

Chondromimetics Limited

FINANCIAL STATEMENTS

for the Year Ended

31 March 2018

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Company Number 9750587

Chondromimetics Limited

OFFICERS AND PROFESSIONAL ADVISERS

J D Rushdy Chief Executive Officer
G N Black Director

COMPANY SECRETARY

G N Black

REGISTERED OFFICE

C/o Shepherd and Wedderburn LLP
Condor House
10 St. Paul's Churchyard
London
EC4M 8AL

AUDITOR

RSM UK Audit LLP
Third Floor, Centenary House
69 Wellington Street
GLASGOW
G2 6HG

Chondromimetics Limited

DIRECTORS' REPORT

The directors submit their report and financial statements of Chondromimetics Limited for the year ended 31 March 2018.

PRINCIPAL ACTIVITIES

The Company is a wholly owned subsidiary of Collagen Solutions Plc.

The principal activity of the Company is the development and manufacture of ChondroMimetic®, a collagen based implant for treatment of cartilage and underlying bone defects, and related products.

REVIEW OF THE BUSINESS

The Company's results are set out in the Statement of Comprehensive Income on page 10.

Losses for the year were £111,838 (2017: £191,774) and were the result of group management recharges and consultancy costs. These were offset by an R&D tax credit of £48,565 in 2018 (2017: £3,827 of grant income).

The Company's objective is to bring the manufacture of the product in-house and re-establish CE mark registrations for the product in order for it to be sold in all significant territories around the world.

Cash and borrowings

As at 31 March 2018, the Company had nil (2017: nil) cash balances and current financial liabilities of £1,276,795 (2017: £733,440).

RESULTS AND DIVIDENDS

The trading results for the year and the Company's financial position at the end of the year are shown in the attached financial statements. The directors do not recommend a final dividend.

Business risks

Risk management is an important element of the management process throughout the company, and internal controls have been developed to address the main business risks which are considered to be:

Strategic

The Company plans to maximise the value of the purchased assets and licenced IP acquired by re-establishing the ChondroMimetic® product in the market and developing further products for the sports medicine and bone graft markets.

One of the risks to the business is that of regulatory approval of those products. In order to mitigate this risk, we have engaged an experienced R&D and management team.

Chondromimetics Limited

DIRECTORS' REPORT

Operational

The Company's most important assets are its employees, customers and the development of know-how and Intellectual Property Rights ("IPR"):

- Employees are recruited carefully to address the needs of the business. Appropriate training is provided to support the development of employees.
- The needs of the Company's customers are addressed to ensure that they are appropriate.
- The Company has controls in place to safeguard the IPR that it develops. The Company also has established procedures to maintain its appropriate accreditations. The Company also recognises the importance of its IT infrastructure and back office systems to deliver its services. The Company has the appropriate controls in place to secure its data and maximise the operational efficiency of its systems.

Controls exist to ensure information is made available to enable management to monitor the performance of the Company.

The controls address the performance of the Company based on monthly management accounts which include details of sales, gross margin and costs.

Treasury policies and financial risk

The Company maintains a treasury function, which operates under policies and guidelines approved by the Board. These cover funding, management of foreign exchange exposure and interest rate risk. The purpose is to manage the financial risks of the business effectively and to secure the most cost-effective funding.

DIRECTORS

The directors of the Company during the year are listed below:

JD Rushdy
G N Black
Dr S White (resigned 30 June 2017)

At 31 March 2018, the directors had no beneficial interests in the Company's shares.

SHARE CAPITAL

On incorporation the issued share capital of the Company was £100 divided into 100 ordinary shares of £1, each fully unpaid.

The total number of issued shares at 31 March 2018 was 100 (2017: 100).

RESEARCH AND DEVELOPMENT

The Company invests in research and development in the UK and collaborates with partners and academia. In the opinion of the directors, continuity of investment in this area is essential for the maintenance of the Company's market position and for future growth.

CHARITABLE AND POLITICAL CONTRIBUTIONS

No charitable or political donations were made by the Company in the year.

Chondromimetics Limited

DIRECTORS' REPORT

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

The directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditors are unaware. Each of the directors has confirmed that they 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 it has been communicated to the auditor.

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors' 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 financial statements of the company in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position and performance of the Company. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 of the Company and of the profit or loss of the Company for that period.

