

# AORTECH INTERNATIONAL PLC

## ANNUAL REPORT AND ACCOUNTS

For the year to 31 March 2019



Registered in Scotland. Company number SC170071

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## **Board of Directors and Advisors**

### **Directors**

**W Brown** Executive Chairman  
**J McKenna** Director of Clinical Marketing  
**G Wright** Non-executive Director  
**G Berg** Non-executive Director  
**J Ely** Non-executive Director  
**D Richmond** Non-executive Director

### **Company Secretary**

**K M Full** FCCA

### **Registered Office**

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### **Nominated Adviser**

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London SW1A 1LD

### **Stockbroker**

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57-58 St. James's Street,  
London SW1A 1LD

### **Lawyers**

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163 Bath Street  
Glasgow  
G2 4SQ

### **Registrars**

Equiniti Limited  
Aspect House  
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### **Independent Auditor**

Grant Thornton UK LLP  
Statutory Auditor  
Chartered Accountants  
101 Cambridge Science Park  
Milton Road  
Cambridge CB4 0PY

Registered in Scotland, Company No.SC170071

*Financial statements will be circulated to Shareholders and copies of the announcement will be made available from the Company's registered office. Dealings permitted on Alternative Investment Market (AIM) of the London Stock Exchange.*

## STRATEGIC REPORT

### CHAIRMAN'S STATEMENT

The past year has been transformational for AorTech - a strategy review was undertaken, a new business plan adopted, an equity fund raising successfully concluded, the Board of Directors strengthened by the appointment of three exceptional individuals and partnership agreements entered into with development partners to assist in bringing our portfolio of medical devices to market.

In addition to continuing to exploit AorTech's Intellectual Property (IP) related to the world class biomaterial, Elast-Eon™, we are now looking to use this material in a number of medical devices of our own design. Elast-Eon™ has first class long term blood contacting properties and, as a result, all of the initial products being developed are for the cardiovascular field. Each device is being designed to have improved clinical outcomes over current device technology but allowing procedures to remain the same, therefore avoiding the need to retrain surgeons in new ways of operating.

#### Trading for Year

As previously announced, the presentational currency of these accounts has been changed from US\$ to Sterling. While revenues from licensing our polymer technology continues to be earned in US\$, with the new product development work all being undertaken in the UK, the switch to reporting in Sterling better reflects the currency of the primary economic environment in which the Group now operates. This results in the figures which are provided within the financial statements for the year to 31 March 2018 being re-statements of US\$ amounts.

Revenues from License Fees and Royalties grew during the year, increasing from £404,034 to £463,244, a rise of 15%. In the previous year, the Company benefited from an exceptional gain of £254,737 relating to the net gain on settlement of a legal dispute resulting in a pre exceptionals loss of £288,551 being reduced to £33,814. The reported loss for the year amounts to £609,403 with Administrative costs having increased to £840,687 (2018: £473,669). All of the Research and Development costs relating to new products has been expensed to the profit and loss account rather than capitalised as an intangible asset explaining the rise in costs over the year.

During the year, AorTech raised net new capital of £2.54 million by way of a placing and open offer of new shares at 30p per share to fund product development costs. At the year end, the Group's cash position remained strong at £2,412,145 (2018: £422,007).

#### Polymer Business

AorTech owns a valuable IP portfolio covering a family of medical grade polymers Elast-Eon™. These polymers are fully approved for long term human implant and to date over 6 million patients' lives depend on devices enabled by Elast-Eon™. Elast-Eon™ has an FDA Masterfile and testing data has demonstrated the material to have the following desirable characteristics: non-inflammatory (release of fluid into tissue); non-thrombogenic (does not produce blood clots); non-calcific (does not encourage calcium build up); biostable (chemically stable in body); biocompatible (non-harmful to living tissue); durable (maintains mechanical properties long term); and abrasion resistant (wearing down of material). AorTech seeks to exploit this polymer IP by adopting a licensing model. A manufacturing partner, Biomerics, has licensed the rights to make and sell Elast-Eon™ in exchange for a share of gross margin. In addition, medical device companies are licensed to incorporate Elast-Eon™ into their products and Biomerics only sells to companies with the rights to use Elast-Eon™. This business area has seen positive growth over the past year and is performing in line with the Board's expectations. We are currently considering some new licensing opportunities which if successful could further build on the success of the polymer.

#### Research and Development

AorTech has identified two growth platforms and three key device products that are being developed utilising the key properties of the Elast-Eon™ polymer and building upon the Group's £60 million of historic research and development expenditure. The platforms are Implantable Fabrics and Medical Textiles, within which initial products will be cardiac patches and vascular grafts and Polymeric Heart Valves. Development work on each project commenced in the months after the fund-raising was concluded and good progress has been made on each. A summary of activities is set out below: -

#### Polymer Heart Valve

AorTech had previously developed four generations of a polymeric heart valve, known internally as Medlink, 8500, M95C and RM95C. Each design was an improvement on previous generations and testing of these valves has demonstrated the concept of a polymer valve to possess the key qualities to become a disruptive alternative to current technologies. We are confident that an Elast-Eon™ thin leaflet valve will not calcify, thus avoiding one of the primary reasons for failure of current animal tissue valves. Additionally, the

polymeric valve should be low thrombogenic, thus avoiding the need for a patient to be on life long anti-coagulation treatment. The costs of a machine making a polymer valve are a fraction of the costs of current valve technology, providing the third major competitive advantage. The design objectives of making a valve that lasts longer than current biologic valves, does not require anti-coagulation treatment and can be made highly efficiently and cost effectively is supported by the work previously undertaken by AorTech and considerable time has been spent reviewing these technical files.

In order to progress the heart valve project, we engaged with Vascular Flow Technologies ('VFT') to progress the development of the valve. We decided that as computational design tools had progressed so far and computational modelling is not only now recognised by the regulators but expected, that rather than jump in and make what had been made before, the design should be optimised and verified using the latest technology whilst in parallel considering the best way to consistently manufacture a valve. All work undertaken required to be fully documented and to be repeatable. The first phase successfully completed was the development of proprietary "leaflet builder" software that enables the shape and length of the valve leaflets to be designed and optimised. This new software is able to replicate historic designs and then optimise the design by changing parameters, undertaking computational modelling and feeding the changes in performance back into the design loop. The computational modelling previously undertaken by AorTech had used software designed for modelling crashes in automotive design and a number of untested or verified assumptions were present in the model. As a result, whilst the model could produce colourful images, there was no scientific basis upon which to judge whether the model would accurately predict what happens in the heart.

The VFT team has reproduced the computational model utilising modern tools and replicated the model of the RM95C valve to a much higher standard than previously produced. This now allows the true impact of design changes to be accurately modelled before incurring the not insubstantial costs of commissioning tooling.

In parallel with the design optimisation process, the manufacturing process is being redesigned and optimised with the objective of reducing design limitations dictated by the method of manufacture. Material has now been ordered to undertake test manufacturing to confirm the anticipated potential of the method.

More time has been spent on design processes and optimisation than originally anticipated as using historic design tools and methods would have compromised the ability to optimise the valve. This has been time well spent, however, as it will save time by reducing tooling requirements and enable faster manufacture turnaround times.

### **Medical Textiles**

Unlike the valve project, the designs of the textile products are much closer to the current technology available in the market. Current polyester grafts are either very tightly woven to limit leakage, but have poor handling properties in surgery, or are sealed by animal derived products. The AorTech innovation is to create a family of grafts and patches that have the handling properties preferred by surgeons whilst eliminating the requirement for animal by-products. The current technology on the market is approaching 40 years old and, over that time, the available technology for manufacturing precision textiles has improved together with the ability to design a bespoke yarn specifically for the intended use in grafts and patches. Similarly, polymeric coating technology that can coat and seal in layers down to a few microns has been developed and is commercially available.

AorTech is partnering with RUA Medical Devices Ltd ('RUA') to incorporate Elast-Eon™ sealants to a new generation of grafts and patches that have the desired surgical requirements without relying on animal by-products. The grafts will be similar to current technology and are designed to be a straight replacement without the need for any change in surgical technique, but with additional benefits of enhanced healing and avoidance of incidents of seroma.

RUA's focus has been on identifying the best yarn, the qualities of the fabric, the best version of Elast-Eon™ for sealing and planning the manufacturing process to ensure it can be validated from a regulatory perspective. RUA Medical has undertaken a detailed process of preparing for manufacture which started with the development and manufacture of a unique yarn on which the patches and grafts will be manufactured. A bespoke cleanroom for the processing of implantable fabrics is currently under construction and equipment is being purchased and designed to allow the textiles products to be manufactured using the latest technologies.

Once the cleanroom is operational, the first coated grafts will be manufactured and testing will commence with the aim of seeking regulatory approval. The technology utilised in the grafts will automatically be applied to the patches which will follow as prototypes shortly after the grafts.

### Quality Assurance and Regulatory Affairs

The medical device industry is highly regulated with differing regimes in different parts of the world. The regulatory regime in Europe is complicated, particularly from a UK perspective with the ongoing uncertainty over Brexit. New regulations and requirements have been incorporated into law with a time horizon that currently appears impossible for the notified bodies to implement.

We are working closely with our regulatory team at Compliance Solutions and, although we face the same issues as every other device company with regards to gaining approval in Europe, we will be concentrating our initial product launch efforts on the US markets which not only command higher pricing, but now offer a simpler path to approval.

### Corporate Governance

Historically, AorTech did not subscribe to any particular governance code, but in line with most AIM quoted companies has elected to adopt the QCA Code. In this annual report and accounts, I have set out my statement on Corporate Governance which I hope provides shareholders with a better understanding of how AorTech is run and how important decisions are made. Given its stage of development, there are certain aspects of AorTech's structure that do not quite fit in with the QCA Code. This mainly relates to my position of Executive Chairman. I hope that the Corporate Governance Statement adequately address any concern in that respect.

### What does Corporate Governance mean to AorTech?

In simple terms, it is about our core values, corporate behaviour and decision making processes and communicating those to stakeholders. Over the past year, AorTech has transformed from a medical polymer IP business to one developing medical devices. All the devices being developed by AorTech are intended to be long term implants to support and sustain the life of patients. One of my co-directors (John Ely) recently summed up our priorities as: *"Our eyes, in my opinion, must always be on the patient. Only when we serve the patient first do we serve the shareholder. Unfortunately, in our world, this is a long-term proposition not a short-term one and many investors may not have the patience for that. I think we have a really great mix of experience and talent on this board and I believe we can deliver for the shareholder when we focus first on the patient."*

### Outlook

The new and existing shareholders who supported the equity fundraising during the year have enabled AorTech to make significant progress over the past year and I thank those supporters for the trust placed in the business plan and the new Board of Directors. Developing new medical devices is not a short term process for either the engineers and clinicians involved or the providers of capital.

Progress has been good over the past year with no change in our expectations of the timelines to having products ready for seeking regulatory approval. I expect the current year to reach a number of milestones in the development of the polymeric heart valve, tissue patches and the large bore vascular grafts with the planning, product design and preparation for manufacturing allowing prototypes to be manufactured and trials commencing.



William Brown  
Executive Chairman

16 July 2019

## STRATEGY

In reviewing AorTech's portfolio of intellectual property ('IP'), it became very clear to the Board that the family of biostable polymers was exceptional in long-term performance and is well suited for use in blood contacting devices and particularly in the cardiovascular system. AorTech has licensed device manufacturers to use Elast-Eon™ in this area and to date over 6 million devices have been implanted which depend upon the use of Elast-Eon™ for their success. The challenge for AorTech is to achieve greater value from the benefits Elast-Eon™ brings to medical devices.

The strategy adopted is therefore to continue to pursue licensing and supply business through our manufacturing partner, Biomerics LLC, and further advance the development of AorTech's IP portfolio by moving further up the value chain by developing medical devices of our own design.

AorTech is a medical device business with a portfolio of devices in the cardiovascular field.

### Initial Product Focus

AorTech has identified two growth platforms and three key device products that can be developed utilising the key properties of the Elast-Eon™ polymer and build upon the £60 million of historic research and development expenditure. The platforms are Polymeric Heart Valves and Medical Textiles within which initial products will be cardiac patches and vascular grafts. Each product is described below.

### Polymeric Heart Valves

AorTech has the opportunity to transform the global treatment of heart disease by delivering a synthetic heart valve that will be durable, so reducing the need for future replacement and should not require lifelong drug treatment. As well as these clear clinical advantages, the manufacturing costs of a synthetic valve will be considerably less than those of current valve technology making this a potentially disruptive advance in heart valve surgery. AorTech's historic investment and progress to date dramatically reduces both the time and cost of preparing a novel valve for human trial.

When it initially developed a synthetic valve, AorTech was ahead of the market. The global heart valve market (valued at some US\$5 billion) is now in need of new technology, enhancing the opportunities available to AorTech.

