Arecor Therapeutics plc
("Arecor", the "Company" or the "Group")

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023

- ***Delivery across the business leaves Arecor in strong position***
- ***Continued momentum in diabetes portfolio with AT278 clinical trial on track for key data readout in H1 2024***
- ***First commercial launch of Arestat™ enabled product licensed to partner, AT220, triggering milestone payment and now generating royalties***
- ***Further expansion of partnership portfolio and licensing of products incorporating Arestat™ technology***
- ***Continued success of Ogluo® commercialisation increasing Tetris Pharma product sales to £2.9 million (2022: £1.1 million)***
- ***Total Group revenue of £4.6 million (2022: £2.4 million), 90% year-on-year growth***

Cambridge, UK, 16 May 2024: Arecor Therapeutics plc (AIM: AREC), the biopharmaceutical company advancing today's therapies to enable healthier lives, today announces its final audited results for the year ended 31 December 2023. The Annual Report and Accounts for the year ended 31 December 2023, will be posted to shareholders in due course together with the notice of the 2024 Annual General Meeting.

Sarah Howell, Chief Executive Officer of Arecor, said: *"2023 was another strong year for Arecor across all areas of the business. The launch of the first commercial product incorporating Arestat™ in late 2023 which is now generating royalties under a worldwide license agreement was significant, and a clear validation of the potential of our Arestat™ platform. We have also continued to further strengthen our partnered portfolio and licensed programmes and have seen continued traction with the European roll-out of Ogluo®.*

"I believe the Group is in a strong position and we are poised to deliver against a number of key milestones in 2024, in particular, completion of the Phase I trial of AT278 with results expected in H1. This concentrated, yet very rapid-acting, insulin has the potential to disrupt the market for insulin treatment as a critical enabler in the development of miniaturised and longer wear insulin delivery systems, which are a significant area of focus today for the major insulin device companies and innovators in the field. We look forward to continued progress across the business in 2024 and delivering value to our shareholders."

Operational Highlights (including post-period events):

- Diabetes – Continuing to build value
  - Enrolment completed in second Phase I trial of ultra-concentrated, ultra-rapid acting AT278 with results expected H1 2024
  - Phase I trial data for ultra-rapid acting AT247 delivered via insulin pump presented at ADA 83rd Scientific Sessions
  - Research collaboration established with TRx Biosciences for the formulation development of an oral glucagon-like peptide-1 (GLP-1) receptor agonist product
  - Research collaboration established with Medtronic to develop a novel, high concentration, thermostable insulin for use by Medtronic's Diabetes business in a next-generation implantable pump
- Licensed programmes – milestones and first royalties triggered
  - Partner's commercialisation of AT220 triggered milestone payment and now generating royalties on product sales under a worldwide license agreement
  - AT307 transferred to Hikma and positive pre-IND meeting held between Hikma and FDA confirming abbreviated 505(b)(2) regulatory pathway
  - Sanofi announces intention to acquire from Inhibrx all assets and liabilities associated with INBRX-101, currently in a registrational trial for orphan disease AATD
- Partnership portfolio further strengthened

  - Six new technology partnerships established with leading global companies to enhance their proprietary products across a range of indications and stages of development
- Tetris Pharma – continued success of Ogluo® roll-out
  - Tetris Pharma product sales of £2.9 million (2022: £1.1 million) with a focus on commercial roll-out of Ogluo®
- Key hires have strengthened capabilities with appointment of Dr. Manjit Rahelu as Chief Business Officer and Dr. Helen Parris joins Group as Senior Vice President, Commercial and General Manager of Tetris Pharma Ltd
- Susan Lowther decided to step down from her role as Chief Financial Officer, Company Secretary and as a Board Director, to pursue new opportunities

Financial Highlights:

- Total Income of £5.7 million (2022: £3.7 million) including grant and RDEC income
- Total revenue of £4.6 million (2022: £2.4 million) representing 90% growth
- Investment in Research & Development ('R&D') of £6.0 million (2022: £8.6 million)
- Sales, General & Administrative ('S,G&A') expenses of £8.9 million (2022: £5.6 million)
- Loss after tax for the year of £8.6 million (2022: £9.3 million)
- Cash and short-term investments of £6.8 million at 31 December 2023 (2022: £12.8 million)

Analyst meeting and webcast today

Dr Sarah Howell, Chief Executive Officer, and Manjit Rahelu, Chief Business Officer, will host a meeting and webcast for analysts and investors at 11.00am BST today. Join the webcast here. A copy of the final results presentation will be released later this morning on the Company website at www.arecor.com. Please contact ICR Consilium for details on arecor@consilium-comms.com.

For more information, please contact:

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Notes to Editors

About Arecor

Arecor Therapeutics plc is a globally focused biopharmaceutical company transforming patient care by bringing innovative medicines to market through the enhancement of existing therapeutic products. By applying our innovative proprietary technology platform, Arestat™, we are developing an internal portfolio of proprietary products in diabetes and other indications, as well as working with leading pharmaceutical and

biotechnology companies to deliver therapeutic products. The Arestat™ platform is supported by an extensive patent portfolio.

For further details please see our website, www.arecor.com

This announcement contains inside information for the purposes of the retained UK version of the EU Market Abuse Regulation (EU) 596/2014 ("UK MAR").

Chair's statement

Leveraging cutting-edge technology to build a self-sustaining future

"Arecor has had an excellent year, with progress across all fronts, delivering on our strategy through established and new partnerships, and advancements within our proprietary insulin and specialty hospital products portfolios."

The past year has been one of continued growth and value creation for the Group, with excellent commercial performance and increased revenue generation. We have made robust clinical progress within our proprietary pipeline and further cemented our reputation as partner of choice with major healthcare companies who value our capability to develop clinically and commercially differentiated therapies. In addition, our specialty pharmaceutical business, Tetris Pharma, has been building sales momentum through the European roll-out of its key diabetes product for severe hypoglycaemia. We have delivered across all aspects of our strategy.

Core to our strategy is forging strong, win:win collaborations and partnerships with companies that value the product differentiation that our technology can provide. We put considerable efforts into building and maintaining these long-term relationships, the returns from which are being rewarded. We finished the year with the first product launch, in Europe, by a partner incorporating Arecor's Arestat™ technology – a clear demonstration of our strategy at work and an authorised validation and regulatory acceptance of our platform. We believe that through collaboration, the success of our partners becomes our success, and Sanofi's intention to acquire Inhibrx's INBRX-101 exemplifies this, as the Arecor technology licensed to Inhibrx will enter Sanofi's clinical pipeline. With multiple collaborations ongoing, we expect to see many partnered launches in the coming years.

Given the central strategic role of partnerships to Arecor, the appointment of Dr. Manjit Rahelu as Chief Business Officer was an important development, strengthening our business development capability and ambition, focusing on optimal partnerships at the optimal time and based on deeper relationships. Since Manjit's appointment we have seen our partnership portfolio significantly grow with both new and existing partners. These partnerships build on using our proprietary technology to enhance a partner's existing products. Through licensing our specialty hospital franchise products, at the right time, for further collaborative development and commercialisation we add the exciting prospect of additional recurring revenue streams and greater value to the business from future returns. Momentum here is expected to continue, bringing both new collaborations and further milestones and potential royalties upon commercialisation.

Our diabetes franchise is advancing successfully through the clinical pathway and we continue to build relationships with key therapeutic and device players in the diabetes ecosystem. The medical need for improved therapies remains high, as evidenced by the devastating impact that diabetes has on our health and the heavy disease management burden globally. It remains at pandemic levels with shifting demographics and lifestyles, and the clinical trends towards better monitoring and tighter glucose control, creating a demand for insulins that are faster acting – a key characteristic of our clinical insulin candidates. These proprietary products have the potential to transform the treatment paradigm, offering solutions to significant challenges and the potential to facilitate revolutionary delivery systems, including smaller, automated devices

for people requiring higher, more frequent doses and ultimately the artificial pancreas. With further clinical data due in H1 2024 from our ultra-concentrated, ultra-rapid candidate, AT278, we will have a further opportunity to showcase the promise of a next-generation diabetes therapy, enhanced for the benefit of patients.

Arecor has continued to develop as a company, especially in its commercial capacity. The already dedicated and talented leadership team, led by Sarah Howell, our CEO, has been expanded to strengthen our capabilities and commercial experience. Dr. Helen Parris, who joined us in early 2024 as Senior Vice President, Commercial and General Manager of Arecor's subsidiary company, Tetris Pharma, brings a proven track record in commercialising products and growing sales. Her leadership of that business is central to building on the strong sales performance that we saw in 2023. We are grateful to Susan Lowther, who as Chief Financial Officer and Board member has contributed such a lot over the past 5 years and has now decided to step down. We look forward to building our team further with a new Chief Financial Officer appointment.

As Chair of an innovative, exciting and successful company such as Arecor, I care passionately about our industry, the impact it can have and the value it can create. We depend on investors to support our companies to allow them to flourish. We already have world-beating science and a strong commercial capability, but it cannot progress optimally without complementary financial backing. While the past 18 months has seen dampened market interest in healthcare and life-science innovation, Arecor has been delivering on all its milestones and I have no doubt that Sarah and the team will continue to deliver and that, as the financial cycle evolves, recognition and support from the markets for Arecor will pick up. I see the success of companies such as ours as providing a rallying call to bring our community together and we hope that you, our investors, will join us in driving the impact and value we know can be achieved.

It is our ambition to transform patient care by enhancing existing therapeutic medicines and, in doing so, build a significant biopharmaceutical company. This can only happen through the hard work of our employees and through our strong partnerships; I would like to thank both for their commitment, innovation and excellence in delivery.

With clinical data results due, new partnerships to celebrate and a growing revenue stream from royalties and milestones, 2024 is set to be yet another exciting year for Arecor.

Andrew Richards
Non-Executive Chair

Chief Executive Officer's review

Successful delivery of strategy

"I believe Arecor is in a strong position, with the first product incorporating the Group's Arestat™ technology, AT220, launched by our partner and now generating royalties, an expansion of revenue and value-generating partnerships with major pharmaceutical companies, continued growth from sales of Ogluo® and excellent progress across our in-house proprietary portfolio, where there is significant future value to be gained."

Diabetes – creating disrupter insulins
Diabetes has reached pandemic levels, with approximately 537 million adults living with diabetes worldwide. There are still significant unmet needs in diabetes care and the Group is focussed on developing much faster acting and more concentrated insulins, to improve treatment options and outcomes for this growing patient population within the existing $6.4 billion meal-time insulin market.

Arecor's insulin candidates have the potential to significantly improve healthcare outcomes for people living with diabetes. We continue to build the value of our insulin programmes through the development of clinical

strategies and data packages which would best realise their future potential and maximise partnering potential and value in the growing diabetes market.

The Group's second Phase I clinical study of ultra-concentrated, ultra-rapid acting insulin candidate AT278 in the Type 2 diabetes population has completed patient dosing and is on track to deliver results in H1 2024. These results will enable the Group to finalise its strategy for the product, exploring all options to create value.

AT278 has the potential to be a critical enabler in the development of next generation miniaturised and longer wear insulin delivery systems, which are a significant area of focus today for the major insulin device companies and innovators in the field. The insulin pump market was valued at around $5.3 billion in 2023 and is expected to grow with CAGR of 12.4% from 2024 to 2032[1]. ~20% of the total addressable patient population in the US is using an insulin pump currently[2]. One of the barriers of use for insulin pumps is the size of the current devices, therefore, bringing an ultra-miniaturised pump to market presents a significant growth opportunity for AT278 with a device partner. Arecor's clinical study is a randomised, double-blind Phase I cross-over study in people who are overweight or obese and suffer with Type 2 diabetes. Patients will receive one subcutaneous dose of AT278, in a euglycemic clamp setting, comparing the insulin candidate's pharmacokinetic (PK) and pharmacodynamic (PD) profile with NovoRapid® and Humulin® R U-500. This study is important as it will compare the speed of absorption and glucose lowering profile of AT278 compared to the best treatment options available today for this patient population, where there is a high unmet need and no concentrated, yet rapid acting, insulin options. AT278 has the potential to add a significant new treatment option and potentially become the gold standard insulin for this specific growing population of people with diabetes with high daily insulin needs.