In preparing the Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs adopted by the EU;
- 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.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Chondromimetics Limited

DIRECTORS' REPORT

AUDITOR

A resolution to reappoint RSM UK Audit LLP as auditors will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board



G N Black
Director

13 December 2018

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CHONDROMIMETICS LIMITED

Opinion

We have audited the financial statements of Chondromimetics Limited (the 'company') for the year ended 31 March 2018 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union;
- 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.

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 company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The 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. 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CHONDROMIMETICS LIMITED

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.

Matters on which we are required to report by exception

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.

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 take advantage of the small companies exemption from the requirement to prepare a strategic report.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 5, 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CHONDROMIMETICS LIMITED

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.



Alan Aitchison, Senior Statutory Auditor
For and on behalf of
RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
Third Floor, Centenary House
69 Wellington Street
Glasgow G2 6HG

18 December 2018

Chondromimetics Limited
STATEMENT OF COMPREHENSIVE INCOME
for the year to 31 March 2018

Company No - 9750587

	Notes	2018 £	2017 £
Administrative expenses		(112,914)	(195,601)
Selling and marketing costs		(47,489)	-
Other income	2	48,565	3,827
LOSS BEFORE INTEREST TAX DEPRECIATION AND AMORTISATION		(111,838)	(191,774)
Amortisation and Depreciation		(44,818)	(7,938)
Less amortisation and depreciation capitalised		44,818	7,938
OPERATING LOSS BEFORE TAXATION	3	(111,838)	(191,774)
Taxation	5	-	-
LOSS FOR THE YEAR		(111,838)	(191,774)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(111,838)	(191,774)

Chondromimetics Limited

STATEMENT OF FINANCIAL POSITION

as at 31 March 2018

Company No - 9750587

	Notes	2018 £	2017 £
ASSETS			
Non-current assets			
Intangible assets	6	670,891	361,627
Property, plant & equipment	7	208,484	134,796
		<u>879,375</u>	<u>496,423</u>
Current Assets			
Other debtors		48,565	-
Total assets		<u>927,940</u>	<u>496,423</u>
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the company			
Share capital	12	100	100
Retained deficit		(348,955)	(237,117)
Total equity		<u>(348,855)</u>	<u>(237,017)</u>
Current liabilities			
Trade and other payables	8	8,094	7,500
Amounts owed to group undertakings	11	1,268,701	700,587
Deferred consideration	9	-	25,353
Total liabilities		<u>1,276,795</u>	<u>733,440</u>
Total liabilities and equity		<u>927,940</u>	<u>496,423</u>

These financial statements were approved by the Board of directors and authorised for issue on 13 December 2018 and are signed on its behalf by:



G N Black
Director

No Statement of Cashflows has been prepared as the Company does not have any cash balances.

Chondromimetics Limited

STATEMENT OF CHANGES IN EQUITY for the year to 31 March 2018

Company No - 9750587

	Share Capital £	Retained Deficit £	Total £
As at 1 April 2016	100	-	100
Total transactions with owners in their capacity as owners	100	-	100
Loss for the year	-	(237,117)	(237,117)
Total comprehensive loss for the year	-	(237,117)	(237,017)
At 31 March 2017	100	(237,117)	(237,017)
Total comprehensive loss for the year	-	(111,838)	(111,838)
At 31 March 2018	100	(348,955)	(348,885)

1 ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs), including International Financial Reporting Interpretations Committee (IFRIC) interpretations as endorsed by the European Union (EU) and in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs.

Chondromimetics Limited is incorporated and domiciled in the United Kingdom. The financial statements have been prepared on the historical cost basis except for certain financial liabilities at fair value through the profit or loss. The principal accounting policies adopted are set out below.

GOING CONCERN

As part of its going concern review the Board has followed the guidelines published by the Financial Reporting Council entitled "Going Concern and Liquidity Risk Guidance for UK Companies 2016". In determining the appropriate basis of preparing the financial statements, the Directors are required to consider whether the Company can continue in operational existence for the foreseeable future, being a period of not less than twelve months from the date of the approval of the financial statements.

As at 31 March 2018 the Collagen Solutions plc, the parent undertaking and ultimate controlling party, had cash and cash equivalents of £5.02 million and net current assets of £3.58 million. Management prepares detailed working capital forecasts which are reviewed by the Board on a regular basis. Cash flow forecasts and projections have been prepared through to 31 March 2021, and take into account sensitivities on revenues, and costs. Having made relevant and appropriate enquiries, including consideration of the Group's current cash resources and the working capital forecasts, the Directors have a reasonable expectation that the Group will have adequate cash resources to continue to meet the requirements of the business for at least the next twelve months from the date of the approval of the Group's financial statements.

