

FUTURA MEDICAL DEVELOPMENTS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

Company Registration Number 03456088 (England and Wales)



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Directors

John Clarke
James Barder
Kenneth James
Angela Hildreth

Secretary and Registered Office

Angela Hildreth
Futura Medical Developments Limited
Surrey Technology Centre
40 Occam Road
Surrey Research Park
Guildford
Surrey
GU2 7YG

Company Number

03456088

Auditor

Grant Thornton UK LLP
Chartered Accountants and Statutory Auditor
2nd Floor,
St Johns House,
Haslett Avenue West
Crawley
RH10 1HS

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

The Directors present their report and audited financial statements for the year ended 31 December 2022.

Principal activity

The principal activity of the Company is the research and development ("R&D") of pharmaceutical drugs, healthcare products and medical devices.

Results and dividends

The Statement of Comprehensive Income is set out on page 7 and shows the loss after tax for the year of £5,202,727 (2021: £4,216,046). No dividends are paid or proposed (2021: £nil).

Directors

The Directors of the Company up to the date of this report were:

John Clarke
James Barder
Kenneth James
Angela Hildreth

Directors' interests

None of the Directors had beneficial or associated interests in the shares of the Company.

The Directors are also directors of the parent company, Futura Medical plc, and their interests in the share capital (including shares, share options and share-based incentives) of that company are disclosed in the Annual Report of that company.

Directors' and officers' liability insurance

The Company has, as permitted by the Companies Act 2006, maintained insurance cover on behalf of the Directors, indemnifying them against certain liabilities which may be incurred by them in relation to the Company.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law, including FRS 101 'Reduced Disclosure Framework'). 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 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 United Kingdom Accounting Standards, including FRS 101, 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 company's auditor is aware of that information.

Small Company Exemption

The company has taken advantage of the small companies exemptions in preparing this report and from the requirement to prepare a strategic report.

The company's auditor, Grant Thornton UK LLP, has indicated its willingness to continue in office and a resolution concerning its reappointment will be proposed at the Annual General Meeting

By order of the Board



Angela Hildreth
Secretary
12 May 2023

Independent auditor's report to the members of Futura Medical Developments Limited

Opinion

We have audited the financial statements of Futura Medical Developments Limited (the 'company') for the year ended 31 December 2022, which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement 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 their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1.2 in the financial statements, which indicates the risks of the company's ability to continue as a going concern due to the uncertainty around its ability to generate sufficient revenues or for its parent company, Futura Medical plc, to raise sufficient finance to meet the company's expected costs and to continue as a going concern and to realise its assets and discharge its liabilities in the normal course of business. As stated in note 1.2, these events or conditions, along with the other matters as set forth in note 1.2, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities

We are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the company to cease to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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.

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 themselves. If, based on the work we have

performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 3, 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 company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant which are directly relevant to the financial statements are those related to the reporting framework, being the Companies Act 2006 and Financial Reporting Standard 101.
- We obtained an understanding of how the company is complying with those legal and regulatory frameworks by making enquiries of management. We corroborated our enquiries through our review of board minutes and correspondence received from regulatory bodies.
- We assessed the susceptibility of the financial statements to material misstatement, including how fraud might occur, by making enquires of management and those charged with governance. We utilised internal and external information to corroborate these enquiries and to perform a fraud risk assessment. We considered the risk of fraud to be highest through the potential for management override of controls. Our audit procedures involved:

- evaluation of the design and implementation of controls that management has in place to prevent and detect fraud;
- journal entry testing, with a focus on material manual journals, including those posted directly to cash and those impacting areas of estimation uncertainty; and
- challenging assumptions and judgements made by management in its significant accounting estimates.

In addition, we completed audit procedures to conclude on the compliance of disclosures in the annual report and accounts with applicable financial reporting requirements.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery, or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

The engagement partner assessed the appropriateness of the collective competence and capabilities of the engagement team, including consideration of the engagement team's:

- understanding of, and practical experience with, audit engagements of a similar nature and complexity, through appropriate training and participation;
- knowledge of the industry in which the company operate; and
- understanding of the legal and regulatory requirements specific to the company. These include following EU Directive 2001/83/EC, being regulated, and licensed by the medicines and healthcare products regulatory agency (MHRA) and being ISO 13485 accredited.

