Advancing today's therapies to enable healthier lives

Arecor Therapeutics plc
Annual Report and Accounts for the year ended
31 December 2021

Company registration number 13331147

Arecor


We are focused on transforming patient care by enhancing existing therapeutic medicines to bring safer, more effective, convenient and affordable treatments to patients.

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Strategic Report

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Sheena Singadia
Scientist

Who We Are

Transforming patient care by bringing innovative medicines to market

World-class

Arestat™ proprietary technology platform

- Enhances properties of existing therapeutic medicines
- Improving performance, patients' outcomes and quality of life
- Extensive IP protection
- Strength and value of technology validated by licensing deals and blue-chip pharma collaborations
- >50 granted patents in US, Europe and key territories

Best-in-Class

Proprietary Products

In-house portfolio of proprietary products within diabetes and specialty hospital care

Clinical Stage Diabetes Products:

- Novel formulations of existing insulins, enabled by Arestat™
- Best-in-class profiles demonstrated in clinical studies versus current gold standard insulins
- AT247, an ultra-rapid acting insulin, has potential to be life-changing for people with Type 1 diabetes by enabling a fully automated artificial pancreas
- AT278, 'disruptor insulin', the first concentrated rapid acting meal-time insulin to improve blood glucose control for people with Type 2 diabetes

Specialty Hospital

- Portfolio of ready-to-use and ready-to-administer products for safe, rapid and effective treatment within the hospital setting
- Two Arecor programmes licensed with Hikma Pharmaceuticals
- Portfolio of in-house R&D programmes

Partnered

with leading healthcare companies

- Leveraging Arestat™ to develop enhanced versions of our own and our partners therapeutic medicines which would otherwise be unachievable
- Four licensed programmes, under milestone and royalty based agreements or equivalent
- First partnered product incorporating Arestat™ technology potential to be on the market from 2023 under a royalty generating license agreement in a multi-billion $ market segment
- Revenue generating technology licensing model
- Portfolio of pre-license technology partnerships with significant future license up-side potential

Focus

Commercially focused de-risked business model

- Enhancing medicines to address significant unmet patient need in large market segments
- Lower risk, faster to market development as reformulating existing medicines where the safety and efficacy is already demonstrated
- Revenue generating from technology partnerships and licensed programmes
- Future significant milestone and royalty licensing upside potential from technology partnerships and licensing of proprietary diabetes and specialty hospital products

Respected

Highly respected Executive Team

- >100 combined years of scientific research, drug development and commercial experience
- Experienced management with scientific depth and breadth
- World renowned Scientific Advisory Board
- IPO supported by strong investor base

Innovation, partnerships and pace

Andrew Richards
Non-Executive Chair

"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.

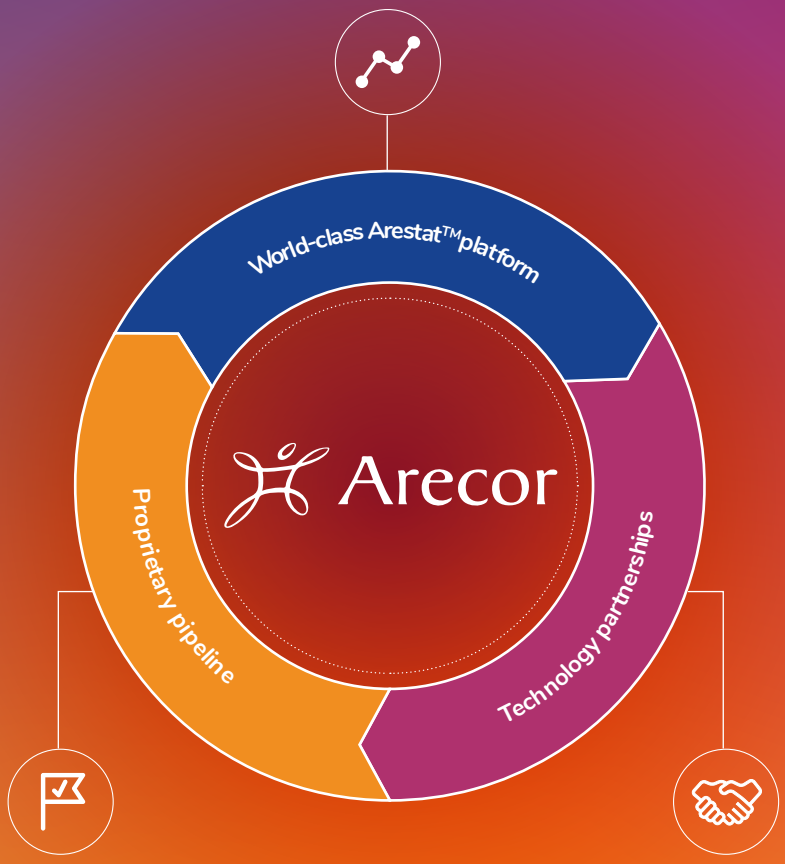
We have substantive plans for Arecor based on our strong foundations. We are at an exciting juncture in the growth of our business. We know that our Arestat™ platform has huge potential to bring enhanced treatments that improve patient lives to market at a much quicker pace than traditional methods. 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

Business Model

Capturing long-term value through partnerships

Arecor has a revenue-generating commercially focused business model, offering significant potential future returns from successful drug development, de-risked through the reformulation of existing medicines using our Arestat™ technology platform. We have a well-balanced development pipeline consisting of a combination of partnered programmes, coupled with select in-house best-in-class proprietary products, resulting in a balanced portfolio with material upside potential from licensing. We have a proven track record of partnering with pharmaceutical companies.



