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

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

Positive Phase I clinical trial for AT278 ultra-concentrated ultra-rapid acting insulin candidate for diabetes

Five new technology partnership agreements

Expansion of IP portfolio underpinning proprietary Arestat™ platform

Successful £20 million AIM IPO

Cambridge, UK, 25 April 2022: Arecor Therapeutics plc (AIM: AREC), a globally focused biopharmaceutical company advancing today's therapies to enable healthier lives, today announces its final results for the year ended 31 December 2021.

Sarah Howell, Chief Executive Officer of Arecor, said: *"After a year of significant progress in 2021, we are well positioned to continue to execute our strategy in 2022 and beyond as we develop enhanced therapeutic products that can truly transform patient care. As we look forward, I am excited about the opportunities ahead in 2022, especially within our proprietary pipeline with additional clinical data for AT247 expected later in the year following the excellent clinical results for the AT278 first-in-man study. We have a strong pipeline of opportunities ahead within our Specialty Hospital portfolio and I look forward to us continuing to build on our strong partnering performance."*

Operational Highlights (including post-period events):

- AT247, an ultra-rapid acting insulin, advancing rapidly through clinical trials
  - US Phase I clinical trial initiated in early 2022, following FDA clearance of IND application
- Positive Phase I clinical trial for AT278, an ultra-concentrated ultra-rapid acting insulin
  - Significantly early accelerated PK/PD profile compared to market leading comparator, NovoRapid®
  - Data to be presented at ATTD on 28 April 2022
- Five new technology partnership agreements
- Awarded £2.8 million Innovate UK grant to support Phase II development of AT247
- Expansion of global patent portfolio with grant of US, Canadian and European patents underpinning the Arestat™ platform

Financial Highlights:

- Successful IPO on AIM, raising £20 million
- Total Income of £1.8 million (2020: £2.1 million)
- Investment in R&D of £5.4 million (2020: £3.9 million)
- Loss after tax for the period of £6.2 million (2020: £2.8 million)
- Cash and cash equivalents of £18.3 million at 31 December 2021 (2020: £2.9 million)
- Debt free following the conversion of £4.4 million shareholder loan notes into new ordinary shares

Analyst meeting and webcast today

Dr Sarah Howell, Chief Executive Officer, and Susan Lowther, Chief Financial Officer, will host a meeting and webcast for analysts and investors at 11.00 am UK time 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 Consilium Strategic Communications for details on arecor@consilium-comms.com / +44 203709 5700.

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 formulation 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 enhanced formulations of their 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

Innovation, partnerships and pace

"2021 set the foundations for a strong future for Arecor, through the advancement of our innovative pipeline, expansion of our blue-chip partner portfolio, our successful IPO, and the accelerated growth of the business as a whole."

Arecor has the potential to become a world leading and self-sustaining biopharmaceutical company, leveraging its cutting-edge technology to develop enhanced versions of existing therapeutic products that can transform patient care and lower burden on healthcare systems. For ambitious, innovative businesses to flourish in the biopharmaceutical sector, it is important that they build on outstanding technology, robust IP and have the scientific and commercial skills both to deliver clinical success and to access global markets. That mix of assets and capabilities, when applied strategically by a talented management team offers the potential for both business success and positive patient impact. These are the solid foundations upon which Arecor is built and give us strong confidence in the future potential of the business.

Arecor benefits from its unique and proprietary technology platform: the Arestat™ platform, which has been developed over many years to make it broadly applicable to a whole range of biopharmaceutical problems. This leads to multiple opportunities and the choice of where such platforms are optimally applied is a key element of success for the business and a source of long-term value. We have chosen to apply this platform to complex and difficult to formulate biomolecules, working with partners where our technology can enable and enhance their molecules. Alongside this, we also select and invest in our own products that are enabled by the technology platform and where the resulting proprietary product is clinically and commercially differentiated.

By applying Arestat™ to known therapeutic biomolecules we are maximising the impact from our technology, accelerating a valuable clinical pipeline in a cost-effective manner to deliver products that will provide patients with more effective treatments to improve their quality of life. Our own pipeline of diabetes products and 'ready to use' hospital products arise directly from this approach. This year, these have received validation through both exceptional clinical data and partnership progress.

The global pandemic, whilst devastating the way of life as we had known it, has shone a light on the need for quicker-to-market medications and has shown that innovation in healthcare can be applied at pace. British scientists have stepped up to the mark and delivered vaccines, treatments and diagnostics at a speed that has not been seen before. This appreciation of the strengths of the UK biopharmaceutical sector has spread beyond COVID and provides companies such as Arecor with a platform to demonstrate our capabilities, our commercial ambitions and importantly, what we are doing to improve the lives of patients.

At Arecor, we have made great strides during 2021. We started the year strongly on the back of successful clinical data from our first clinical trials of our lead product, AT247, an ultra-rapid insulin. We followed with rapid advancement of our portfolio of proprietary products and through the expansion of our partner portfolio with agreements with leading pharmaceutical, medical technology and biotechnology companies such as Lilly, Hikma and Intas. With momentum gaining, we successfully floated Arecor on the AIM market of the London Stock Exchange, raising £20 million, providing a stable funding background to exploit the full potential of our platform. We closed the year with our second insulin product, AT278, successfully completing its first clinical trials with results at the highest end of our expectations along with commercial progress with additional partner agreements.

None of the progress during 2021 would have been achieved without the commitment, dedication, and talent of the team at Arecor, led by Sarah Howell, our CEO and Susan Lowther, our CFO. We owe thanks to all the team and to our diligent and dedicated Board, including new members, Christine Soden and Jeremy Morgan. Together they have guided the Company through a transformative year from a little known yet

shining example of British innovation at its best, to an AIM listed, clinical development company with a clear mandate and vision to develop affordable healthcare for all.

We have substantive plans for Arecor based on our strong foundations. We are at an exciting juncture in the growth of our business. We know that our Arestat™ platform has huge potential to bring enhanced treatments that improve patient lives to market at a much quicker pace than traditional methods. We thank you, our shareholders, for enabling us to maintain this accelerated pace of growth, by continuing to support us, and believing in us. Investment is the backbone to growth. We understand that many investors are looking for ethical, sustainable growth in businesses with a strong management team and a destiny compatible with their own ethos for positive impact. Arecor is built on these core values. We are ambitious. But that ambition is backed by talent, technology and know-how and we believe that with the right support in place, we can maintain our trajectory through the advancement and expansion of new and exciting opportunities across our proprietary and partnered portfolios. That will allow us to grow into the great biopharmaceutical company that Arecor can be and to generate substantial shareholder value.

Andrew Richards
Non-Executive Chair
23 April 2022

Chief Executive Officer's review

Building on strong foundations to deliver a transformational year

"I would like to thank our Board, our partners and stakeholders, who collectively help and support us in achieving our vision. Most importantly, I would like to thank the fantastic team at Arecor for their skill, hard work, resilience and commitment to Arecor and to congratulate them on the scientific progress and partnering progress achieved during this pivotal year."

2021 has been a transformational year for Arecor where we have taken the opportunities to drive the business forward and overcome challenges. I am proud of how adaptive and resilient our employees have been in the face of a global pandemic. It is through their continued engagement, energy and expertise that we have been able to continue to make significant progress towards our vision to leverage the Arestat™ technology platform to transform patient care, and in doing so, build a large self-sustaining biopharmaceutical company.

Underpinning our vision is our strategy to advance our pipeline of internal proprietary products and partnered programmes. Enabled by Arestat™, we develop novel formulations of existing therapeutic medicines with enhanced properties that would otherwise be unachievable; these can range from better shelf-life through greater patient convenience to superior therapeutic profiles. The technology itself is very versatile and can be applied to a wide range of therapeutic products, notably antibodies, biologics, peptides and vaccines.

This approach enables Arecor and its partners to develop differentiated patent-protected medicines achieving a desired therapeutic profile which bring benefits to patients as well as generating commercial competitive advantage.

In combination, by licensing across our proprietary portfolio and technology partnerships, we can fulfil our purpose of bringing life-changing treatments to patients, while driving further shareholder value.