Team communications in respect of potential non-compliance with laws and regulations and fraud included the potential for fraud in revenue recognition through manipulation of the identified performance obligations in contracts. In assessing the potential risks of material misstatement we obtained an understanding of the company's operations, including the nature of its revenue sources, products and services to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.

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. 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.

Grant Thornton UK LLP

Jonathan Oakey FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Crawley
12 May 2023

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

		Year ended 31 December 2022 £	Year ended 31 December 2021 £
	Notes		
Turnover	1.4	-	-
Research and development costs		(4,131,224)	(3,774,269)
Administrative Costs		(2,096,497)	(1,350,351)
Operating loss	4	(6,227,721)	(5,124,620)
Interest Payable		-	(26)
Loss before tax		(6,227,721)	(5,124,646)
Tax	7	1,024,994	908,600
Total comprehensive loss after tax		(5,202,727)	(4,216,046)

All amounts relate to continuing activities.

All recognised gains and losses in current and prior years are included in the profit and loss account.

The notes on pages 10 to 22 form part of these financial statements.

Company no. 03456088**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022**


	Notes	As at 31 December 2022 £	As at 31 December 2021 £
Fixed assets			
Tangible assets	8	1,158,035	442,657
Investment in subsidiary	9	100	100
Total fixed assets		1,158,135	442,757
Current assets			
Current tax asset		1,022,829	908,312
Debtors	10	252,874	68,492
Cash at bank and in hand		1,935,728	1,598,949
Total current assets		3,211,431	2,575,753
Creditors: amounts falling due within one year	11	(1,603,477)	(1,867,249)
Net current assets		1,607,954	708,504
Total assets less current liabilities		2,766,089	1,151,261
Creditors: amounts falling due after more than one year		-	-
Total net assets		2,766,089	1,151,261
Capital and reserves			
Called up share capital	12	60,724	60,724
Share premium account		1,152,165	1,152,165
Capital contribution		65,183,841	58,366,286
Profit and loss account		(63,630,641)	(58,427,914)
Equity shareholder's funds		2,766,089	1,151,261

The financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime.

The financial statements were approved by the Board and authorised for issue on 12 May 2023

The notes on pages 10 to 22 form part of these financial statements.

Angela Hildreth
Finance Director



**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022**

	Share Capital £	Share Premium £	Capital Contribution £	Retained Losses £	Total Equity £
At 1 January 2021	60,724	1,152,165	53,555,395	(54,211,868)	556,416
Share-based payment charge	-	-	181,822	-	181,822
Capital contribution from parent intercompany balances	-	-	4,629,069	-	4,629,069
Loss for the year	-	-	-	(4,216,046)	(4,216,046)
At 31 December 2021	60,724	1,152,165	58,366,286	(58,427,914)	1,151,261
Share-based payment charge	-	-	671,852	-	671,852
Capital contribution from parent intercompany balances	-	-	6,145,703	-	6,145,703
Loss for the year	-	-	-	(5,202,727)	(5,202,727)
At 31 December 2022	60,724	1,152,165	65,183,841	(63,630,641)	2,766,089

Share premium represents amounts subscribed for share capital in excess of nominal value, less the related costs of share issues.

Capital contribution represents the cumulative fair value of the share-based payments issued by the parent company and capitalised parent company intercompany loan.

Retained losses represent all other net gains and losses not recognised elsewhere.

The notes on pages 10 to 22 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. Accounting policies

1.1 Corporate Information

Futura Medical Developments Limited (the "Company") is a limited company incorporated and domiciled in the United Kingdom. The registered office is located at Surrey Technology Centre, 40 Occam Road, Surrey Research Park, Guildford, Surrey, GU2 7YG.