In June, the Group shared positive results from the second Phase I clinical trial of AT247, our ultra-rapid acting insulin candidate, at the American Diabetes Association (ADA) 83rd Scientific Sessions meeting. The data clearly demonstrate faster insulin absorption than the best currently available rapid acting insulins, NovoRapid® and Fiasp®, reinforcing AT247's potential to enable even more effective disease management for people with Type 1 diabetes. The availability of a truly ultra-rapid acting insulin is a critical step towards a fully closed loop artificial pancreas system, a potentially life-changing treatment option for people living with diabetes that has the potential to improve health outcomes and reduce the significant burden of managing this chronic disease.

Post-period, in March 2024, the Group established a research collaboration with TRx Biosciences, a drug development company applying novel lipid technology to the oral delivery of challenging molecules, for the formulation development of an oral GLP-1 receptor agonist product. As the global market for GLP-1 receptor agonists grows and their use increases, significant challenges remain in their oral delivery. With current treatment options mostly limited to injectable therapies, many patients in need are unable to benefit from these highly effective treatments. The collaboration provides scope for expansion to develop further oral peptide products, including additional peptides and combination approaches which may be key in the treatment of obesity-related health conditions, as well as peptide products targeting multiple therapeutic areas.

In May 2024, the Group established a research collaboration with Medtronic, a global leader in healthcare technology, to develop a novel, high concentration, thermostable insulin for use by Medtronic's Diabetes business in a next-generation implantable pump. This new insulin has the potential to transform treatment for an extremely vulnerable patient group and the collaboration is one of many that Arecor hopes to enable, to further enhance the benefits of next-generation devices within the diabetes field.

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[1] Global Market Insights report titled 'Insulin Pump Market - By Product [Devices (Tubed/tethered, Tubeless), Accessories (Battery, Insulin Reservoir or Cartridges, Insulin Set Insertion Devices)], End-use (Home Care, Hospitals & Clinics) – Global Forecast, 2024 – 2032, January 2024

[2] Seagrove Partners Diabetes Bluebook

Partnered portfolio – validating the value of the Arestat™ platform to patients and growing a diversified revenue stream

We continue to expand our portfolio of revenue-generating licensed programmes and technology partnership deals with leading pharmaceutical and biotechnology companies. These partnerships have continued to build steadily since Arecor's IPO and, following the appointment of Dr. Manjit Rahelu as the Group's Chief Business Officer in April, provide both near-term revenue at the pre-license stage with significant future license upside potential.

Our proprietary pipeline of specialty hospital products enabling alternative faster, safer and more effective treatment options for patients and caregivers in the hospital setting are gaining recognition with three products now under license and moving through clinical development. As demand increases, our extensive know-how and expertise in the development and delivery of ready-to-use (RTU) and ready-to-administer (RTA) formulations for highly complex point-of-care medicines presents a clear opportunity for Arecor to negotiate high-value co-development and commercialisation license collaborations with pharmaceutical partners.

Operational Review (including post-period events)

Licensed programmes – growing a diversified revenue stream

Commercialisation by Arecor's partner of the first product incorporating Arestat™ technology, AT220, was a significant milestone for the Group, further demonstrating the strength of our technology and its value to partners, and ultimately patients. The first commercial sale in November triggered a license milestone payment and Arecor is now receiving royalties on product sales under a worldwide license agreement.

In addition to AT220, Arecor has two further partnered programmes under license with Hikma and Inhibrx, both of which have been developed closer to market in 2023 and generated license milestone payments during the year. Arecor transferred development activities to Hikma early in 2023 for the RTU injectable medicine AT307, which is advancing under the US FDA's abbreviated 505(b)(2) regulatory pathway. This pathway provides companies with an abbreviated regulatory review process when evidence of safety and clinical efficacy generated for an originator product is deemed suitable to be relied upon in new marketing applications. We believe that this abbreviated 505(b)(2) pathway can be utilised across our Specialty Hospital portfolio, where we are developing enhanced, RTU and RTA formulations of existing therapeutic products.

Post-period, in January 2024, Sanofi announced its intention to acquire Inhibrx's assets and liabilities associated with INBRX-101 (AT292), an Arestat™ formulated optimised recombinant human AAT-Fc fusion protein, for treatment of patients with emphysema due to alpha-1 antitrypsin deficiency. A registration-enabling clinical trial of INBRX-101 commenced in 2023 and data are anticipated later in 2024. Sanofi's acquisition of Inhibrx further endorses our Arestat™ platform and highlights the value of this novel therapy for patients and its future commercial potential.

Technology partnerships – new revenue-generating collaborations

Our portfolio of technology partnerships with leading pharmaceutical and biotechnology companies, to enhance their proprietary products across a range of indications and stages of development, continues with four new agreements signed in 2023 and one post-period. These collaborations highlight the strength and the need for the Arestat™ technology platform, provide near-term revenue generation as well as significant upside potential from future licensing.

In November, the Group signed a further collaboration with an existing partner, Lilly, to develop a novel liquid formulation with enhanced properties of one of Lilly's key products. Following this, post-period in January 2024, we agreed an expansion of an ongoing, exclusive formulation study collaboration with the pharmaceutical division of one of the world's largest chemicals marketing and pharmaceuticals companies, to develop a differentiated, RTU liquid formulation of the company's product, AT351.

Earlier in the year we signed a further three agreements: a top 10 pharmaceutical company to develop an enhanced antibody formulation for one of its investigational drugs, a follow-on collaboration to support the ongoing development of a biosimilar product with a leading biopharmaceutical company, and an additional formulation study agreement with an existing top five global pharmaceutical partner to develop improved, stable, high concentration, liquid formulations of its proprietary product.

Under these agreements, Arecor's partners fund the development work with options to acquire the rights to the new proprietary formulations and associated intellectual property under the Group's technology licensing model.

In December, the Group announced a co-development and exclusive licence option agreement with a partner company for a high-value, ready-to-dilute oncology product from Arecor's proprietary Specialty Hospital pipeline. The agreement included co-development and regulatory work, which was undertaken by Arecor generating revenue for the Group, and an option for the partner to exercise a license to further develop and commercialise the product. That option was not subsequently exercised by the partner company, due to commercial reasons, and the product is retained in Arecor's proprietary Specialty Hospital portfolio.

Further technology partnerships, the out-licensing of programmes from those partnerships, together with new licenses from the Group's proprietary pipeline, are anticipated to drive revenue growth in 2024.

Tetris Pharma – continued success of Ogluo® roll-out

Our specialty pharmaceutical business, Tetris Pharma, continues to build sales momentum through the commercial roll-out of its ready-to-use glucagon auto-injector pen, Ogluo®, for severe hypoglycaemia. Tetris Pharma product sales increased to £2.9m (2022: £1.1m for the five months ended 31 December 2022), driven by Ogluo®, which now represents the majority of product sales.

The appointment of Dr. Helen Parris in January 2024 as Senior Vice President, Commercial and General Manager of Tetris Pharma, is a strong catalyst to drive revenue growth.

Ogluo® is an important treatment for people with diabetes and their caregivers that can provide them with the confidence to manage severe hypoglycaemic events and Tetris Pharma is targeting gaining market share within an existing c. £100 million market across the licensed territory. Following earlier launches in the UK, Germany and Austria, in 2023 Tetris Pharma launched the product in Denmark and Norway. An agreement signed in September between Tetris Pharma and Goodlife Pharma B.V. established Goodlife as the sole partner for the import, marketing and distribution of Ogluo® in the BeNeLux region. That was followed, post-period in February 2024, with the product's launch in the Netherlands.

Building a robust intellectual property portfolio

Underpinning our strategy, we have a comprehensive global patent portfolio of >90 granted patents across key territories protecting both the Arestat™ technology platform as well as the enhanced versions of therapeutic medicines that we develop leveraging Arestat™. During 2023, the portfolio was bolstered with the addition of five key patents granted in US, Europe, China and India, protecting Arecor's proprietary diabetes portfolio, an enhanced monoclonal antibody platform and high value biologics formulations. Post-period, in January 2024, the Group was granted an additional European patent protecting novel formulations of AT278 and AT247.

Summary and outlook

With a first commercial product incorporating Arestat™ launched in late 2023 and generating royalties, license milestones triggered on partnered products and new pharma technology partnerships, we continue to build value across our pipeline of diabetes and specialty hospital products.

The growing recognition from leading pharmaceutical and biotechnology companies of our formulation expertise both validates and highlights the potential of our Arestat™ platform. In 2023 we saw the results of

our strategy at work, creating a broad revenue mix and realising the potential for future growth in the coming years.

We are encouraged by the continued success of the Tetris Pharma roll-out of Ogluo® across the UK and Europe, which is reflected in strong sales performance as awareness and access to this key diabetes product increases.

With further partnerships anticipated from our in-house proprietary Specialty Hospital portfolio, a growing revenue stream from royalties and milestones, and key Phase I clinical data for AT278 expected in H1 2024, we look forward building even greater value creation in 2024.

Sarah Howell
Chief Executive Officer

Financial Review

Our 2023 results reflect an increasing and broadening revenue base including license milestones, our first product royalties and growing product sales. Together with progression in our proprietary Diabetes portfolio, this provides a strong foundation for continued growth.

Highlights:

- Total Income of £5.7 million (2022: £3.7 million) including grant and RDEC income
- Total revenue of £4.6 million (2022: £2.4 million) representing 90% growth
- Investment in Research & Development ('R&D') of £6.0 million (2022: £8.6 million)
- Sales, General & Administrative ('S,G&A') expenses of £8.9 million (2022: £5.6 million)
- Loss after tax for the year of £8.6 million (2022: £9.3 million)
- Cash and short-term investments of £6.8 million at 31 December 2023 (2022: £12.8 million)

At the end of the financial year, the Group had cash and short-term investments of £6.8 million (2022: £12.8 million) and was debt free. Cash and operating expenditure are closely monitored.

Cashflow forecasts and going concern
In assessing the appropriateness of adopting the going concern assumption, the Directors have reviewed detailed operating forecasts for the period ending 31 December 2025. The period considered as part of the going concern review is to 30 June 2025.

Operating cashflow forecasts assume that total Group revenue will increase, building upon revenues of £4.6 million recognised in the financial year ended 31 December 2023. The base case with mitigations, indicates that the Group would continue to operate on a going concern basis. The Directors are aware of inherent uncertainties in the timing and quantum of revenue growth, the costs of continued investment in R&D and future fundraising requirements.

Forecast cash balances are very sensitive to changes in forecast revenue which directly impacts receipts. Consequently, there are significant uncertainties in the operating cashflow forecast. Cash balances are expected to reduce from the closing balance of £6.8 million reported at 31 December 2023. The extent and timing of this reduction is a direct consequence of the levels of revenues and timing of receipts, as operating costs are relatively fixed.

In reviewing the going concern analysis, the Directors considered a base case which included an assumption that the Group's investment in R&D and Intellectual Property (IP) of £3.9 million in the year ended 31 December 2023 (2022: £4.1 million) would continue. The base case with mitigations assumed that investment in R&D and IP would be delayed, cut back or stopped. The base case scenario assuming that the

Group continued to invest in R&D would require the Group to seek external funding during the going concern assessment period.

The downside scenario eliminated forecast sales growth whilst maintaining forecast operating expenditure including investment in R&D and IP. In the downside scenario the Group would be required to raise further external funding above the levels assumed in the base case.

In summary, the base and downside scenarios reflect a requirement for external funding with the two reflecting different amounts of funding required.

The Directors consider that the factors set out above are not unusual or unexpected for the Group at this stage in its development. However, shareholders should be aware that there is uncertainty around the revenues and the timing of receipts, as well as the ability of the Group to raise sufficient funding to meet its forecast costs. These conditions represent a material uncertainty which may cast significant doubt on the Group and Company's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Further details are set out in the Going concern note in the financial statements of the Annual Report.

Key financial performance indicators

	2023	**2022**
	£'000s	£'000s
Total Income	**5,715**	**3,653**
Formulation development projects	923	1,352
License milestones	683	-
Royalties	26	-
Product sales	2,941	1,051
Other operating income	1,142	1,250
Loss after tax	**(8,553)**	**(9,260)**
Cash, and short-term investments	**6,751**	**12,806**
Net Assets	**9,527**	**17,455**

Total Income increased to £5.7 million in the year (2022: £3.7 million), including revenue of £4.6 million (2022: £2.4 million) and other operating income of £1.1 million (2022: £1.3 million).