2021 saw further development of our proprietary products pipeline within the diabetes and specialty hospital space. Our focus is to develop our proprietary pipeline products to optimal value inflexion points prior to partnering with healthcare companies for late phase development and/or commercialisation.

Within our diabetes franchise, we have made significant clinical progress across our lead best-in-class insulin products. These have been designed to help people with diabetes better manage their blood glucose and improve outcomes, reduce the burden of existing regimens and improve quality of life. With ~537 million people living with diabetes worldwide and ~56 million requiring insulin daily, improving insulins has never been more critical. Our best-in-class insulins also represent a significant commercial opportunity for Arecor within an existing $7.3 billion prandial insulin market.

In addition, we are building a pipeline of valuable product opportunities within our specialty hospital care portfolio, which have the potential to enable fast-acting, safe and effective treatment of patients, particularly during the treatment of serious infections, cancer and emergency care. We have previously partnered two of our specialty hospital products with Hikma under co-development and licensing agreements and these programmes have continued to progress well throughout the year.

We continue to execute our partnering strategy, with advancements across our four existing licensed programmes and adding an additional five pre-license technology partnerships during the year with leading pharmaceutical companies including Eli Lilly, Par Pharmaceuticals and Intas Pharmaceuticals. These partnerships validate the strength of, and the need for our Arestat™ technology and bring near term revenue and significant upside potential from existing and future licensing.

Building the right team has been critical to the success we have seen in 2021. We continue to bring new skills and capabilities to our already diverse Board. In May, we welcomed Christine Soden and Jeremy Morgan as Non-Executive Directors, who bring extensive financial and industry expertise having held key leadership and board roles within the sector. Together, their understanding of the global healthcare industry will be invaluable as we continue to grow Arecor. We would also like to take this opportunity to say thank you to Andrew Lane, Jeremy Curnock-Cook and Alexander Crawford, who stepped down from the Board, for their excellent guidance and leadership during their tenure. During the year, we have also continued to build out the Arecor team enabling continued momentum and growth and we were delighted to welcome Dr Lindsey Foulkes as Chief Operating Officer.

Finally, the £20 million proceeds from our oversubscribed AIM IPO June 2021 has significantly strengthened our balance sheet, with a cash balance at year end of £18.3m. On the back of this funding, we have been able to further advance our proprietary pipeline, in particular our clinical stage diabetes products. We have continued to see real momentum in shareholder value since the successful IPO as our scientific and commercial partnering progress has been recognised and we would like to thank our investors for their continued support.

Operational review

Diabetes: Clinical Progress with faster acting and more concentrated insulins, AT247 and AT278

Our lead product, AT247, is an Arestat™ enabled novel formulation of insulin designed to accelerate the absorption of insulin post injection, to enable more effective management of blood glucose levels for people living with diabetes, particularly around difficult to manage meal-times. In a first-in-man European Phase I clinical trial in Type I diabetic patients, AT247 demonstrated favourable results with a faster acting and superior glucose lowering pharmacokinetic/pharmacodynamic (PK/PD) profile when compared to currently marketed best-in-class insulin products, Novo Nordisk's NovoRapid® and Fiasp®. This early clinical evidence suggests that AT247 may also facilitate a fully closed loop artificial pancreas, a potentially life changing treatment option for people living with diabetes. AT247 exhibited an earlier insulin appearance, exposure, and offset, with corresponding enhanced early glucose-lowering effect compared with currently marketed best-in-class insulins. Following on from this positive first-in-man study, in 2021 Arecor initiated a US based Phase I clinical trial in patients with Type I diabetes to further explore the clinical benefits of AT247. The trial is comparing AT247 with NovoRapid® and Fiasp®, when delivered by continuous subcutaneous infusion via an insulin pump over a period of 3 days, with results expected during H2 2022.

Within the year we also announced positive headline results from the first Phase I clinical trial of our second diabetes franchise product, AT278, an ultra-concentrated ultra-rapid acting insulin. AT278 has the potential to disrupt the market for insulin treatment in people with diabetes, as the first concentrated, yet rapid acting, insulin. The study had been designed to achieve PK/PD equivalence with a comparable dose of lower concentration NovoRapid®, however, also achieved a superior PK/PD profile which was at the highest end of our expectations. With this best-in-class profile, AT278, not only has the potential to provide more convenient and effective disease management for those patients requiring high daily doses of insulin, generally Type 2 diabetics, but can also be a key enabler in the miniaturisation of next generation insulin delivery devices, which would be applicable to all insulin taking diabetics, thus broadening the market potential.

Advancing Specialty Hospital Proprietary Portfolio

Arecor is focused on developing convenient, safe, ready-to-administer and ready-to-use medicines, which are becoming increasingly important to enable fast, safe and effective treatment of patients. The portfolio consists of medicines that are administered within the hospital setting by health care professionals, particularly during the treatment of serious infections, cancer and emergency care. Arecor carefully selects products that have both limitations for their use and delivery, such as powders that need to undergo a complex mixing procedure (reconstitution) prior to use as well as products that can be developed under an

abbreviated development pathway, such as the US FDA 505(b)(2) regulatory pathway. The 505(b)(2) route relies, in part, on published literature and other non-Company studies to support a marketing application and hence presents a relatively fast, low cost and low risk route to market for Arecor and its partners. Two of Arecor's specialty hospital products have been partnered to Hikma Pharmaceuticals under co-development and licensing agreements. Co-development of the first of these products, AT282, is progressing well and we continue to believe in the commercial value of the product, which has the potential to provide a safer, more convenient and immediate treatment option for patients. We remain confident in reaching the next license milestone in this programme within 2022. In addition, to the programmes partnered with Hikma, we are continuing to develop an in-house portfolio of additional specialty pharmaceutical products, to generate the data required to enter into further partnerships.

Expansion of revenue generating partnership deals

We have proven expertise in reformulating existing products to develop proprietary differentiated medicines with enhanced properties. The approach and platform are validated by four licensed programmes with attractive success-based economics including development and commercial milestones plus royalties or equivalent once on the market: two specialty hospital products with Hikma and two technology partnerships (a late stage biosimilar with an undisclosed global player and an early-stage clinical programme with Inhibrx).

During the year, we further expanded our partnered portfolio and were delighted to announce five new technology partnerships. In each case, we are applying our Arestat™ technology platform to generate novel formulations of our partner's proprietary medicines with enhanced properties. These partnerships further validate the scientific need and commercial upside potential from the application of the Arestat™ technology platform. These deals provide near-term revenues and, if successful, significant upside potential from future licensing.

May 2021 – We were delighted to announce that we are collaborating with Lilly again. In this case under an exclusive formulation study collaboration to develop a differentiated, thermostable formulation of one of Lilly's proprietary products intended for self-administration. The thermostable formulation would allow greater convenience of use of the product by patients, whilst maintaining its stability and integrity.

June 2021 - On the back of our proven expertise and track record developing Ready-to-Administer ("RTA") and Ready-to-Use ("RTU") products within our specialty hospital portfolio, we entered an exclusive formulation collaboration with Par Pharmaceuticals to develop a differentiated, stable, single dose, RTU formulation of one of Par's products for intravenous administration. The new product formulation supports safe medication practices and operational efficiency by eliminating the need for reconstitution.

Sept 2021 – We announced a formulation collaboration with a new partner, Intas Pharmaceuticals, to develop a differentiated stable liquid product formulation that supports improved usability for the patient compared to current marketed products, and in particular, facilitates home use outside of a healthcare environment.

Nov 2021 – We signed an exclusive formulation study collaboration with a leading global medical products company to develop a differentiated, stable, liquid drug product, for intravenous administration in two concentrations, that is Ready-to-Administer. This collaboration further demonstrates the strength of our proprietary technology platform, Arestat™ in RTA medicines, which are becoming increasingly important to enable fast, safe and effective treatment of patients.

Dec 2021 – We signed an exclusive formulation study collaboration with a global technology leader to develop an improved, stable, liquid formulation for use within their molecular testing platform. This collaboration demonstrates the breadth of applicability of our proprietary technology platform, Arestat™ and expands our reach into new markets.