As at 31 March 2018 the Company had net liabilities of £348,855. Collagen Solutions plc has confirmed its intention to provide such financial support as is necessary to the Company so as to enable it both to meet its liabilities as they fall due and carry on its business without a significant curtailment in operations until a date at least twelve months from the date of approval of these financial statements. Accordingly, the Board continues to adopt the going concern basis in preparing the financial statements.

REVENUE

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and other sales related taxes. Depending on the contractual terms, revenue is recognised based on the level of work completed to date in respect of each individual element of the contract. The difference between the amount of revenue recognised and the amount invoiced on a particular contract is included in the statement of financial position as deferred income.

Normally amounts become billable in advance on the achievement of certain milestones, in accordance with agreed payment schedules included in the contract or

Chondromimetics Limited

NOTES TO THE FINANCIAL STATEMENTS

on submission of appropriate detail. Any cash payment received as a result of this advance billing are not representative of revenue earned on the contract, as revenues are recognised over the period in which the specified contractual obligations are fulfilled. Amounts included in deferred income are expected to be recognised within one year and are included within current liabilities. In the event of contract termination, if the value of the work performed and recognised as revenue is greater than aggregate milestone billings at the date of termination, cancellation clauses provide that the company to be paid for all work performed to the termination date.

GOVERNMENT GRANTS

The Company receives Government grants in relation to research and development, business development and employee costs. Government grants receivable for the reimbursement of costs charged to the income statement are credited to the income statement within other income in the year in which the costs are incurred.

SEGMENTAL REPORTING

The directors believe that the Company's activities comprise one operational segment under IFRS8, Operating Segments, which is biomaterials and consequently segmental analysis by business segment is not considered necessary.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Cost comprises purchase price and other directly attributable costs. Depreciation is charged so as to write off the cost or valuation of assets to their residual values over their estimated useful lives, using the straight-line method, on the following basis:

Plant, equipment and machinery - five years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Statement of Comprehensive Income.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

INTANGIBLE ASSETS

Intangible assets are stated at cost, net of any amortisation and any provision for impairment. Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Licensed IP and patents- over estimated useful lives – ten to 25 years

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred. Expenditure arising from the Company's development is recognised only if all of the following conditions are met:

an asset is created that can be identified (such as new processes or products);
it is probable that the asset created will generate future economic benefits;

Chondromimetics Limited

NOTES TO THE FINANCIAL STATEMENTS

the development cost of the asset can be measured reliably;
the Group has the intention to complete the asset and the ability and intention to use or sell it;
the product or process is technically and commercially feasible; and
sufficient resources are available to complete the development and to either sell or use the asset.

Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

IMPAIRMENT

At each reporting date, the Company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (CGU) in prior years. A reversal of an impairment loss is recognised as income immediately.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised when the Company has become a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables, classified as loans and receivables, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

Trade payables

Trade payables, classified as other liabilities, are initially recognised at fair value and subsequently at amortised cost using the effective interest method.

Chondromimetics Limited

NOTES TO THE FINANCIAL STATEMENTS

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into. An instrument will be classified as a financial liability when there is a contractual obligation to deliver cash or another financial asset to another enterprise. Instruments that are settled through the delivery of a variable number of equity shares are classified as financial liabilities.

Cash and cash equivalents

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

Borrowings

Interest-bearing bank loans and overdrafts are initially recorded at fair value, which represents the fair value of the consideration received, net of any issue costs associated with the borrowings. Borrowings are subsequently stated at amortised cost.

Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis 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.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Derecognition of financial instruments

The derecognition of financial assets takes place when the Company no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all of the cash flows attributable to the instrument are passed through to an independent third party.

FOREIGN CURRENCIES

Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates (the functional currency). The financial statements are presented in sterling, which is the Company's functional currency.

Transactions in overseas currencies are translated at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

LEASING COMMITMENTS

Rentals payable under operating leases, where substantially all the benefits and risks remain with the lessor, are charged to income on a straight-line basis over the term of the relevant lease, except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

TAXATION

Current tax is the expected corporation tax payable or receivable in respect of the taxable profit/loss for the financial year using tax rates enacted or substantively enacted at the reporting date, less any adjustments to tax payable or receivable in respect of previous periods.

Deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities included in the financial statements and the amounts used for tax purposes that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

No provision is made relating to the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than those acquired as part of a business combination.

Provision is made for deferred tax that would arise on all taxable temporary differences associated with investments except where the Company can control the reversal of the temporary differences.