Best-in-class proprietary products

We are developing a portfolio of best-in-class enhanced proprietary products that can transform patients' lives.

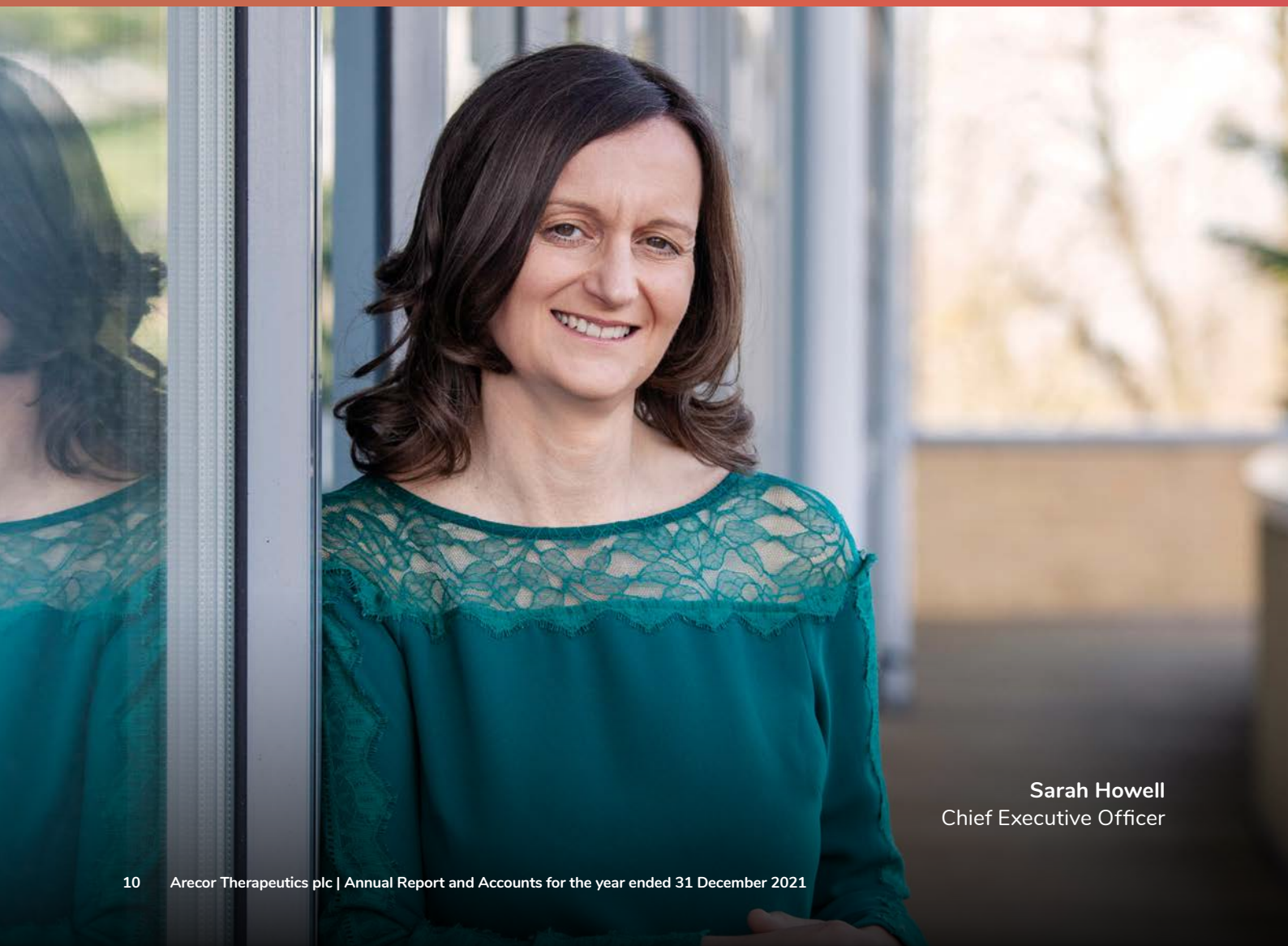
We plan to develop to an optimal value inflexion point and will seek strategic partners to ultimately bring these products to patients and to the market.

We partner under our licensing model with the potential for Arecor to receive significant milestone payments and royalties.

World-class Arestat™ platform

We are leveraging our innovative and proprietary formulation technology platform, Arestat™, to develop superior therapeutic products that can transform patients' lives. In bringing these to market, we are driving long term value for our shareholders.

Building on strong foundations to deliver a transformational year



Sarah Howell
Chief Executive Officer

"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."

Highlights (including post-period events):

£20m

Successful IPO on AIM, raising £20 million of funds

AT247

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

AT278

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

Partnership

Five new technology partnership agreements

£2.8m

Innovate UK grant awarded to support Phase II development of AT247

Arestat™

Expansion of global patent portfolio with grant of US, Canadian and European patents underpinning the Arestat™ platform

"Underpinning our vision is our strategy to advance our pipeline of internal proprietary products and partnered programmes."