Revenue recognised in the year grew to £4.6 million (2022: £2.4 million), an increase of 90%. Net Product sales of £2.9 million generated by Tetris Pharma in the year increased by £1.9 million against sales of £1.0 million reported for the five months ended 31 December 2022.

Formulation development revenue decreased to £0.9 million (2022: £1.4 million) as revenue recognition reflects the stages in formulation development projects. Four new agreements were announced in the year, however new projects announced in November and December had a modest impact on revenue recognised in the year.

Other operating income of £1.1 million (2022: £1.3 million) was derived from the final year of the £2.8 million Innovate UK grant awarded in March 2021 and £0.1m from the Government RDEC (Research and Development Expenditure Credit) claim. The Group will continue to assess and apply to future grant funding opportunities.

R&D expenditure of £6.0 million included the costs of the R&D teams, Intellectual Property and clinical studies. Prior year R&D expenditure of £8.6 million included clinical studies for ARE278-104 and US Phase I clinical study for ARE-247-103, as follows:

Type of expenditure	FY2023	FY2022
Research, Product Development, Clinical and Regulatory teams	3,194	3,349
Intellectual Property	541	555
Clinical studies	2,086	4,525
Share based payments	156	184
Total	**5,977**	**8,613**

S,G&A expenditure increased to £8.9 million (2022: £5.6 million) in the year which included twelve months operating expenditure by Tetris Pharma Ltd. Prior year expenditure included Tetris Pharma costs for the five months post-acquisition.

An analysis of the costs charged to S, G & A is as follows:

Type of expenditure	FY2023	FY2022
Facilities	436	270
Finance and Administrative	854	551
Pharmaceutical products	2,774	1,256
Commercial costs	2,593	1,154
Corporate Costs	1,576	1,871
Depreciation/amortisation	196	131
Share based payments	483	319
Total	**8,912**	**5,552**

Facilities costs of £0.5 million (2022: £0.2 million) included a full year of Tetris Pharma office costs, a short-term portacabin lease which ended in December 2023 together with repairs and maintenance to the Chesterford Park building.

Pharmaceutical products costs of £2.8 million included the cost of goods sold of £2.0 million (2022: £0.7 million) and inventory adjustments of £0.6 million (2022: £0.5 million). Commercial expenditure of £2.6 million (2022: £1.2 million) comprised Contract Sales Organisation costs of £0.5 million (2022: £0.1 million) together with other sales & marketing expenses at Tetris Pharma and business development expenditure at Arecor.

Corporate costs of £1.6 million were lower than the prior year expenditure of £1.9 million which included non-recurring costs of £0.2 million arising from the acquisition of Tetris Pharma and the associated placing.

The loss after tax for the year ended 31 December 2023 reduced to £8.6 million (2022: £9.3 million).

Net assets of £9.6 million (2022: £17.5 million) included cash and short-term investments of £6.8 million (2022: £12.8 million). Trade and other receivables increased to £3.2 million (2022: £2.2 million) and included trade receivables and grant debtors. Current liabilities increased to £5.2 million (2022: £3.7 million).

Susan Lowther
Chief Financial Officer

Consolidated income statement
for the year ended 31 December 2023

	Notes	31 December 2023 £000	31 December 2022 Restated £000
Revenue	6	**4,573**	2,403

Other operating income	7	**1,142**	1,250
Research and Development	8	**(5,977)**	(8,613)
Sales, General & Administrative	8	**(8,913)**	(5,552)
Operating loss		**(9,175)**	(10,512)
Other Income		**5**	-
Finance income	10	**284**	109
Finance expense	11	**(15)**	(21)
Loss before tax		**(8,901)**	(10,424)
Taxation	12	**347**	1,164
Loss for the financial year		**(8,554)**	(9,260)
Basic and diluted loss per share (£)	13	**(0.28)**	(0.32)

In the year ended 31 December 2023, there were no non-recurring expenses incurred. The prior year Sales, General & Administrative costs included £0.2million of non-recurring expenses incurred in the acquisition of Tetris Pharma Ltd.

All results presented above are derived from continuing operations and are attributable to owners of the Group.

Consolidated statement of financial position
At 31 December 2023

	Notes	31 December 2023 £000	31 December 2022 £000
Non-Current assets			
Intangible assets	14	**1,812**	1,918
Goodwill	15	**1,484**	1,484
Property, plant and equipment	16	**834**	838
Other receivables	17	**77**	48
Total non-current assets		**4,207**	4,288
Current assets			
Trade and other receivables	17	**3,189**	2,215
Current tax receivable		**458**	1,325
Cash and cash equivalents	18	**5,093**	4,765
Short-term investments	19	**1,659**	8,041
Inventory	20	**771**	1,131
Total current assets		**11,170**	17,477
Current liabilities			
Trade and other payables	21	**(4,903)**	(3,526)
Lease liabilities	22	**(118)**	(202)
Provisions	23	**(129)**	-
Total current liabilities		**(5,150)**	(3,728)
Non-current liabilities			
Lease liabilities	22	**(220)**	(86)
Provisions	23	**(28)**	-

Deferred tax		**(452)**	(496)
Total non-current liabilities		**(700)**	(582)
Net Assets		**9,527**	17,455
Equity attributable to equity holders of the Group			
Share capital	25	**306**	306
Share premium account	25	**28,976**	28,976
Share-based payments reserve	25	**1,518**	893
Other reserves	25	**11,455**	11,455
Merger relief reserve	25	**2,014**	2,014
Foreign exchange reserve	25	**(20)**	(8)
Retained losses	25	**(34,722)**	(26,181)
Total equity attributable to equity holders of the Group		**9,527**	17,455

The financial statements of Arecor Therapeutics plc, registered number 13331147, were approved by the Board of Directors and authorised for issue on 15 May 2024.

Sarah Howell, Director

Consolidated statement of changes in equity
for the year ended 31 December 2023

	Share capital £000	**Share premium £000**	**Other reserves £000**	**Merger relief reserve £000**	**Share-based payments reserve £000**	**Foreign exchange reserve £000**	**Retained losses £000**	**Total equity £000**
At 1 January 2022	**278**	**23,348**	**11,455**		**519**	**-**	**(17,051)**	**18,549**
Comprehensive income for the year								
Loss for the year	-	-	-	-	-	-	(9,260)	(9,260)
Transactions with owners								
Issue of shares on acquisition of Tetris Pharma Ltd	7	-	-	2,014	-	-	-	2,021
Issue of shares for working capital purposes	20	5,980	-	-	-	-	-	6,000
Share issue expense	-	(352)	-	-	-	-	-	(352)
Issue of shares on exercise of share options	1	-	-	-	-	-	-	1
Reserve transfer	-	-	-	-	(130)	-	130	-
Share-based compensation	-	-	-	-	503	-	-	503

Foreign exchange movements	-	-	-	-	-	(8)	-	(8)
Total transactions with owners	28	5,628	-	2,014	374	(8)	130	8,165
Equity as at 31 December 2022	306	28,976	11,455	2,014	893	(8)	(26,181)	17,455

Consolidated statement of changes in equity
for the year ended 31 December 2023 (continued)

	Share capital £000	**Share premium £000**	**Other reserves £000**	**Merger relief reserve £000**	**Share-based payments reserve £000**	**Foreign exchange reserve £000**	**Retained losses £000**	**Total equity £000**
Equity as at 1 January 2023	**306**	**28,976**	**11,455**	**2,014**	**893**	**(8)**	**(26,181)**	**17,455**
Comprehensive income for the year								
Loss for the year	-	-	-	-	-	-	(8,554)	(8,554)
Foreign exchange movements	-	-	-	-	-	(12)	-	(12)
Transactions with owners								
Reserve transfer	-	-	-	-	(13)	-	13	-
Share-based compensation	-	-	-	-	638	-	-	638
Total transactions with owners	-	-	-	-	625	-	13	638
Equity as at 31 December 2023	**306**	**28,976**	**11,455**	**2,014**	**1,518**	**(20)**	**(34,722)**	**9,527**

Consolidated statement of cash flows
for the year ended 31 December 2023

	31 December 2023	**31 December 2022 restated**
	£000	**£000**
Cash flow from operating activities		
Loss for the financial year before tax	**(8,901)**	(10,424)
Finance income	**(284)**	(109)
Finance costs	**15**	21
Share-based payment expense	**638**	503
Depreciation	**390**	248
Amortisation	**106**	93

Foreign exchange movements	**135**	(69)
RDEC receivable	**(116)**	(118)
	(8,017)	(9,855)
Changes in working capital		
Decrease in inventories	**360**	587
Increase in trade and other receivables	**(1,003)**	(48)
Decrease/(increase) in trade and other payables	**1,377**	(2,198)
Decrease/(increase) in provisions	**157**	-
Tax received	**1,285**	734
Net cash used in operating activities	**(5,841)**	(10,780)
Cash flow from investing activities		
Acquisition of subsidiary net of cash acquired	**-**	284
Purchase of property, plant and equipment	**(151)**	(299)
Sale of property plant and equipment	**5**	-
Purchase of intangible assets	**-**	(46)
Transfer of short-term investments to cash	**6,382**	(8,041)
Interest received	**284**	109
Net cash received from/(used) in investing activities	**6,520**	(7,993)
Cash flow from financing activities		
Issue of ordinary shares	**-**	6,000
Share issue costs	**-**	(352)
Repayment of loans	**38**	-
Capital payments on lease liabilities	**(203)**	(165)
Interest paid on lease liabilities	**(15)**	(21)
Repayment of working capital facility	**-**	(295)
Other interest paid	**-**	(7)
Net cash generated from financing activities	**(180)**	5,160
Net Increase/(decrease) in cash and cash equivalents	**499**	(13,613)
Exchange (losses)/gains on cash and cash equivalents	**(171)**	62
Cash and cash equivalents at beginning of financial year	**4,765**	18,316
Cash and cash equivalents at end of financial year	**5,093**	4,765

Notes to the consolidated financial statements

1. General information

Arecor Therapeutics plc ("Arecor" or the "Company") is a public limited company registered in England and Wales at Chesterford Research Park, Little Chesterford, Saffron Walden, CB10 1XL with registered number 13331147.

The principal activity of the Company is to act as a holding company. The Company has two wholly owned trading subsidiaries; Arecor Limited and Tetris Pharma Ltd (together with the Company, the "Group"). The Group's principal activities are the research and experimental development of biotechnology, as well as the sale and distribution of specialty pharmaceutical products.

Tetris Pharma Ltd and its wholly owned subsidiary Tetris Pharma B.V were acquired in the prior year on 4 August 2022. Prior year comparatives therefore only include five months of trading activity for these companies.

2. Change in accounting policy and restatement of the prior year

The accounting policy relating to the treatment of Research and Development Expenditure Credits (RDEC) has changed to align with recommended practice. The change in accounting policy has been adopted during the year ended 31 December 2023, with the prior year figures also restated.

Previously, both RDEC and the Small and Medium Entity (SME) R&D tax relief scheme were reported in the Income Statement as Taxation. RDEC claims are now reported gross of any tax due as other income. The corresponding corporation tax payable on this income is also reflected within the taxation line. This change has no impact on the statement of financial position, therefore an additional statement of financial position showing the impact of this change, as prescribed in IAS 1 paragraph 40A, is not required.

By enacting this change, a balance of £0.1 million is reported as other income for the year ended 31 December 2023. The restated prior year other income balance has increased by £0.1 million with a corresponding reduction in the taxation line.

3. Adoption of new and revised standards

New and amended accounting standards that are mandatorily effective for the current year.
The following new and amended standards and interpretations were issued and adopted during the year. They have not had a significant impact on the consolidated financial statements:

- IFRS 17 – Insurance Contracts
- Amendments to IAS 1 – Presentation of Financial Statements and IFRS Practice Statement 2 – Making Materiality Judgements: Disclosure of material accounting policies
- Amendment to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors: Definition of accounting estimates
- Amendment to IAS 12 – Income Taxes: Deferred tax assets and liabilities arising from a single transaction
- Amendment to IAS 12 – Income Taxes: International tax reform and temporary exception for deferred tax assets and liabilities related to the OECD pillar two income taxes

New and amended accounting standards that have been issued but are not yet effective.
The following new or amended standards and interpretations are applicable in future periods but are not expected to have a significant impact on the consolidated financial statements.