### Medical Textiles

AorTech has identified two device categories that currently rely on abattoir-sourced animal by-products. These are pericardial patches and large bore vascular grafts. Replacing animal tissue with a world leading bio-stable polymer will reduce manufacturing costs, eliminate animal by-product sourcing risk and improve product sterilisation options and performance. The initial products to be developed are targeted to be ready for human use within two years due to the acceptance of Elast-Eon™ in long-term implants.

### Patches

The currently available technology comprises either animal tissue or textile (PTFE) material. Each material is compromised by either suffering from calcification or subject to tissue ingrowth leading to adhesion. AorTech will develop an Elast-Eon™ based product that should avoid these problems and address a market that is suffering a lack of supply of animal sourced products.

### Vascular Grafts

The currently available technology comprises tightly woven PTFE grafts or softer polyester grafts sealed with animal-sourced material, limiting sterilisation options. AorTech will develop new graft technology replicating current graft performance, but utilising Elast-Eon™ as a sealing agent. The graft will be made available as a direct surgical implant and as a component to other medical device companies, particularly for incorporation into valved conduits for tissue based valves that require wet sterilisation.

### Business Model

The medical device industry is highly regulated and requires a significant amount of infrastructure to operate to the various standards required. Setting up a development facility with a view to manufacturing devices would require not only substantial investment in people, but a lengthy time commitment in obtaining certification and establishing systems.

AorTech has sought to develop its business by working in partnership with well-established businesses that not only have the necessary infrastructure in place, but can develop our new products more economically and faster than the Company could by setting up itself. The business model is, therefore, to keep corporate infrastructure costs to a minimum by outsourcing to experts, thus minimising risk and maximising return on investment. As the Company develops, certain functions and skills will be "internalised" by recruitment.

Elast-Eon™ is a proven material enabling the performance of life enhancing devices. AorTech believes that by moving further up the value chain, the strategy of developing device related IP will deliver medium to long term growth in shareholder value as those devices achieve regulatory approval and are brought to market or out licensed.

## DIRECTORS

The Company is managed by the Board of Directors which, at 31 March 2019, comprised two Executive (William Brown and John McKenna) and four independent non-Executive Directors. All Directors are able to take independent advice in furtherance of their duties if necessary.

John McKenna is a part-time Executive Director contracted to 67.5 days per annum. The non Executive Directors, being Gordon Wright, John Ely, Geoff Berg and David Richmond, are considered independent and provide a minimum of one day per month.

**William (Bill) Brown (Chairman).** Bill was appointed to the Board on 21 October 2011 and became Chairman on 3 July 2012. Bill is a chartered accountant with over 30 years' experience in advising and investing in high growth smaller companies. He has floated several companies and has significant experience in fund raisings, corporate deals and restructurings. He launched the first dedicated fund for AIM and was instrumental in the growth and internationalisation of AIM as a member and Chairman of the AIM Advisory Committee. He joined the Aortech Board in late 2011 and, having conducted a strategic review, concluded that despite the Company having outstanding technology, its business model would not succeed. Since then, the historic problems have been addressed and a strategy developed to monetise the core technology. Bill deals with the licensing, commercial and IP issues having gained a detailed understanding of all of the Company's projects and opportunities. On 8 June, 2018, William Brown became full time Executive Chairman.

**Key Areas of Expertise** Strategy, corporate governance, corporate finance, financial management, investor relations, international business risk management.

**John McKenna (Director of Clinical Marketing).** John is a leading marketing expert in the field of cardiovascular devices. With over 30 years' experience in cardiothoracic surgery, he has helped develop and launched a number of successful devices, including heart valves, large vessel grafts and stents. John has worked for a number of leading medical companies, including Pfizer, Vascutek (Terumo) and CryoLife, and has contacts with both leading heart surgeons and senior executives at the major device companies. John rejoined the AorTech Board in late 2016, and has helped develop the product strategy based on his analysis of competing products and current market need from the industry. He has established European-wide distribution networks for medical devices and OEM supply agreements, particularly in heart valve related products.

**Key Areas of Expertise** Medical device market, sales management, market development, international sales, product launch.

**Gordon Wright (Non-executive Director).** Gordon has an extensive knowledge of the cardiovascular field having been involved in healthcare companies for over 30 years. Gordon is one of the co-founders of AorTech as well as a number of other medical device businesses. He was principal shareholder and managing director of BioMedical Systems Limited from 1979 to 1988 which developed and manufactured the Bioflo tissue valve, and of Ecosse Medical Limited from 1985 to 1988 which manufactured catheters for open heart surgery and PVC tubing for heart and lung machines. Both these successful companies were sold in 1988 to 3M Health Care Limited. Gordon has been on the Board since November 2005, but is considered by the Board to be independent.

**Key Areas of Expertise** Sales management, market development, international sales, product launch.

**John Ely (Non-executive Director).** John is a recognised expert in cardiovascular devices and spent 7 years at the FDA, where he was responsible for a team that approved cardiovascular medical devices, including heart valves. In industry, he has successfully managed the process of obtaining pre-market approvals for 6 heart valves, including both tissue and mechanical valves. He has also led research and development, regulatory and quality assurance teams at Baxter International Inc., Edwards Lifesciences Corporation and On-X Life Technologies, Inc. John has authored over 25 scientific papers and is the named inventor on 3 US patents. He was previously engaged as an expert witness in the area of heart valve design and development process, giving him an intimate knowledge of AorTech's heart valve project.

**Key Areas of Expertise** Medical device market, market development, product development, regulatory affairs, strategic planning.



**Geoff Berg (Non-executive Director).** Geoff was formerly a consultant heart surgeon at the Golden Jubilee Hospital in Glasgow where he specialised in surgical treatment of valvular heart disease and was recognised as one of the leading surgeons in mitral valve repair and replacement. He has authored a number of scientific papers on the treatment of heart disease and conducted studies into the long term performance of replacement heart valves. He has been involved in the early stage development of a number of cardiovascular devices, including a stentless animal tissue heart valve, and the launch of the only biological valved conduit. He is a recognised authority on stentless aortic valve surgery and has co-authored papers on stentless versus stented aortic valve insertions.

**Key Areas of Expertise** Surgical practices, heart valve development, regulatory affairs, clinical research

**David Richmond (Non-executive Director).** David founded Culzean Medical Devices Limited in 2004. The company was re-acquired from Lombard Medical Technologies plc in December 2013 (having previously been sold to them in June 2007) and now trades as RUA Medical Devices Ltd ('RUA'). RUA provides contract design, development, manufacture, assembly, retail packing and consultancy services to clients worldwide in the medical device and biotech industries from its two modern clean room facilities in Scotland.

**Key Areas of Expertise** Medical device market, device manufacture, international business development, product development, regulatory affairs, strategic planning, finance.

## OPERATING AND FINANCIAL REVIEW

### Principal Activities

The Company is an Intellectual Property (IP) holding company whose principal activity is exploiting the value of its IP and know-how and developing medical devices utilising its polymer IP.

### Review Of Business And Future Developments

The consolidated Income Statement is set out on page 30 indicating the Group's loss for the financial year of £609,403 (2018: £33,814) which will be deducted from the reserves.

On a Group basis, the business review and future prospects are contained within the Chairman's Statement on pages 4, 5 and 6. The Directors consider the Group's financial key performance indicators to be revenue growth, control of operating expenses and the pre-tax result. In addition, the Directors consider the Group's non-financial key performance indicators to be the successful utilisation of patents and know-how by existing licensees and the signing of new licence agreements.

## PRINCIPAL RISKS AND UNCERTAINTIES

The Directors consider the principal risks and uncertainties facing the Group at this stage of its development to be as follows: the success rate of several key customers utilising our products in various medical device fields; small customer base generating revenues; retention of key management; any adverse results which may arise during development and regulatory phases; product liability risks; competitive markets with changing technology and evolving industry standards. All of the above risks and uncertainties are considered fundamental to the achievement of the Group's strategy as an IP focussed business and are being actively managed at Board level. Along with the internal control environment process as detailed on page 12, mitigation of these risks include: regular review of new market opportunities; active management of licensees; review of Board skills and remuneration packages (as explained in the Remuneration Report) and appropriate structuring of licence agreements to mitigate product liability risk.

No dividends have been paid or proposed for the years ended 31 March 2019 and 31 March 2018.

### Financial Risks

The financial risks faced by the Group are as follows:

#### Market Risk

Market risk encompasses two types of risk, being currency risk and fair value interest rate risk. The Group's policies for managing fair value interest rate risk are considered along with those for managing cash flow interest rate risk and are set out in the sub-section entitled "Interest Rate Risk" below.

#### Currency Risk

The Group is exposed to translation and transaction foreign exchange risk. The majority of the Group's sales are to customers in the United States. These sales are priced and invoiced in US\$. The Group policy

is to try to match currency income with currency expenditure as far as possible, in order to minimise currency exposures.

The extent to which the Group has residual financial assets in foreign currencies (US\$) at the financial year end is set out below. Foreign exchange differences on retranslation of these assets and liabilities are taken to profit or loss of the Group.

Asset	US\$ Balance	GB£ Value
US Dollar Bank Account	\$792,163	£607,370

### Liquidity Risk

The Group seeks to manage liquidity risk by ensuring sufficient liquidity is available to meet foreseeable needs and by investing cash assets safely and profitably. As disclosed within the Report of the Directors, the Directors have set out their assessment of why they believe the Group continues to remain a going concern, including the assumptions they have made in this regard.

### Interest Rate Risk

The Group finances its operations through retained cash reserves, and seeks to strike a balance between liquidity and maximising the return on funds. Cash holdings are regularly reviewed by the Board.

The interest rate exposure of the financial assets and liabilities of the Group as at 31 March 2019 is shown in the table below. The table includes trade receivables and payables as these do not attract interest and are therefore subject to fair value interest rate risk.

	Interest rate		
	Floating GB£000	Zero GB£000	Total GB£000
<b>Financial assets</b>			
Cash and cash equivalents	2,412	-	2,412
Trade and other receivables	-	257	257
	<u>2,412</u>	<u>257</u>	<u>2,669</u>
<b>Financial liabilities</b>			
Liabilities at amortised cost	-	99	99
Fair value through profit or loss	-	-	-
	<u>-</u>	<u>99</u>	<u>99</u>

### Credit Risk

The Group's principal financial assets are cash and trade receivables. The credit risk associated with the cash is limited as the counterparties have high credit ratings assigned by international credit-rating agencies. The principal credit risk arises therefore from trade receivables. The Directors regularly review the profile of trade receivables to minimise the Group's exposure to bad debts.

### Capital Management Objectives

The Directors' capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders. The Company's Board meets regularly to review performance and discuss future opportunities and threats with the aim of optimising sustainable returns and minimising risk. Capital in the business is represented by the Company's ordinary share capital. Success in meeting the capital management objectives are assessed by reference to the Group's profitability, and, in turn, its share price.



K M Full FCCA

Company Secretary  
AorTech International plc  
Company number SC170071  
Dundee

## GOVERNANCE

### Corporate Governance Statement

As Chairman of the Board it is my responsibility to ensure that the Group has both effective corporate governance and Board leadership. In accordance with the requirement for AIM all quoted companies to adopt a corporate governance code, AorTech has adopted the Quoted Companies Alliance Corporate Governance Code (the "QCA Code"). This report follows the structure of these guidelines and explains how we have applied the guidance. The Board considers that the Group complies with the QCA Code in most respects and where we deviate from the expectations set by the QCA I have clearly explained within this report.

The Board believes that corporate governance is not a destination in itself but a journey. As the Company develops and grows, the systems and processes will evolve and change but our commitment to being transparent and open with all of our stakeholders will not change. The QCA code provides a framework to allow the Board to better communicate to our shareholders.

### QCA PRINCIPLES

#### Deliver Growth

##### 1. Establish a strategy and business model which promote long-term value for shareholders

In early 2018, the AorTech Board conducted a thorough strategy review which culminated in an equity fund raising to support a new growth business model. The strategic objective is to drive value for shareholders over the medium term by developing a range of medical devices which are enabled by incorporating AorTech's world class biomaterial, Elast-Eon™, into the design. The Board recognises that developing medical devices can be both costly and time consuming. The business model adopted to obtain the greatest value for money in Research and Development spend is to work with partners who have a combination of skills, infrastructure and regulatory approvals to undertake work on our behalf. All of the devices being developed are seeking to limit market risk by developing replacements for current device technology that have the advantages of Elast-Eon™ but will not require surgical training as surgical procedures will remain the same.

##### 2. Seek to understand and meet shareholder needs and expectations

As mentioned above, AorTech is currently developing new medical devices incorporating our world class biomaterial, Elast-Eon™. The focus of the Board is on the successful development of these products and understands that shareholders expect capital growth from the execution of this clearly defined strategy. Relationships with our shareholders are important to us and we seek to provide effective communications through our Interim and Annual Reports along with Regulatory News Service announcements. We also use the Group's website, [www.AorTech.net](http://www.AorTech.net) for information on products and technology.