In these partnerships the partner is funding the development work and has the option to acquire the rights to the new proprietary formulation and associated Intellectual Property under a technology licensing model, allowing our partners to further develop and commercialise the product.

Operating responsibly

As a biopharmaceutical company operating in the healthcare industry, it comes with important responsibilities. For us this means ensuring that we integrate Environmental, Social and Governance (ESG) factors into our operating methods, third party partner choices and indeed, the very culture of Arecor. We already have a diverse, inclusive and open culture within Arecor, and believe that incorporating awareness of ESG into our daily activities will enable ethical decision making which in turn will make us a stronger, better company. As a forward-looking business, we are committed to becoming an ethical, sustainable business.

Outlook

After a year of significant progress in 2021, we are well positioned to continue to execute our strategy in 2022 and beyond as we develop enhanced therapeutic products that can truly transform patient care. As we look forward, I am excited about the opportunities ahead in 2022, especially within our proprietary pipeline with additional clinical data for AT247 expected later in the year following the excellent clinical results for the AT278 first-in-man study. We have a strong pipeline of opportunities ahead within our Specialty Hospital portfolio and I look forward to us continuing to build on our strong partnering performance.

Through our innovative and proprietary technology platform, Arestat™, we have the prospect of improving the lives of people living with chronic disease and reducing the burden on health care systems. I am looking forward to continuing to lead and guide Arecor through its next period of growth and ultimately towards building a self-sustaining biopharmaceutical business bringing innovative therapeutic products to market that can truly improve care for patients.

Sarah Howell
Chief Executive Officer
23 April 2022

Financial Review

IPO facilitates the advancement of our development portfolio with existing and near-term revenue potential

"£20 million of new investment to advance our proprietary products, together with five technology partnership agreements signed in the year, has provided a strong foundation for growth. 2021 was a year of further progress and change including our successful Admission to AIM on 3 June. We are proud to present our first Annual Report and Accounts as a public company and thank our shareholders for their continued support."

During the year ended 31 December 2021, the support of existing and new shareholders enabled the Group to raise new investment of £20.0 million (before expenses), via a placing of 8,849,558 ordinary shares at 226 pence per ordinary share. Furthermore and prior to the admission to AIM, £4.4 million of shareholder loan notes were converted into ordinary shares at 203 pence per ordinary share.

At the end of the financial year, the Group was debt free and had a closing cash balance of £18.3 million (2020: £2.9 million). Cash and costs are carefully managed and focused on progressing our proprietary products.

Cashflow forecasts and going concern

The directors regularly review rolling 12 monthly cash flow forecasts. These forecasts indicate that the Group expects to remain cash positive to complete the planned clinical development studies for AT247 and AT278. This includes a period of at least 12 months from the date of approval of these financial statements.

Due to the uncertainty created by Covid-19, the cash flow forecast has been stress tested. As a worst-case scenario, if all payments continued as forecast and there were nil receipts, the Group would remain cash positive for the full twelve months from the date of approval of these financial statements.

The accounts have therefore been prepared on a going concern basis.

Key financials

A summary of the financial KPIs is set out below:

	2021	**2020**
	£'000s	£'000s
Total Income	**1,798**	**2,150**
Revenue recognised from formulation development projects	1,158	778
License or milestone revenue	-	920
Other operating income	640	452
Loss after tax	**(6,169)**	**(2,752)**
Net Assets	**18,549**	**774**

Revenue recognised from formulation development projects increased to £1.2m in the financial year (2020: £0.8 million) and included revenue from five new agreements signed in the year.

License or milestone revenue was nil in the year ended 31 December 2021 with revenue in the prior year of £0.9m including the recognition of contractual milestone and license fees. This reflects the periodic nature of such revenue which is recognised in the financial year within which a license is granted or a milestone achieved.

Total Income of £1.8 million (2020: £2.1 million) was derived from revenue generating and grant funded projects.

Other operating income of £0.6 million (2020: £0.5 million) was derived from the £2.8 million Innovate BioMedical Catalyst grant which was awarded in March 2021, to support the Phase II development of AT247. The prior year grant income reflected two Innovate grant funded projects which ended during that year.

The loss after tax of £6.2 million (2020: £2.8 million) included R&D expenditure which increased to £5.4 million (2020: £3.9 million) and was focused on progressing our proprietary products. R&D expenditure in the year included the Phase I clinical trial for AT278, with positive results announced in September, together with expenditure related to the US Phase I clinical trial of AT247, which commenced in January 2022.

Selling, General and Administrative expenses increased to £2.4 million (2020: £1.6 million) together with non-recurring placing and admission costs of £0.5m (2020: nil).

Net assets of £18.5 million (2020: £0.8 million) included a closing cash balance of £18.3 million (2020: £2.9 million). Trade and other receivables increased to £1.4 million (2020: £0.2 million) principally due to amounts receivable under formulation development and grant project debtors. Current liabilities increased to £2.3 million (2020: £1.4 million) and included payables relating to the initiation of the US Phase I clinical trial of AT247.

Non-current liabilities of £0.1 million (2020: £2.1 million) were in respect of a building lease. The prior year liability included shareholder loan notes which converted into ordinary shares prior to Admission to AIM on 3 June 2021.

Susan Lowther
Chief Financial Officer
23 April 2022

Consolidated income statement
for the year ended 31 December 2021

	Notes	31 December 2021 £000	31 December 2020 £000
Revenue	5	**1,158**	1,698
Other operating income	6	**640**	452
Research and development costs	7	**(5,386)**	(3,936)
Administrative costs	7	**(2,851)**	(1,642)
Operating loss		**(6,439)**	(3,428)
Finance income	10	**1**	3
Finance expense	11	**(507)**	(87)
Loss before tax		**(6,945)**	(3,512)
Taxation	12	**776**	760
Loss for the financial year		**(6,169)**	(2,752)
Basic and diluted loss per share (£)	13	**(0.27)**	(0.17)

Included in Administrative costs for the current year are £462,000 of non-recurring expenses relating to the listing of Arecor Therapeutics plc on the London AIM Market on 3 June 2021 (also see note 8).

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

Consolidated statement of financial position
At 31 December 2021

	Notes	31 December 2021 £000	31 December 2020 £000
Assets			
Non-current assets			
Intangible assets	14	**30**	38
Property, plant and equipment	15	**328**	376
Other receivables	16	**48**	48
Total non-current assets		**406**	462
Current assets			
Trade and other receivables	16	**1,423**	166
Current tax receivable		**776**	758
Cash and cash equivalents	17	**18,316**	2,898
Total current assets		**20,515**	3,822
Current liabilities			
Trade and other payables	18	**(2,141)**	(1,303)
Lease liabilities	19	**(126)**	(105)
Total current liabilities		**(2,267)**	(1,408)
Non-current liabilities			
Lease liabilities	19	**(105)**	(192)
Borrowings	20	**-**	(1,698)
Derivative financial liability	20	**-**	(212)
Total non-current liabilities		**(105)**	(2,102)
Net Assets		**18,549**	774
Equity attributable to equity holders of the company			
Share capital	22	**278**	27
Share premium account	22	**23,348**	11,594
Share-based payments reserve		**519**	1,045
Other reserves	22	**11,455**	-
Retained loss		**(17,051)**	(11,892)
Total equity attributable to equity holders of the company		**18,549**	774

The financial statements of Arecor Therapeutics plc, registered number 13331147, were approved by the Board of Directors and authorised for issue on 23 April 2022.