The financial statements of the Company for the year ended 31 December 2022 were authorised for issue by the Board of Directors on 12 May 2023

The Company is principally engaged in the research and development of pharmaceutical and healthcare products.

1.2 Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Accounting Standards in conformity with the requirements of the Companies Act 2006 ("Adopted IFRSs"). The principal accounting policies adopted in the preparation of the financial statements are set out below.

The financial statements have been prepared on a historical cost basis. In preparing these financial statements the company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore, these financial statements do not include:

- certain disclosures regarding the Company's capital;
- a statement of cash flows;
- the effect of future accounting standards not yet adopted;
- the disclosure of the remuneration of key management personnel; and
- disclosure of related party transactions with other wholly owned members of the group headed by Futura Medical plc.

In addition, and in accordance with FRS 101 further disclosure exemptions have been adopted because equivalent disclosures are included in the consolidated financial statements of the group. These financial statements do not include certain disclosures in respect of:

- share based payments;
- financial instruments (other than certain disclosures required as a result of recording financial instruments at fair value);
- fair value measurement (other than certain disclosures required as a result of recording financial instruments at fair value); and

The financial statements contain information about Futura Medical Developments Limited as an individual company and do not contain consolidated financial information as the parent of a group. The Company has taken advantage of the exemption conferred by s400 of the Companies Act 2006 not to produce consolidated financial statements as it and its subsidiary undertaking are included in the consolidated financial statements of its parent, Futura Medical plc, a company registered in England and Wales.

Notwithstanding a loss for the year ended 31 December 2022 of £5,202,727, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons. The Board has considered the applicability of the going concern basis in the preparation of the financial statements. This included the review of internal budgets and financial results and a review of cash flow forecasts for the period ending June 2024. Under current business plans, the Group's cash resources including funding available from it's parent company Futura Medical plc, which has indicated it's intention to continue to make funding

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. Accounting policies (continued)

available as needed by the Company, will extend beyond April 2024 (at least 12 months from the date of signing the financial statements).

The Board noted the existence of a number of factors that increase the difficulty inherent in predicting the Company's performance, in particular its revenue generation. These include a lack of any historical information from which to reliably predict sales volume and growth, long-term prices and timing of receipts from customers in respect of Eroxon as the product has not yet launched in any key market with any of the commercial partners. Forecasts provided by commercial partners have been highly encouraging but are not guaranteed. In addition to the budget and forecast, the Board therefore considered a possible scenario in which Eroxon revenues were reduced compared to the budget and forecast (the "downside scenario"). The Board further considered remedial action within Management's control to delay some discretionary spending. In this downside scenario, after taking the remedial actions, the Board believe that the Group's resources could still extend beyond June 2024.

Based on the above factors the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, it acknowledges that a material uncertainty exists that may cast significant doubt on the Company's ability to generate sufficient net revenues or for the Group to raise sufficient finance to meet its expected costs and to continue as a going concern and to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

1.3 Judgements and key areas of estimation uncertainty

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires the Company's directors to exercise judgement in applying the Company's accounting policies. The areas where significant judgements and estimates have been made in preparing the financial statements and their effect are disclosed in note 2.

1.4 Revenue

To determine whether to recognise revenue, the Group follows a five-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied.

In accordance with IFRS 15, revenue is calculated based on the consideration to which the Group expects to be entitled and is recognised over the length of services provided under the contract and once performance obligations have been met. The transaction fee is allocated over the length of the service being provided in accordance with the project plan. It is recognised as a contract liability at the time of the initial transaction and is released over the expected period of service on the basis of work completed and performance obligations delivered. The progress is re-evaluated by management at each reporting date and the revenue recognised is re-measured accordingly.

During the year, the Company entered into contracts for supply of goods to external customers against orders received. The majority of contracts that the Company enters into relate to sales orders containing single performance obligation for the delivery of pharmaceutical products. Revenue is recognised when control of the goods is passed to the customer. The point at which control passes is determined by each customer arrangement, but generally occurs when title passes to the customer, either on shipment or on receipt of goods by the customer, depending on local trading terms.