Deferred tax assets are recognised only to the extent that the directors consider that it is probable that there will be suitable taxable profits from which the future reversal of the underlying temporary differences and unused tax losses and credits can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the reporting date.

PROVISIONS

Provisions are recognised when the Company has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reliably estimated.

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

The following standards have been adopted by the Company for the financial year beginning on or after 1 April 2017:

- Amendments to IFRS 12 Disclosure of Interests in Other Entities – Annual Improvements 2014–2016 cycle
- Amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative
- Amendments to IAS 12 Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses

The adoption of these new pronouncements from 1 April 2017 does not have a material impact on the Company financial statements. Additional disclosure has been given where relevant.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2017 and not early adopted

New accounting standards and interpretations have been published that are not mandatory for the year ended 31 March 2018. The Company has elected not to early adopt these new standards and interpretations. The Company's assessment of the impact of these new standards is set out below.

IFRS 15 Revenue from Contracts with Customers, effective for annual reporting periods beginning on or after 1 January 2018. The standard, which replaces IAS 18, covering contracts for goods and services and IAS 11, covering construction contracts, addresses the recognition of revenue. The new standard is based on the principle that revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company will adopt the new standard as at 1 April 2018 and apply the modified retrospective approach. The adoption of the standard is not expected to have a material impact on the Company.

IFRS 16 Leases, effective for annual reporting periods beginning on or after 1 January 2019. Early adoption is permitted. The new standard replaces IAS 17 Leases and related interpretations and details the requirements for the classification, measurement and recognition of lease arrangements. Adoption of the new standard is unlikely to have an impact on the Company.

A number of other new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017 and have not been applied in preparing these financial statements. None of these is expected to have a material impact on the Company.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the financial information in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are both readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. These assumptions include but are not limited to the following areas: -

Contingent consideration

Contingent consideration is measured at its acquisition-date fair value and is included as part of the consideration transferred. Changes in the fair value of the contingent consideration that qualify as measurement adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates with the corresponding gain or loss being recognised in profit or loss for the relevant financial period.

Amounts provided represent management's best estimate of the likely outcome to be paid out under the individual earn-out provisions. Unwinding discount costs applied to the contingent considerations in relation to acquisitions made are charged through the income statement and included within finance costs.

Impairment of goodwill

The amount of goodwill initially recognised is dependent on the allocation of the purchase price to the fair value of the identifiable assets acquired and the liabilities assumed. The determination of the fair value of the assets and liabilities is based, to a considerable extent, on management's judgement. Goodwill is tested annually for impairment. The test considers future cash flow projections of cash-generating units that give rise to the goodwill. Where the discounted cash flows are less than the carrying value of goodwill, an impairment charge is recognised for the difference. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to revenue and direct costs during the period.

Fair values of acquired intangibles

In respect of business combinations, the purchase price is allocated to the identifiable assets and liabilities of the acquired entity. The Company makes judgements and estimates in relation to the fair value allocation of the purchase price and whether any value should be attributable to assets and liabilities not recognised in the acquiree's individual financial statements such as customer contracts and relationships. If any unallocated portion is positive, it is recognised as goodwill. The recognition criteria in IAS38 are applied to intangibles before allocating to goodwill in relation to development expenditure.

Management's judgement is required to estimate the useful lives of intangible assets, having reference to future economic benefits expected to be derived from the use of the asset. Economic benefits are based on the fair values of estimated future cash flows.

Deferred tax

Judgement in respect of taxation management is required to determine the amount of tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of future tax planning strategies.

Research and development

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 until such time as technical viability has been proven and commercialisation is likely to be achieved. Judgements are based on the information available at each reporting date which includes progress with testing and data and commercial feasibility. Activities in relation to research and development are continuously monitored by the directors.

Chondromimetics Limited

NOTES TO THE FINANCIAL STATEMENTS

2 OTHER INCOME

	2018 £	2017 £
R & D tax credit	48,565	-
Other grant income	-	3,857
	<u>48,565</u>	<u>3,857</u>

During the year ended 31 March 2018 the company created and surrendered tax losses under research and development expenditure claims. A payment of £48,565 for the year ended 31 March 2017 was received after 31 March 2018.

3 LOSS FROM OPERATIONS

Loss from operations is stated after charging:

	2018 £	2017 £
Group Management recharges	101,944	126,684
Depreciation	44,818*	7,938*

*Depreciation during the year has been capitalised as part of the development of the ChondroMimetic® product.