Signed on behalf of the Board of Directors by:

Sarah Howell
Director

Consolidated statement of changes in equity
for the year ended 31 December 2021

	Share capital	Share premium	Other reserves	Share-based payments reserve	Retained losses	Total equity
	£000	£000	£000	£000	£000	£000
At 1 January 2020	27	11,594	-	727	(9,140)	3,208
Comprehensive income for the year						
Loss for the year	-	-	-	-	(2,752)	(2,752)
Transactions with owners						
Issue of shares	-	-		-	-	-
Share-based compensation	-	-	-	318	-	318
Total transactions with owners	-	-	-	318	-	318
Equity as at 31 December 2020	27	11,594	-	1,045	(11,892)	774
Loss for the year	-	-	-	-	(6,169)	(6,169)
Transactions with owners						
Shares issued by Arecor Limited	1	-	-	-	-	1
Reserve transfer	-	-	-	(1,010)	1,010	-
Share bonus issue	139	(139)	-	-	-	-
Incorporation of Arecor Therapeutics Limited	-	(11,455)	11,455	-	-	-
Shares issued by Arecor Therapeutics plc	110	24,785	-	-	-	24,895
Share issue expense	-	(1,437)	-	-	-	(1,437)
Share based compensation	-	-	-	484	-	484
Issue of shares on exercise of options	1	-	-	-	-	1
Total transactions with owners	251	11,754	11,455	(526)	1,010	23,944
Equity as at 31 December 2021	**278**	**23,348**	**11,455**	**519**	**(17,051)**	**18,549**

Consolidated statement of cash flows
for the year ended 31 December 2021

	Notes	31 December 2021 £000	31 December 2020 £000
Cash flow from operating activities			
Loss for the financial year before tax		**(6,945)**	(3,512)
Finance income	10	**(1)**	(3)
Finance costs	11	**507**	87
Share-based payment expense	23	**484**	318
Depreciation	15	**163**	160
Amortisation	14	**8**	8
Foreign exchange movements		**(5)**	43
		(5,789)	(2,899)
Changes in working capital			
Decrease / (increase) in trade and other receivables		**(1,257)**	384
Increase / (decrease) in trade and other payables		**838**	363
Tax received		**758**	295
Net cash from operating activities		**(5,450)**	(1,857)
Cash flow from investing activities			
Purchase of property, plant and equipment	15	**(69)**	(52)
Interest received		**1**	3
Net cash used in investing activities		**(68)**	(49)
Cash flow from financing activities			
Issue of ordinary shares	22	**20,002**	-
Share issue costs		**(1,437)**	-
New loans received	20	**2,500**	1,905
Transaction costs on loan received		**-**	(65)
Capital payments on lease liabilities	19	**(112)**	(49)
Interest paid on lease liabilities	19	**(22)**	(18)
Other interest paid		**-**	-
Net cash generated from financing activities		**20,931**	1,773
Net increase / (decrease) in cash and cash equivalents		**15,413**	(133)
Exchange losses on cash and cash equivalents		**5**	(43)
Cash and cash equivalents at beginning of financial year		**2,898**	3,074
Cash and cash equivalents at end of financial year		**18,316**	2,898

Notes to the consolidated financial statements

1. General information

Arecor Therapeutics plc ("Arecor" or the "Company") is a public limited company incorporated on 13 April 2021 and 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 Group's activities and operations are carried out by Arecor Limited, the Company's wholly owned subsidiary whose principal activities are research and experimental development of biotechnology.

On 24 May 2021 Arecor Limited undertook a bonus issue of shares and share options on the basis of five shares for every one share or share option held.

On 24 May 2021 all shareholders and convertible loan note holders in Arecor Limited and the Company entered into a Share and CLN Exchange Agreement, pursuant to which the Company acquired the entire issued share capital and convertible loan notes in Arecor Limited.

On 24 May 2021 the Company was re-registered under section 92 of the Companies Act as a public limited company.

On 2 June 2021, pursuant to a Shareholders' resolution passed on 26 May 2021 and class consents: a) the A ordinary shares, A1 ordinary shares and B ordinary shares were converted into ordinary shares; b) the ordinary shares were converted into C ordinary shares; and c) the Company renamed the C ordinary shares into ordinary shares.

On 3 June 2021 the Company's shares were admitted to trading on AIM, a market operated by The London Stock Exchange.

2. Adoption of new and revised standards

New and amended accounting standards that are mandatorily effective for the current year.
The following amended standards and interpretations were also effective during the year, however, they have not had a significant impact on our consolidated financial statements:

- Amendments to IFRS 7, IFRS 9, IAS 39, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform Phase 2
- Amendment to IFRS 16, 'Leases' – Covid-19 related rent concessions

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.

- Amendments to IAS 16: Property, Plant and Equipment - Proceeds before Intended Use
- Amendments to IFRS 3: Business Combinations - Reference to the Conceptual Framework
- Amendments to IAS 37: Provisions, Contingent Assets - Onerous Contracts Cost of Fulfilling a Contract
- Annual Improvements 2018 / 2020

3. 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 2021. 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 2021 was (i) unqualified, and (ii) did not include a reference of any matters to which the auditor drew attention by way of emphasis without qualifying their report and

(iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006. Those financial statements are for the first accounting period of Arecor Therapeutics plc. Statutory accounts for Arecor Limited for the year ended 31 December 2020, which incorporated an unqualified auditor's report, have been filed with the Registrar of Companies.

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.

Predecessor accounting

Arecor Therapeutics was incorporated on 13th April 2021. On 24th May 2021, the company acquired the entire share holding of Arecor Limited by means of a share for share exchange and therefore becoming the parent member of the Group.

As the two companies are considered under common control, they fall outside the scope of IFRS 3 as a business combination. Under such circumstances, in the absence to an IFRS that specifically applies to a transaction, IAS 8 states that "management shall use its judgement in developing and applying an accounting policy that results in information that is relevant to the economic decision making needs of users and is reliable". In making this judgement, management shall refer to, and consider the applicability of the requirements of IFRSs dealing with similar and related issues, and definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the *Conceptual Framework for Financial Reporting*. Management may also consider the most relevant pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices.

Under these circumstances and conditions, management has opted to apply the predecessor accounting methodology. The general features of this approach are that:

- the assets and liabilities of the acquired business are accounted for at their existing carrying values rather than fair value
- no goodwill is recorded
- the difference between the acquirer's cost of investment and the acquiree's equity is presented as a separate reserve within equity on consolidation

Management has used merger accounting to consolidate the two entities within the Group. Under merger accounting principles, the assets and liabilities of the subsidiaries are consolidated at book value in the Group financial statements. The consolidated reserves of the Group have been adjusted to reflect the statutory share capital of Arecor Therapeutics plc, with the difference presented in equity as other reserves.

These consolidated financial statements are the first set of audited financial statements for the Group. The prior period has been presented as the continuation of Arecor Limited on a consistent basis as if the Group reorganisation had taken place at the start of the earliest period presented.

Prior period comparatives are that of Arecor Limited as no substantive economic or financial changes have occurred.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (subsidiaries) at 31 December 2021. The Parent Company was incorporated on 13 April 2021. Arecor Therapeutics acquired the entire share capital of Arecor Limited on 1 June 2021 by means of a share for share exchange with all shareholders. At this point it was deemed to have control of the subsidiary.

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.

Going Concern
The Directors have considered the Company's cashflow forecasts to the period ending 12 months from the date of authorisation of the financial statements. They have no grounds for concern regarding the Company's ability to meet its obligations as they fall due and continue to operate within the existing cash balance and working capital facilities, thus requiring no additional funding to maintain liquidity. At the end of the period analysed, the Group will still hold a portion of the funds raised during the year.

In reaching their decision to prepare financial statements on a going concern basis, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. In addition, the cash flow forecast has been stress tested whereby in a worst-case scenario, if all payments continued as forecast and there were nil receipts, the Group would remain cash positive for the full twelve months from the date of approval of these financial statements. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

The current COVID-19 pandemic has the potential to materially impact the ability of the Group to execute its strategy and to negatively impact the Group's cashflow forecast. At the date of approval of these financial statements, the Group's operations have not been significantly impacted by the crisis. The Directors are confident that at this time of economic uncertainty, the Group has a stable cash position and all necessary actions have been taken to protect the business from the impact of the COVID-19 pandemic.

Revenue
Revenue is measured based on the consideration that the Group expects to be entitled to in exchange for transferring promised goods and services. There are two main revenue types: the first arises from the performance of formulation development studies and the second from granting of licences. The Group applies IFRS 15 Revenue from contracts with customers. Revenue is recognised to the extent that the Group obtains the right to consideration in exchange for its performance and applies the five-step method to:

- identify contracts with its 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 nature of this type of work is that it takes places evenly within each phase of each contract. During main contract phases, the progress of the work is dictated by physical constraints e.g., required periods of observation which dictate the pace of work, hence time passed best indicates the stage of completion of a service performed over time, which is even 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 the contracts, each of which is negotiated individually with the 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.