Effective for periods beginning on or after 1 January 2024:
- Amendment to IFRS 16 – Leases: Leases on sale and leaseback
- Amendment to IAS 1 – Presentation of Financial Statements: Non-current liabilities with covenants
- Amendments to IAS 7 – Statement of Cash Flows and IFRS 7 – Financial Instruments: Supplier finance

Effective for periods on or after 1 January 2025:
- Amendments to IAS 21 – The Effects of Changes in Foreign Exchange Rates: Lack of exchangeability

4. Significant accounting policies

Basis of preparation
The results have been extracted from the audited financial statements of the Group for the year ended 31 December 2023. The results do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. Whilst the financial information included in this announcement has been computed in accordance with the principles of UK-adopted international accounting standards ('IFRS'), IFRIC

interpretations and the Companies Act 2006 that applies to companies reporting under IFRS, this announcement does not of itself contain sufficient information to comply with IFRS.

The Group will publish full financial statements that comply with IFRS. The auditor has reported on those accounts. Their report for the accounts of the year ended 31 December 2023 was unqualified and did not contain a statement under section 498(2) or (3) of the Companies Act 2006. The auditor's report includes reference to the material uncertainty relating to going concern. See below for more details of the going concern assessment performed by the Board of Directors. The statutory accounts for the year ended 31 December 2022 have been delivered to the Registrar of Companies and received an unqualified auditor's report which did not draw attention to any matters by way of emphasis and did not contain statements under s498 (2) or (3) of the Companies Act 2006.

The financial information has been prepared using the historical cost convention and under the assumption that the Group operates on a going concern basis. The principal accounting policies adopted in the preparation of the consolidated financial statements are set below. They have been consistently applied to the period presented, unless otherwise stated.

The consolidated financial statements are presented in Great British pound sterling which is also the Group's functional currency.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and the subsidiaries at 31 December 2023. All subsidiaries have a reporting date of 31 December.

Control is achieved when the Company:
- has power over the investee;
- is exposed, or has rights, to variable return from its involvement with the investee; and
- has the ability to use its power to affect its returns

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary.

Specifically, the results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

Operating segments
The Directors have considered the reporting of operating segments in line with IFRS 8 – Operating Segments and believe that there is only one reporting unit within the Group. The chief operating decision maker reviews the operating results at a group consolidated level.

Business combinations
Business combinations are accounted for using the acquisition method as at the acquisition date. This is considered to be the date at which control is transferred to the Group. The consideration transferred for the acquisition is the fair value of any equity interests issued by the Group. Identifiable assets and liabilities assumed in the business combination are measured at their fair value at the date of acquisition. This includes

the value of any intangible assets generated that could not previously be recognised by the entity pre-acquisition.

The Group measures goodwill at the date of acquisition as the fair value of the consideration less the recognised net amount of the identifiable assets and liabilities acquired. Costs related to the acquisition other than those associated with the issue of equity in the Group are expensed as they are incurred.

Investments in subsidiaries
Investments in subsidiaries owned by the Company are included at cost less any accumulated impairment charges.

Going Concern
In assessing the appropriateness of adopting the going concern assumption, the Directors have reviewed detailed operating forecasts for the period ending 31 December 2025. The period considered as part of the going concern review is to 30 June 2025.

Operating forecasts include estimates of:

- Formulation Development revenues from existing and new agreements
- AT220 royalties received quarterly in arrears
- License and milestones received from new and existing license agreements
- Pharmaceutical product sales and associated direct costs
- Operating expenses including committed clinical study costs
- IP expenditure to protect the Group's proprietary technology and products

The Board considers that these operating forecasts represent a reasonable estimate of the Group's forecast performance for the period to 30th June 2025. Operating costs are controlled, and management has identified actions to reduce or defer expenditure. Notwithstanding such cost control, the Group reported an operating loss of £9.2million in the year ended 31 December 2023 as total income of £5.7 million was exceeded by operating costs of £14.9 million including investment in Research & Development.

Operating cashflow forecasts assume that total Group revenue will increase, building upon revenues of £4.6 million recognised in the financial year ended 31 December 2023. The base case with mitigations, indicates that the Group would continue to operate on a going concern basis. The Directors are aware of inherent uncertainties in the timing and quantum of revenue growth, the costs of continued investment in R&D and future fundraising requirements.

The timing and quantum of new license agreements are subject to negotiations with pharmaceutical partners. The recognition of milestone revenue reflects progress made by the license partner which is not under the Group's direct control. Royalty income is forecast to increase following the market launches of the licensed product, however the Group has no visibility over the timing of such growth.

The anticipated step up in Tetris Pharma sales of pharmaceutical products in the year ended 31 December 2024, represents a significant increase compared to £2.9 million sales reported in the year ended 31 December 2023. The lead-times and cash requirements to support this growth, specifically purchase of bulk material and secondary packaging costs, are early in the working capital cycle. Sales receipts occur much later linked to sales performance and market adoption.

Due to the above inherent uncertainties, forecast cash balances are very sensitive to changes in forecast revenue which directly impacts receipts. Consequently, there are significant uncertainties in the operating cashflow forecast. Cash and short-term investments are expected to reduce from the closing balance of £6.8 million reported at 31 December 2023. The extent and timing of this reduction is a direct consequence of the levels of revenues and timing of receipts, as operating costs are relatively fixed.

In reviewing the going concern analysis, the Directors considered a base case which included an assumption that the Group's investment in R&D and Intellectual Property (IP) of £3.9 million in the year ended 31 December 2023 (2022: £4.1 million) would continue. The base case with mitigations assumed that investment in R&D and IP would be delayed, cut back or stopped. A base case scenario assuming that the Group continued to invest in R&D would require the Group to seek external funding during the going concern assessment period.

The downside scenario eliminated forecast sales growth whilst maintaining forecast operating expenditure including investment in R&D and IP. In the downside scenario the Group would be required to raise further external funding above the levels assumed in the base case.

In summary, the base and downside scenarios reflect a requirement for external funding with the two reflecting different amounts of funding required.

The Directors believe that the sales forecasts included in the going concern review are reasonable and that management has identified actions to mitigate a reduction in sales receipts, including raising additional funds and that investment in R&D and IP could be delayed, cut back or stopped.

The Directors believe that the Company would be able to raise further external funding from existing and new shareholders during the financial year ending 31 December 2024, however as at the date of publication of this report, this is not guaranteed.

The Directors consider that the factors set out above are not unusual or unexpected for the Group at this stage in its development. However, shareholders should be aware that there is uncertainty around the revenues and the timing of receipts, as well as the ability of the Group to raise sufficient funding to meet its forecast costs. These conditions represent a material uncertainty which may cast significant doubt on the Group and Company's ability to continue as a going concern and, therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business.

Revenue

Revenue is measured based on the consideration that the Group expects to be entitled to in exchange for transferring promised goods and services. Revenue is recognised to the extent that the Group obtains the right to consideration in exchange for its performance. In accordance with IFRS 15 – Revenue from Contracts with Customers, the following five-steps are applied:

- identify contracts with customers;
- determine performance obligations arising under those contracts;
- set an expected transaction price;
- allocate that price to the performance obligations; and then
- recognise revenues as and when those obligations are satisfied.

Formulation development

Revenue from the performance of formulation development projects is recognised as the performance obligation defined in a contract is performed over time. Possible performance obligations can include, but are not exclusively limited to, completion of method development and pre-formulation activities, completion of rounds of formulation optimisation, or completion of stability studies. The progress of the work is dictated by project phases, hence time passed best indicates the stage of completion of a service performed over time, over the life of each element of the contract.

The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Transaction prices are determined based on prices agreed in each contract negotiated with each customer. This includes the allocation of the whole contract price between each distinct performance obligation within each contract.

The types of contracts entered into by the Group do not include any obligations for returns or refunds, nor are warranties offered relating to the work performed.

None of the practical expedients in IFRS 15 have been applied.

Licence agreements
Revenue from licence agreements, where it has been assessed as giving the right to use the underlying intellectual property, is recognised at the granting of the licence.

Where agreements combine the grant of a licence and the provision of services, the consideration is allocated between the two elements based on the identifiable elements of the separate performance obligations, being the licence grant as described above and the distinct obligations included in the research element.

If a licence includes variable consideration, typically in the form of milestone payments, revenue is recognised when a milestone is achieved.

Royalty income
Following the grant of a licence for the intellectual property relating to a formulation developed by Arecor Limited, royalties are due on the sale of any product that incorporates that formulation. Royalties are sales-based variable consideration relating to the grant of the license that are recognised in the period that the licensee makes the sale. The level of royalty due is dependent on the product and is agreed with the licensee at the time when the licence agreement is signed. Royalties are reported to Arecor by the licensee at agreed intervals, with payments made shortly thereafter.

Product sales
Product sales are recognised when the rights and obligation pertaining to those items are transferred to the buyer. This is either on dispatch of the goods from the warehouse, or on an ex-works basis where the goods are available for the collection by the customer or their designated courier. When the Group acts as principle for product sales, revenue is recognised as the invoiced amount, net of any rebates, discounts or expected returns. When the Group acts as an agent for product sales, revenue is recognised as the share of the profit that the Group is entitled to as designated in the agreement with the principle.

Non-government grants
Where the Group receives non-government grants, they are treated as revenue as they have comparable performance obligations and conditions to other revenue contracts. These grants typically relate to research projects.

Government grants
The Group receives UK government grants for research work. Grants are agreed for named projects, offering reimbursement of specified costs incurred on these projects. The grants are paid after each grant reporting period when the claim is submitted, and there are no clauses requiring the Group to repay any amounts as the funding is cost-based rather than outcome-based. The administering body has the right to request information on any items within each grant claim and to request an Independent Auditor's report. There are no clawback provisions relating to the grants as they are not paid until after the relevant expenditure has been incurred and agreed, and this is the only condition.

Revenue-based grants have been credited to the statement of comprehensive income in the period to which they relate and reported as other income.

Government Research and Development Expense Credit (RDEC)

Where research and development expenditure is incurred that is not eligible under the Small and medium-sized enterprise (SME) tax relief scheme but is eligible under the UK Government RDEC scheme, the associated gross income is presented as other income in the Income Statement and other receivables within current assets in the statement of financial position. The corresponding tax payable on this income is included within the tax charge.

Research and development
Research expenditure is expensed as it is incurred. Development costs relating to internally developed products are capitalised from the date at which all of the following criteria can be demonstrated for a product:

- The technical feasibility of completing the project (so that an intangible asset thereby generated will be available for use or sale);
- An intention to complete the project;
- An ability to use or sell an intangible asset generated by the project;
- How an intangible asset generated by the project will generate probable future economic benefits for the Group;
- The availability of adequate technical, financial & other relevant resources to complete the development and to use or sell an intangible asset generated by the project; and
- The ability to measure reliably the expenditure attributable to the project.

Until all the above criteria are met, such costs are classified as research expenditure and expensed accordingly. As drug products cannot be commercialised until they have completed Phase III clinical trials and received regulatory approval, the Group considers that the above criteria have not been met for any current products and therefore all costs will continue to be expensed until such time as they are met. Included within research expenditure are all costs relating to the development and protection of the Group's intellectual property. These are expensed through the statement of comprehensive income.

Share-based payments
The Group operates equity-settled share-based payment schemes. Where share-based payments (options) have been granted to employees, the fair value of the share-based payments is measured at the grant date and charged to the statement of comprehensive income over the vesting period.

A valuation model is used to assess the fair value, taking into account the terms and conditions attached to the share-based payments. The fair value at grant date is determined including the effect of market-based vesting conditions, to the extent such vesting conditions have a material impact. It also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the Group keeping the scheme open or the employee maintaining any contributions required by the scheme).

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

Employee benefits

Defined contribution pension plan
The Group operates a defined contribution plan for its employees and pays fixed contributions to a separate entity. Once the contributions have been paid, the Group has no further payment obligations.

The contributions are recognised as an expense in the statement of comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the balance sheet. The assets of the plan are held separately from the Group in independently administered funds.

Intangible assets
Purchased Intangible assets are initially measured at cost. After initial recognition, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

Licenses capitalised on the acquisition of a subsidiary are measured at fair value using an income approach that calculates the present value of excess earnings over the license period at date of acquisition.