Product revenue represents net invoice less estimated volume discounts, which are considered to be variable consideration and include significant estimates. Other variable considerations such as milestones payments and royalties are not recognised in full until it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. In management's opinion, that will be when the Group's customer confirms that the milestone has been met or that a royalty is due. Estimates associated with variable consideration are revisited at each reporting date or when they are

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. Accounting policies (continued)

resolved and revenue is adjusted accordingly. At 31 December 2022, our customers were preparing for initial launches of the products or in the process of seeking regulatory approval for the sale of the product in the relevant jurisdictions. As a result, no sales have been made and no revenue has been recognised during the year.

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

1.5 Research and development

Expenditure incurred on the development of internally generated products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Company is able to out-license or sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalised development costs, including patents and trademarks, are amortised over the periods in which the Group expects to benefit from selling the products developed. The amortisation expense is included in R&D costs recognised in the Statement of Comprehensive Income. The useful life and the value of the capitalised development cost are assessed for indicators of impairment at least annually. The value is written down immediately if impairment has occurred and the unimpaired cost amortised over the remaining useful life.

The Directors consider that the criteria to capitalise development expenditure are not yet met for any of its products as they have either not yet been approved or commercially launched in at least one major market therefore commercial feasibility of the product is not yet certain.

Development expenditure, not satisfying the above criteria, and expenditure on the research phase of internal projects are included in R&D costs recognised in the Statement of Comprehensive Income as incurred.

1.6 Tangible fixed assets

Plant and equipment is initially recognised at cost, and subsequently at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is charged to the Statement of Comprehensive Income at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over their estimated useful lives.

Computer equipment	2 – 5 years straight line
Fixtures and fittings	3 – 10 years straight line

The assets' residual values and useful lives are determined by the Directors and reviewed and adjusted, if appropriate, at each Statement of Financial Position date.

1.7 Investment in subsidiaries

Investments in subsidiaries are carried at cost less any provision for losses arising on impairment.

1.8 Deferred taxation

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. Accounting policies (continued)

R&D tax credits are recognised on an accruals basis and are included as an income tax credit under current assets.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profits will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the Balance Sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered). Deferred tax balances are not discounted.

1.9 Foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. All differences are recognised immediately in the profit and loss account.

1.10 Financial Instruments

i) Recognition and initial measurement

At the year-end, the Company had no financial assets or liabilities designated at fair value through the statement of comprehensive income (2021: £nil). Trade receivables and debt securities are initially recognised when they are originated. All other financial assets and liabilities are initially recognised when the Company becomes a party to the contractual provisions in the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or a financial liability is initially measured at fair value plus, for items not measured at fair value through profit and loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is measured at the transaction price.

ii) Classification and subsequent measurement

Financial assets

On initial recognition a financial instrument is classified as measured at: amortised cost, fair value through other comprehensive income ("FVOCI") or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets.

A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as FVTPL

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on a specified date to cash flows that are solely the payment of principal and interest on the principal outstanding.

A debt investment is measured at FVOCI if it meets both the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. Accounting policies (continued)

On initial recognition of an equity investment that is not held for trading the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment by investment basis.

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses.

Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as FVTPL if it is held for trading, it is a derivative or it is designated as such on initial recognition. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense is recognised in profit or loss. At the year-end, the Group had no financial assets or liabilities designated at FVOCI (2021: £nil).

iii) Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities

The Company derecognises a financial liability when the contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid is recognised in profit or loss.

1.11 Employee benefits

(i) Defined contribution plans.

The Company provides retirement benefits to all employees and Executive Directors who wish to participate in defined contribution pension schemes. The assets of these schemes are held separately from those of the Company in independently administered funds. Contributions made by the Company are charged to the profit and loss account in the period in which they become payable.

(ii) Accrued holiday pay.

Provision is made at each balance sheet date for holidays accrued but not taken at the salary of the relevant employee at that date. The expected cost of compensated short-term absence (i.e. holidays) is charged to the profit and loss account on an accruals basis.