In general, revenue is billed in advance of performance of work for each phase of a contract, meaning most arrangements give rise to contract liabilities as each invoice is raised, and these liabilities are normally fully released before the next billing point. Dependent on the nature of work involved in the different phases of a contract, it can, on occasion be the case that phases overlap.

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 and the distinct obligations included in the research element, as described above.

Where licences include variable consideration, typically in the form of milestone payments, revenue is recognised when a milestone is achieved.

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 rather than licences.

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.

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 are met for a product:

- The technical feasibility of completing the project (so that an intangible asset thereby generated will be available for use or sale) can be demonstrated
- An intention to complete the project can be demonstrated
- An ability to use or sell an intangible asset generated by the project can be demonstrated
- It is possible to demonstrate how an intangible asset generated by the project will generate probable future economic benefits for the Company
- It is possible to demonstrate 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
- An ability to measure reliably the expenditure attributable to the project can be demonstrated

Until all of 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 Company 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 into 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
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.

Patents are amortised over their estimated useful life of 18 years.

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.

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, except for impairment losses on goodwill, which are not reversed.

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	Straight line over term of asset lease
Other equipment	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.

Inventories
Inventories are 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 to 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 Company 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.

The Group's financial assets comprise trade receivables, other receivables (excluding prepayments) and cash and cash equivalents

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

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 requires an expected credit loss model to be applied. The expected credit loss model requires the Company 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.

IFRS 9 requires the Company to recognise a loss allowance for ECL on trade receivables. In particular, IFRS 9 requires the Company 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 Company 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 buckets 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 only by age in establishing whether or how much 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 Company 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 company at the end of the lease term and when all payments have been made.

Under the current leasing agreement for the premises, there are no specified renewal options. The lease was last renewed in August 2020 until December 2023.

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 Company takes advantage of Research and Development tax incentives offered by the UK Government. The value of these incentives reclaimable 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.

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.

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
- "Retained earnings / losses" represents the accumulated profits and losses attributable to equity shareholders

4. 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 Company that have the most significant effect on the historical financial information:

Impairment of property, plant and equipment
Judgement is applied to determine whether there are indicators of impairment of the Company's property, plant and equipment. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.

Revenue recognition
Management have used the five-step principle laid out under IFRS 15 when assessing 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.

As each stage of a project is invoiced in advance, as per the agreed schedule included in the project agreement, this also gives rise to deferred income. By following the principles for revenue recognition, the Group is simultaneously calculating the remaining contract liability. These balances are reviewed and reconciled monthly to ensure they are aligned to the value of revenue recognised for that phase of the contract.

Treatment of R&D expenditure
When considering whether Research and Development expenditure is eligible to be capitalised, Management consider the criteria for capitalisation identified under IAS38 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 that will enable them to be available for sale, the product must have successfully completed phase III clinical trials and the appropriate submission must be filed to the regulatory authority for final scientific regulatory approval. As the Group's furthest progressed clinical candidates (AT247 and AT278) are still 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. This is reviewed to ensure the spend it within the parameters of the grant the value of the grant award is unchanged. All grant income received in the year relates to an Innovate UK grant of £2.8m which was awarded in March 2021. Under the terms of the grant, payments are made quarterly in arrears following the successful completion of an independent audit of the expenditure claimed. At 31 December 2021, a balance of £395,596 was included within trade debtors to reflect an audited and approved claim for the quarter ended 30 November 2021 that was still outstanding. At the reporting date a balance of £15,988 was posted as accrued income to reflect the income due in relation to the unaudited costs incurred in December 2021. Based on the successful claims for the first three quarters of the grant, the Directors are satisfied that this balance is recoverable.

Key sources of estimation uncertainty
Share based payments.
During the year, the Group has granted EMI approved 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. In the same period the Group also granted non-EMI approved Long-Term Incentive Plan (LTIP) options to the Leadership Team. As well as the continued employment of the individuals, specific performance criteria are also required for the options to vest. Due to the inclusion of these performance conditions, the fair value of the options was calculated using a Monte Carlo simulation model.

To calculate the fair value of the options at the date of grant, a number of estimates and judgements to establish the necessary inputs are required to be entered into the model. These include the future volatility of the share price, the use of an appropriate interest rate and behavioural considerations. In addition to internal expertise, the Group has also taken external consultation in preparing these calculations. The estimates and judgements, along with supporting calculations have been reviewed by the Groups Audit and risk committee.

The option price at date of grant is considered to be the share price at the close of the previous day of trading. IFRS 2 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. For this to be possible, the share price of the previous trading day is used so that the value is independently verifiable by both parties.

On 3 June 2021, the company issued share options to a number of employees which was the first day of trading of shares in Arecor Therapeutics plc. The opening price of £2.26 was used to calculate the fair value at the date of grant, in the absence of a prior day closing share price.

R&D tax credits

The company calculates the expected R&D tax credit claimable 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 local tax authority. The company uses an approach to calculate the balance that is consistent with prior periods where claims have been successfully received. External experts are also used to verify the calculations and assist with the submission process to ensure it is in accordance with tax authority guidance. At 31 December 2021 the expected R&D tax credits claimable for the period was £775,683 (2020: 758,257).

5. Revenue and operating segments

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

	31 December 2021 £000	**31 December 2020 £000**
UK	**71**	7
Europe	**76**	729
USA	**940**	962
Rest of world	**71**	-
	1,158	1,698

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers. Information reported includes revenue by project, 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.

Due to the size of the Group, there is only one revenue generating activity and all activities are performed at a single location. Accordingly, the Directors consider there to be a single operating segment.

	31 December 2021 £000	**31 December 2020 £000**
Formulation development projects	**1,014**	666
License agreements	**-**	920
Non-Government grants	**144**	112
Total revenue	**1,158**	1,698

For the year ended 31 December 2021, revenue includes £80,000 (2020: £240,000) included in the contract liability balance at the beginning of the period. These balances arise because most customers pay at the beginning of each work phase so the revenue arising from each payment is recognised as the work is performed. These advance payments are reported as a current liability in the statement of financial position

During the year, three customers each contributed more than 10% of the company's revenues, respectively £328,000 (28%), £260,000 (22%) and £144,000 (12%) (2020: three customers, £538,000 (31%), £566,000 (33%) and £347,000 (20%)).

6. Other operating income

Other operating income comprises of grant income received from Government grants. In March 2021, Arecor was awarded a £2.8m grant over three years by Innovate UK for a project entitled "Transforming Diabetes Care" to enable the development of a fully closed loop artificial pancreas system for use in conjunction with the proprietary ultra-rapid acting insulin formulation, AT247. Grant income is accrued monthly based on eligible costs incurred. Funds are then received quarterly in arrears following completion of an independent audit of the costs and submission to the grant authority. At 31 December 2021, £16k of other operating income related to income that had been accrued and not received (2020: £nil).

7. Operating loss

	31 December 2021 £000	31 December 2020 £000
Operating loss is stated after charging:		
Audit fees	**60**	8
Other audit services	**8**	-
Non-audit fees – other assurance services	**40**	-
Depreciation of property, plant and equipment:		
- Owned assets	**68**	79
- Right of use assets under leases	**95**	80
Amortisation of intangible assets	**8**	8
Research and Development (excl. employee costs)	**3,570**	2,635
Sales, General and Admin (excl. employee costs)	**395**	262
Non-recurring expenses	**462**	-
Foreign exchange losses/(gains)	**(5)**	43
Directors and employee costs (Note 9)	**3,536**	2,463

Auditors' remuneration

	31 December 2021 £000	31 December 2020 £000
Audit of the Group and parent company accounts	**30**	-
Audit of the accounts of the Company's subsidiaries by the Group auditors	**30**	8
Total audit fees	**60**	8
Audit related services	**15**	-
Tax compliance services	**8**	-
Tax advisory services	**11**	-
Corporate finance services	**175**	-
Total non-audit fees	**209**	-

Non audit fees incurred in the year are allocated between other audit services and non-recurring expenses in the income statement, and share premium for costs associated with the listing on the London AIM market

8. Non-recurring expenses

Non-recurring expenses refers to costs incurred as part of the listing on AIM in June 2021 that were not eligible for capitalisation to the share premium reserve. These costs have therefore been expensed to the income statement. Due to the nature of the costs incurred in becoming a company listed on AIM, they are considered to be non-recurring.