AorTech encourages two-way communication with both its institutional and private investors and responds promptly to all queries received both by telephone and by email. The Chairman talks to and meets with the Group's major shareholders and ensures their views are communicated fully to the Board. This process is further enabled by our NOMAD, Shore Capital, organising presentations to existing and potential investors and they update the Board on feedback and any changes to shareholders views and expectations. The NOMAD is regularly briefed on developments to enable research notes to reflect the current status of the Company. Members of the Board make themselves available to shareholders to answer any questions particularly relevant to their particular area of expertise.

The Annual General Meeting ("AGM") is an important opportunity to meet with the Company's private shareholders. All the Directors attend the AGM and are available to meet shareholders individually or as a group, listen to their views and answer questions. For each resolution the number of proxy votes received for, against or withheld is disclosed to all attendees. The results for the AGM are subsequently published on the Group's corporate website.

At the 2018 AGM held in Glasgow, all resolutions were passed unanimously at the meeting and proxy cards were 99% in favour of all resolutions.

### **3. Take into account wider stakeholder and social responsibilities and their implications for long-term success**

AorTech currently has no employees outside of the Board nor has a head office or factory facility. Our business model of exploiting the substantial IP in our biostable polymers is built upon key relationships with a number of stakeholders and/or partners that will be instrumental in assisting AorTech deliver upon its objectives. These relationships include Licensees, Product Development Partners and Regulatory and Quality Assurance Partners. We are in close and regular contact with all of these stakeholders and receive regular reports and feedback on progress and problems arising. Similarly, AorTech ensures that its objectives are understood by these stakeholders to align interests. Much of the feedback from our partners is formal in written reports. The medical device industry is highly regulated, and the Partners all operate under quality management systems that ensures full documentation is not only in place but subject to audit by regulatory bodies.

The key stakeholder however is the patient whose life will be dependent on an AorTech device. Only by serving the patient first will AorTech be a long-term success.

### **4. Embed effective risk management, considering both opportunities and threats, throughout the organisation**

On pages 9 and 10 of this Annual Report and Accounts, the risks to the business are identified and how these are mitigated and the change in the identified risk over the last reporting period.

The Board is responsible for reviewing and evaluating risk and the executive Directors meet at least monthly to review ongoing trading issues, discuss performance and any new risks associated with ongoing product development. A fully documented Quality Management System has been developed over the past year and the implementation of the system will be rolled out over the coming year to ensure we meet our regulatory obligations but at a pace that system requirements do not interfere with initial product development.

The Board has formalised the review and reporting of the main internal controls within the business. In previous periods, the Directors commissioned a risk review exercise in the course of which the key risk factors facing the Group were identified. These areas included regulatory, research and development, commercial, human resources and information technology. The Board will continue to review the system of internal controls within the Group.

The Board of Directors is responsible for the Group's system of financial controls. However, it should be recognised that such a system can provide only reasonable and not absolute assurance against material misstatement or loss.

The principal elements of the system include:

- A clearly defined structure which delegates authority, responsibility and accountability.
- A comprehensive system for reporting financial results. Actual results are measured monthly against budget which together with a commentary on variances and other unusual items allows the Board to monitor the Group's performance on a regular basis.
- A comprehensive annual planning and budgeting programme.
- A revision of annual forecasts on a periodic basis.

There is no independent internal audit function. The Directors believe that such a function would not be cost effective given the current size of the Group, but they will continue to monitor the situation as the Group goes forward. The Board has reviewed the effectiveness of the system of internal controls as outlined above and considers the Group has an established system which the Directors believe to be appropriate to the business.

## **MAINTAINING A DYNAMIC MANAGEMENT FRAMEWORK**

### **5. Maintain the Board as a well-functioning, balanced team led by the Chair.**

The Company is controlled by, and currently comprises solely of, the Board. The Board is led by the Chairman, William Brown in an executive capacity, responsible for running the Board and has executive responsibility for running the Group's business and implementing strategy.

AorTech recognises that unless there are justifiable and explained circumstances, the chair should not also fulfill the role of chief executive. The strategic review and business model adopted by AorTech has resulted in no current need for a full executive team as much of the business activities are undertaken by business partners. This, together with the specific areas of expertise and active involvement of the non-Executive Directors in development projects, means that splitting the role of Chairman and Chief Executive at this time would not be the best use of the Company's resources. It is however accepted by the Board that as the Company develops this issue will be normalised. The risks of combining the Chairman and CEO role are mitigated by the close involvement of the other Directors in the R&D projects and, in addition, Board meetings are open and allow Directors to participate fully. Board meetings have been held at the premises of each of our development partners to allow the Board to meet with everyone involved in developing our products and fully understand development issues.

All Directors receive regular and timely information regarding the Group's operational and financial performance. Relevant information is circulated to the Directors in advance of Board meetings. All Directors have direct access to the advice and services of the Company Secretary and are able to take independent professional advice in the furtherance of their duties, if necessary, at the Company's expense.

The Board comprises two Executive Directors and four Non-Executive Directors. The Board considers that all Non-Executive Directors bring an independent judgement to bear notwithstanding the varying lengths of service. The Non- Executive Directors are much more active than is normally expected and participate closely in new product development activities.

The Board has a formal schedule of matters reserved to it and is supported by the Audit, Remuneration and Nominations Committees. The Schedule of Matters Reserved and Committee Terms of Reference is available on the Company's website.

## **6. Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities**

Until the Board was enhanced as part of the equity fundraising, the Company did not have a formal Nominations Committee. The Board as a whole as part of the strategy review identified the key additional skills and experience required to help facilitate the implementation of the Company's strategy which led to the appointment of three new Non-Executive Directors. A Nominations Committee comprising the Chairman and all of the Non-Executive Directors has now been established. The skills identified to help implement the strategy were specific to Medical Devices, their design, manufacture, marketing use and the regulation thereof. The balance of financial and public market skills being provided by the Chairman.

The Board recognises that it is healthy for membership of the Board to be periodically refreshed and 50 per cent. of the Board are recent appointments. The Nominations Committee is chaired by the Company's Chairman. Meetings are arranged as necessary. The Committee is responsible for nominating candidates (both executive and Non-Executive) for the approval of the Board to fill vacancies or appoint additional persons to the Board. AorTech believes that a well managed business must continuously look to improve the quality and skill sets of the team. We have identified that AorTech could further benefit from additional public market experience and finance background within the Non-Executive element of the Board.

All Directors receive induction on joining the Board covering the Group's operations, goals and strategy, and their responsibilities as directors of the Company. The Company supports the Directors in developing their knowledge and capabilities.

The Board has established a procedure for Directors in the furtherance of their duties to take independent professional advice, if necessary, at the Company's expense.

All Directors are subject to election by shareholders at the first opportunity after their appointment. In accordance with the Company's Articles of Association, all Directors are required to retire by rotation and shall be eligible for re-election. The terms and conditions of appointment of the non-Executive Directors are available for inspection upon request.

The terms of reference of the Nominations Committee have been placed on the Company's website. The Company Secretary supports the Chairman in addressing the training and development needs of the Directors.

## **7. Evaluate board performance based on clear and relevant objectives, seeking continuous improvement**

The Board was doubled in size at the time of the equity fundraising and as the Board has now been working together for almost a year, it is now appropriate to undertake an evaluation process. A formal Board evaluation process is being introduced during 2019. The Company Secretary will facilitate internal feedback on Board performance via a questionnaire, which will be summarised to provide feedback for discussion and review by the Board. Overall, the Board is seen to be working well, but opportunities for improved effectiveness will no doubt be identified.

The Board has recognised the reliance upon the two Executive Directors and, as the business develops, the opportunity will be taken to expand the executive team.

## **8. Promote a corporate culture that is based on ethical values and behaviours**

AorTech operates in the medical device field where human life is dependent upon its products. As such, sound ethical values and behaviours are not only an asset to the Company, but a requirement under the regulatory standards under which its products are required to be designed, tested and manufactured. The platform on which corporate culture is based is "The patient is the most important stakeholder".

AorTech is still a very small company, so the actions of its executives are highly visible and reflect directly upon the Company. The Company operates through a number of partnerships and it seeks to work with other businesses that portray similar business ethics and values and have the capabilities of operating under strict regulatory environments.

## **9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the board**

William Brown, as Executive Chairman, is responsible for leading an effective board, fostering a good corporate governance culture and ensuring appropriate strategic focus and direction as well as overall responsibility for proposing the strategic focus to the Board, implementing the strategy once it has been approved and managing the Group's business.

The non-Executive Directors are all willing to engage with shareholders should they have a concern that is not resolved through the normal channels.

John McKenna, an Executive Director of the Company, has responsibility for advising on design inputs to new product development, establishing a sales and marketing network and managing Key Opinion Leaders.

David Richmond, a Non-Executive Director of the Company, has responsibility for development and manufacture of patches and grafts and manufacture of polymeric heart valves.

John Ely, a Non-Executive Director of the Company, has responsibility for the design and oversight of the regulatory process for the Company's Heart Valve project.

Geoff Berg, a Non-Executive Director of the Company, provides advice on surgical matters regarding the design and ultimate implantation of the Company's devices.

The Board delegates authority to three committees to assist in meeting its business objectives while ensuring a sound system of internal control and risk management. The committees meet independently of Board meetings.

### **Audit Committee**

The objective of the Committee is to provide oversight and governance to the Group's financial reports, its internal controls and processes in place, its risk management systems and the appointment of and relationship with the external auditor.

The Audit Committee is chaired by David Richmond and consists of the other three Non-Executive Directors. The Executive Directors attend by invitation. It meets a minimum of two times per year and at least once a year with the external auditors present.

Its role is to monitor the integrity of the financial statements, including the Annual and Interim Reports, review the significant accounting policies and financial reporting judgements contained therein and provide updates and recommendations to the Board. It is also responsible for reviewing and evaluating the adequacy of internal control and risk management processes.

The terms of reference for the Audit Committee can be found at [www.aortech.net](http://www.aortech.net).

### Remuneration Committee

The report of the Remuneration Committee is set out on page 19. The aim of the Remuneration Committee is to ensure that shareholder and management interests are aligned. The Remuneration Committee consists of the four Non-Executive Directors. It is chaired by Geoff Berg and meets as required during the year. The Committee determines the remuneration and benefits of the Executive Directors.

The remuneration of Non-Executive Directors is determined by the Board within the limits set by the Company's Articles of Association.

The Chairman is invited to attend meetings of the Committee, but is not involved in any decisions relating to his own remuneration.

The Committee keeps itself informed of all relevant developments and best practice in the field of remuneration and seeks advice from external advisers when it considers it appropriate.

A more detailed terms of reference for the Remuneration Committee can be found at [www.aortech.net](http://www.aortech.net).

### Nominations Committee

The primary purposes of the Committee is to lead the process for Board appointments and to make recommendations for maintaining an appropriate balance of skills on the Board.

The Nominations Committee is chaired by the Chairman, and consists of the four Non-Executive Directors. The Committee meets as necessary to fulfil its responsibilities and meet its objective.

Its role is to review the structure size and composition of the Board, consider succession planning, review performance of the Directors and the Board as a whole and identify candidates for new Board positions.

The terms of reference for the Nominations Committee can be found at [www.aortech.net](http://www.aortech.net).

Membership of the committees is as follows:

Director	Audit Committee	Remuneration Committee	Nominations Committee
William Brown	n/a	n/a	Chair
Gordon Wright	Member	Member	Member
David Richmond	Chair	Member	Member
Geoff Berg	Member	Chair	Member
John Ely	Member	Member	Member

The following table sets out the member attendance at Board and Committee meetings during the year ended 31 March 2019:

Director	Number of Meetings Attended			
	Board	Audit	Remuneration	Nominations
William Brown	10/10	1/2	0	1/1
John McKenna	10/10	1/2	0	1/1
Gordon Wright	10/10	2/2	1/1	1/1
David Richmond	7/10	1/2	1/1	0
Geoff Berg	7/10	1/2	1/1	0
John Ely	7/10	1/2	1/1	0

The Board has revised its schedule of matters reserved for its decision during the year. These matters include:

1. Setting strategy
2. Capital structure
3. Financial reporting and controls
4. Borrowing powers
5. Acquisitions and disposals
6. Shareholder resolutions and circulars
7. Board composition
8. Remuneration policies
9. Corporate governance
10. Capital markets compliance

## **Build Trust**

### **10. Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders**

The Board believes that corporate governance is more than just a set of guidelines; rather it is a framework which underpins the core values for running the business in which we all believe. The Board has formal responsibilities and agendas and three sub-committees; in addition, strong informal relations are maintained between Executive and Non-executive Directors. Non-executive Directors meet with other business partners and give advice and assistance between meetings. Board dinners are held from time to time to provide opportunities for broader discussions.

The Chairman regularly meets with investors after results announcements have been made and at other shareholder participant events. The Company also meets regularly with the Group's Nomad/broker and discusses any shareholder feedback – the Board is briefed accordingly.