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 study view study, 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

Below: David Gerring, VP Development

first-in-man study, in 2021 Arecor initiated a US based Phase I clinical trial in patients with Type I diabetes view study, 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 study view study, 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

Above: Mender M Mender, Scientist

"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 products that can truly transform patient care."

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.

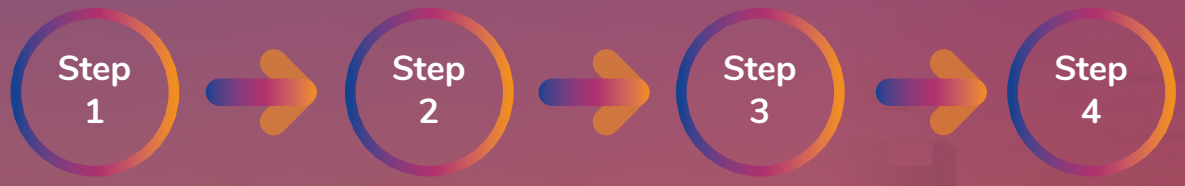
Through our innovative and proprietary technology platform, Arestat™, we have the prospect of improving the lives of people living with chronic disease and reducing the burden on health care systems. I am looking forward to continuing to lead and guide Arecor through its next period of growth and ultimately 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

Our Technology

Arestat™ enables superior products with enhanced properties that improve patient care and outcomes.

Our reformulation technology platform, Arestat™, consists of a series of over ten different patented mechanistically defined families of specific combinations of excipients, which when selected and combined with a therapeutic medicine, will deliver novel formulations with enhanced properties that would otherwise be unachievable. These benefits can range from better shelf-life through greater patient convenience to superior therapeutic profiles. Arestat™ can be applied to a broad range of products, notably antibodies, peptides, biologics, and vaccines.



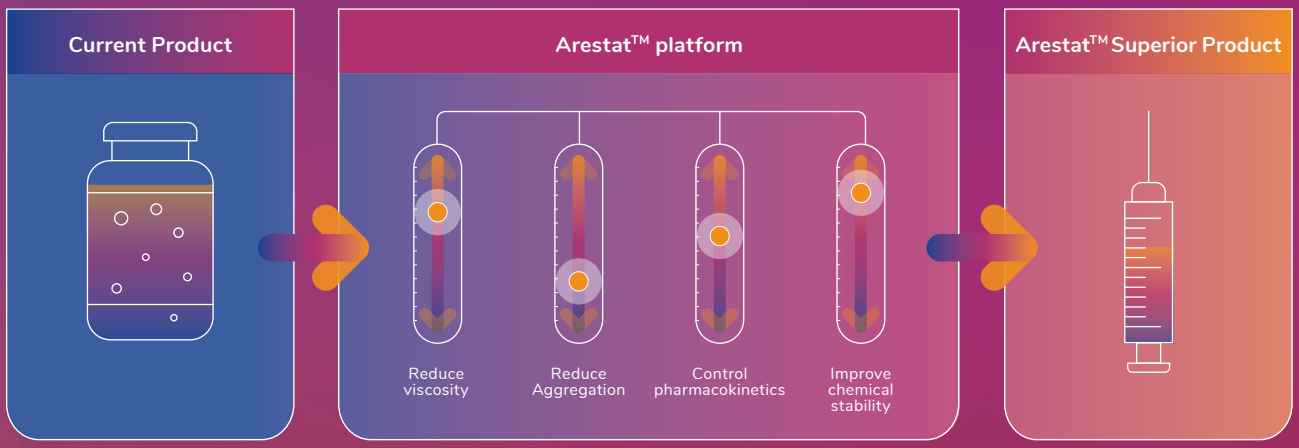
Define the superior target profile i.e. what enhancements of properties will bring benefits to patients

Through our extensive know-how and expertise, identify the challenges and mechanism that are preventing these enhanced properties being achieved