The annual rate of amortisation for each class of intangible asset is:

Category	Period
Patents	Straight line over their estimated useful life (18 years)
Licenses capitalised on acquisition	Straight line over the life of the license
Software	Straight line over 5 years

Goodwill arising on acquisition
Goodwill represents the excess of the fair value of the cost of acquisition of a business over the fair value of the assets and liabilities acquired by the Group at the date of acquisition.

Assets are grouped into cash generating units, which are defined as the smallest group of assets that generate independent cash inflows to the other assets of the Group. Goodwill is allocated to the cash generating units which represent the lowest level at which management controls the related cash inflows.

Goodwill is tested annually for impairment or when events or changes in circumstances occur that indicate that the carrying amount of the Goodwill may not be recoverable. An impairment loss is recognised for a cash generating unit if, and only if, the recoverable amount of the unit is lower than the carrying amount of that unit. The value of the impairment will be equal to the amount the carrying value of the cash generating unit exceeds the recoverable amount of that unit.

Impairment costs recognised against a cash generating unit to which goodwill has been allocated, are charged against the carrying amount of the goodwill. Any remaining impairment charge is allocated pro-rata on the basis of the carrying amount of each asset in the cash generating unit. If any impairment is subsequently reversed, it can only be done so the on assets other than goodwill and can only revert to the carrying value that would have been in place had the impairment not occurred. Impairment losses allocated to goodwill cannot subsequently be reversed.

Impairment of non-financial assets
At each balance sheet date, the Directors review the carrying amounts of the Group's tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any indication of impairment exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

The 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 not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset 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 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 or cash-generating unit in prior periods. A reversal of an impairment loss is recognised in the statement of comprehensive income immediately.

Property, plant and equipment
Property, plant and equipment is stated at cost on acquisition less depreciation and any accumulated impairment losses. Depreciation is provided on a straight-line basis at rates calculated to write off the cost less the estimated residual value of each asset over its expected useful economic life. The residual value is the estimated amount that would currently be obtained from disposal of the asset if the asset were already of the age and in the condition expected at the end of its useful life. The residual values, useful lives and depreciation methods are reviewed and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

The annual rate of depreciation for each class of depreciable asset is:

Category	Period
Leasehold improvements	Straight line over term of building lease
Right of use lease assets - premises and equipment	Straight line over term of asset lease
Other equipment	Straight line over 3 to 5 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. 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.

Inventory
Inventory is stated at the lower of cost or net realisable value, being the estimated selling price less costs to complete and sell. Products for resale and raw materials are initially recorded at cost. When inventory is sold, the capitalised costs are expensed. Where provisions are made in respect of obsolete or slow-moving items, the net stock value is stated.

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

Financial instruments
Recognition and derecognition
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets
Except for trade receivables (which do not contain a significant financing component) that are initially measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable - this is not permitted for financial assets at fair value through profit or loss: instead, transaction costs are expensed as incurred).

Financial assets are classified into the following categories:
- Amortised cost
- Fair value through profit or loss (FVTPL)

- Fair value through other comprehensive income (FVOCI).

In the periods presented, the Group does not have any financial assets categorised as FVOCI or FVTPL.

Trade receivables
The Group recognises a receivable when they have the right to an amount of consideration that is unconditional. They arise principally through the provision of goods and services to customers but also incorporate other types of contractual monetary assets.

They are initially recognised at fair value and measured subsequent to initial recognition at amortised cost using the effective interest method, less any impairment loss.

Trade payables
Trade payables are recognised initially at their fair value, net of transaction costs and subsequently measured at amortised costs less settlement payments.

Provisions
The Group recognises provision against potential National insurance contributions associated with share based payments in accordance with IAS 37 when there is a present obligation as a result of a past event, an outflow of resources embodying economic benefit will be required to settle the obligation and the value of the obligation can be reliably estimated. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate of the obligation at that time. If it is no longer probable that an outflow of resources embodying economic benefit will be required to settle the obligation, the provision will be reversed.

Provisions are recognised as either current or non-current liabilities based on the best estimate of when settlement of the obligation will fall due. Discounting of any non-current provisions is only considered when the effect is material.

Subsequent measurement of financial assets
Financial assets at amortised cost
Financial assets are measured at amortised cost if the assets meet the following conditions:
- They are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- The contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these financial assets are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, and trade and other receivables fall into this category of financial instruments.

Impairment of financial assets
In relation to the impairment of financial assets, IFRS 9 – Financial Instruments requires an expected credit loss model to be applied. The expected credit loss model requires the Group to account for expected credit losses (ECL) and changes in the ECL at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. For the purposes of this calculation, default is considered if there is no longer a reasonable expectation that the balance is recoverable. This is determined by considering the payment history and current financial status of the customer as well as the wider economic environment at the time. The exact circumstances of this may vary, so expected credit loss is considered on a case-by-case basis for each customer.

IFRS 9 requires the Group to recognise a loss allowance for ECL on trade receivables. In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition,

or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition, the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12 months ECL.

The Group's trade receivables are grouped into 30-day periods and are assessed for impairment based on experience of write-offs for each age of balance to predict lifetime ECL, applying the simplified approach set out in IFRS 9. The segmentation used is reviewed periodically to ensure it is still appropriate. At present, all receivables are assessed as having the same risk profile hence grouping is only by age to establish whether an impairment should be recognised.

Classification and measurement of financial liabilities
The Group's financial liabilities include borrowings, trade and other payables, and derivatives.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives, which are carried subsequently at fair value with gains or losses recognised in the statement of comprehensive income.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in the statement of comprehensive income are included within finance costs or finance income.

Compound instruments
Where an instrument is initially assessed as containing both a liability component and an equity component i.e., as a compound instrument, the fair value of the liability component is established based on the fair value of a similar liability that does not have an associated equity component, and the residual balance assigned to the equity component. The liability component is then measured at amortised cost; the equity component is not subsequently remeasured. Where no equity component is noted, an embedded derivative may arise.

If a financial liability includes an embedded derivative this is also separated out at inception and initially and subsequently measured at fair value.

Leases
The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right of use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right of use asset) whenever:

- The lease term has changed, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised

lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used)

- A lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification

The right of use assets comprise the initial measurement of the corresponding lease liability, prepayments made on the lease at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right of use assets are recognised in a separate category of property, plant and equipment and are depreciated over the shorter period of lease term and useful life of the underlying asset.

For laboratory equipment purchased under a finance lease, the rights of ownership pass to the Group at the end of the lease term and when all payments have been made.

Under the current lease agreement for the premises, there are no specified renewal options.

The depreciation starts at the commencement date of the lease.

Taxation

Current taxation

Current taxation for the Group is based on the local taxable income at the local statutory tax rate enacted or substantively enacted at the reporting date and includes adjustments to tax payable or recoverable in respect of previous periods.

The Group takes advantage of Research and Development tax credits offered by the UK Government. The value of these incentives reclaimable under the Small and medium-sized enterprise (SME) tax relief scheme at 31 December each year is calculated and presented as a current asset in the statement of financial position and a credit to taxation in the income statement.

Deferred taxation

Deferred taxation is calculated based on the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the historical financial information. However, if the deferred tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss, it is not recognised. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realised, or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

Current tax assets and liabilities and deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Foreign currency
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the year-end date. All differences are taken to the statement of comprehensive income.

The individual financial statements of each group company are prepared in its own functional currency. For the purposes of the Group consolidated financial statements, the financial performance and financial position of each company is converted to pounds sterling, the functional currency of the Group, and the presentation currency for the Group financial statements. For companies within the Group that do not use pounds sterling as the functional currency, income and expenditure is converted using an average rate for the period. Assets, liabilities, equity and reserves are converted at the reporting date rate. The financial statements are presented in round thousands.

Equity
Equity comprises the following:

- "Share capital" represents amounts subscribed for shares at nominal value
- "Share premium" represents amounts subscribed for share capital, net of issue costs, in excess of nominal value
- "Share-based payment reserve" represents the accumulated amounts credited to equity in respect of options to acquire ordinary shares in the Company
- "Other reserves" represents the merger reserve generated upon the acquisition of Arecor Limited on 24 May 2021
- "Merger relief reserve" represents the merger reserve generated upon the acquisition of Tetris Pharma Ltd on 4 August 2022
- "Retained earnings / losses" represents the accumulated profits and losses attributable to equity shareholders

5. Critical accounting judgements and key sources of estimation uncertainty

Critical accounting judgements
The preparation of financial information in conformity with generally accepted accounting practice requires Directors to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The following are the significant judgements and key sources of estimation uncertainty used in applying the accounting policies of the Group that have the most significant effect on the historical financial information:

Impairment of goodwill
As required by IAS 36 – Impairment of Assets, goodwill is reviewed and tested for impairment each year. The value in the use of the cash generating unit to which the goodwill is associated are calculated and compared to the carrying value of the assets. This requires management to estimate the present value of future cashflows by applying an appropriate discount rate on the estimated future performance of the cash generating unit. For goodwill generated on the acquisition of Tetris Pharma Ltd, the factors considered include significant reduction in sales forecasts, increasing costs or movements in exchange rates. Details of the specific assumptions used in the current review are provided in Note 15.

A review of the carrying value of the assets has been performed and at the reporting date an impairment of goodwill is not required.

Revenue recognition
Management use the five-step principle in IFRS 15 – Revenue from Contracts with Customers to assess the recognition of revenue from sales contracts to determine the timing of revenue recognition. Rolling forecasts to monitor project status and time to completion are reviewed to ensure that the amounts recognised reflect the progression of the project and that balances remain recoverable.

In accordance with the contract, each stage of a project is invoiced in advance, which gives rise to deferred income. In applying the principles of revenue recognition, the Group is simultaneously calculating the remaining contract liability. The deferred revenue balances are reviewed and reconciled each month so that the value of revenue recognised is aligned to a specific phase of the contract.

Treatment of Research and Development expenditure
When considering whether Research and Development ("R&D") expenditure is eligible to be capitalised, Management consider the criteria for capitalisation identified under IAS 38 – Intangible Assets as follows:

- The technical feasibility of completing the asset so that it will be available for use or sale
- The intention to complete the asset and use or sell it
- The ability to use or sell the asset
- The asset will generate probable future economic benefits and demonstrate the existence of a market or the usefulness of the asset if it is to be used internally
- The availability of adequate technical, financial and other resources to complete the development and to use or sell it
- The ability to measure reliably the expenditure attributable to the intangible asset

In order to confirm the technical feasibility of the Group's clinical candidates the product must successfully complete clinical trials and the appropriate submission must be filed to the regulatory authority for market authorisation. As the Group's most advanced clinical candidates (AT247 and AT278) are in the early stages of clinical development (phase I/II trials) all costs incurred are expensed to the income statement.

Recoverability of grant debtors
Income received from Government grants is accrued as the relevant costs are incurred. The accrual is reviewed to ensure the spend is in accordance with the grant award. All grant income received in the year was derived from an Innovate UK grant of £2.8 million which was awarded in March 2021. Under the terms of the grant, reimbursement is received quarterly in arrears following an independent audit of the expenditure claimed. At 31 December 2023 all income in relation to the grant had been recognised. At the reporting date, a balance of £0.3 million was included within accrued income. This balance was paid on 18 April 2024. At the prior year reporting date a balance of £0.4 million was included in accrued income which represented income due from costs incurred in December 2022.

Key sources of estimation uncertainty
Share-based payments
During the year, the Group has granted share options to staff. These options have no other requirements than the employees continuing to be employed by the Company until the option vesting date. These options were valued using the Black-Scholes model.

The Group also granted Long-Term Incentive Plan (LTIP) options to the Leadership Team which include specific performance criteria. The fair value of these options was calculated using a Monte Carlo simulation model.

Estimates and judgements are used in the calculation of share-based payments. This includes the future volatility of the share price and the use of an appropriate interest rate.

IFRS 2 – Share-based Payment states that at the date of grant, both the entity and the counterparty must have a shared understanding of the terms and conditions of the arrangement. Accordingly, the share price of the previous trading day is used as the exercise price in the option grant, so that the value can be verified.