All Directors attend the Annual General Meeting and engage both formally and informally with shareholders during and after the meeting. The results of voting at the AGM is communicated to shareholders via RNS and on the Group's website.

The Chairman makes presentations to institutional shareholders and analysts each year immediately following the release of interim and full year results.



William Brown  
Executive Chairman

16 July 2019



## Audit Committee Report

The Audit Committee has an important role to play in effective reporting to our stakeholders and ensuring high standards of quality and effectiveness in the external audit process. For the first time, the committee has provided a separate report on its activities focusing on matters relevant to AorTech International plc and the work of the committee during the year.

### Membership

The Audit Committee comprises the Non- Executive Directors and is Chaired by David Richmond.

### Meetings

The committee met formally twice during the year - once to consider the interim report and the other to consider the final year end report and accounts. The external auditors and Company Secretary and the Chairman also attended the meeting to consider the year end accounts at the invitation of the committee chairman. After this meeting, the committee met with the external auditors without the presence of Executive Directors or management.

### Main activities

The committee supports the Board in carrying out its responsibilities in relation to financial reporting, risk management and assessing internal controls. Specific issues considered by the committee included reviewing the Group's authorities matrix, plans for improving the Group's cyber security measures and ideas for improving the quality and content of the following year's Annual Report. The committee also oversees the relationship with the external auditor including the effectiveness of the external audit and the provision of non-audit services by the external auditor.

### Financial reporting

The committee has recently concluded that the Annual Report and Financial Statements for year ended 31st March 2019, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's business model, strategy and performance. The committee reviewed the process for preparing the Annual Report. This process included the following key elements:

- Review of new regulations and reporting requirements; papers outlining the impact of IFRS 16 were specifically considered and the committee concurred that the standard is not expected to have a material impact on the Group's financial results.
- Monitoring of the integrity of the financial statements and other information provided to shareholders to ensure they represented a clear and accurate assessment of the Group's financial performance and position.
- Review of matters of accounting judgement and the underlying rationale in each case including specifically: capitalisation of product development spend, deferred tax related to brought forward historical losses and whether or not any expenses should be analysed as exceptional. Where appropriate the committee reviewed papers prepared by management and agreed with the accounting treatment.
- Review of significant accounting policies (including changes required as a result of adopting IFRS 15 and IFRS 9 from the year ended 31st March 2019).
- Review of provisional accounting under IFRS 16, leasing, which comes into effect for financial years commencing 1 March 2019.
- Review of a paper outlining the business plan and cash forecast as the basis of the going concern assessment.
- The committee reviewed the full-year and half-year results announcement, Annual Report and financial statements and considered reports from the external auditors identifying the accounting or judgmental issues requiring its attention.

The committee also reviewed the Strategic Report and concluded that it presented a fair, balanced and understandable addition to the Annual Report.

### External audit

In the year ended 31 March 2019 fees for non-audit services amounted to £6,000. The committee was satisfied with the quality of the audit, the degree of challenge and review of the report and accounts and will carry out a formal assessment of audit quality post the year end in 2019.

**Risk management and internal control**

The Board has formalised the review and reporting of the main internal controls within the business. In previous periods, the Directors commissioned a risk review exercise in the course of which the key risk factors facing the Group were identified. These areas included regulatory, research and development, commercial, human resources and information technology. The Board will continue to review the system of internal controls within the Group.

The Board of Directors is responsible for the Group's system of financial controls. However, it should be recognised that such a system can provide only reasonable and not absolute assurance against material misstatement or loss.

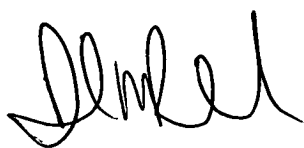
The principal elements of the system include:

- A clearly defined structure which delegates authority, responsibility and accountability.
- A comprehensive system for reporting financial results. Actual results are measured monthly against budget which together with a commentary on variances and other unusual items allows the Board to monitor the Group's performance on a regular basis.
- A comprehensive annual planning and budgeting programme.
- A revision of annual forecasts on a periodic basis.

There is no independent internal audit function. The Directors believe that such a function would not be cost effective given the current size of the Group but they will continue to monitor the situation as the Group goes forward. The Board has reviewed the effectiveness of the system of internal controls as outlined above and considers the Group has an established system which the Directors believe to be appropriate to the business.

**Overview**

The committee considers that it has acted in accordance with its responsibilities. The Chairman of the Audit Committee will be available at the Annual General Meeting to answer any questions about the work of the committee. We would welcome feedback from shareholders on this report.



David Richmond  
Chairman – Audit Committee

16 July 2019

## GOVERNANCE

### Directors' Remuneration Report

This report covers the financial year ended 31 March 2019.

#### Responsibilities

The Remuneration Committee is Chaired by Geoff Berg and comprises the Non-Executive Directors. The Committee is responsible for setting the remuneration packages for Executive Directors as well as approving, where appropriate, the remuneration of senior staff. The Committee sets incentive schemes for the Executive Directors to align their interests with those of the shareholders and to encourage the strategic development of the business.

#### Directors' Service Contracts

The details of the service contracts in relation to the Executive Directors and letters of appointment in relation to the Non-executive Directors are:

Director	Position	Unexpired Term	Notice Period
William Brown	Chairman	None	12 months
John McKenna	Director of Clinical Marketing	None	12 months
Gordon Wright	Non-executive Director	23 months	3 months
Geoff Berg	Non-executive Director	23 months	3 months
John Ely	Non-executive Director	23 months	3 months
David Richmond	Non-executive Director	23 months	3 months

#### Executive Remuneration Policy

The Committee endeavours to offer competitive remuneration packages which are designed to attract, retain and incentivise Executive Directors with the experience and necessary skills to operate and develop the Group's business to their maximum potential, thereby delivering the highest level of return for the shareholders. Consistent with this policy, the benefits packages awarded to Executive Directors are intended to be competitive and comprise a mix of contractual and performance related remuneration that is designed to incentivise them; but not to detract from the goals of corporate governance.

The remuneration packages for the Executive Directors were entered into on 11 June 2018; or the date of their appointment if later. The composition of each Director's remuneration is based on a maximum payment under the terms of an annual performance related bonus. Remuneration packages are reviewed each year to ensure that they are in line with the Group's business objectives. No Director participates in decisions about their own remuneration package. The main components in determining pay are as follows:

#### Basic salary/fees and benefits

The basic annual salary is subject to an annual review, which takes into account the performance of the Group and the individual as well as market factors. Benefits comprise the provision of private healthcare insurance and a death in service insurance scheme. The annual basic salaries of the Executive Directors as at 31 March 2019 are as follows:

William Brown	Full Time	£120,000
John McKenna	Part Time (67.5 days minimum)	£ 50,000

#### Annual performance related bonus

No formal bonus scheme is currently in place for the executive directors. As anticipated in the Placing and Open Offer Circular, William Brown can participate in a bonus limited to 100% of salary. During the period, a bonus of £30,000 was paid to William Brown to reflect additional work carried out in developing and implementing the new strategy.

#### Pensions

Executive Directors receive pension contributions of 10% of salary to a stakeholder or money purchase scheme. These costs are currently being accrued pending a scheme being set up.

### Share Options Scheme

Share options are granted to Directors to encourage them to deliver sustained, long term growth. During FY2019, we implemented a Share Option Plan consistent with the Plan described in the Placing and Open Offer Circular issued during the year and approved by shareholders at general meeting. As regards options granted to any Director, such options vest as to 20 per cent. after the expiry of 3 years from the date of grant, 30 per cent. on the receipt by the Company of a CE Mark for any of its products and 50 per cent. on the share price being at least £3.00.

The Options issued to the Directors were as follows:

Options Granted	2019	2018
W Brown	1,121,072	nil
J McKenna	469,531	nil

### Directors' Emoluments (audited)

The emoluments of the Directors of the parent Company for the year in accordance with the basis of preparation were as follows:

	Salary & fees GB£	Share-based payments GB£	Pension contributions GB£	2019 Total GB£	2018 Total GB£
<b>Executive</b>					
W Brown	138,333	29,997	11,692	180,022	60,000
J McKenna	43,778	12,564	4,038	60,380	19,500
<b>Non-Executive</b>					
G Berg	14,500	-	-	14,500	-
J Ely	14,551	-	-	14,551	-
D Richmond	14,500	-	-	14,500	-
G Wright	18,000	-	-	18,000	18,000
	<b>243,662</b>	<b>42,561</b>	<b>15,730</b>	<b>301,953</b>	<b>97,500</b>

Until 11 June 2019, W Brown was employed by Bluehone Investors LLP and J McKenna was employed by John McKenna (1953) Ltd in the provision of services to the Company. During 2018, all of the payments W Brown and J McKenna were paid to Bluehone Investors LLP and John McKenna (1953) Ltd respectively. During 2019, £11,410 was paid to Bluehone Investors LLP and £3,393 to John McKenna (1953) Ltd.

### Acquisition of Cortech Medical Ltd and Related Party Transaction

During the year the Company entered into the Acquisition Agreement to acquire Cortech Medical Limited ('Cortech'), as approved by shareholders at a general meeting. Cortech was wholly owned by W Brown and had developed the business plan for the medical graft and patches business. The know-how and business relationships outlined in the business plan are now transferred for the Group to execute upon.

### Directors' interests in shares (audited)

The Directors' interests in the Ordinary Shares of the Company at the end of the period were:

	31 March 2019	31 March 2018
G Wright	641,645	308,311
W Brown	506,649	11,982
D Richmond	33,334	-
J McKenna	18,785	8,785
G Berg	16,667	-
J Ely	-	-

On behalf of the Board



G Berg  
Chairman of the Remuneration Committee  
16 July 2019

## FINANCIAL STATEMENTS

### REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements for the year ended 31 March 2019.

#### GOING CONCERN

After considering the year end cash position and taking into account the recent £2.6 million fund raising, making appropriate enquiries and reviewing budgets and profit and cash flow forecasts to 31 December 2020 which incorporate planned investment in new product development, the Directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Group has sufficient resources to continue in operational existence for the foreseeable future. For this reason, the Directors consider that the adoption of the going concern basis in preparing the consolidated financial statements is appropriate.

The future developments of the Group are detailed in the Chairman's Statement on pages 4, 5 and 6.

#### DIRECTORS AND THEIR INTERESTS

At 31 March 2019 the Executive Chairman of the Company was W Brown, the Executive Director was J McKenna and the Non-executive Directors were and G Berg, J Ely, D Richmond and G Wright.

At each Annual General Meeting one third of the Directors shall be subject to retirement by rotation. W Brown and J McKenna retire from the Board at the Annual General Meeting and, being eligible, offer themselves for re-election.

The interests of the Directors at 31 March 2019 and 31 March 2018 in the ordinary share capital of the Company (all beneficially held) were as follows:

	<b>31 March 2019 Number of shares</b>	<b>31 March 2018 Number of shares</b>
G Wright	<b>641,645</b>	308,311
W Brown	<b>506,649</b>	11,982
D Richmond	<b>33,334</b>	-
J McKenna	<b>18,785</b>	8,785
G Berg	<b>16,667</b>	-

#### SUBSTANTIAL SHAREHOLDERS

With the exception of the following shareholdings the Directors have not been advised of any individual interest or group of interests held by persons acting together which at 16 April 2019 exceeded 3% of the Company's issued share capital:

	<b>Number of shares</b>	<b>%</b>
Walker Crips Stockbrokers	<b>2,406,092</b>	16.38%
Miton Asset Management	<b>862,071</b>	5.87%
Mr Clive Titcomb	<b>770,000</b>	5.24%
Hargreaves Lansdown Asset Management	<b>675,753</b>	4.60%
Mr Gordon Wright	<b>641,645</b>	4.37%
Share Centre Investment Management	<b>586,229</b>	3.99%
Mr JD Abell	<b>543,399</b>	3.70%
Interactive Investor	<b>507,890</b>	3.46%
Mr William Brown	<b>506,649</b>	3.45%

## REPORT OF THE DIRECTORS (continued)

### INFORMATION CONTAINED WITHIN THE STRATEGIC REPORT

The Directors have taken the option to include disclosures in relation to financial risk and dividends within the Strategic Report on pages 9 and 10 as these are deemed to have strategic importance to the Group.

### DIRECTORS' INDEMNITY

The Group maintains Directors and Officers liability insurance which gives appropriate cover against any legal action that may be brought against them.

### ANNUAL GENERAL MEETING

The notice convening the Annual General Meeting for 11:00am on Monday, 19 August 2019 in the offices of Davidosn Chalmers Stewart LLP, 163 Bath Street, Glasgow G2 4SQ is set out on page 56. There are a number of resolutions to be passed and further information in relation to these resolutions is set out below.