(iii) Share-based payment transactions.

The Company operates an equity-settled share-based compensation plan. For all share options awarded to employees, and others providing similar services, the fair value of the share options at the date of grant is charged to the profit and loss account over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of share options that eventually vest. There are no market vesting conditions. If the terms and conditions of share options are modified before they vest, the change in the fair value of the share options, measured immediately before

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. Accounting policies (continued)

and after the modification, is also charged to the profit and loss account over the remaining vesting period.

All-employee share option holders enter into an HM Revenue & Customs joint election to transfer the employers' national insurance contribution potential liability to the employee, therefore no asset or liability arises. The shares are settled by the parent company, Futura Medical Plc with no recharge made and therefore the cost is recorded in the capital contribution reserve.

1.12 Inventories

Inventories are consumable materials to be used in research and development and are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost includes materials, related contract manufacturing costs and other direct costs. Cost is calculated using the first in, first out method. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal.

A provision is recognised immediately in the Statement of Comprehensive Income in respect of obsolete or defective items, where appropriate.

1.13 Leased assets

For any new contracts entered into on or after 1 January 2019, the Company considers whether a contract is, or contains a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, the Company assesses whether the contract meets three key evaluations which are whether:

- The contract contains an identified asset, which is either explicitly in the contract or implicitly specified by being identified at the time the asset is made available to the Company.
- The Company has the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract.
- The Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct "how and for what purpose" the asset is used throughout the period of use.

The Company makes the use of leasing arrangements principally for the provision of the main office space and IT equipment. The rental contracts for offices are typically negotiated on a short-term rolling basis with one month's notice. Lease terms for IT equipment have lease terms of three years without any extension terms. The Company does not enter into sale and leaseback arrangements. All the leases are negotiated on an individual basis and contain a wide variety of different terms and conditions such as purchase options and escalation clauses.

The Company assesses whether a contract is or contains a lease at inception of the contract. A lease conveys the right to direct the use and obtain substantially all of the economic benefits of an identified asset for a period of time in exchange for consideration.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. These leases relate to items of certain IT equipment. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

1.14 Cash and Cash Equivalents

Cash and cash equivalents are basic financial assets and comprises of cash in hand, which are readily available and with original maturity of three months or less.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. Critical accounting estimates, assumptions and judgements

In the application of the Group's accounting policies, which are described in Note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The significant judgments and estimates made in relation to the financial statements are:

Share-based payments

The Group operates an equity-settled share-based compensation plan for employee (and consultant) services to be received and the corresponding increases in equity are measured by reference to the fair value of the equity instruments as at the date of grant. The fair value determination is based on the principles of the Black-Scholes model which uses an input of volatility based on historical data. Historical volatility may not be indicative of future volatility, yet the Directors judge this to be the most appropriate method of calculation. Given the share option expense of £671,852 (2021: £181,822), the volatility methodology used is not expected to have a material impact on these financial statements.

R&D tax credits

The current tax receivable as disclosed in Note 7, represents an R&D tax credit based on an advance claim with HMRC. The final receivable is subject to the correct application of complex R&D rules and HMRC approval. Historically, claims have been successful and the Group expects the current year to be successful too.

R&D costs

Management are required to make a judgement about certainty of commercial success of their products. No Research and Development costs have been capitalised in the current or prior period and further details can be found in Note 1.5.

There are no significant estimates which are expected to lead to material adjustments in the next accounting period.

3. Segment Reporting

The Company is focused on the development and commercialisation of MED3000 and therefore operates as one segment.

