equity capital.

The Group monitors capital on the basis of the carrying amount of equity less cash and cash equivalents as presented on the face of the statement of financial position.

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group issue new shares.

Net capital is calculated as total equity (as shown in the consolidated statement of financial position) less cash and cash equivalents.

Capital for the reporting years under review is summarised as follows:

	2019	2018
	£	£
Capital		
Total equity	6,253,570	6,652,241
Less cash and cash equivalents	(4,012,153)	(7,413,133)
Net capital	2,241,417	(760,892)
Overall financing		
Total equity	6,253,570	6,652,241
Plus borrowings	-	-
Total financing	6,253,570	6,652,441
Capital to overall financing ratio	0.36	(0.11)