### RESOLUTIONS 1 to 7

**Resolution 1** provides for the approval of the Company's financial statements for the year ended 31 March 2019. **Resolution 2** provides for approval of the Report of the Remuneration Committee for the year ended 31 March 2019. The vote is advisory and the Directors' entitlement to remuneration is not conditional on the resolution being passed. **Resolutions 3 and 4** deal with the re-appointment of the Directors required by the Company's Articles of Association to retire this year. **Resolution 5** deals with the re-appointment of Grant Thornton UK LLP as the Company's auditor. Following assessment by the Audit Committee the Board considers the auditor to be effective and independent in their role.

**Resolution 6** provides under the Companies Act 2006 (Section 551) the Directors of a company may only allot shares if authorised to do so. Passing this Resolution will continue the Directors' flexibility to act in the best interests of shareholders when opportunities arise by issuing new shares. In Resolution 6 the Company is seeking authority to allot shares with a nominal value of up to a maximum of £605,800.25 represented by 12,116,005 shares in the Company. The Directors intend to use this authority, which will lapse at the conclusion of the next Annual General Meeting of the Company, for the grant and exercise of Options over shares under the scheme for Directors and employees of the Company and otherwise for general corporate purposes.

**Resolution 7** provides if shares are to be allotted for cash, the Companies Act 2006 requires that those shares are offered first to the existing shareholders in proportion to the number of shares they hold at the time of the offer. However, it may sometimes be in the interests of the Company for the Directors to allot shares other than to shareholders in proportion to their existing holdings. At the Annual General Meeting held in August 2018 shareholders authorised the Board, subject to specified limits:

- to allot shares in connection with a rights issue, defined in summary as an offer of equity securities to shareholders which is open for a period decided by the Board subject to any limits or restrictions which the Board thinks are necessary or appropriate;
- to allot shares pursuant to the rules of any share scheme approved by the shareholders in general meeting; and
- to allot shares not in connection with a rights issue up to a specific amount so that the pre-emption requirement does not apply to the allotments of shares for cash up to that amount.

This authority requires to be renewed. The Directors will be empowered by Resolution 7 to allot equity securities (within the meaning of Section 560 of the Companies Act 2006) for cash without complying with the statutory pre-emption rights of shareholders under section 561 of the Companies Act 2006. This disapplication is limited to allotments made on the exercise of employee options, to ordinary shareholders and holders of any other class of equity security in proportion (as nearly as may be) to their holdings and, otherwise, to allotments up to a maximum of 10% of the Company's issued ordinary share capital.

Resolutions 1 to 5 are termed ordinary business. Resolutions 6 and 7 are termed special business.

RECOMMENDATION:

An explanation of the resolutions to be proposed is set out above of this document. The Directors consider that all the resolutions to be put to the meeting are in the best interests of the Company and its shareholders as a whole. Your Board will be voting in favour of them and unanimously recommends that you do so as well.



K M Full FCCA  
Company Secretary  
AorTech International plc  
Company number SC170071  
Dundee

16 July 2019

## DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and Applicable Laws including FRS 101 "Reduced Disclosure Framework") and to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company and group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that:

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

## AUDITOR

Grant Thornton UK LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the Annual General Meeting.

## BY ORDER OF THE BOARD:



K M Full FCCA  
Company Secretary  
Dundee

16 July 2019



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AORTECH INTERNATIONAL PLC****Opinion****Our opinion on the financial statements is unmodified**

We have audited the financial statements of Aortech International plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2019, which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Parent company balance sheets, the Consolidated cash flow statement, the Consolidated and Parent company statements of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosures Framework' (United Kingdom Generally Accepted Accounting Practice).

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 March 2019 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 as applied to listed entities, 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.

**Overview of our audit approach**

**Grant Thornton**

- Overall materiality: £46,000, which represents approximately 1.5% of the group's total assets;
- The key audit matter identified was impairment of intangible assets; and
- We performed full scope audit procedures on the financial statements of the parent company, AorTech International plc, this being the only trading component within the group during the year.

## Key audit matters

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

Key Audit Matter – Group and parent	How the matter was addressed in the audit – Group and parent
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### Impairment of intangible assets

There is a risk that the carrying value of intangible assets (specifically intellectual property) may be impaired.

The carrying amount of the intellectual property in the group and parent company financial statements as at 31 March 2019 was £393,000, and £48,000, respectively and there is a risk that this exceeds the recoverable amount due to the group and parent company incurring losses.

Management's assessment of the net present value (NPV) of the intellectual property incorporates significant judgements in relation to the key assumptions, such as the timing, extent and probability of future revenues and cash flows as well as the discount rate.

We therefore identified impairment of intangible assets (specifically intellectual property) as a significant risk, which was one of the most significant assessed risks of material misstatement.

Our audit work included, but was not restricted to:

- Assessing the group's and parent company's accounting policy to check it is in accordance with the financial reporting framework;
- Consideration of the appropriateness of the methodology applied by management in their impairment model by comparing it to the group's and parent company's accounting policies and our understanding of the business;
- Considering revenue assumptions in the context of existing contracts with clients or other supporting evidence;
- Comparing forecast expenditure against current year expenditure levels and other supporting evidence;
- Confirming the mathematical accuracy of the NPV model used by management;
- Determining the appropriateness of the discount rate assumption applied to future cash flows by benchmarking against industry trends as well as comparing with the prior year rate used for consistency;
- Assessing the appropriateness of the probabilities applied to occurrence of future cash flows with reference to existing contracts with customers;
- Performing sensitivity analysis on key assumptions made in the model and challenging these through consideration of the impact of alternative assumptions and comparison against results of prior years. The sensitivity analysis was performed on the assumptions over size, timing and probability of future cash flows and the discount rate.

The group's accounting policy on intangible assets (including the related impairment) is shown in note 2 and note 1 to the group and parent company financial statements, respectively and related disclosures are included in note 10 and note 2 to the group and parent company financial statements.

### Key observations

Based on our audit work, our testing did not identify any evidence for impairment of intangible assets to be recognised within the financial statements and we found no errors in the calculations provided by management.

## Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality measure	Group	Parent
Financial statements as a whole	<p>£46,000, which is 1.5% of the group's total assets. This benchmark is considered the most appropriate because the principal activity of the business is the deployment of its assets to exploit the intellectual property and knowhow to generate current and future revenue generating opportunities for the group.</p> <p>Materiality for the current year is higher than the level that we determined for the year ended 31 March 2018 as a result of an increase in the group's total assets since the prior year.</p>	<p>£42,000, which is 1.5% of the parent company's total assets, capped at 90% of the group materiality. This is considered the most appropriate benchmark because the principal activity of the business is the deployment of its assets to exploit the intellectual property and knowhow to generate current and future revenue generating opportunities for the parent company.</p> <p>Materiality for the current year is higher than the level that we determined for the year ended 31 March 2018 as a result of an increase in the group's total assets since the prior year, at which parent company materiality is capped at 90% thereof.</p>
Performance materiality used to drive the extent of our testing	75% of financial statement materiality.	75% of financial statement materiality.
Specific materiality	We also determine a lower level of materiality for certain areas such as directors' remuneration and related party transactions.	We also determine a lower level of materiality for certain areas such as directors' remuneration and related party transactions.
Communication of misstatements to the audit committee	£2,300 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£2,100 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

### An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business and is risk based. We took into account the size and risk profile of the group and each component, any changes in the business and other factors when determining the level of work to be performed at each component, which included the following considerations:

- AorTech International plc was the only trading component during the year with the rest of the components being dormant. We tailored our audit response accordingly with the group audit team performing full scope audit procedures on the parent company. We tested the group consolidation workings and adjustments for appropriateness. In assessing the risk of material misstatement to the group and parent company financial statements, we considered the transactions undertaken by the group and therefore where the focus of our audit work was required;
- We undertook substantive testing of significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of risks, knowledge of the business and overall assessment of the control environment. Our audit approach is consistent with that for the prior year; and
- Revenues and total assets for the group and parent company were tested to 100% through full-scope audit procedures.

## Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report and accounts, 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.

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.

### **Our opinion on other matters prescribed by the Companies Act 2006 is unmodified**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the report of the directors have been prepared in accordance with applicable legal requirements.

## Matters on which we are required to report under the Companies Act 2006

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 or the report of the directors.

## Matters on which we are required to report by exception

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 set out on page 24, 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.

## 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: [www.frc.org.uk/auditorsresponsibilities](http://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 company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Paul C Brown  
Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
Cambridge

16 July 2019

**Consolidated income statement**

		Year ended 31 March 2019			Year ended 31 March 2018		
		Pre- exceptional items GB£000	Exceptional items GB£000	Total GB£000	Pre- exceptional items GB£000	Exceptional items GB£000	Total GB£000
<b>Revenue</b>	<b>3</b>	<b>463</b>	<b>-</b>	<b>463</b>	<b>404</b>	<b>-</b>	<b>404</b>
Other income		<b>7</b>	<b>-</b>	<b>7</b>	<b>-</b>	<b>255</b>	<b>255</b>
Administrative expenses	<b>6</b>	<b>(835)</b>	<b>(6)</b>	<b>(841)</b>	<b>(474)</b>	<b>-</b>	<b>(474)</b>
Other expenses: share-based payments	<b>5</b>	<b>(42)</b>	<b>-</b>	<b>(42)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Other expenses - amortisation of intangible assets	<b>11</b>	<b>(218)</b>		<b>(218)</b>	<b>(219)</b>	<b>-</b>	<b>(219)</b>
<b>Operating loss</b>	<b>3</b>	<b>(625)</b>	<b>(6)</b>	<b>(631)</b>	<b>(289)</b>	<b>255</b>	<b>(34)</b>
Finance (expense) / income		<b>22</b>	<b>-</b>	<b>22</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Loss from continuing operations attributable to owners of the parent company</b>	<b>6</b>	<b>(603)</b>	<b>(6)</b>	<b>(609)</b>	<b>(289)</b>	<b>255</b>	<b>(34)</b>
<b>Loss attributable to owners of the parent company</b>		<b>(603)</b>	<b>(6)</b>	<b>(609)</b>	<b>(289)</b>	<b>255</b>	<b>(34)</b>
<b>Loss per share</b>							
Basic & Diluted (GB Pence per share)	<b>10</b>			<b>(4.72)</b>			<b>(0.61)</b>

The notes on pages 35 to 48 form part of these financial statements

**Consolidated statement of comprehensive income**

	<b>Year ended 31 March 2019 GB£000</b>	<b>Year ended 31 March 2018 GB£000</b>
<b>Loss for the year</b>	<b>(609)</b>	<b>(34)</b>
<b>Other comprehensive income:</b>		
Items that will not be reclassified subsequently to profit and loss	-	-
Items that will be reclassified subsequently to profit and loss	-	-
<b>Other comprehensive income for the year, net of tax</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year, attributable to owners of the parent company</b>	<b>(609)</b>	<b>(34)</b>

The notes on pages 35 to 48 form part of these financial statements

**Consolidated balance sheet**

		<b>31 March 2019 GB£000</b>	<b>31 March 2018 GB£000</b>
	<b>Notes</b>		
<b>Assets</b>			
<b>Non current assets</b>			
Intangible assets	11	448	527
Tangible assets	12	1	
<b>Total non current assets</b>		<b>449</b>	<b>527</b>
<b>Current assets</b>			
Trade and other receivables	14	238	134
Cash and cash equivalents	15	2,412	422
<b>Total current assets</b>		<b>2,650</b>	<b>556</b>
<b>Total assets</b>		<b>3,099</b>	<b>1,083</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	16	(99)	(67)
<b>Total current liabilities</b>		<b>(99)</b>	<b>(67)</b>
<b>Total liabilities</b>		<b>(99)</b>	<b>(67)</b>
<b>Net assets</b>		<b>3,000</b>	<b>1,016</b>
<b>Equity</b>			
Issued capital	18	12,574	12,118
Share premium	18	4,550	2,500
Other reserve		(1,916)	(2,003)
Profit and loss account		(12,208)	(11,599)
<b>Total equity attributable to equity holders of the parent</b>		<b>3,000</b>	<b>1,016</b>

The consolidated financial statements were approved by the Board on 16 July and were signed on its behalf by



W Brown, Chairman



G Berg, Director

Company number SC170071

The notes on pages 35 to 48 form part of these financial statements



**Consolidated cash flow statement**

	Year ended 31 March 2019 GB£000	Year ended 31 March 2018 GB£000
<b>Cash flows from operating activities</b>		
Group loss after tax	(609)	(34)
Adjustments for:		
Amortisation of intangible assets	218	219
Share-based payments	42	-
Finance expense / (income)	-	-
Effect of exchange rate during the year	-	-
(Increase) / decrease in trade and other receivables	(104)	176
Increase / (decrease) in trade and other payables	31	(14)
<b>Net cash flow from continuing operations</b>	<b>(422)</b>	<b>347</b>
<b>Net cash flow from operating activities</b>		
<b>Cash flows from investing activities</b>		
Purchase of equipment	(1)	-
Purchase of intangible assets	-	(16)
Acquisition of subsidiary	(139)	-
<b>Net cash flow from investing activities</b>	<b>(140)</b>	<b>(16)</b>
<b>Net cash flow from financing activities</b>		
Proceeds of issue of share capital, net of issue costs	2,552	-
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>1,990</b>	<b>331</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>422</b>	<b>91</b>
<b>Cash and cash equivalents at end of year</b>	<b>2,412</b>	<b>422</b>

The notes on pages 35 to 48 form part of these financial statements

**Consolidated statement of changes in equity**

	<b>Issued share capital GB£000</b>	<b>Share premium GB£000</b>	<b>Other reserve GB£000</b>	<b>Profit and loss account GB£000</b>	<b>Total equity GB£000</b>
<b>Balance at 31 March 2017</b>	<b>12,118</b>	<b>2,500</b>	<b>(2,003)</b>	<b>(11,565)</b>	<b>1,050</b>
Transactions with owners	-	-	-	-	-
Loss for the year	-	-	-	(34)	(34)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(34)</b>	<b>(34)</b>
<b>Balance at 31 March 2018</b>	<b>12,118</b>	<b>2,500</b>	<b>(2,003)</b>	<b>(11,599)</b>	<b>1,016</b>
Share-based payments	-	-	42	-	42
Share Warrants	-	(45)	45	-	-
Issue of equity share capital (net of issue costs)	456	2,095	-	-	2,551
<b>Transactions with owners</b>	<b>456</b>	<b>2,050</b>	<b>87</b>	<b>-</b>	<b>2,593</b>
Loss for the year	-	-	-	(609)	(609)
<b>Other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(609)</b>	<b>(609)</b>
<b>Balance at 31 March 2019</b>	<b>12,574</b>	<b>4,550</b>	<b>(1,916)</b>	<b>(12,208)</b>	<b>3,000</b>

The notes on pages 35 to 48 form part of these financial statements

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation

#### General information

AorTech International plc is the ultimate parent company of the Group, whose principal activities comprise exploiting the value of its IP and know-how.