9. Remuneration of Directors and employees

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

	31 December 2021 £000	31 December 2020 £000
Wages and salaries	**2,663**	1,977
Share based payments	**484**	277
Social security	**297**	152
Pension costs	**92**	57
	3,536	2,463

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

	31 December 2021 Number	31 December 2020 Number
Research, Development and Operations	**26**	21
Sales, General Admin staff	**4**	3
Executive and Non-Executive Directors	**7**	7
	37	31

Directors remuneration for Companies Act purposes amounts to:

	31 December 2021 £000	31 December 2020 £000
Remuneration of Directors		
Emoluments and fees for qualifying services	**778**	456
Company contributions to money purchase pension schemes	**26**	14
Gains on exercise of share options	**614**	136
	1,418	606

Remuneration of the highest paid Director

	31 December 2021 £000	31 December 2020 £000
Emoluments and fees for qualifying services	**329**	174
Company contributions to money purchase pension schemes	**14**	7
Gains on exercising share options	**402**	136
	745	317

Remuneration data for the Directors in the reporting period reflects total amounts paid for services relating to Arecor Therapeutics plc and to its subsidiary Arecor Limited.

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

	31 December 2021 £000	31 December 2020 £000
Short term employment benefits	**1,531**	925
Post-employment benefits	**56**	31
Share based payments	**434**	244
	2,021	1,200

Key Management Personnel consists of the directors and the Leadership Team (the Chief Scientific Officer, Chief Operating Officer, VP Business Development, VP Development, VP Clinical Development, Regulatory Affairs & Quality).

Prior period figures were services relating to Arecor Limited. Arecor Therapeutics plc was incorporated on 13 April 2021.

10. Finance income

	31 December 2021 £000	31 December 2020 £000
Interest received on bank balances	**1**	3
	1	3

11. Finance expense

	31 December 2021 £000	31 December 2020 £000
Interest on convertible loan notes	**-**	64
Fair value movement on derivative	**-**	-
Transactions costs on embedded derivative	**-**	5
Accelerated Finance costs upon conversion of loan notes to equity	**485**	-
Interest expense on lease liabilities	**22**	18
	507	87

Included in Finance expense is a charge of £485,000 relating to the conversion of the convertible loan note instruments into ordinary shares at a subscription price which was at a discount of 10% to the placing price at Admission.

12. Taxation

	31 December 2021 £000	31 December 2020 £000
Current tax (credit):		
Research & development tax credit receivable	**(776)**	(760)
Total tax	**(776)**	(760)

	31 December 2021 £000	31 December 2020 £000
Loss before tax	**(6,945)**	(3,512)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%)	**(1,320)**	(667)
Tax effects of:		
Expenses not deductible for tax purposes	**180**	54
Enhanced R&D relief	**(523)**	(521)
Unrecognised deferred tax	**887**	368
Origination and reversal of timing differences	**-**	6
Total tax (credit)	**(776)**	(760)

At 31 December 2021, the Group has accumulated tax losses of £11,361,635 (2020: £6,647,063). No deferred tax asset was recognised in respect of these accumulated tax losses due to uncertainty regarding the timing of recoverability in future years. Under UK tax law currently enacted, the accumulated tax losses are not limited by an expiry date.

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 / period.

Due to the losses incurred during all periods presented, a diluted loss per share has not been calculated as this would serve to reduce the basic loss per share.

	31 December 2021	31 December 2020
	£	£
Loss per share from continuing operations	**(0.27)**	(0.17)

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

	31 December 2021	31 December 2020
	£000	£000
Loss used in the calculation of total basic and diluted loss per share	**(6,169)**	(2,752)

	31 December 2021	31 December 2020
Number of shares	Number	Number
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**23,033,420**	16,247,322

14. Intangible assets

GROUP	Patents
	£000
Cost	
At 1 January 2020	150
Additions	-
At 31 December 2020	150
Additions	-
At 31 December 2021	**150**
Amortisation	
At 31 December 20219	104
Charge for the year	8
At 31 December 2020	112
Charge for the year	8
At 31 December 2021	**120**
Net book value	
At 31 December 2020	38
At 31 December 2021	**30**

Amortisation is recognised within administrative expenses.

15. Property, plant and equipment

GROUP	Leasehold improvements	Right of use assets - office lease	Other equipment	Total
	£000	£000	£000	£000
Cost				
At 31 December 2019	75	277	831	1,183
Additions	-	141	100	241
Disposals	-	-	(20)	(20)
At 31 December 2020	**75**	**418**	**911**	**1,404**
Additions	4	-	111	115
Disposals	-	-	(8)	(8)
At 31 December 2021	**79**	**418**	**1,014**	**1,511**
Depreciation				
At 31 December 2019	51	169	669	889
Charge for the year	15	63	81	159
Disposals	-	-	(20)	(20)
At 31 December 2020	**66**	**232**	**730**	**1,028**
Charge for the year	6	62	95	163
Disposals	-	-	(8)	(8)
At 31 December 2021	**72**	**294**	**817**	**1,183**
Net book value				
At 31 December 2020	9	186	181	376
At 31 December 2021	**7**	**124**	**197**	**328**

16. Trade and other receivables

	31 December 2021	31 December 2020
	£000	£000
Non-current receivables		
Other receivables	**48**	48
	48	48

	31 December 2021	31 December 2020
	£000	£000
Trade and other receivables		
Trade receivables	**712**	78
Other receivables	**67**	24
Accrued income (other operating income)	**16**	-
Prepayments	**628**	64
	1,423	166

Included in prepayments at the reporting date was a balance of £479,000 relating to advance payments for a clinical study that started in early 2022.

An expected credit loss assessment has been performed and management have concluded that no expected credit losses exist in relation to the Group's receivables as at any of the reporting dates presented. This is because the nature of the arrangements is that billings are usually before work is performed, meaning that customers have a strong incentive to make payment in order to ensure that the work proceeds on a timely basis.

17. Cash and cash equivalents

	31 December 2021 £000	31 December 2020 £000
Cash at bank (GBP)	**18,299**	2,111
Cash at bank (USD)	**17**	787
	18,316	2,898

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

18. Trade and other payables

	31 December 2021 £000	31 December 2020 £000
Current		
Trade payables	**518**	465
Other tax and social security	**85**	51
Other creditors	**23**	16
Contract liabilities	**349**	80
Accruals	**1,166**	691
	2,141	1,303

During the year the company entered into five new formulation development agreements. Under the terms of the agreements Arecor Limited receives payments in advance for the work to be undertaken. At 31 December 2021 advance payments of £0.3 million were reported as contract liabilities.

Included within accruals at the reporting date was a balance of £0.442 million relating to costs incurred for a first clinical study in the U.S. There was no prior year comparative.

19. Leases

Right of use assets
The Group used leasing arrangements with a maximum term of 5 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. Where an interest rate implicit in the lease is not readily available, the Group's incremental borrowing rate is used instead. This is determined by reference to the interest application on the Group's borrowings.