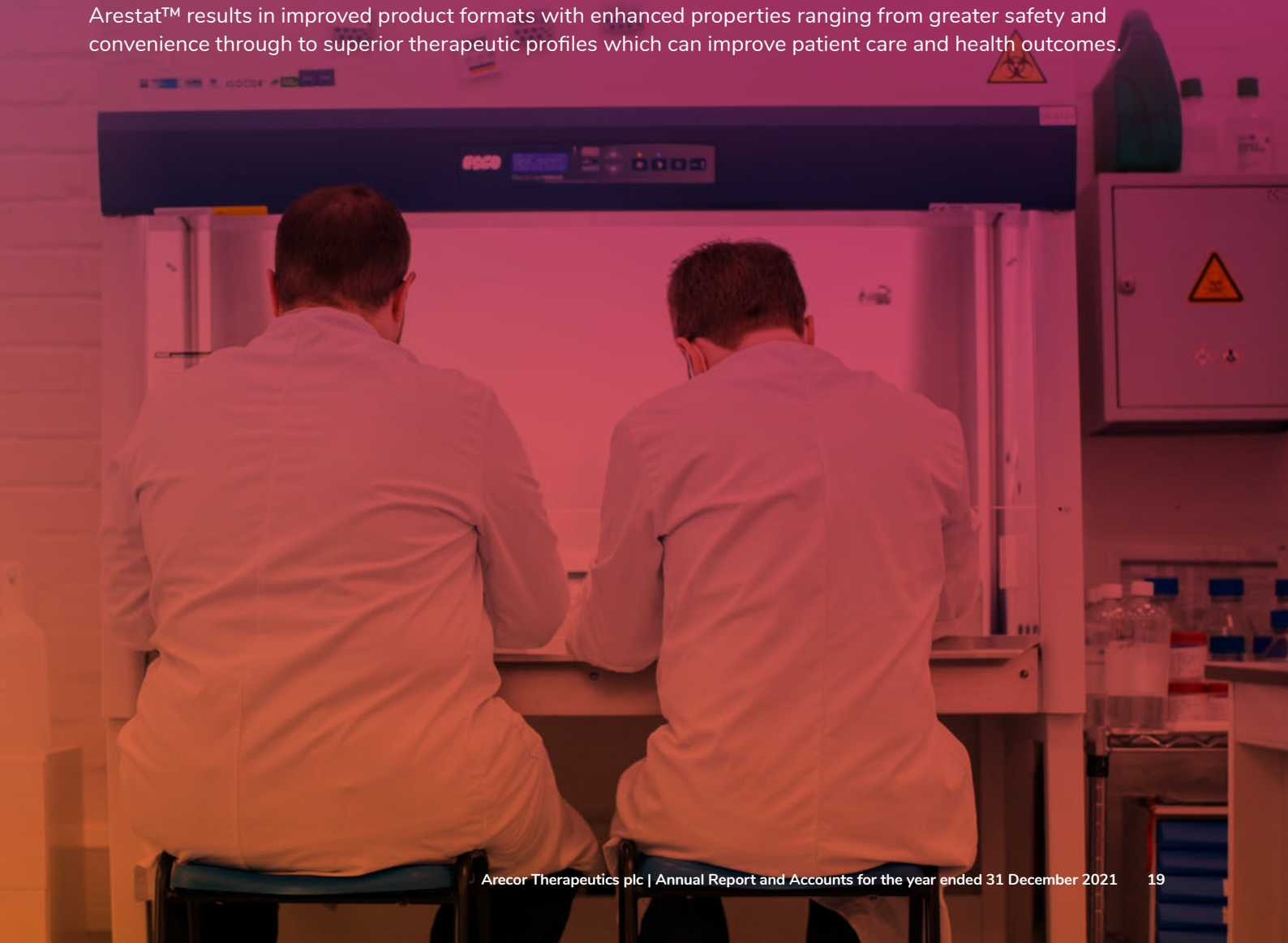
Apply our Arestat™ platform to select and employ specific combinations of excipients to overcome these challenges, each designed to enhance a desired property of the product

Fine tune the combinations, ratios and concentrations of the chosen selection of excipients using our proprietary algorithm to achieve the final novel formulation with optimal enhancement of properties and desired product profile that can significantly improve patient care

How our technology works



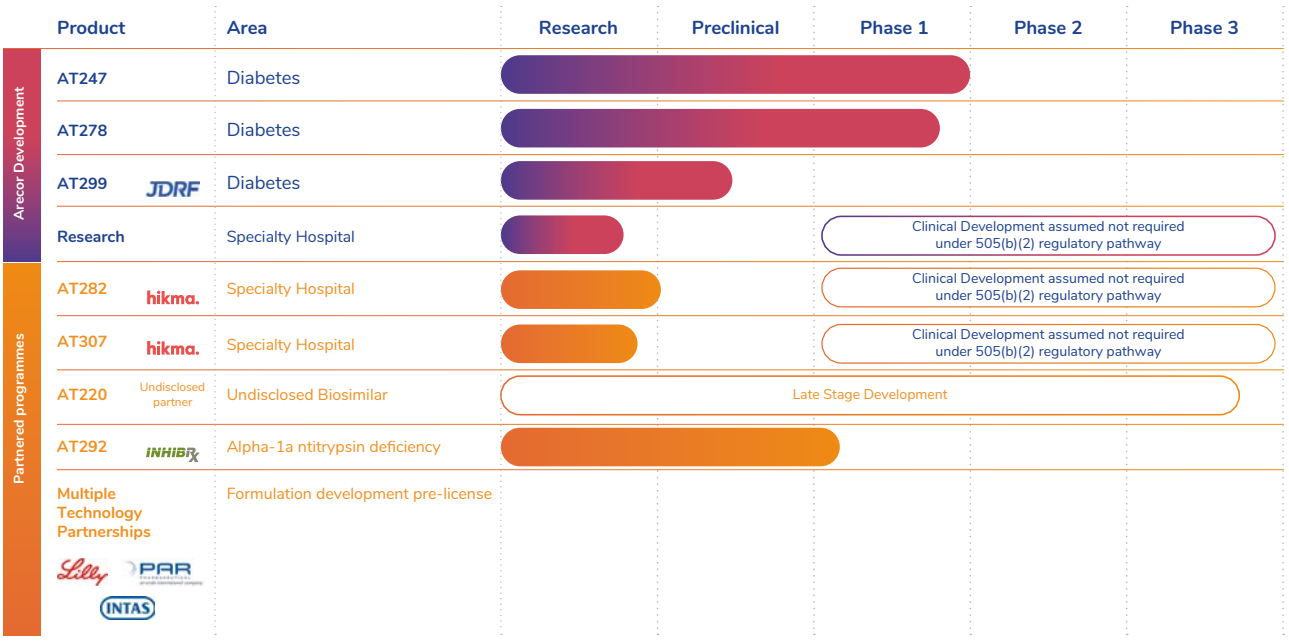
Arestat™ results in improved product formats with enhanced properties ranging from greater safety and convenience through to superior therapeutic profiles which can improve patient care and health outcomes.