AorTech International plc is incorporated and domiciled in the UK and its registered office is c/o Davidson Chalmers Stewart LLP, 163 Bath Street, Glasgow, G2 4SQ.

#### Basis of preparation

The Consolidated financial statements are for the year ended 31 March 2019. They have been prepared in compliance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations as adopted by the European Union as at 31 March 2019.

The Consolidated financial statements have been prepared under the historical cost convention.

The accounting policies remain unchanged from the previous year.

#### Going concern

After considering the year end cash position and taking into account the recent £2.6 million fund raising, making appropriate enquiries and reviewing budgets and profit and cash flow forecasts to 31 December 2020 which incorporate planned investment in new product development, the Directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Group has sufficient resources to continue in operational existence for the foreseeable future. For this reason the Directors consider that the adoption of the going concern basis in preparing the consolidated financial statements is appropriate.

#### Changes in accounting policies

##### Standards, amendments and interpretations to existing standards that are not yet effective

At the date of authorisation of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Group.

Management anticipates that all of the pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. None of these new standards, amendments and interpretations, based on an initial analysis are expected to have a significant impact on the Group's financial statements based on current agreements in place and activity. The Group will continue to monitor the impact of those new standards, particularly IFRS 15 if new customer agreements are entered into or Group activity changes.

##### New accounting standards issued but not adopted:

**IFRS 9 'Financial Instruments'** (2014) (effective date 1 January 2018) – the new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new "expected credit loss" model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting. It is not expected that the application of this new standard will cause a material change to the Company's performance.

**IFRS 15 'Revenues from Contracts with Customers'** (change to IASB effective date 1 January 2018) – this new standard presents new requirements for the recognition of revenue, replacing IAS 18 'Revenue', IAS 11 'Construction Contracts' and several revenue-related interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance

obligations, variable pricing, customer refund rights, supplier repurchase options and other common complexities.

The Company has carefully assessed the new standard and considers that there is no change needed to the revenue recognition policy.

**IFRS 16 'Leases'** (change to IASB effective 1 January 2019) – the new standard requires lessees to recognise nearly all leases on the balance sheet which will reflect their right to use an asset for a period of time and the associated liability for payments. The Company does not have any lease arrangements so this change in standard is not relevant to these financial statements.

### **Presentational currency**

The Group's revenues, profits and cash flows have historically been generated in US\$ and reported as such. Whilst the majority of the Group's income continues to be derived in US\$, the majority of costs are derived in the UK and as such Aortech has reverted to reporting its annual report in Sterling. This change recognises the evolving business model and development of devices in the UK. Prior year values have therefore been restated from US\$ to GB£ in this annual report.

## **2. Principal accounting policies**

### **Basis of consolidation**

The Consolidated financial statements consolidate those of the Company and all of its subsidiary undertakings. Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

### **Revenue**

Revenue is measured at the fair value of consideration received or receivable by the Group for goods supplied and services provided, excluding VAT and trade discounts, as follows:

- (a) *Licence fees:* Upfront payments in respect of licence revenues for access by third parties to the Group's technology are recognised as revenue once a third party has a binding contractual obligation to the Group based on the specific contract terms and the Group has no remaining obligations to perform. Where revenue recognised is based on minimum royalty levels, such revenue is treated as being inherent in the licence, disclosed as licence fee income and recognised consistent with royalty income as detailed below.
- (b) *Royalty revenues:* Royalty revenues are recognised as earned in accordance with third parties' sales of the underlying products.

### **Interest**

Interest income is the interest earned on cash or cash equivalents held with the Group's bankers and recognised within the period earned, accrued on a time basis by reference to the principal outstanding and at the effective rate applicable.

### **Exceptional items**

Items considered significant by virtue of their size or nature are separately disclosed on the face of the Income Statement to enable a full understanding of the underlying performance of the Group.

## 2. Principal accounting policies (continued)

### Intangible assets

#### *(a) Patents, trademarks and know-how (intellectual property):*

Patents and trademarks (intellectual property) are included at cost and are amortised on a straight line basis over their useful economic lives of 20 years, which corresponds to the lives of the individual patents.

Know-how is included in intellectual property at cost and will be amortised over 5 years from the commencement of revenue derived from the sale of devices following the exploitation of the know-how.

#### *(b) Research and development:*

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an individual project is recognised only when the Group can demonstrate all of the following:

- the technical feasibility of the intangible asset so that it will be available for use or sale. In practice this will be when the Group is satisfied that the appropriate regulatory hurdles have been or will be achieved.
- its intention to complete and its ability to use or sell the asset.
- how the asset will generate future economic benefits.
- the availability of economic resources to complete the asset.
- the ability to measure the expenditure during development.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future sales. Assets are tested for impairment when an impairment trigger occurs.

Careful judgement by the Directors is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the information available at each balance sheet date.

Development costs capitalised during the year are being amortised over their useful economic lives of five years.

### Disposal of assets

The gain or loss arising on the disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in profit or loss. The gain or loss arising from the sale or revaluation of held for sale assets is included in "other income" or "other expense" in the income statement.

### Impairment testing of intangible assets

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

Individual assets or cash-generating units that include intangible assets with an indefinite useful life, and those intangible assets not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation.

All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

## 2. Principal accounting policies (continued)

### Financial assets

Financial assets fall into the following category: Loans and receivables.

All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are recognised at fair value plus transaction costs.

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade and other receivables are initially measured at fair value and subsequently at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in profit or loss.

Provision against trade receivables is made when there is 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 discounted at the original effective interest rate. An assessment for impairment is undertaken at least at each balance sheet date.

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.

### Financial liabilities

Financial liabilities fall into the following category: Financial liabilities at amortised cost.

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. All financial liabilities are recorded initially at fair value, net of direct issue costs.

A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

Financial liabilities at amortised cost (trade payables and accruals) are subsequently recorded at amortised cost using the effective interest method, with interest related charges recognised as an expense in finance cost in the income statement. Finance charges are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

### Taxation

Current tax is the tax currently payable based on taxable profit for the accounting period.

Deferred 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.

Deferred tax on temporary differences associated with shares in subsidiaries is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, 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.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. 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 balance sheet date.

## 2. Principal accounting policies (continued)

### Taxation (continued)

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in profit or loss, except where they relate to items that are charged or credited directly to equity in which case the related deferred tax is also charged or credited directly to equity. Tax which relates to items recognised in other comprehensive income is recognised in other comprehensive income.

### Equity

Equity comprises the following:

- "Issued capital" represents the nominal value of equity shares.
- "Share premium" represents the excess over nominal value of the fair value of cash consideration received for equity shares, net of expenses of the share issue.
- "Other reserve" represents the difference arising on consolidation between the nominal value of AorTech International Plc shares issued (£3,206,884) and the nominal value of AorTech Biomaterials Ltd (formerly AorTech Europe Ltd) shares acquired (£1,001,884) and the associated share premium account (£201,857) in the company. This acquisition was prior to the transition to IFRS.

Also included in other reserve is the fair value of share-based payments

- "Profit and loss account" represents retained profits.

### Share-based Payments

#### Share options

The Group operates a Share Option Plan for its employees.

The grant of any share-based payment is measured at its fair value using the Black Scholes Option Pricing Model. The fair value of the share options is ultimately recognised as an expense in profit or loss with a corresponding credit to retained earnings over the vesting period, based on the best available estimate of the number of share options expected to vest.

Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any adjustment to cumulative share-based compensation resulting from a revision is recognised in the current period. The number of vested options ultimately exercised by holders does not impact the expense recorded in any period.

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

#### Share warrants

Where warrants are awarded in lieu of fees the fair value is recognised in the Profit and Loss Account (or if pertaining to fundraising costs charged to the Share Premium Account) and a corresponding credit recognised within Other Reserves.

### Foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency) which is the UK on the basis of where the cost base of the business is. The Company's functional currency is Sterling and the Group's presentational currency is Sterling.

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in profit or loss in the period in which they arise. Exchange differences on non-monetary items are recognised in other comprehensive income to the extent that they relate to a gain or loss on that non-monetary item taken to other comprehensive income, otherwise such gains and losses are recognised in profit or loss.

The assets and liabilities in the financial statements of foreign subsidiaries and the parent, including equity items, are translated at the rate of exchange ruling at the balance sheet date. Income and expenses are translated at the average of exchange rates in force at the end of each month of the reporting period. All resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign operation the cumulative translation differences (including, if applicable, gains and losses on related hedges) are reclassified from equity to profit or loss as a reclassification adjustment as part of the gain or loss on disposal.

The Group has taken advantage of the exemption in IFRS 1 and has deemed cumulative translation differences for all foreign operations to be nil at the date of transition to IFRS. The gain or loss on disposal of these operations excludes translation differences that arose before the date of transition to IFRS and includes later translation differences.

### **Use of accounting estimates and judgements**

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

Judgements in applying accounting policies:

- a) Capitalisation of development costs requires detailed analysis of the technical feasibility and commercial viability of the project. The Board regularly reviews this judgement in respect of specific development projects.
- b) The Directors must judge whether future profitability is likely in making the decision whether or not to recognise a deferred tax asset. At this stage the timing of future profits is insufficiently certain to warrant inclusion of a deferred tax asset.
- c) Identification of functional currencies requires a judgement as to the economic environments of the subsidiaries of the Group and the selection of the presentational currency must reflect the requirements of the users of the financial statements.
- d) Revenue recognition requires the Directors to assess the terms of contracts and to determine whether specific obligations have been met before recognising revenue in relation to licence fees and milestone payments. In addition, the Directors have assessed whether any provision for impairment is necessary against receivables through the estimation of future cash flows in both financial years.
- e) Management uses the Black Scholes option pricing model to determine the fair value of share-based payments. This requires a number of assumptions which management uses best available information and professional judgement to ascertain. The model does not take into account all of the variables relating to the share-based payments and actual value may differ from the fair value estimates used.

Sources of estimation uncertainty:

- a) Estimates are required as to intangible asset carrying values and impairment charges.
- b) Estimates of future profitability are required for the decision whether or not to create a deferred tax asset.
- c) Amortisation rates are based on estimates of the useful lives and residual values of the assets involved.
- d) Estimates as to recoverability of receivables, including future expected cash flows.
- e) Estimates as to fair value of share-based payments



### 3. Segmental reporting

The principal activity of the AorTech International Plc Group currently is exploiting the value of its IP and know-how. The Group's revenue is segmented as follows:

<b>Analysis of revenue by income stream</b>	<b>2019</b>	<b>2018</b>
	<b>GB£000</b>	<b>GB£000</b>
License fees	76	90
Royalty revenue	387	314
<b>Total</b>	<b>463</b>	<b>404</b>
 <b>Analysis of revenue by geographical location</b>		
Europe	178	142
USA	251	246
RoW	34	16
<b>Total</b>	<b>463</b>	<b>404</b>

The operating loss of £631,629 (2018: £33,814), and loss on continuing operations before taxation of £609,403 (2018: £33,814) is all derived from the United Kingdom.