	31 December 2021 £000	31 December 2020 £000
Additions to right of use assets	**46**	189
Depreciation charge – right of use assets	**(95)**	(80)
Carrying amount at the beginning of the year – right of use assets:	**247**	138
Carrying among at the end of the year - right of use assets:	**198**	247

	31 December 2021 £000	31 December 2020 £000
Interest expense on lease liabilities	**22**	18
Total cash outflow for leases	**(134)**	(67)

Lease liabilities	31 December 2021 £000	31 December 2020 £000
Current	**126**	105
Non-current	**105**	192
	231	297

20. Borrowings

	31 December 2021 £000	31 December 2020 £000
Non-current		
Convertible loan notes	**-**	1,698
Total borrowings	**-**	1,698

	31 December 2021 £000	31 December 2020 £000
Non-current		
Embedded derivative	**-**	212

Convertible loan note instruments

On 28 October 2020, Arecor Limited executed a convertible loan note instrument which constituted £1,905,474 unsecured convertible loan notes. The notes had a five-year life, accruing interest at 8 per cent., and earlier conversion possible if one of a number of triggering financing events has occurred. Based on the Company's expectations of its short-term future, the fair value of the embedded derivative at issue representing the possible variation was estimated based on the expected settlement which would result in noteholders receiving an effective discount on the market price as of the conversion. On this basis it had an estimated opening value of £211,508 and will be remeasured to fair value each reporting date until the loan is redeemed or converted. The host contract is measured at amortised cost. Costs on the issue of the notes were apportioned between the host debt and derivative elements; those relating to the host debt are included in the amortised cost calculation and those relating to the derivative were written off to the income statement immediately and included in interest expense.

On 31 March 2021, Arecor Limited executed a supplemental loan note instrument for £2,500,000 unsecured convertible loan notes.

The terms of these instruments included interest payable at the rate of eight per cent. Per annum. The loan notes plus accrued, unpaid interest could be:
a) converted into shares on the admission to a recognised investment exchange including AIM;
b) converted into shares upon raising equity capital of at least £8,000,000; or
c) redeemed on the first business day after the fifth anniversary of the date of issue.

Following the adoption by the Company of the convertible loan notes and completion of the Share and CLN Exchange on 24 May 2021, the convertible loan notes in Arecor Limited were released. The convertible loan stock of £4,405,474 in the Company was converted into ordinary shares, immediately prior to Admission, at a 10% discount to the placing price. This has been treated as a finance expense in the Consolidated Statement of Comprehensive Income.

Interest accrued was disregarded on conversion in accordance with the terms of the instruments

Reconciliation of liabilities arising from financing activities

	At 1 January 2021	Cash received	Legal fee paid	New leases	Interest accrued / fair value movement	Repaid in cash	Converted to Equity	At 31 December 2021
	£000	£000	£000	£000	£000	£000	£000	£000
Lease liabilities	297	-	-	46	22	(134)	-	231
Embedded derivative	212	-	-	-	-	-	(212)	-
Convertible loan notes	1,698	2,500	60	-	(64)	-	(4,194)	-
	2,207	**2,500**	**60**	**46**	**(42)**	**(134)**	**(4,406)**	**231**

	At 1 January 2020	Cash received	Legal fee paid	New leases	Interest accrued / fair value movement	Repaid in cash	At 31 December 2020
	£000	£000	£000	£000	£000	£000	£000
Lease liabilities	158	-	-	188	18	(67)	297
Embedded derivative	-	212	-	-	-	-	212
Convertible loan notes	-	1,694	(60)	-	64	-	1,698
	158	**1,906**	**(60)**	**188**	**82**	**(67)**	**2,207**

21. 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 only financial instrument measured at fair value in the balance sheet is the embedded derivative which is classified as Level 3 according to the above definitions. There were no transfers in or out of Level 3 in the year.

There are no financial instruments classified at Level 1 or Level 2 in the years presented.

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 2021 £000	31 December 2020 £000
Trade receivables	**712**	78
Other receivables	**115**	72
Accrued income	**16**	-
Cash and cash equivalents	**18,316**	2,898
	19,159	3,048

All of the above financial assets' carrying values are approximate to their fair values, as at all reporting dates presented.

Financial liabilities at amortised cost	31 December 2021 £000	31 December 2020 £000
Trade payables	**518**	465
Other payables	**23**	16
Lease liabilities	**231**	297
Borrowings	**-**	1,698
Accruals	**623**	691
	1,395	3,167

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

Financial liabilities measured at fair value	31 December 2021 £000	31 December 2020 £000
Embedded derivative	**-**	212
	-	212

Convertible loan note instruments
On 28 October 2020, Arecor Limited executed a convertible loan note instrument which constituted £1,905,474 unsecured convertible loan notes.

On 31 March 2021, Arecor Limited executed a supplemental loan note instrument for £2,500,000 unsecured convertible loan notes. The terms of these instruments included interest payable at the rate of eight per cent. Per annum. The loan notes plus accrued, unpaid interest could be:
a) converted into shares on the admission to a recognised investment exchange including AIM;
b) converted into shares upon raising equity capital of at least £8,000,000; or
c) redeemed on the first business day after the fifth anniversary of the date of issue.

Following the adoption by the Company of the convertible loan notes and completion of the Share and CLN Exchange on 24 May 2021, the convertible loan notes in Arecor Limited were released. The convertible loan stock of £4,405,474 in the Company was converted into ordinary shares, immediately prior to Admission, at a 10% discount to the placing price. This has been treated as a finance expense in the Consolidated Statement of Comprehensive Income. Interest accrued was disregarded on conversion in accordance with the terms of the instruments.

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.

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 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.

Interest rate risk
The Group's only exposure to interest rate risk is the interest received on the cash held on deposit, which is immaterial, and the interest on borrowings. Borrowings are at a fixed interest rate, so the interest rate risk is considered to be immaterial.

Foreign exchange risk
The Group's transactions are carried out substantially in Great British pound sterling. The Group holds non-domestic cash balances but currently does not consider it necessary to take action to mitigate foreign exchange risk due to management's view of the immateriality of that risk. The level of risk from foreign exchange exposure is under constant review and the Directors will take steps to mitigate any significant risks as needs arise.

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 2021 and 2020 on the basis of their earliest possible contractual maturity.

	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 2021						
Trade payables	518	518	-	-	-	-
Other payables	108	108	-	-	-	-
Lease liabilities	252	8	63	71	102	8
Borrowings	-	-	-	-	-	-
Accruals	623	475	148	-	-	-
	1,501	**1,109**	**211**	**71**	**102**	**8**

	Total	Within 2 months	Within 2 -6 months	Within 6 – 12 months	Within 1-2 years	Within 2-5 years
	£000	£000	£000	£000	£000	£000
At 31 December 2020						
Trade payables	465	465	-	-	-	-
Other payables	16	-	16	-	-	-
Lease liabilities	333	5	57	63	124	84
Borrowings	2,287	-	-	-	-	2,287
Accruals	691	-	691	-	-	-
	3,792	**470**	**764**	**63**	**124**	**2,371**

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 2021	31 December 2020
	£000	£000
Equity	**18,573**	774
Cash and cash equivalents	**(18,316)**	(2,898)
Borrowings	**-**	1,698
Net borrowings	**257**	(426)

The Board of Directors monitors the level of capital as compared to the Group's commitments and adjusts the level of capital as 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 year. The Directors believe that they have been able to meet their objectives in managing the capital of the Group.

22. Share capital

	31 December 2021	31 December 2021
	Number	Nominal value £000
Ordinary shares – par value £0.01		
Allotted, called up and fully paid		
Ordinary shares of £0.01	27,835,024	278
At 31 December 2021	**27,835,024**	**278**

	31 December 2020 Number	31 December 2020 Nominal value £000
Ordinary shares – par value £0.01		
Allotted, called up and fully paid		
Ordinary shares of £0.01	135,245	1
A Ordinary shares of £0.01	1,397,715	14
A1 Ordinary shares of £0.01	24,600	-
B Ordinary shares of £0.01	244,776	2
C Ordinary shares of £0.01	913,182	9
At 31 December 2020	**2,715,518**	**27**

The following shares were issued in the periods presented:

	Number	Share Capital £000	Share Premium £000
At 1 January 2021 – Arecor Limited	2,715,518	27	11,594
Issue of Ordinary shares of £0.01	62,493	1	-
Five to one bonus issue on all shares	13,890,055	139	(139)
Total Ordinary shares allotted, called up and fully paid in Arecor Limited at 24 May 2021	**16,668,066**	**167**	**11,455**
One to one share swap with Arecor Therapeutics ordinary shares at par	16,668,066	167	-
Conversion of loan notes	2,165,908	21	4,873
Issue of ordinary shares of £0.01 during listing	8,849,558	88	19,912
Costs associated with issue of ordinary shares of £0.01			(1,437)
Issue of Ordinary shares of £0.01	151,492	2	-
At 31 December 2021	**27,835,024**	**278**	**23,348**

	Number	Share Capital £000	Share Premium £000
At 1 January 2020	2,673,219	27	11,594
Allotments			
Ordinary shares of £0.01	32,299	-	-
B Ordinary shares of £0.01	10,000	-	-
At 31 December 2020	2,715,518	27	11,594

The Ordinary Shares, A Ordinary Shares, A1 Ordinary Shares, B Ordinary Shares and C Ordinary Shares constitute separate classes of shares but rank pari passu, except on a return of capital whereby detailed terms apply to the order of priority of the share classes as set out in the Company's Memorandum & Articles of Association.