A broad portfolio of de-risked and innovative assets

Our portfolio is significantly de-risked with higher success rates by reformulating existing medicines where the safety and efficacy profiles have already been demonstrated. This enables the use of abbreviated regulatory and development pathways to market thus reducing development risk, lead-times and costs compared with traditional biotech models.

Our portfolio consists of in-house proprietary development and partnered programmes.



Best-in-Class

AT247 and AT278, successful Phase I clinical trials

Our two lead products, AT247 and AT278, for diabetes, have recently completed successful Phase I clinical trials

We have an internal pipeline of proprietary products within our Diabetes and Specialty Hospital franchises. Our two lead products for diabetes, AT247 and AT278, have recently completed successful Phase I clinical trials, demonstrating best-in-class profiles when compared against gold standard insulin(s) available to patients today. We have a pipeline of programmes in pre-clinical or formulation stages progressing in Diabetes and Specialty Hospital Care.

We also partner with leading healthcare companies through technology partnerships to enhance their proprietary products across a range of indications and stages of development. We have a number of partnered programmes on-going which generate a modest revenue stream during development with significant upside recurring revenue potential from future licensing.

We have four licensed programmes two originating from our internal specialty hospital care pipeline and two originating from our Technology Partnership model where we apply the Arestat™ platform to develop novel formulations for our partners proprietary products. We anticipate the first of these licensed products incorporating the Arestat™ technology to be on market from 2023 onwards, and if successful, will generate a recurring royalty revenue stream to Arecor.

Left: Navjit Paul, Scientist

Our Markets

Arecor's key strength is its ability to develop novel formulations of existing therapeutic medicines that deliver superior products that can bring significant benefits to patients. In doing so, it builds shareholder value. Our focus is in diabetes, where we are developing ultra-fast acting insulin products and specialty hospital products, where our technology can deliver safer, easier-to-use, injectable products.

Diabetes in crisis

Diabetes has reached pandemic levels worldwide. With 1 in 10 adults living with diabetes, there is a heavy health and financial burden on every nation in the world.

There are approximately 537 million adults living with diabetes worldwide, and that number is expected to rise to over 643 million by 2030 and 783 million by 2045.

Diabetes is a chronic condition that affects the body's ability to control blood sugar levels and to use energy from food. In a healthy body, carbohydrates from nutrition are broken down to glucose, which in turn provides energy for the cells. This process is controlled by a hormone called insulin.

Diabetes is caused by either the pancreas not producing enough insulin or the body not responding properly to the insulin that is produced. This results in fluctuations in blood sugar levels as a person eats and glucose is generated but not metabolised. In Type 1 diabetes a patient does not produce any insulin. In Type 2 diabetes a patient develops insulin resistance. In both situations the body is left to cope with heightened blood glucose levels, which if left untreated, leads to serious health complications, including heart disease, kidney failure, nerve damage or blindness.

Diabetes is equally spread between men and women and is the fifth leading cause of death globally. Approximately 10% of diabetics worldwide are Type 1 requiring daily insulin injections to survive. The remainder are Type 2; who can initially manage their disease through a combination of diet and lifestyle changes, and some oral medication. However, many patients with Type 2 diabetes ultimately progress to requiring daily insulin to control their blood glucose and help prevent long-term complications.

$966
billion
estimated global expenditure

6.7
million
deaths due to diabetes in 2021

537
million
adults are living with diabetes

Right: Rafic Sukar, Scientist


Diabetes around the world
51 million
North America & Caribbean
61 million
Europe
73 million
Middle East & North Africa
24 million
Africa
32 million
South and Central America
90 million
South East Asia
206 million
Western Pacific