All of the Group's non-current assets are held in the United Kingdom

### 4. Remuneration of Directors and key management personnel

<b>Key management personnel</b>	<b>2019</b>	<b>2018</b>
	<b>GB£000</b>	<b>GB£000</b>
Emoluments – short-term employee benefits	286	97
Pension costs – post-employment benefits	16	-
	<b>302</b>	<b>97</b>

The key management personnel whose remuneration is included in the table above for the current year comprise two executive and four non-executive Directors. The key management personnel whose remuneration is included in the table above for the prior year comprise the three Directors serving at the time.

Please see the Report of the Remuneration Committee on page 19 for full details of Directors' emoluments which have been audited. Included in the aggregate emoluments for the year ended 31 March 2019 are payments of £76,354 (2018: £97,500) made by the Company to third parties. The highest paid Director's total emoluments were £180,022 (2018: £60,000). Pension contributions were accrued from June 2018. No pension contributions were paid for the year ended 31 March 2018.

### 5. Share-based payments

#### Employee Share Option Plan

In June 2018, the Group established the Aortech International Share Option Plan to provide long-term incentives for senior executives (including executive directors) to deliver long-term shareholder returns. Under the plan, participants are granted options which only vest if certain performance standards are met. Participation in the plan is at the discretion of the board and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

The amount of options that will vest depends on the following performance conditions being satisfied:

- After the expiry of the period 3 years from the date of grant, 20%
- On receipt by the Company of a CE Mark for any of its products, 30% and
- On the closing middle market quotation of the Company's ordinary shares as derived from AIM Appendix to the Daily Official List of the London Stock Exchange being at least £3.00 for 10 consecutive days on which trading takes place on the AIM Market of the London Stock Exchange.

The Options will lapse on 8 June 2028 unless exercised and if no event occurs to cause it to lapse earlier in accordance with the scheme rules.

## 5. Share-based payments (continued)

The exercise price for each option share is £0.30.

### Summary of number options granted under the plan:

	2019	2018
Options at start of financial year	-	-
Granted during the year	1,590,603	-
Exercised or lapsed during the year	-	-
Options at the end of the financial year	1,590,603	-

## Warrants

Warrants were awarded to Shore Capital (nominated adviser) in lieu of £50,000 of fees due in connection with the Placing of new shares in June 2018. The warrant was priced at £1 and entitles the holder to purchase 166,667 ordinary shares at a price of £0.30 per ordinary share. The warrant can be exercised at any time prior to the expiry date, which is 5 years post the date of grant.

### Fair Value of options and warrants granted

The assessed fair value at the grant date of options granted in the financial year was £0.33, this has been determined using the Black Scholes Option Pricing Model ('BSOPM'). The BSOPM takes into account the exercise price, the term of the option, the impact of dilution (where material), the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk free interest rate for the term of the option.

The fair value of the Warrants has been calculated using the same model, adjusted for the shorter time period to expiry. The fair value of each warrant share has been calculated as 27p per share.

## 6. Loss before taxation

	2019 GB£000	2018 GB£000
Loss before taxation has been arrived at after charging :		
Foreign exchange differences	(22)	65
Amortisation of intangible assets	218	219
Employee benefits expense:		
Employee costs (Note 8)	323	97
Audit and non-audit services:		
Audit of the Accounts of the Company	28	25
Audit related assurance services	2	2
Taxation compliance services	4	4
All other taxation advisory services	-	-
All other assurance services	-	2

## 7. Administrative expenses – exceptional items

Administrative expenses – exceptional items relates to legal fees in relation to litigation regarding the departure of a former employee.

**8. Employees**

	<b>2019</b>	<b>2018</b>
	<b>GB£000</b>	<b>GB£000</b>
Employee costs (including Directors):		
Wages and salaries	<b>286</b>	97
Social security costs	<b>21</b>	-
Pension Contributions	<b>16</b>	-
	<b>323</b>	<b>97</b>

The average number of employees (including Directors) during the year was made up as follows:

	<b>2019</b>	<b>2018</b>
	<b>Numbers</b>	<b>Numbers</b>
Administration	<b>6</b>	3
	<b>6</b>	<b>3</b>

**9. Income tax expense**

No current tax or deferred tax expense arises on the loss for the year (2018: nil).

The tax assessed for the year differs from the standard rate of corporation tax as applied in the respective trading domains where the Group operates. The differences are explained below:

	<b>2019</b>	<b>2018</b>
	<b>GB£000</b>	<b>GB£000</b>
Loss for the year before tax	<b>(609)</b>	(34)
Loss for year multiplied by the respective standard rate of corporation tax applicable (19%)	<b>(116)</b>	(6)
Effects of:		
Expenses not deductible for tax purposes and other tax differences	<b>17</b>	17
Unrelieved trading losses	<b>(133)</b>	(10)
Adjust deferred tax to average rate	<b>-</b>	(1)
Tax on loss for the year	<b>-</b>	-

Unrelieved tax losses remain available to offset against future taxable profits. These losses have not been recognised as deferred tax assets within the financial statements as they do not meet the conditions required in accordance with IAS 12. Losses carried forward in the UK total £5,172,000 – tax effect is £879,000 (2018: £4,652,000 – tax effect £790,840). Losses in the USA total \$nil (2018: \$nil).

**10. Loss per share**

	2019 GB£000	2018 GB£000
Loss for the year attributable to equity shareholders	(609)	(34)
<b>Basic &amp; diluted loss per share</b>		
From continuing operations attributable to ordinary equity holders of the company (GB pence per share)	(4.72)	(0.61)

**Weighted average number of shares**

Issued ordinary shares at start of the year	5,557,695	5,557,695
Issued ordinary shares at end of the year	14,686,608	5,557,695
Weighted average number of shares in issue for the year (used for calculating basic loss per share)	12,910,847	5,557,695

**11. Intangible assets**

	Development costs GB£000	Intellectual property GB£000	Total GB£000
<b>Gross carrying amount</b>			
<b>At 1 April 2017</b>	321	3,186	3,507
Additions	16	-	16
<b>At 31 March 2018</b>	337	3,186	3,523
Additions	-	139	139
<b>At 31 March 2019</b>	337	3,325	3,662
<b>Amortisation and impairment</b>			
<b>At 1 April 2017</b>	157	2,620	2,777
Charge for the year	66	153	219
<b>At 31 March 2018</b>	223	2,773	2,996
Charge for the year	59	159	218
<b>At 31 March 2019</b>	282	2,932	3,214
<b>Net book value</b>			
<b>At 31 March 2018</b>	114	413	527
<b>At 31 March 2019</b>	55	393	448

During the year the Company entered into the Acquisition Agreement to acquire Cortech Medical Limited ('Cortech'), as approved by shareholders at a general meeting. Cortech was wholly owned by W Brown and had developed the business plan for the medical graft and patches business. The know-how and business relationships outlined in the business plan are now transferred for the Group to execute upon.

**12. Tangible assets**

<b>Cost</b>	<b>£000</b>
At 31 March 2018	-
Additions for the year	1
<b>At 31 March 2019</b>	<b>1</b>
<b>Depreciation</b>	
At 31 March 2018	-
Charge for the year	-
<b>At 31 March 2019</b>	<b>-</b>
<b>Net book value</b>	
At 31 March 2018	-
<b>At 31 March 2019</b>	<b>1</b>

**13. Financial instruments***Risk management*

The Group's financial instruments comprise cash and cash equivalents, trade and other receivables, trade and other payables and a change of control redemption premium. These arise directly from the Group's operations and it is the Group's policy that no trading in financial instruments shall be undertaken.

The Board reviews and agrees policies to manage risk to ensure that the entities within the Group will be able to continue as a going concern whilst maximising the return to stakeholders through the effective management of liquid resources raised through share issues.

*Categories of financial instrument*

	<b>2019</b>	<b>2018</b>
	<b>GB£000</b>	<b>GB£000</b>
Financial assets at amortised cost— loans and receivables		
Cash and cash equivalents	<b>2,412</b>	422
Trade and other receivables	<b>238</b>	134
	<b>2,650</b>	556
Financial liabilities		
Liabilities at amortised cost	<b>(99)</b>	(67)
Fair value through profit or loss	-	-
	<b>(99)</b>	(67)

All amounts are short-term (all payable within six months) and their carrying values are considered reasonable approximations of fair value.

*Foreign currency risk*

The Group has non-trading Australian and US subsidiaries whose functional currencies are the Australian and US dollars along with the UK parent company whose functional currency is Sterling. Entities generally do not hold financial instruments in a currency other than their own functional currency, other than the UK parent company which has a trade receivable denominated in US dollars.

### 13. Financial instruments (continued)

Cash balances are carried within the Group in bank accounts, which comprise the following currency holdings:

	2019	2018
	GB£000	GB£000
Sterling	1,805	15
US dollars	607	407
	<u>2,412</u>	<u>422</u>

The Group holds its cash balances in a mixture of Sterling and US dollars. As the Group reports in Sterling, there is translation risk in respect of US dollar balances. Based on year-end balances held in USD, a 10% adverse movement in the \$ / £ exchange rate would have had a £55,215 adverse impact on net assets and expenses.

#### *Interest rate risk*

The Group finances its operations through equity fundraising and does not currently carry any borrowings. The following cash balances are held at floating bank interest rates:

	2019	2018
	GB£000	GB£000
<b>Cash</b>	<u>2,412</u>	<u>422</u>
	<u>2,412</u>	<u>422</u>

#### *Sensitivity analysis*

A rise or fall of interest rates over the year of 1% would have a minimal impact on the results, given the current low bank interest rates being offered on deposit account.

#### *Credit risk*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. In order to minimise this risk the Group endeavours only to deal with companies which are demonstrably creditworthy and this, together with the aggregate financial exposure, is continuously monitored. The maximum exposure to credit risk in the case of both the cash and short term deposits is the value of the outstanding amount.

The Group has trade receivables resulting from sales and other receivables from provision of other services which the management consider to be of low risk other than the amounts due from two third parties where full provision has been made following a mediation and arbitration process. The management do not consider that there is any concentration of risk within either trade or other receivables, other than the amounts due from a third party.

#### *Liquidity risk*

The Group currently holds cash balances and short term deposits in Sterling and US dollars. These balances provide funding for the Group's trading activities. There is no material difference between the fair values and the book values of these financial instruments.

**14. Trade and other receivables**

	2019 GB£000	2018 GB£000
<b>Current</b>		
Trade receivables – gross	413	354
Allowance for credit losses	(341)	(322)
<b>Trade receivables</b>	<b>72</b>	<b>32</b>
Other receivables	23	11
Prepayments and accrued income	143	91
	<b>238</b>	<b>134</b>
<b>Non-current</b>		
Trade receivables	-	-

Included in the above is £112,327 (2018: £84,736) of accrued income.

£41,922 (2018: £nil) of net trade and other receivables were past due for payment but not impaired at 31 March 2019, of which £41,922 (2018: £nil) was over 30 days and £nil (2018: £nil) was over 90 days.

**15. Cash and cash equivalents**

	2019 GB£000	2018 GB£000
Cash at bank and in hand	2,412	422
	<b>2,412</b>	<b>422</b>

**16. Trade and other payables**

	2019 GB£000	2018 GB£000
<b>Current liabilities</b>		
Trade payables	28	3
Other payables	6	-
Accruals and deferred income	65	64
	<b>99</b>	<b>67</b>

Included in the above is £0 deferred income (2018: £6,429).

**17. Operating lease commitments**

The Group had no commitments under non-cancellable operating leases at 31 March 2019 or 31 March 2018.

**18. Share capital****Ordinary shares of 5 pence each**

	Shares Number	Nominal Value GB£000	Premium net of costs GB£000	Total GB£000
In issue at 1 April 2018	5,557,695	278	206	484
Share issue	9,128,913	456	2,095	2,551
Less: transaction costs on share issue	-	-	(45)	(45)
<b>In issue at 31 March 2019</b>	<b>14,686,608</b>	<b>734</b>	<b>2,256</b>	<b>2,990</b>

**Deferred shares of 245 pence each**

	Shares Number	Nominal Value GB£000	Premium net of costs GB£000	Total GB£000
In issue at 1 April 2018	4,832,778	11,840	2,294	14,134
<b>In issue at 31 March 2019</b>	<b>4,832,778</b>	<b>11,840</b>	<b>2,294</b>	<b>14,134</b>
<b>Total at 31 March 2019</b>	<b>19,519,386</b>	<b>12,574</b>	<b>4,550</b>	<b>17,124</b>

Capital management objectives are set out in the Strategic Report on page 6.

**19. Contingent liabilities**

There were no contingent liabilities at 31 March 2019 or at 31 March 2018.

**20. Related party transactions**

Related party transaction disclosures are included within the Report of the Remuneration Committee.