In addition to the share-based payment, an associated provision is posted related to the corresponding employers national insurance liability that will become due on exercise. These provisions are reviewed and updated annually to reflect the expected charge based on the movement of the share price between the reporting dates and the progression of the options towards vesting (in both time and probability of vesting).

It should be noted that where a national insurance liability falls due on the employer in relation to the share options, the option agreement states that this cost will be re-imbursed by the option holder on exercise. As such a corresponding receivable, equal to the value of the provided liability is recorded in either current or non-current assets as required. There is therefore no net liability due by the company for this expense.

R&D tax credits
The R&D tax credit claimable is based on the size and nature of the qualifying expenditure. The balance recoverable is only confirmed at the point that the claim is approved by the tax authority. The calculation is consistent with prior periods where claims have been approved. External tax advisors review calculations and the submission. At 31 December 2023 the expected R&D tax credits claimable for the period was £0.5 million (2022: £1.4 million). The reduction in the balance claimable in the current year is due to a reduction in the overall spend and the ineligibility of some of the R&D expenditure claimed on the Innovate UK grant to also be claimed for R&D tax credits.

Provision of obsolete and slow-moving stock
Pharmaceutical products are sold with a defined date of expiry. Management carefully considers if inventory can be sold before that expiry date and with an appropriate remaining shelf life to meet the needs of the customer and end patient. Inventory is managed by reviewing both historic sales data and future sales forecasts in relation to current stock levels to identify any requirement.

Accruals for sales rebates due to wholesalers
Pharmaceutical product sales are recognised net of any sales rebates that are due to wholesalers. As the rebates only crystalise at the point that the wholesaler sells the inventory, management estimates the level of rebate that will be incurred when the sale to the wholesaler is recognised. Wholesalers provide detailed information regarding the level of rebates due on each product. This is used to estimate the level of rebates that can be expected in the future for each product. Management also have access to the wholesalers inventory reporting which is used to confirm the level of inventory on which the rebate is yet to crystalise.

Valuation of intangibles at the balance sheet date
The valuation of the intangibles principally reflects the license and distribution agreement for Ogluo in the UK and Europe less any deduction required following any annual impairment review. The in-use value of the intangible assets associated with the cash generating unit are compared to the carrying value of the assets within the unit at the reporting date to determine if any indicators for impairment are evident. This assessment is performed annually using the most recent forecasts available at the time. External consultants with appropriate expertise are engaged where required to provide information and calculations outside of the expertise of the business (for example WACC calculations).

The value of the acquired net assets of Tetris Pharma Ltd together with consideration paid, resulted in goodwill of £1.5 million. At the balance sheet date, the intangible asset was not impaired.

6. Revenue and operating segments

The geographic analysis of the Group's revenue is as follows:

	31 December	31 December

	2023	2022
	£000	£000
UK	**2,893**	1,136
Switzerland	**488**	240
Germany	**332**	78
Italy	**274**	-
Rest of Europe	**-**	30
USA	**556**	784
India	**30**	135
	4,573	2,403

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers. Information reported includes revenue, expenditure by type and department, cashflows and EBITDA for the Group.

The Board of Directors has been identified as the chief operating decision makers and is responsible for allocating resources, assessing the performance of the operating segment and making strategic decisions. Accordingly, the Directors consider there to be a single operating segment.

	31 December 2023	31 December 2022
	£000	£000
Formulation development projects	**923**	1,352
Milestones and licenses	**683**	-
Royalties	**26**	-
Total Revenue recognised from contracts with customers	**1,632**	1,352
Sales of pharmaceuticals	**2,941**	1,051
Total revenue	**4,573**	2,403

For the year ended 31 December 2023, revenue includes £205,879 (2022: £349,311) included in the contract liability balance at the beginning of the period.

Pharmaceutical sales are limited to a small number of pre-wholesalers in each territory who then sell on to a larger number of wholesalers. With respect to formulation development revenues, four customers each contributed more than 10% of the formulation development revenues respectively £274,248 (30%), £146,833 (16%), £91,334 (10%) £88,541 (10%) (2022: three customers, £490,000 (36%), £240,000 (18%) and £135,000 (10%)).

At 31 December, the balance of receivables due from contracts with customers totalled £0.6 million (2022: £0.3 million). At the reporting date, the aggregate amount of revenue remaining to be recognised on signed agreements totalled £0.7 million (2022: £0.5 million) This balance is forecast to be recognised during 2024 and 2025. Formulation Development projects are split into discrete phases where customers pay in advance for each phase. The payment terms are specific to the customer and can extend up to 60 days from receipt of invoice.

7. Other operating income

	31 December 2023	31 December 2022 Restated
	£000	£000
Grant Income	**1,028**	1,132
RDEC Claim	**114**	118

	1,142	1,250

Other operating income of £1.1 million (2022: £1.3 million) was derived from the final year of the £2.8 million Innovate UK grant awarded in March 2021 and £0.1 million from the Government RDEC (Research and Development Expenditure Credit) claim. The Group will continue to assess and apply to future grant funding opportunities.

8. Operating loss

	31 December 2023 £000	31 December 2022 £000
Operating loss is stated after charging:		
Audit fees (see below)	**278**	148
Non-audit services	**12**	10
Audit of grant claims – Other professional services	**4**	4
Depreciation of property, plant and equipment:		
- Owned assets	**198**	108
- Right of use assets under leases	**192**	140
Amortisation of intangible assets	**106**	93
Research and Development costs not disclosed elsewhere in this note	**3,539**	5,958
Sales, General and Admin costs not disclosed elsewhere in this note	**5,354**	2,934
Non-recurring expenses	**-**	171
Foreign exchange gains	**135**	(69)
Directors and employee costs (Note 9)	**5,071**	4,668

No non-recurring expenses were incurred in the year. Prior year costs were expenses incurred in the acquisition of Tetris Pharma Ltd.

Auditors' remuneration

	31 December 2023 £000	31 December 2022 £000
Audit of the Group and Parent Company accounts	**68**	67
Audit of the accounts of the Company's subsidiaries by the Group auditors	**112**	69
Audit fees for the current year	**180**	136
Additional audit fees for the prior year	**98**	12
Total audit fees	**278**	148
Non-audit services	**12**	10
Total non-audit fees	**12**	10

9. Remuneration of Directors and employees

The aggregate remuneration of persons (including Executive Directors) employed by the Group during the period was:

	31 December	31 December

	2023 £000	2022 £000
Wages and salaries	**3,793**	3,574
Share-based payments	**638**	503
Social security	**433**	417
Pension costs	**207**	174
	5,071	4,668

The average monthly number of persons (including Directors) employed by the Group during the period was:

	31 December 2023 Number	31 December 2022 Number
Research, Development and Operations	**30**	34
Sales, General and Administration	**13**	10
Executive and Non-Executive Directors	**7**	7
	50	51

Directors' remuneration for Companies Act purposes amounts to:

	31 December 2023 £000	31 December 2022 £000
Emoluments and fees for qualifying services	**951**	917
Company contributions to money purchase pension schemes	**39**	37
Gains on exercise of share options	**-**	206
	990	1,160

Remuneration of the highest paid Director

	31 December 2023 £000	31 December 2022 £000
Emoluments and fees for qualifying services	**415**	400
Company contributions to money purchase pension schemes	**23**	21
Gains on exercising share options	**-**	51
	438	471

Full details of Director's remuneration can be found within the Remuneration Committee Report on pages 53-57

Remuneration data for the Directors in the current and prior year reflects total amounts paid for services relating to Arecor Therapeutics plc and its subsidiaries.

Remuneration of Key Management Personnel including Directors which is included in staff costs:

	31 December 2023 £000	31 December 2022 £000

Short-term employment benefits	**1,926**	1,824
Post-employment benefits	**79**	71
Share-based payments	**620**	489
	2,625	2,384

Key Management Personnel consists of the Executive Directors and the Leadership Team.

Share-based payment charges included charges for non-approved LTIP options. Under the terms of the option agreements, the option holder will be liable for any employer's national insurance payments due by the company upon exercise of the option. These payments due are shown as current and non-current receivables within Trade and other receivables.

10. Finance income

	31 December 2023 £000	**31 December 2022 £000**
Bank interest received	**283**	102
Other interest received	**1**	7
	284	109

11. Finance expense

	31 December 2023 £000	**31 December 2022 £000**
Lease interest	**15**	18
Other interest expenses	**-**	3
	15	21

12. Taxation

	31 December 2023 £000	**31 December 2022 £000**
Research & development tax credit receivable	**(458)**	(1,325)
Total tax	**(458)**	(1,325)

	31 December 2023 £000	**31 December 2022 Restated £000**
Loss before tax	**(8,901)**	(10,424)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.5% (2022: 19.00%)	**(2,092)**	(1,981)
Tax effects of:		
Expenses not deductible for tax purposes	**443**	253

Enhanced R&D relief	**(380)**	(910)
Surrender of losses at a different rate of tax from R&D tax credits	**403**	423
Prior period adjustment to R&D	**40**	-
Unrecognised deferred tax	**1,271**	1,097
Additional relief on capital expenditure	**-**	(20)
Origination and reversal of timing differences	**(32)**	(26)
Total tax (credit)	**(347)**	(1,164)

At 31 December 2023, the Group has accumulated tax losses of £25,384,567 (2022: £20,164,670). No deferred tax asset was recognised in respect of these accumulated tax losses due to uncertainty regarding the timing of recoverability in future years (2022: none). Under UK tax law currently enacted, the accumulated tax losses are not limited by an expiry date.

The rate of UK Corporation tax increased from 19% to 25% on 6 April 2023. Existing deferred tax liabilities had been calculated at the rate at which the relevant balances were expected to be recovered or settled. This rate was 25% and therefore existing deferred tax liabilities have not had to be remeasured.

There are no future factors at the reporting date that are expected to impact the Group's future tax charge. The Group is not within the scope of the OECD Pillar Two model rules.

13. Basic and diluted loss per share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

The diluted loss per share is considered to be the same as the basic loss per share. Potential dilutive shares are not treated as dilutive where they would result in a loss per share.

	31 December 2023	**31 December 2022**
	£	**£**
Loss per share from continuing operations	**(0.28)**	(0.32)

The loss and weighted average number of ordinary shares used in the calculation of basic loss per share are as follows:

	31 December 2023	**31 December 2022**
	£000	**£000**
Loss used in the calculation of total basic and diluted loss per share	**(8,554)**	(9,260)

Number of shares	**31 December 2023 Number**	**31 December 2022 Number**
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**30,622,622**	28,936,088

14. Intangible assets

	Patents	**Licenses**	**Software**	**Total**
	£000	**£000**	**£000**	**£000**

Cost				
At 1 January 2022	150	-	-	150
Additions	-	1,933	48	1,981
At 31 December 2022	150	1,933	48	2,131
Additions	-	-	-	-
At 31 December 2023	**150**	**1,933**	**48**	**2,131**
Amortisation				
At 1 January 2022	120	-	-	120
Charge for the year	8	83	2	93
At 31 December 2022	128	83	2	213
Charge for the year	8	89	9	106
At 31 December 2023	**136**	**172**	**11**	**319**
Net book value				
At 31 December 2022	22	1,850	46	1,918
At 31 December 2023	**14**	**1,761**	**37**	**1,812**

Amortisation is recognised within administrative expenses. Licenses totalling £1.9 million relate to the sales and distribution of Ogluo. These are amortised over 16 years in line with the terms of the agreement (14.6 years remaining).

Patents are amortised over the period of the patent life (1.8 years remaining). Software is amortised over 5 years (4.1 years remaining), which is considered to be its useful life.

15. Goodwill and acquisition of subsidiaries

The fair value of the assets acquired and the resulting goodwill arising on the acquisition of Tetris Pharma Ltd is shown below. The fair value of the consideration paid for the acquisition was £2,020,351.

Net assets acquired	**Book value**	**Fair value adjustment**	**Fair value**
	£000	**£000**	**£000**
Ogluo license and distribution agreement, UK and Europe (Intangible asset)	-	1,781	1,781
UK Distribution agreements – Other products (intangible asset)		152	152
Property, plant and equipment	232	-	232
Inventory	1,719	-	1,719
Trade and other receivables	738	-	738
Cash at bank	284	-	284
Trade and other payables	(3,579)	505	(3,074)
Trade facility	(295)	-	(295)
Historic liabilities	-	(505)	(505)
Deferred tax on intangibles	-	(496)	(496)
Total	**(901)**	**1,437**	**536**

Goodwill acquired	**1,484**
Total Consideration	**2,020**

Consideration was paid in the form of the issue of 651,726 ordinary shares in Arecor Therapeutics plc. On the date of the transaction, the market value was £3.10 per share.