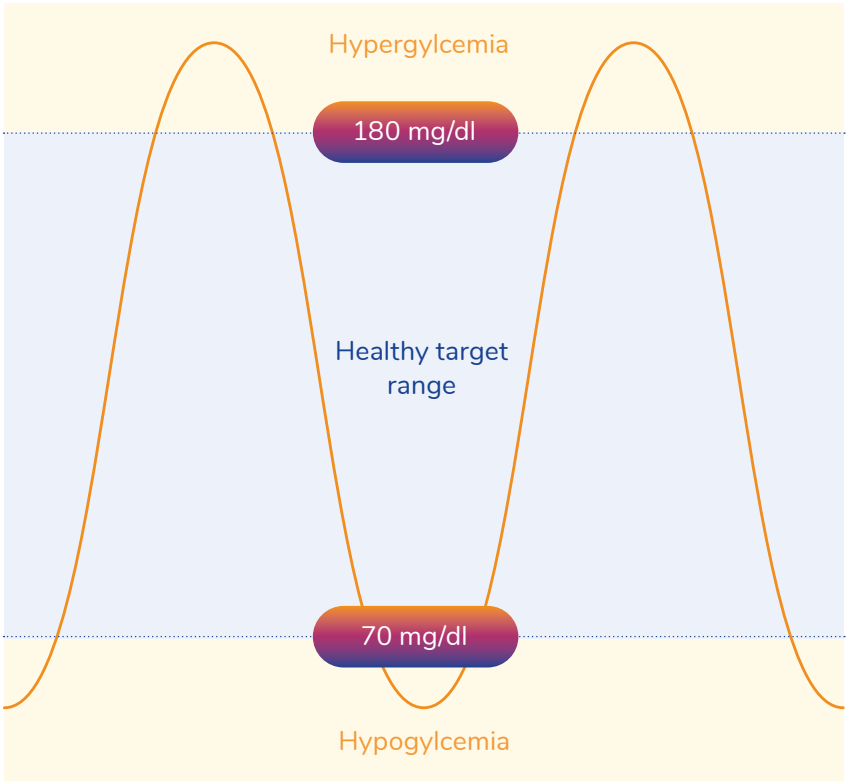
The need for faster acting insulins

The daily challenge for a person living with diabetes is to try and maintain their blood glucose within a healthy target range. This can be managed throughout most of the day and night with existing gold standard insulin therapies. However, the challenge comes around meal-times. After eating, blood glucose rises very rapidly and for insulin dependent diabetics must be brought back down into the healthy target range via the injection of insulin. Even with the gold standard insulins on the market today, there is still a need for faster acting insulins to counteract that very swift rise in blood glucose and to bring it down into the healthy target range much more quickly. This is important as it is this time spent outside of the healthy target range that leads to the very serious disease complications associated with diabetes, leading to long-term morbidity and healthcare costs.

There are a number of meal-time insulins on the market today, making up between them an existing $7.3 billion prandial insulin market. Arecor is targeting a share of this existing market with AT247 and AT278.

In terms of healthcare benefits, the cost of treating diabetes and its complications is significant with an estimated global annual expenditure of $966 billion, $327 billion in the US alone. Expenditure is on the rise, increasing by 316% over the last 15 years.

Blood glucose



The diabetes market remains attractive not only because of its growth prospects, due to well-documented shifts in demographics and lifestyles, but the clinical trends towards better monitoring and tighter glucose control are creating a demand for insulins that are faster acting. This combined with the rise of innovative delivery devices, allied with digital technologies where a fast and predictable onset of action is essential, offers Arecor a potential market leading position to pave the way towards the holy grail of a fully closed loop artificial pancreas and change the paradigm of diabetes treatment.

$966
billion
estimated global expenditure

316%
increase over the last 15 years

Trinity Delta research, Panmure Gordon research, IDF Diabetes Atlas 10th Edition, American Diabetes Association

Speciality Hospital Products

Stabilising delivery of hospital treatments

Specialty hospital care products include critical hospital care medicines that are administered by healthcare professionals, particularly in the treatment of serious infections, cancer and emergency events. There has been a steady growth in demand for many of these drugs to be delivered via ready to administer injection or infusion, especially in critical hospital care settings that require fast, effective and controlled administration.

Below: Joshua Cremin, Principal Scientist

Arecor's Specialty Hospital Products franchise is focused on improving injectable products that have clear issues in their use, such as the need to be reconstituted, e.g. a powdered drug that requires a complex preparation before injection. In this case, Arecor is leveraging its Arestat™ technology to develop ready-to-use (RTU) and ready-to-administer (RTA) medicines, which are becoming increasingly important to enable fast, safe and effective treatment of patients at the point of care. These RTU and RTA new stable liquid product formulations improve safe medication practices and simplify care by eliminating the need for reconstitution.

US$10.3

billion

compounding pharmacies market

~50%

US accounts for ~50% of market value

The lack of a RTU or RTA version of a product is usually due to limitations in developing stable and efficacious liquid formulations. Arecor has demonstrated the potential to leverage the Arestat™ platform to reformulate existing products into RTU and RTA injectables. This market thus offers Arecor the opportunity to deliver differentiated products in a valuable, but often competitive space.

The existing global RTU/RTA market (including products that are reconstituted within hospital pharmacies and compounding by external pharmacy companies) was estimated at over US$10.3 billion in 2020, with projected growth at around 5.8 per cent. CAGR from 2021 to 2027, driven by the increased demand for personalised medicine and also the increase in chronic diseases and cancer seen with ageing populations. By developing differentiated RTU/RTA formats of existing products, Arecor with its partners is targeting market share within this segment.

Global Market Insights report titled 'Compounding Pharmacies Market Analysis, 2021 – 2017, March 2021

Technology Partnering Target Markets (US$354 Billion)

~ $12 bn
Biosimilars

~ $41 bn
Vaccines

~ $32 bn
Peptides

~ $269 bn
Biologics

Technology partnerships working in collaboration

Validation of the scientific strength and need for the Arestat™ Platform, offering near-term revenues and future significant licensing revenue upside potential

Outside of Arecor's diabetes and specialty hospital care in-house products, the Arestat™ technology platform is deployed in collaboration with leading healthcare companies under a technology licensing model with the aim of developing enhanced versions of their development and commercial high value complex biological products.

These collaborations typically start with a formulation development study, where Arecor applies Arestat™ to develop a novel formulation of the partner's medicine to achieve a superior target product profile. Such collaborations are revenue generating from day one through research fees. Upon completion, the partner has the option to enter into a license agreement for rights to access the intellectual property and further develop and commercialise the novel formulation. These licenses typically involve both milestone and royalty payments and represent significant future recurring revenue upside potential.