4. Operating loss

	Year ended 31 December 2022 £	Year ended 31 December 2021 £
Operating loss is stated after charging:		
Depreciation of tangible assets	24,734	19,808
Loss on disposal of plant and equipment	585	-
Short term leases: Property	120,881	116,194
Gain/(Loss) on foreign exchange	98,923	(39,664)

The fees of the Company's auditor for services provided are analysed below:

	Year ended 31 December 2022 £	Year ended 31 December 2021 £
Audit services	15,420	17,505
iXBRL Tagging	1,000	-
Total fees	16,420	17,505

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

5. Wages and salaries

The average number of persons employed by the Company during the year, analysed by category, was as follows:

	Year ended 31 December 2022	Year ended 31 December 2021
R&D staff	7	7
Finance and Administration staff	2	1
Executive Directors	3	3
	12	11

The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 2022 £	Year ended 31 December 2021 £
Wages and salaries	2,150,346	1,730,007
Social security costs	274,083	243,125
Other pension and insurance benefits costs	153,384	151,912
Total cash-settled emoluments	2,577,813	2,125,044
Share-based payment remuneration charge	671,852	181,822
Total emoluments	3,249,665	2,306,866

6. Directors' emoluments

	Year ended 31 December 2022 £	Year ended 31 December 2021 £
Aggregate emoluments	1,166,078	1,040,075
Employer pension contributions	26,591	22,776
Share-based payment remuneration charge	313,867	97,503
Employer's national insurance charge	143,503	142,846
Total emoluments	1,650,039	1,303,200

In 2022 there was one Director whose share options were exercised under the Group share option schemes and a gain of £37,975 was realised (2021: £nil). In respect of the highest paid Director the realised gain was £37,975 (2021: £nil).

In 2022 there were no Directors (2021: nil) who participated in a private money purchase defined contribution pension scheme.

The Directors consider that there are no other Key Personnel other than the Directors.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

Emoluments above include the following amounts in respect of the highest paid Director:

	Year ended 31 December 2022	Year ended 31 December 2021
	£	£
Aggregate emoluments	390,898	353,341
Employer pension contributions	6,186	3,517
Subtotal	397,084	356,858
Share-based payment remuneration charge	100,119	37,501
Employer's national insurance charge	60,144	56,388
Total emoluments	557,347	450,747

7. Taxation

	Year ended 31 December 2022	Year ended 31 December 2021
	£	£
Current tax		
UK corporation tax credit on loss	1,024,994	908,600

The tax assessed for the year is different from the standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 31 December 2022	Year ended 31 December 2021
	£	£
Loss before tax	6,227,721	5,124,646
Loss at the average standard rate of corporation tax in the UK of 19% (2021: 19%)	1,183,267	973,683
Expenses not deductible for tax purposes	(247)	(124)
Unrecognised deferred tax	(122,239)	(26,518)
Unutilised tax losses	(502,619)	(487,109)
Share Scheme Deduction	25,793	58,780
Loss surrendered for refund	(318,101)	(282,562)
Additional relief for R&D claims	759,140	674,326
Corporation tax credit	1,024,994	910,476
Adjustment to tax charge relating to prior year	-	(2,164)
Current tax credit to profit and loss account	1,024,994	908,312

The Company has tax losses of approximately £36,514,427 (2021: £33,868,368) available for offset against future taxable profits.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

Deferred tax assets

Deferred tax assets amounting to £9,868,495 (2021: £9,045,520) have not been recognised due to it not being probable that taxable profits will be available, against which these deductible temporary differences can be utilised. An increase in the main rate of UK corporation tax from 19% to 25% from April 2023 was substantively enacted during the year ended December 2022. As a result the opening and closing assets not recognised are calculated assuming a prevailing rate when the timing differences reverse of 25%. The unrecognised tax asset comprises:

	Year ended 31 December 2022 £	Year ended 31 December 2021 £
Depreciation differential versus capital allowances	(6,800)	(9,576)
Other short-term timing differences	746,688	588,004
Unutilised tax losses	9,128,607	8,467,092
	9,868,495	9,045,520

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

8. Tangible assets

	Computer equipment £	Furniture and fittings £	Total £
Cost			
At 1 January 2022	545,270	65,321	610,591
Additions	740,697	-	740,697
Disposals	(2,114)	-	(2,114)
At 31 December 2022	1,283,853	65,321	1,349,174
Depreciation			
At 1 January 2022	108,884	59,050	167,934
Charge for year	24,734	-	24,734
Eliminated on disposals	(1,529)	-	(1,529)
At 31 December 2022	132,089	59,050	191,139
Net Book Value			
At 31 December 2022	1,151,764	6,271	1,158,035
At 31 December 2021	436,386	6,271	442,657

9. Investments

The unlisted investment is stated at cost of £100 at 31 December 2022 and 31 December 2021.