	31 December 2023	31 December 2022
	£000	**£000**
Goodwill on the acquisition of Tetris Pharma Ltd	**1,484**	1,484
	1,484	1,484

Historic liabilities were costs incurred prior to the acquisition which were non-recurring therefore were considered separately to trade and other payables in the fair value analysis.

Goodwill reflects the share for share consideration of £2million paid at the date of acquisition.

In accordance with the Sale and Purchase Agreement dated 1st August 2022, the acquisition of Tetris Pharma Ltd included deferred contingent consideration of three earn out payments, which may become payable on the first, second and third anniversary following completion.

The first earn out payment was subject to Tetris Pharma Ltd achieving mid-single-digit million-pound net sales and a low single-digit million-pound EBITDA loss in the 12-month period following completion.

Earn out accounts, prepared in accordance with the Sale & Purchase Agreement, determined that the first earn out target was not achieved and therefore deferred contingent consideration of £1,000,000 for the first earn out period was not payable.

The goodwill arising at the date of acquisition has been tested for impairment. The recoverable amount of goodwill has been calculated based on their value in use with key assumptions including sales levels and projected sales growth, the gross margins obtainable for the different products and territories and assumptions surrounding the discount rates and terminal growth rates that drive the models. The discount rates have been estimated using pre-tax Weighted Average Costs of Capital (WACC) that reflect the current market assessments of the time value of money. The primary reason for movements in these rates between years is the movement in the underlying risk-free rate (defined as the UK Government 30-year bond yield). Sales forecasts and margin expectations are the latest forecasts being used by Tetris Pharma Ltd that have been approved by the Board.

The key assumptions for the cash generating unit are as follows:

Key assumption	**31 December 2023**	**31 December 2022**
Pre-tax WACC	13%	16.7%
Terminal Growth	2%	2%
Revenue Growth	34%	51%
Average Gross Margin	27%	25%

When preparing the forecasts management have considered the levels of growth in sales of Ogluo as the key driver towards profitability. When consolidating the expectations for the different sales regions the overall levels of growth from 2024 to 2028 are 48%, 135%, 32%, 21% and 11% respectively. When considering the

corresponding sales, the value in use of the CGU exceeds the value of the assets by £1.4 million (41%) (2022: £0.9 million, 25%).

Management have reviewed the sensitivities of the impairment looking at the overall sales expectations and the level of growth expected between years, in particular the rate of growth in 2025 where a significant increase is expected, and the corresponding impact on the subsequent years. In reviewing these figures, Management considers a reasonably possible downside to these estimates to be that growth is reduced by a factor of 20% compared to the current expectations from 2025 to 2028. In reducing the level of sales growth, the corresponding direct costs were reduced accordingly.

When this sensitivity is applied, the value in use of the CGU would be less than the carrying value of the asset by £3.5m and would require an impairment.

Management have evaluated the sensitivities surrounding the forecast sales and the discount rate applied. The following scenarios would independently need to occur for the value in use to not exceed the carrying value of the cash generating unit, which would lead management to consider impairment:

- An increase in discount rate to 15.5% (2022: 18.4%)
- a reduction in forecast Ogluo sales growth and associated direct cost from 2025 to 2028 of 5.5% in all years (reducing growth in 2025 to 2028 to 128%, 30%, 20% and 10%) (2022: 4.5% reduction in forecast sales)
- a reduction in gross margin for Ogluo of 1.6% points in all years
- a terminal growth rate of -1.7%

16. Property, plant and equipment

	Leasehold improvements	Right of use assets - Premises	Right of use assets - Equipment	Other equipment	Total
	£000	£000	£000	£000	£000
Cost					
At 31 December 2021	79	418	252	762	1,511
Additions on acquisition of Tetris Pharma Ltd	-	157	-	272	429
Additions	24	96	4	275	399
Disposals	-	-	-	(141)	(141)
At 31 December 2022	**103**	**671**	**256**	**1,168**	**2,198**
Additions	40	274	-	111	408
Disposals	-	(142)	-	(97)	(222)
At 31 December 2023	**143**	**803**	**256**	**1,182**	**2,384**
Depreciation					
At 31 December 2021	72	294	178	639	1,183
Additions on acquisition of Tetris Pharma Ltd	-	32	-	38	70
Charge for the year	11	98	42	97	248
Disposals	-	-	-	(141)	(141)
At 31 December 2022	**83**	**424**	**220**	**633**	**1,360**
Charge for the year	23	165	27	175	390
Disposals	-	(108)	-	(92)	(200)

At 31 December 2023	**106**	**481**	**247**	**716**	**1,550**
Net book value					
At 31 December 2022	20	247	36	535	838
At 31 December 2023	**37**	**322**	**9**	**466**	**834**

17. Trade and other receivables

Non-current receivables	**31 December 2023 £000**	**31 December 2022 £000**
Amounts receivable from employees	**27**	-
Other receivables	**50**	48
	77	48

Current receivables	**31 December 2023 £000**	**31 December 2022 £000**
Trade receivables	**2,268**	664
Other receivables	**102**	273
Amounts receivable from employees	**129**	-
Accrued income	**87**	-
Accrued grant income (other operating income)	**280**	562
Prepayments	**323**	716
	3,189	2,215

Included in prepayments at the reporting date was a balance of £nil (2022: £0.3 million) relating to advance payments for clinical studies.

Amounts receivable from employees relates to employers NIC on unapproved LTIP share options that will be reclaimable from the employee upon exercise of the options.

A credit loss assessment has been performed and management have concluded that no expected credit losses exist in relation to the Group's receivables at the reporting dates presented or over the coming 12-month period (2022: £ nil).

18. Cash and cash equivalents

	31 December 2023 £000	**31 December 2022 £000**
Cash at bank (GBP)	**4,299**	1,603
Cash at bank (USD)	**570**	1,713
Cash at bank (EUR)	**224**	1,449
	5,093	4,765

19. Short-term investments

	31 December 2023	**31 December 2022**

	£000	£000
Short-term investments held in notice accounts	**1,659**	6,041
Short-term investments held in fixed term accounts	**-**	2,000
	1,659	8,041

At the reporting date all significant cash and cash equivalents were deposited in the UK with large international banks.

20. Inventory

	31 December 2023 £000	31 December 2022 £000
Finished goods or goods for re-sale	**479**	412
Goods for packaging and packaging materials	**258**	651
Bulk pharmaceutical materials	**34**	68
	771	**1,131**

Finished goods, goods for re-sale and goods for packaging relate to pharmaceutical products sold by Tetris Pharma Ltd. A reduction in the inventory levels of goods for packaging included a write down of products with a limited shelf-life to the net realisable value.

During the year £1,954,407 of inventory was recognised as an expense (2022: £685,568). In addition, £737,010 (2022: £529,430) was recognised as an expense in relation to writing down inventory to its net realisable value. A total of £193,033 of inventory write downs from the prior year were reversed in the year to 31 December 2023 (2022: £50,700).

The reduction in bulk pharmaceutical materials was due to the consumption of clinical grade material in clinical studies in the year.

21. Trade and other payables

	31 December 2023 £000	31 December 2022 £000
Trade payables	**2,246**	1,709
Other tax and social security	**100**	120
Other creditors	**192**	217
Contract liabilities	**232**	206
Accruals	**2,133**	1,274
	4,903	3,526

During the year, Arecor Limited entered into 4 (2022: 2) new formulation development agreements. At 31 December 2023 amounts paid in advance of £0.2 million (2022: £0.2 million) were reported as contract liabilities. These are expected to be recognised within the next financial year.

Included within accruals at the reporting date was a balance of £0.3 million (2022: £0.3 million) relating to clinical study costs. Current and prior year balances relate to different clinical studies.

22. Leases

Right of use assets

The Group has leasing arrangements with a maximum term of five years (2022: five years) relating to property, plant and equipment.

When a lease begins, a liability and right of use asset are recognised based on the present value of future lease payments.

Net book value of leased assets held as fixed assets

	Leasehold Property £000	Equipment £000	Total £000
NBV at 1 January 2023	**247**	36	**283**
Additions	**274**	-	**274**
Depreciation charge in the year	**(165)**	(27)	**(192)**
Disposal of Asset	**(34)**	-	**(34)**
NBV at 31 December 2023	**322**	**9**	**331**
Balance at 1 January 2022	**124**	**74**	**198**
Additions: carrying amount on acquisition of Tetris Pharma Ltd	**125**	**-**	**125**
Additions	**96**	**4**	**100**
Depreciation charge in the year	**(98)**	**(42)**	**(140)**
Disposal of Asset	**-**	**-**	**-**
Balance at 31 December 2022	**247**	**36**	**283**

Outstanding lease liabilities

	Leasehold Property £000	Equipment £000	Total £000
Balance at 1 January 2023	251	37	**288**
Additions	272	-	**272**
Interest applied	13	2	**15**
Payments in the year	(186)	(29)	**(215)**
Disposal	(22)	-	**(22)**
Balance at 31 December 2023	**328**	**10**	**338**
Repayments:			
Within 1 year	**131**	**9**	**140**
2-5 years (inclusive)	**234**	**1**	**235**
Less:			
Future finance charges	**(37)**	**-**	**(37)**
Present lease obligations	**328**	**10**	**338**
In the statement of financial position:			
Due within 12 months (current)	**109**	**9**	**118**
Due in more than 12 months (non-current)	**219**	**1**	**220**
At 31 December 2023	**328**	**10**	**338**

	Leasehold Property £000	Equipment £000	Total £000

Balance at 1 January 2022	157	74	**231**
Additions on acquisition of Tetris Pharma	122	-	**122**
Other additions	96	4	**100**
Interest applied	16	6	**22**
Payments in the year	(140)	(47)	**(187)**
Disposal	-	-	**-**
Balance at 31 December 2022	**251**	**37**	**288**
Repayments:			
Within 1 year	**188**	**30**	**218**
2-5 years (inclusive)	**84**	**10**	**94**
Less:			
Future finance charges	**(21)**	**(3)**	**(24)**
Present lease obligations	**251**	**37**	**288**
In the statement of financial position:			
Due within 12 months (current)	**175**	**27**	**202**
Due in more than 12 months (non-current)	**76**	**10**	**86**
At 31 December 2022	**251**	**38**	**288**

23. Provisions

	NIC Liability Provision £000	Total Provisions £000
Balance at 1 January 2023	**-**	-
Provision created in the year	**157**	157
Use of provision	**-**	-
Release of provision	**-**	-
Balance at 31 December 2023	**157**	157
Balance expected to be utilised within 12 months (current)	**129**	129
Balance expected to be utilised in more than 12 months (non-current)	**28**	28

The NIC liability provision relates to amounts that will become due to HMRC upon exercise of unapproved LTIP share options granted to Key Management and Directors. This liability is offset by a corresponding asset as this cost will be paid by the share option holders upon exercise of the options. No provisions were in place for the year ended 31 December 2022.

24. Financial instruments

Classification of financial instruments

The fair value hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The tables below set out the Group's accounting classification of each class of its financial assets and liabilities.

Financial assets at amortised cost	**31 December 2023 £000**	**31 December 2022 £000**
Trade receivables	**2,268**	664
Other receivables	**102**	228
Accrued income	**87**	562
Accrued grant income	**280**	-
Cash, cash equivalents and short-term investments	**6,752**	12,806
	9,489	14,257

All of the above carrying values are approximate to the fair values at the reporting date.

Financial liabilities at amortised cost	**31 December 2023 £000**	**31 December 2022 £000**
Trade payables	**2,246**	1,709
Lease liabilities	**338**	283
Accruals	**2,133**	1,503
	4,717	3,495

In the view of management, all of the above financial liabilities' carrying values approximate to their fair values as at all reporting dates presented.

Fair value measurements
This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis
The Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the historical financial information approximate their fair values (due to their nature and short times to maturity).