Arecor is targeting its technology partnering programmes at high value biologics, including biosimilars, novel biologics, peptides and vaccines as well as future potential applications such as mRNA and cell and gene therapies. The products can be at any stage in development from early phase clinical development through to products that are already on the market. The most likely candidates are complex specialty products used for the treatment of chronic or life-threatening diseases with a high cost, requiring special storage, handling or complex administration where Arecor can leverage the Arestat™ technology to improve and differentiate these characteristics.

An example of how this works is Arecor's partnerships with Hikma Pharmaceuticals under milestone and royalty bearing co-development and licensing agreements for two RTU/RTA products. This demonstrates both the need and commercial potential for Arecor's proprietary specialty hospital products pipeline. Arecor has a dedicated team developing further RTU/RTA products for future partnering.

In terms of target market size, these speciality products make up 36% of pharmaceutical global spending, worth $354 billion in developed markets with a CAGR of 5-8% expected to 2024 (IQVIA). The range of indications treated by speciality products is increasing with 78% of new brand spending on specialty products ($130bn of the $165bn expected by 2024), offering a significant opportunity for Arecor.

Right: Lourenco Saco, Scientist

Arestat™ technology

- Enhanced therapeutic kinetics leading to improved clinical and patient outcomes, e.g. ultra-rapid insulin
- Heat stable products, allowing distribution and use outside the cold chain
- Reformulation of dry powders into Ready-to-Administer hospital products, improving safety, speed and convenience
- Self-administered injectable products, increasing convenience and compliance

AT278: Creating a Disrupter Insulin

AT278 is an ultra-concentrated (500U/mL) ultra-rapid acting novel formulation of existing insulin that accelerates the absorption of insulin post injection. It has the potential to enable more effective management of blood glucose levels to the increasing number of diabetics with high daily insulin requirements whilst maintaining the convenience and compliance benefits of delivering high insulin doses in a lower injection volume via a single injection. A truly rapid acting concentrated insulin is a critical step towards the advancement and miniaturisation of the next generation of insulin delivery devices.

Panmure Gordon research

The Situation:

A growing number of people with diabetes require high daily doses of insulin to manage their blood glucose, particularly those with Type 2 diabetics. In the US alone, there are 5.4 million Type 2 diabetics who use insulin daily compared to 1.6 million Type 1, many of whom require high daily doses of insulin. Currently, there are no concentrated (>200 U/mL) rapid acting insulin products on the market, and for these patients, AT278 has the potential to be the first truly rapid acting concentrated insulin.

The Solution

AT278 Exceeded expectations from positive Phase I clinical study

- AT278 potential to be first and only ultra-concentrated rapid acting insulin
- Ultra-rapid acting profile achieved with 5-fold increase of insulin concentration
- Reduced injection volume and potential to enable significant miniaturization of devices
- Disrupt Type 2 diabetes market by converting more of ~38million T2D's to insulin pump therapy
- Potential to provide superior blood glucose control and health outcomes for insulin resistant patients.

The Challenge

As the concentration of insulin is increased it becomes slower acting. Faster acting insulins are needed for improved blood glucose level, especially around difficult to control mealtimes. Diabetes patients who require high daily doses of insulin currently have two options. The first is to take the only available concentrated 500U/mL insulin, Humulin-R U500, to provide their high daily insulin needs via lower injection volumes with fewer injections per day. However, this has a more intermediate time course profile, i.e. it is slower acting, thereby compromising blood glucose control, particularly around meal-times. Alternatively, they can select available rapid/ultra-rapid acting insulins such as Novolog, Fiasp®, (100U/mL) or Humalog, LyumJev (100U/mL and 200U/mL) which bring the advantage of a rapid acting profile with improved blood glucose control. However, these are only available at lower concentrations, and hence require higher injection volumes and more injections per day compared with 500U/mL insulin.

Study Design:

- Double-blind, randomized, two-way cross over Phase 1 clinical study
- 38 participants with Type I diabetes
- PK/PD and safety of a single sub-cutaneous dose of AT278 (500 U/mL) vs NovoRapid® (100 U/mL)

Topline Results:

- Trial met all primary and secondary endpoints
  - Including non-inferiority of glucose lowering action vs Novorapid®
- **Exceeded expectations** demonstrating a significantly accelerated early PK/PD profile compared to the same dose of lower concentration NovoRapid®
- No safety signals were detected

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

Susan Lowther
Chief Financial Officer

Highlights:

£20m
Successful IPO on AIM

£5.4m
Investment in R&D (2020: £3.9 million)

£18.3m
Cash and cash equivalents (2020: £2.9 million)

£1.8m
Total Income (2020: £2.1 million)

£6.2m
Loss after tax (2020: £2.8 million)

£4.4m
Debt free following the conversion of £4.4 million shareholder loan notes into new ordinary shares

"£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."

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:

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.

	2021 £'000	2020 £'000
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**

"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."

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

Our approach to understanding and managing risk

Like many organisations, we operate within an environment which both influences the risks we face and provides a context within which the risk is managed. As a Group we work with partners to help us to deliver on our business objectives and so our approach to understanding and managing risk considers the context in which we operate the business and the risk priorities of our partners.

We manage uncertainty through a framework which identifies, assesses and responds to risk across the Group and is part of our operational working practices and activities.

Our aim is that these different levels of activity support each other so that risk is managed in an appropriate way at each level through the organisation.