4 DIRECTORS' EMOLUMENTS

During the year ended 31 March 2018 and year ended 31 March 2017, Directors' remuneration has been borne by the parent company, Collagen Solutions plc.

5 TAXATION

	2018 £	2017 £
Current tax	-	-

The charge for the period can be reconciled to the loss per the Statement of Comprehensive Income as follows:

	2018 £	2017 £
Loss on ordinary activities before tax	(111,838)	(191,774)
Tax at the UK corporation tax rate of 19% (2017: 20%)	(21,249)	(38,355)
Income not assessed for tax purposes	(9,227)	-
Tax losses not recognised as a deferred tax asset	30,476	38,355
Tax for period	-	-
Unrecognised deferred tax asset	<u>30,476</u>	<u>38,355</u>

The unrecognised deferred tax asset relates to losses. Whilst the directors consider that there is a significant stream of income in the pipeline that may come to fruition, they consider there is significant uncertainty surrounding the timing of those cash flows to warrant not recognising as a deferred tax asset.

Chondromimetics Limited

NOTES TO THE FINANCIAL STATEMENTS

6 INTANGIBLE ASSETS

	Patents & licensed IP	ChondroMimetic® development	Total
Cost	£	£	£
As at 31 March 2017	163,779	197,848	361,627
Additions	15,911	293,353	309,264
As at 31 March 2018	179,690	491,201	670,891
Net Book Value			
As at 31 March 2017	163,779	197,848	361,627
As at 31 March 2018	179,690	491,201	670,891

Amortisation has not commenced during the year as the patents, licensed IP and development have not started to be utilised.

7 PROPERTY, PLANT AND EQUIPMENT

Cost	Plant, equipment & machinery
	£
As at 31 March 2017	142,734
Additions	118,506
As at 31 March 2018	261,240
Depreciation	
As at 31 March 2017	7,938
Charged for the year	44,818
As at 31 March 2018	52,756
Net Book Value	
As at 31 March 2017	134,796
As at 31 March 2018	208,484

8 TRADE AND OTHER PAYABLES

	2018	2017
	£	£
Trade payables	8,094	7,500
	8,094	7,500

The carrying amount of trade and other payables approximates to their fair values.

9 DEFERRED CONSIDERATION

	2018	2017
	£	£
Current liabilities – Deferred consideration	-	25,353
	-	25,353

The deferred consideration relates to the purchase of ChondroMimetic® assets. Under

Chondromimetics Limited

NOTES TO THE FINANCIAL STATEMENTS

the Asset Purchase Agreement £25,353 was due and paid to Cambridge Enterprise Limited in September 2017.

10 DEFERRED TAXATION

At the reporting date, the Company has unused tax losses of £397,517 (2017: £237,117) available for offset against future profits. A deferred tax asset of £77,900 (2017: £47,424) has not been recognised in respect of such losses.

11 RELATED PARTY TRANSACTIONS

The Company is a wholly owned subsidiary of Collagen Solutions plc.

Transactions between Group companies

During the year, Collagen Solutions plc recharged management fees of £101,944 to the Company (2017: £126,684).

The outstanding balance owed to Group companies as at 31 March 2018 was £1,268,701 (2017: £700,587). £661,280 (2017: £476,690) is owed to the Company's Parent Company, Collagen Solutions plc and £607,421 (2017: £223,897) is owed to Collagen Solutions (UK) Limited, a fellow subsidiary of Collagen Solutions plc. The carry amounts of these payables approximates their fair value.

12 SHARE CAPITAL

Ordinary issued and fully unpaid:	Nb	£
Issued shares of £1	100	100
Balance at 31 March 2017 and 31 March 2018	100	100

13 CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Share Capital account rises on the issue of shares. The Retained Deficit reflects losses incurred to date.

14 COMMITMENTS UNDER OPERATING LEASES

At 31 March 2018 the Company had no outstanding commitments for future minimum lease payments under non-cancellable operating leases (2017: nil).

Chondromimetics Limited

NOTES TO THE FINANCIAL STATEMENTS

15 CONTINGENT LIABILITIES

At 31 March 2018, there were no known contingent liabilities (2017: nil).

16 CHARGES

Norgine Ventures Fund I S.C.A SICAR has a fixed and floating charge over the assets of the Company. Norgine Ventures Fund I S.C.A SICAR has provided a private Bond facility to the Company's parent company, Collagen Solutions plc.

17 PARENT COMPANY

The Parent Company and ultimate controlling party is Collagen Solutions plc, a company incorporated in England and Wales, Company Number 8446337, which is listed on AIM.