Fair value of financial liabilities that are measured at fair value on a recurring basis
The fair value of derivative financial instruments has been estimated using a valuation technique based on the expected timing of when the debt will convert into shares. The resulting value is then discounted to take account of the time value of money, with government bond yields used to establish an appropriate discount factor. There have been no changes in the methods or assumptions applied between initial recognition of the instrument and the year-end reporting. There were no derivative assets or liabilities at the year-end (2022: none).

Financial instrument risk exposure and management
The Group's operations expose it to degrees of financial risk that include liquidity risk, credit risk, interest rate risk.

Credit risk

The Group's credit risk, being the risk that the other party defaults on their contractual obligation, is primarily attributable to its cash balances and receivables.

The credit risk on liquid funds is limited because the third parties are large international banks with a credit rating of at least A.

The Group's maximum credit risk amounts to the total of trade and other receivables, cash and cash equivalents. Credit risk relating to trade receivables is considered to be very low because most contracts are billed in advance of each project stage so work could be suspended by the Group in the event of delayed payment. This provides a natural mitigation of credit risk. Receivables status is monitored on a regular basis to identify balances extending beyond their due dates. Action is then taken to determine if the credit risk is perceived to have changed.

Credit default is defined as a failure by a customer to meet their contractual obligations to make payment on an outstanding liability without undue reason or prior agreement or confirmed intention not to make payment on an invoice in breach of the contract.

Due to the nature of the contracts, there is a regular ongoing dialogue between the Group and its customers. These customers are spread across a range of geographic locations.

The Group has no major concentration of credit risk other than with its own subsidiaries. The performance of these subsidiaries is closely monitored by the Directors. The Directors confirm that the carrying amounts of balances owed by the subsidiaries is equal to their fair value.

Interest rate risk
The Group's interest rate risk is the interest received on the funds held on deposit.

Treasury is managed for the Group using a combination e of instant access, notice accounts and fixed term deposits. The objective is to mitigate risk whilst ensuring sufficient resources are available to fund group operations.

At the balance sheet date, the Group did not have any borrowings (2022: none).

Foreign exchange risk
The Group's transactions are carried out substantially in Great British pound sterling. The Group holds non-domestic cash balances to cover committed costs. The level of risk from foreign exchange exposure is regularly reviewed and the Directors take action to manage significant risks.

Liquidity risk
In managing liquidity risk, the main objective of the Group is to ensure that it has the ability to pay all of its liabilities as they fall due. The Group's activities are funded by equity investment, grant income and revenue.

The table below shows the undiscounted cash flows on the Group's financial liabilities as at 31 December 2023 and 2022 on the basis of their earliest possible contractual maturity.

	Total £000	Within 2 months £000	Within 2 to 6 months £000	Within 6 – 12 months £000	Within 1 to 2 years £000	Within 2 to 5 years £000
At 31 December 2023						
Trade payables	2,246	2,246				
Other payables	192	192				
Lease liabilities	374	28	46	64	124	112

Accruals	2,101	905	1,191			5
	4,913	**3,371**	**1,237**	**64**	**124**	**117**

	Total	Within 2 months	Within 2 to 6 months	Within 6 – 12 months	Within 1 to 2 years	Within 2 to 5 years
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
At 31 December 2022						
Trade payables	1,709	1,709	-	-	-	-
Other payables	217	217	-	-	-	-
Lease liabilities	314	23	102	93	45	51
Accruals	1,503	1,115	388	-	-	-
	3,743	**3,064**	**490**	**93**	**45**	**51**

Capital management

The Group's capital management objectives are:

- To ensure the Group's ability to continue as a going concern
- To provide long-term returns to shareholders

The Group defines and monitors capital on the basis of the carrying amount of equity less cash and cash equivalents as presented on the face of the balance sheet and as follows:

	31 December 2023	31 December 2022
	£000	**£000**
Equity	**9,527**	17,455
Cash, cash equivalents and short-term investments	**(6,752)**	(12,806)
Net capital	**2,775**	4,649

The Board of Directors monitors the level of capital compared to the Group's commitments and adjusts the level of capital which is determined to be necessary by issuing new shares. The Group is not subject to any externally imposed capital requirements.

These policies have not changed in the current or prior year. The Directors believe that they have been able to meet their objectives in managing the capital of the Group.

25. Share capital

	31 December 2023 Number	31 December 2023 Nominal value £000
Ordinary shares – par value £0.01		
Allotted, called up and fully paid		
Ordinary shares of £0.01	30,626,986	306
At 31 December 2023	**30,626,986**	**306**

	31 December 2022 Number	31 December 2022 Nominal value £000

Ordinary shares – par value £0.01		
Allotted, called up and fully paid		
Ordinary shares of £0.01	30,618,183	306
At 31 December 2022	**30,618,183**	**306**

The Company has a single class of Ordinary share that bear no rights to fixed income.

The following shares were issued in the periods presented:

	Number	Share Capital £000	Share Premium £000
At 1 January 2023	30,618,183	306	28,976
Issue of Ordinary shares of £0.01 on exercise of share options	8,803	-	-
At 31 December 2023	**30,626,986**	**306**	**28,976**

	Number	Share Capital £000	Share Premium £000
At 1 January 2022	27,835,024	278	23,348
Issue of Ordinary shares of £0.01	2,000,000	20	5,980
Share issue expense	-	-	(352)
Issue of ordinary shares of £0.01 as consideration for the acquisition of Tetris Pharma Ltd	651,726	7	-
Issue of Ordinary shares of £0.01 on exercise of share options	131,433	1	-
At 31 December 2022	**30,618,183**	**306**	**28,976**

Share Premium
Proceeds received in addition to the nominal value of any shares issued have been included in share premium less registration and other regulatory fees and net of related tax benefits.

Share premium increases in the prior year arose from a placing of £6 million to provide working capital and an issue of shares as consideration for the acquisition of Tetris Pharma Ltd. Details of the movements can be found in the comparative statement of changes in equity.

Share-based payment reserve
The share-based payment reserve represents the accumulated amounts credited to equity in respect of options to acquire ordinary shares in the Company held by employees and Directors.

Other reserves
Other reserves reflect the balance of the investment by Arecor Therapeutics plc in its subsidiaries. On 24 May 2021, Arecor Therapeutics acquired the full share capital of Arecor Limited by means of a one for one share swap. The investment in the subsidiary at that time was valued as the net assets of Arecor Limited on the date of the transaction.

Merger relief reserve
Merger relief reserve represents the merger reserve generated upon the acquisition of Tetris Pharma Ltd on 4 August 2022.

Foreign exchange reserve
Foreign exchange reserve represents the impact of translating subsidiaries that use a foreign currency as their reporting currency to GBP for the purposes of preparing the consolidated financial statements.

26. Share-based payments

Share Options

The Company operates an All-Employee Share Option Plan (AESOP) and grants share options to eligible employees. A grant of options under the AESOP was made on 23 May 2023 at an exercise price of £2.55 per share. The options vest on the third anniversary of the date of grant. As there are no performance criteria linked to these options, the fair value of the options was calculated using the Black Scholes mode using the following assumptions:

	Grant on 23 May 2023
Exercise price	£2.55
Volatility	65%
Expected dividends	Nil
Risk free interest rate	4.2%
Fair value per share	£1.18
Option life	10 years from date of grant

The risk-free interest rate is taken from the Bank of England UK Government Gilts yield, discounted over a period of 3 years.

Volatility has been derived by taking data from a pool of six companies considered to be comparable in size and activity. Volatilities for these companies were calculated for the previous five years where data was available to understand the impact of recent global events. This data was used to estimate the volatility.

The Company's Long Term Incentive Plan (LTIP) is principally used to grant options to Executive Directors and Senior Management. A grant of options under the LTIP was made on 23 May 2023 at an exercise price of £0.01 per share. The LTIP options will vest after three years, subject to meeting defined performance criteria.

Firstly, 60% of the total option grant vests one third (or 20%) on each anniversary of the date of grant if the total shareholder return target in relation to the techMARK mediscience index is achieved. The remaining 40% of the LTIP grant vests subject to defined commercial objectives being met by the Group during the three-year option term.

As there are separate performance criteria, the fair value of the options vesting for each criteria were calculated separately.

To calculate the fair value of the LTIP options which vest based on market performance, a Monte Carlo simulation model was used. The charge for the second 40% of LTIP options was calculated using the Black Scholes model with an adjustment for the likelihood of the conditions being met.

For the LTIP option grants in the year the following assumptions were used:

	Grant on 23 May 2023
Share price at date of grant	£2.55
Exercise price	£0.01
Volatility	65%
Expected dividends	nil

Risk free interest rate	4.2% pa
Fair value per share – market performance objectives	£1.71
Fair value per share – Commercial objectives	£2.54
Option life	10 years from date of grant

The ordinary shares acquired on exercise of the LTIP options are subject to a holding period of a minimum of one year from the date of vesting.

	Number of options
Balance at 1 January 2022	1,414,944
Options vested and exercised	(131,433)
AESOP options granted	312,750
LTIP options granted	270,000
Options lapsed (AESOP and LTIP)	(238,458)
Balance at 31 December 2022	**1,627,803**
Options vested and exercised	(8,803)
AESOP options granted	86,250
LTIP options granted	190,000
Options lapsed (AESOP and LTIP)	(236,917)
Balance at 31 December 2023	**1,658,333**

Details of the number of share options and the Weighted Average Exercise Price (WAEP) outstanding during each period presented are as follows:

31 December 2023	**Directors Number of Options**	**WAEP £**	**Staff Number of Options**	**WAEP £**
Outstanding at the beginning of the year	799,333	0.66	828,470	1.43
Issued	-	-	276,250	0.80
Exercised	-	-	(8,803)	0.01
Expired	-	-	(236,917)	1.25
Outstanding at the year end	**799,333**	**0.66**	**859,000**	**1.29**
Number vested and exercisable at 31 December 2023	113,334		121,671	
Weighted average remaining contractual life (years)	7.8		8.5	

31 December 2022	**Directors Number of Options**	**WAEP £**	**Staff Number of Options**	**WAEP £**
Outstanding at the beginning of the year	682,666	0.57	732,278	1.19
Issued	199,333	0.70	383,417	1.64
Exercised	(82,666)	0.01	(48,767)	0.01
Expired	-	-	(238,458)	1.32

Outstanding at the year end	**799,333**	**0.66**	**828,470**	**1.43**
Number vested and exercisable at 31 December 2022	56,666	2.26	76,237	2.42
Weighted average remaining contractual life (years)	8.8		9.12	

The Group recognised total share-based expenses of £0.6 million (2022: £0.5 million).

27. Related party transactions

Key management personnel are identified as the members of the Leadership Team. The remuneration of the Directors is disclosed in Note 9.

28. Financial commitments

In August 2022, the Group signed agreements with The Medical University of Graz and Joanneum Research Forschungsgesellschaft GmbH, both based in Graz, Austria to provide specialised clinical research services relating to a European based clinical study of AT278, which started in early 2023. The study was subsequently extended in November 2023. The total financial commitment to this ongoing study that is yet to be billed to Arecor Limited is €0.4 million.

29. Dividends

No dividends were paid or approved during the year (2022: £nil).

30. Ultimate controlling party

The Directors do not consider there to be an ultimate controlling party.

31. Post balance sheet events

On 23rd April 2024 it was announced that Susan Lowther had decided to step down from her role as Chief Financial Officer, Company Secretary and as a Board Director, to pursue new opportunities. Her employment will end on 22 July 2024.

Share options granted to Susan on 3 June 2021, in accordance with the Long-Term Incentive Plan (LTIP), could vest and become exercisable before the employment end date, if the Board determines that the performance condition has been met at the end of the three-year term in June 2024.

Options granted on 5 December 2022 will lapse at the employment end date, in accordance with the LTIP rules. From the date of grant up until 31 December 2023, share based payment costs of £45,420 were recognised in the income statement. These costs will be released in the year ending 31 December 2024.

AESOP options granted on 3 June 2021 fully vest at the end of the three-year term in June 2024. Susan will be considered a Good Leaver in accordance with the scheme rules and will have six months from the employment end date to exercise the option grant. The options will lapse if an exercise does not occur within the six months period.

AESOP options granted on 16 November 2022 will lapse at the employment end date, in accordance with the scheme rules. From the date of grant up until 31 December 2023, share based payment costs of £8,556 were recognised in the income statement. These costs will be released in the year ending 31 December 2024.