## PARENT COMPANY FINANCIAL STATEMENTS

## Parent Company Balance Sheet

	Notes	31 March 2019 GB£000	31 March 2018 GB£000
<b>Assets</b>			
<b>Non current assets</b>			
Inangible assets	2	90	694
Tangible assets	3	1	-
Investment in subsidiary undertakings	4	140	-
<b>Total non current assets</b>		<b>231</b>	<b>694</b>
<b>Current assets</b>			
Trade and other receivables	5	238	134
Cash and cash equivalents		2,412	422
<b>Total current assets</b>		<b>2,650</b>	<b>556</b>
<b>Total assets</b>		<b>2,881</b>	<b>1,250</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables	6	(99)	(68)
<b>Total Current Liabilities</b>		<b>(99)</b>	<b>(68)</b>
<b>Total liabilities</b>		<b>(99)</b>	<b>(68)</b>
<b>Net assets</b>		<b>2,782</b>	<b>1,182</b>
<b>Equity</b>			
Issued capital	7	12,574	12,118
Share premium		4,550	2,500
Other Reserve		88	-
Profit and loss account		(14,430)	(13,436)
<b>Total equity attributable to equity holders of the parent</b>		<b>2,782</b>	<b>1,182</b>

The parent company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The parent company's loss for the year ended 31 March 2019 was £994,719 (2018: loss of £423,096).

The parent company financial statements were approved by the Board on 16 July 2019 and were signed on its behalf by



W Brown, Chairman



G Berg, Director

Company number SC170071

The notes on pages 51 to 54 form part of these financial statements

**PARENT COMPANY FINANCIAL STATEMENTS (continued)****Parent Company Statement of Changes in Equity**

	<b>Share capital GB£000</b>	<b>Share premium GB£000</b>	<b>Other reserve GB£000</b>	<b>Retained earnings GB£000</b>	<b>Total shareholders' funds GB£000</b>
<b>At 1 April 2017</b>	<b>12,118</b>	<b>2,500</b>	<b>-</b>	<b>(13,012)</b>	<b>1,604</b>
<b>Loss and total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(423)</b>	<b>(423)</b>
<b>At 31 March 2018</b>	<b>12,118</b>	<b>2,500</b>	<b>-</b>	<b>(13,435)</b>	<b>1,183</b>
Share-based payments	-	-	43	-	43
Share Warrants	-	(45)	45	-	-
Issue of equity share capital (net of issue costs)	456	2,095	-	-	2,551
<b>Transactions with owners</b>	<b>456</b>	<b>2,050</b>	<b>88</b>	<b>-</b>	<b>2,594</b>
<b>Loss and total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(995)</b>	<b>(995)</b>
<b>At 31 March 2019</b>	<b>12,574</b>	<b>4,550</b>	<b>88</b>	<b>(14,430)</b>	<b>2,782</b>

The notes on pages 51 to 54 form part of these financial statements

## NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES

#### Statement of compliance

The financial statements were prepared in accordance with FRS 101 'Reduced Disclosure Framework'. The Company has elected to adopt the standard for the year ended 31 March 2019.

#### Basis of preparation

The Company meets the definition of a qualifying entity under FRS 101. The financial statements have therefore been prepared in accordance with FRS 101 as issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of a cash flow statement, share based payments, fair value measurements, comparative reconciliations for tangible and intangible assets, standards not yet effective, related party transactions with other wholly-owned members of the Group and key management personnel compensation. Equivalent disclosures are, where required, given in the Group accounts of AorTech International plc. The Group accounts of AorTech International plc are available to the public.

The financial statements have been prepared on the historical cost basis.

#### Going concern

The Directors have prepared a cash flow forecast up to 31 December 2020 which indicated that taking into account the recent fund raising of £2.6 million, current revenues and overheads together with planned investment in new product development, at the time of approving the financial statements that there is a reasonable expectation that the parent company has sufficient resources to continue in operational existence for the foreseeable future. For this reason, the Directors consider that the adoption of the going concern basis in preparing the Consolidated financial statements is appropriate.

#### Use of key accounting estimates and judgements

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

#### Sources of estimation uncertainty

Amortisation rates are based on estimates of the useful lives and residual values of the assets involved.

#### Investments

Investments held as fixed assets are stated at cost less provision for impairment. In the opinion of the Directors the value of such investments is not less than that shown at the balance sheet date.

#### Deferred tax

Deferred tax is recognised (on an undiscounted basis) on all timing differences where the transactions or events that give the Company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

#### Foreign currencies

Assets and liabilities in foreign currencies are translated into Sterling at the rates of exchange ruling at the balance sheet date. The Company's functional and presentational currency is Sterling.

#### Transactions and balances

Transactions in foreign currencies are translated into Sterling using the spot exchange rates ruling at the dates of the transactions. At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of income and retained earnings except when deferred in other comprehensive income as qualifying cash flow hedges.

## 1. ACCOUNTING POLICIES (Continued)

### Share-based payments

#### Share options

The Group operates a Share Option Plan for its employees.

The grant of any share-based payment is measured at its fair value using the Black Scholes Option Pricing Model. The fair value of the share options is ultimately recognised as an expense in profit or loss with a corresponding credit to retained earnings over the vesting period, based on the best available estimate of the number of share options expected to vest.

Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any adjustment to cumulative share-based compensation resulting from a revision is recognised in the current period. The number of vested options ultimately exercised by holders does not impact the expense recorded in any period.

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

#### Share warrants

Where warrants are awarded in lieu of fees the fair value is recognised in the profit and loss account (or if pertaining to fundraising costs charged to the Share Premium Account) and a corresponding credit recognised within Other Reserves.

#### Debtors

The amounts owed by Group undertakings are in respect of long term loans and have been treated as part of the net investment in the foreign entities, and included within debtors due in greater than one year. These balances have been treated as monetary assets and retranslated at the rate of exchange ruling at the balance sheet date. Exchange differences arising on these loans are taken into account in arriving at the operating result. The recoverability of these balances is reassessed at each balance sheet date, with an impairment provision recorded when considered necessary.

#### Intangible assets

Patents, and trademarks (intellectual property) are included at cost less estimated residual amount and are amortised on a straight line basis over their remaining useful economic lives of 20 years, which corresponds to the lives of the individual patents. Some of these assets were transferred from the Australian subsidiary in 2011 at an independent valuation of £4,777,000 which has been used as deemed cost for these assets in the UK. Development costs incurred in validating the Company's polymers for manufacture on the Company's behalf by Biomerics LLC are being amortised over 5 years.

## 2. INTANGIBLE ASSETS

	Intellectual property GB£000	Development costs GB£000	Total GB£000
<b>Cost</b>			
At 31 March 2018	4,929	330	5,259
Additions for the year	-	-	-
<b>At 31 March 2019</b>	<b>4,929</b>	<b>330</b>	<b>5,259</b>
<b>Amortisation</b>			
At 31 March 2018	4,342	223	4,565
Charge for the year	539	65	604
<b>At 31 March 2019</b>	<b>4,881</b>	<b>288</b>	<b>5,169</b>
<b>Net book value</b>			
At 31 March 2018	587	107	694
<b>At 31 March 2019</b>	<b>48</b>	<b>42</b>	<b>90</b>

**NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS (Continued)****3. TANGIBLE ASSETS**

<b>Cost</b>	<b>GB£000</b>
At 31 March 2018	-
Additions for the year	<u>1</u>
<b>At 31 March 2019</b>	<b>1</b>
<b>Depreciation</b>	
At 31 March 2018	-
Charge for the year	<u>-</u>
<b>At 31 March 2019</b>	<b>-</b>
<b>Net book value</b>	
At 31 March 2018	<u>-</u>
<b>At 31 March 2019</b>	<b><u>1</u></b>

**4. NON-CURRENT ASSET INVESTMENTS**

	<b>2019</b>	<b>2018</b>
	<b>GB£000</b>	<b>GB£000</b>
<b>Investment in subsidiary undertakings</b>		
<b>Cost</b>		
Historical cost	<b>1</b>	23,160
Additions	<b>139</b>	-
Provision for impairment		<u>(23,159)</u>
Net book value at 31 March	<b><u>140</u></b>	<b><u>1</u></b>

**Interest in subsidiary undertakings**

<b>Name of undertaking</b>	<b>Country of registration or incorporation</b>	<b>Description of shares held</b>	<b>Proportion of nominal value of shares held %</b>
(i) AorTech Biomaterials Limited	Scotland	Ordinary £1	100
(ii) AorTech Critical Care Limited	Scotland	Ordinary £1	92
(iii) AorTech Heart Valve Technologies Limited	Scotland	Ordinary £1	100
(iv) Cortech Medical Limited	Scotland	Ordinary £1	100

The principal business activities and country of operations of the above undertakings are:

- (i) A non-trading company in the UK
- (ii) A dormant company in the UK
- (iii) A non-trading company in the UK
- (iv) Research and experimental development on biotechnology, acquired by AorTech 22 June 2018

#### 4. NON-CURRENT ASSET INVESTMENTS (continued)

During the year the Company entered into the Acquisition Agreement to acquire Cortech Medical Limited ('Cortech'), as approved by shareholders at a general meeting. Cortech was wholly owned by W Brown and had developed the business plan for the medical graft and patches business. The know-how and business relationships outlined in the business plan are now transferred for the Group to execute upon.

#### 5. TRADE AND OTHER RECEIVABLES

	2019	2018
	GB£000	GB£000
<b>Current</b>		
Trade receivables – gross	413	354
Allowance for credit losses	(341)	(322)
<b>Trade receivables</b>	72	32
Other receivables	23	11
Prepayments and accrued income	143	91
	<b>238</b>	<b>134</b>
<b>Non current</b>		
Amounts owed by Group undertakings	3,955	3,955
Less: Provision*	(3,955)	(3,955)
	<b>-</b>	<b>-</b>

\*A cumulative impairment charge of £3,955,000 as at 31 March 2019 (31 March 2018: £3,955,000) has been made to fully provide against the remaining amount of the inter-company loan account due as at 31 March 2018 to AorTech International plc by its American subsidiary, AorTech Polymers & Medical Devices, Inc.

Included in the above is £112,327 (2018: £84,736) of accrued income.

#### 6. TRADE AND OTHER PAYABLES

	2019	2018
	GB£000	GB£000
Trade payables	28	4
Other payables	6	-
Accruals and deferred income	65	65
	<b>99</b>	<b>69</b>

Included in the above is £nil deferred income (2018: £6,000).

#### 7. SHARE CAPITAL

See Note 18 in the Consolidated financial statements which details the number of shares in issue at each period end and movements in the period. The nominal value of all shares in issue at 31 March 2019 is £12,574,637 (2018: £12,118,191).

#### 8. DIRECTORS AND EMPLOYEES

The Directors are the only employees of the parent company. Disclosure of their emoluments is given in the audited section of the Report of the Remuneration Committee on page 20.

## 9. SHARE-BASED PAYMENTS

### Employee Share Option Plan

In June 2018, the Company established the Aortech International Share Option Plan to provide long-term incentives for senior executives (including executive directors) to deliver long-term shareholder returns. Under the plan, participants are granted options which only vest if certain performance standards are met. Participation in the plan is at the discretion of the board and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

The amount of options that will vest depends on the following performance conditions being satisfied:

- After the expiry of the period 3 years from the date of grant, 20%
- On receipt by the Company of a CE Mark for any of its products, 30% and
- On the closing middle market quotation of the Company's ordinary shares as derived from AIM Appendix to the Daily Official List of the London Stock Exchange being at least £3.00 for 10 consecutive days on which trading takes place on the AIM Market of the London Stock Exchange.

The Options will lapse on 8 June 2028 unless exercised and if no event occurs to cause it to lapse earlier in accordance with the scheme rules.

The exercise price for each option share is £0.30.

#### Summary of number options granted under the plan:

	2019	2018
Options at start of financial year	-	-
Granted during the year	1,590,603	-
Exercised or lapsed during the year	-	-
Options at the end of the financial year	1,590,603	-

### Warrants

Warrants were awarded to Shore Capital (nominated adviser) in lieu of £50,000 of fees due in connection with the placing of new shares in June 2018. The warrant was priced at £1 and entitles the holder to purchase 166,667 ordinary shares at a price of £0.30 per ordinary share. The warrant can be exercised at any time prior to the expiry date, which is 5 years post the date of grant.

#### Fair Value of options and warrants granted

The assessed fair value at the grant date of options granted in the financial year was £0.30 in line with the pricing of the Share Placing around the same date.

The fair value of the share options at the 31/03/19 has been determined using the Black Scholes Model that takes into account the exercise price, the term of the option, the impact of dilution (where material), the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk free interest rate for the term of the option.

The fair value of the Warrants has been calculated using the same model, adjusted for the shorter time period to expiry. The fair value of each warrant share has been calculated as 27p per share.

## 10. RELATED PARTY TRANSACTIONS

The Company is exempt under the terms of FRS 101.8 from disclosing transactions with its wholly owned subsidiaries.

Additions to Non-Current Asset Investments arise on consolidation of Cortech Medical Limited ('Cortech') which was acquired during the period ended 31 March 2019. As previously disclosed to shareholders in the fund-raising circular, Cortech was acquired from William Brown, a director of the Company, and therefore represents a related party transaction