The investment comprises 100% of the issued £1 ordinary shares of the subsidiary undertaking Futura Consumer Healthcare Limited registered offices located at Surrey Technology Centre, 40 Occam Road, Surrey Research Park, Guildford, GU2 7YG. The subsidiary company is dormant with no activity in the year.

10. Debtors

	Year ended 31 December 2022 £	Year ended 31 December 2021 £
Trade debtors	70,115	7,547
Other debtors	10,440	10,440
Prepayments and accrued income	172,319	50,505
	252,874	68,492

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

11. Creditors: amounts falling due within one year

	Year ended 31 December 2022 £	Year ended 31 December 2021 £
Trade creditors	235,863	886,192
Other taxes and social security costs	145,092	281,766
Accruals	790,371	589,856
Contract Liability	432,151	109,435
	1,603,477	1,867,249

12. Share capital

	Year ended 31 December 2022 £	Year ended 31 December 2021 £
Allotted, called up and fully paid		
Ordinary shares 60,724 of £1 each	60,724	60,724

13. Share-based payments

On 14 September 2022 share options over 967,000 new ordinary shares were granted to employees (including Executive Directors) at an exercise price of 45p. The options have a three-year vesting period and the exercise period for these options is 1 October 2025 to 30 September 2030.

On 7 December 2022 share options over 4,444,940 new ordinary shares were granted to employees (including Executive and Non-Executive Directors) at an exercise price of 0.02p per share. The options granted will vest 25% immediately with a further 25% vesting annually following the date of grant.

The share options outstanding at 31 December 2022 represented 3.84% of the issued share capital as at that date (2021: 2.25%). The weighted average remaining life of the share options outstanding at 31 December 2022 was 81 months (2021: 55 months) with a weighted average remaining exercise price of 19.43 pence (2021: 29.36 pence).

The share options exercisable at 31 December 2022 totalled 5,039,235 (2021: 3,570,000) with an average exercise price of 21.34 pence (2021: 31.0 pence).

The Group's share option scheme rules apply to 11,028,740 of the share options outstanding at 31 December 2022 (31 December 2021: 6,620,000) and include a rule regarding forfeiture of unexercised share options upon the cessation of employment (except in specific circumstances).

Options have historically been issued to advisers under the unapproved scheme. Such options generally vest immediately and are exercisable between one and two years after grant. There were 247,416 share options outstanding to advisers at 31 December 2022 (31 December 2021: 100,000).

There were no market vesting conditions within the terms of the grant of the share options.

14. Pension costs

The pension charge represents contributions payable by the Company to independently administered funds which during the year ended 31 December 2022 amounted to £153,383 (2021: £135,670). Pension contributions payable in arrears at 31 December 2022 included in accrued expenses at the relevant balance sheet date totalled £11,325 (2021: £32,299).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

15. Related party transactions

The Company has adopted the exemption available under FRS 101 to not disclose transactions with other members of the group headed by Futura Medical plc on the grounds that the group accounts are publicly available from Companies House.

16. Commitments

At 31 December 2022 the Company had operating short-term lease commitments in respect of property leases cancellable on one month's notice of £10,365 (2021: £9,963).

17. Ultimate parent company

The company is a wholly owned subsidiary of Futura Medical plc which is the immediate and ultimate parent company incorporated in England and Wales. The largest and smallest group in which the results of the Company are consolidated is that headed by Futura Medical plc, a company incorporated in England and Wales and registered at Unit 44, Surrey Technology Centre, Occam Road, Surrey Research Park, Guildford, GU2 7YG. No other group financial statements include the results of the Company.