On 2 June 2021, pursuant to a Shareholders' resolution passed on 26 May 2021 and class consents:
a) the A ordinary shares, A1 ordinary shares and B ordinary shares were converted into ordinary shares;
b) the ordinary shares were converted into C ordinary shares; and
c) the Company renamed the C ordinary shares as ordinary shares

This resulted in 16,668,066 existing ordinary shares.

On 2 June 2021, 2,165,908 ordinary shares were issued pursuant to the share and convertible loan note conversion.

On 3 June 2021 8,849,558 ordinary shares were issued by the Company pursuant to the placing and admission to AIM, raising £20 million before expenses.

Share Premium
Proceeds received in addition to the nominal value of the shares issued during the period have been included in share premium less registration and other regulatory fees and net of related tax benefits. Costs of new shares issued to share premium in the period amounted to £24,784,599. Registration and other regulatory fees incurred as a result of these transactions amounted to £1,436,778.

Other reserves
Other reserves reflect the balance of the investment by Arecor Therapeutics plc in it's 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.

23. Share based payments

Share Options
On 2 June, certain employees entered into an EMI option exchange agreement where they agreed to release an option over shares in Arecor Limited ('Old Option') for a replacement option over shares in the Company ('Rollover Option'). The Rollover Options are treated as having been granted on the date on which the Old Option was granted, with the earliest grant date being 12 December 2018 and the latest grant date being 3 November 2020.

The Rollover Options are subject to graded vesting: one third vest on the first anniversary of the date of grant and two thirds vest in equal instalments over the following 24 months. The Rollover Options are subject to the same conditions which applied to the Old Option. The exercise price is £0.01 per share.

The Company operates an All-Employee Share Option Plan (AESOP) and grants EMI share options to eligible employees. A grant of options under the AESOP was made on 3 June at an exercise price of £2.26 per share. The options are subject to graded vesting with one third vesting on the first, second and third anniversary of the date of grant. A second grant was also made on 24 November 2021 to new employees with an exercise price of £4.15 per share. Vesting conditions for these options were the same as those granted on 3 June. As there are no performance criteria linked to these options, the fair value of the options was calculated using the Black Scholes model.

For the EMI option grants in the year the following assumptions were used.

	Grant on 3 June	**Grant on 24 November**
Exercise price	£2.26	£4.15
Volatility	65%	65%
Expected dividends	nil	nil
Risk free interest rate	0.163%	0.602%
Fair value per share	£0.97	£1.79

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 3 June at an exercise price of £0.01 per share. The LTIP options will vest after three years subject to meeting a performance criteria of total shareholder return in relation to the techMARK mediscience index over the same period. 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 Due to the additional performance

criteria included in the vesting conditions, the fair value of the options was calculated using a Monte Carlo simulation model.

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

	Grant on 3 June	**Grant on 24 November**
Share price at date of grant	£2.26	£4.15
Exercise price	£0.01	£0.01
Volatility	65%	65%
Expected dividends	nil	nil
Risk free interest rate	0.27% pa	0.66% pa
Fair value per share	£1.61	£3.62

	Number of options
Opening Balance at 1 January 2020	144,100
Options vested and exercised	(42,299)
Options lapsed	(1,319)
Options granted	21,250
Balance at 31st December 2020	121,732
Options vested and exercised pre-bonus issue	(62,493)
Options lapsed pre-bonus issue	(3,000)
Balance pre-bonus issue (23/5/2021)	56,239
Bonus issue (five to one basis)	281,195
EMI Options granted	492,250
LTIP options granted	775,000
Options vested and exercised post-bonus issue	(151,492)
Options lapsed post bonus issue	(38,248)
Balance at 31 December 2021	**1,414,944**

The rollover options have been treated as a modification of the original options, adjusted for the bonus issue of five share options for every one share option held and the corresponding dilution of the fair value of each option. The vesting period of the rollover options is unchanged.

The fair values of share-based compensation expenses are estimated using the Black-Scholes option pricing model for the AESOP scheme and the Monte Carlo simulation model for the LTIP scheme. Both schemes rely on a number of estimates, such as the expected life of the option, the volatility of the underlying share price, the risk-free rate of return, and the estimated rate of forfeiture of options granted. Management apply judgement in determining the most appropriate estimates to use in the option pricing model.

Details of the number of share options and the weighted average exercise price (WAEP) outstanding during each period presented are as follows:

31 December 2021	Directors Number of Options	WAEP £	Staff Number of Options	WAEP £
Outstanding at the beginning of the year	72,333	0.01	49,399	0.01
Exercised pre-bonus issue	(45,639)	0.01	(16,854)	0.01
Expired pre-bonus issue	-	-	(3,000)	0.01
Bonus issue (five to one)	133,470	0.01	147,725	0.01
Exercised post-bonus issue	(77,498)	0.01	(73,994)	0.01
Issued post-bonus issue	600,000	0.65	667,250	1.81
Expired post-bonus issue	-	-	(38,248)	0.73
Outstanding at the year end	**682,666**	**0.57**	**732,278**	**1.61**
Number vested and exercisable at 31 December 2021	31,000	0.01	17,025	0.01
Weighted average remaining contractual life (years)	9.21	-	9.41	-

31 December 2020	Directors Number of Options	WAEP £	Staff Number of Options	WAEP £
Outstanding at the beginning of the year	93,000	0.01	51,100	0.01
Issued	-	0.01	21,250	0.01
Exercised	(20,667)	0.01	(21,632)	0.01
Expired	-	0.01	(1,319)	0.01
Outstanding at the year end	72,333	0.01	49,399	0.01
Number vested and exercisable at 31 December 2020	32,723	0.01	12,813	0.01
Weighted average remaining contractual life (years)	8.32		8.78	

The Group recognised total expenses of £484,000 (2020: £277,000) in the statement of comprehensive income in relation to share options accounted for as equity-settled share-based payment transactions during the year.

24. 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.

In the period and pre-Admission to AIM the Company paid consultancy fees of £62,000 (2020: £38,000) to one Non-Executive Director and one former Non-Executive Director who are also shareholders.

At the reporting date, balances outstanding to Alan Smith in lieu of services provided as a Board member were £8,750

In October 2020, three Non-Executive Directors subscribed to the loan notes offered by Arecor Limited. Upon conversion of the loan notes to ordinary shares in Arecor Therapeutics plc, the Non-Executive Directors received the following number of shares:

Director	Shares received
Andrew Richards	11,648
Andrew Lane	1,215
Alan Smith	10,345

25. Financial commitments

In December 2021, the Group signed two agreements with Prosciento Inc, a leading Contract Research Organisation based in San Diego, CA. to provide specialised clinical research services relating to the US based clinical study of AT247. At the reporting date, fees incurred relating to these agreements totalled £0.3 million ($0.4 million USD).

26. Dividends

No dividends were paid or approved during the period ended 31 December 2021 (2020: nil)

27. Ultimate controlling party

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

28. Post balance sheet events

The Group initiated a US Phase I clinical trial in early 2022, following clearance by the US Federal and Drug Administration of an Investigational New Drug application in 2021.

There were no adjusting or significant non-adjusting events between 31 December 2021 and the approval of the financial statements.