Risk culture

Every individual at Arecor has a responsibility to manage business risk, irrespective of their function or role. Our risk culture is established in our decision-making processes, procedures and our working practices. It is also reflected in our behaviour as our employees understand and take responsibility for complying with Company policies and standards.

The Board is ultimately responsible for the Group's management of risk and is an integral part of our risk management process including roles and responsibilities, which span all levels of the Group, as follows:

Organisation and people

- Operating framework which identifies, assesses and responds to risk
- Embedded in working practices and activities
- Risk and internal control processes across project and matrix business teams. Risk management and operating controls at each level of the Group

Executive Directors and Leadership team

- Implement risk and control policies
- Provide assurance that policies are effective
- Directs the company risk culture
- Supports business and project teams to identify, review and manage business risk

Audit and Risk Committee

- Delegated responsibility from the Board
- Oversee internal controls and risk management processes
- Evaluate the ongoing effectiveness of risk management policies and procedures
- Review the company risk register at regular intervals and monitor change

Board of Directors

- Overall responsibility for the Group's management of risk
- Sets and monitors the Group's performance against strategic objectives
- Accountable for the effectiveness of the Group's internal control and risk management processes

Left: Katerina Rousou, Scientist

Through this framework there is a shared responsibility for ensuring the effective identification, mitigation and management of risk. This underpins the delivery of our strategic objectives and how the Company conducts its business.

Our risk management processes and procedures are intended to understand and manage business risk, which provides reasonable but not absolute assurance that the principal risks are managed to an acceptable level.

Specific risks

Specific risks which were identified and managed in the year are set out below. They reflect business risks arising from a changing environment due to the COVID-19 global pandemic. Such risks could have a significant impact on the Group's business and meeting strategic objectives over the medium term.

1. Coronavirus (COVID-19)

Principal risks were identified and managed by the leadership team with activities co-ordinated through the Health & Safety Committee and line managers. The protection of our employees was a top priority, with regular guidance and direction provided via email updates and companywide briefings. This ensured that employees continued to operate in a safe manner and in accordance with local and national guidance and regulation.

Our premises remained open with restricted numbers of staff to enable social distancing. Scientific staff were given priority access to the building, to use the laboratories and continue to progress our development and partnered projects. Impacts on our supply chain were identified, with some extended timelines incorporated into our project planning.

From left: Raminta Tomkute, Alliance Management Coordinator, Minur Ali, Scientist, Sheena Singadia, Scientist

2. Progression of the clinical development studies for AT247 and AT278

The timely progression of the clinical studies for AT247 and AT278 is a strategic priority and involves the management of clinical and commercial risk. We plan to develop AT247 and AT278 to a higher value inflexion point and seek strategic partners to ultimately bring these products to patients and to the market.

COVID-19 had an impact on the capacity and availability of clinical trial centres. This risk was incorporated into the planning during the year for the first AT278 clinical study and the second AT247 clinical study. The risk was managed and did not result in significant delays to expected timelines.

The headline results of the first AT278 clinical study were announced in September 2021 and was an important milestone for this product and for the Company. The second clinical study for AT247 in the USA, was initiated in early 2022.

3. Recruitment and retention of staff

Employees are fundamental to delivering our strategic objectives. Specific risks which were identified and managed in the year included recruitment as part of a planned increase in headcount and retaining existing staff. Our location in Cambridge, UK means that we can access a pool of talent, however this is a highly competitive local environment which affects both our ability to recruit and retain staff. In the year we experienced staff turnover, as more employees than in prior years, decided to change location to move closer to their families. It is not yet clear whether this shift will continue as a lasting impact of a changing work environment following COVID-19.

The retention risk is closely monitored and activities include maintaining our company culture, regular communication together with training and development opportunities. We are also adapting our working environment, which is increasingly fluid, dynamic and flexible.

Principal risks and uncertainties

The following pages set out a summary of the principal risks that we have identified and how they are managed. This summary is not intended to include all risks that could ultimately impact our business and the risks are presented in no particular order:

Risk Category	Risk Description	Management
Research and technology		
Research and product development	There is a risk that the Group may fail to develop an enhanced version of an existing therapeutic medicines, within its internal portfolio of proprietary products or its partnered programmes, resulting in the cessation of internal research and development and resulting costs and the loss of the future licensing opportunity.	• Develop multiple products in parallel, providing a pipeline of assets • Have clear go/no-go decision criteria to progress projects • Work closely with partners to ensure that the potential product continues to meet their expectations
Competition / Technology	The biotechnology and pharmaceutical industry is subject to rapid technological change which could affect the commercial viability of the Group's Arestat™ platform and its products and make them obsolete or less competitive.	• Expand technology platform to develop innovative approaches for new products/ targets • Undertake commercial and IP evaluation for each proprietary project at inception and during development • Monitor developments in formulation science to identify competition and disruptive technology early
Legal, regulatory and intellectual property		
Product approvals	The pharmaceutical industry is highly regulated and no assurance can be given that the Group's or its partners' products will successfully obtain regulatory approvals or that products will be approved within the timescale envisaged. While the Group has assumed that a number of its internal proprietary products can be approved under abbreviated regulatory pathways, no assurance can be given in respect of accelerated clinical development. The Group or its partners may have to conduct additional studies to meet regulatory requirements, which may result in additional costs, a delay to, or make impossible, the use of the Group's products for its intended purposes and may have an adverse effect on the Group's business.	• Aim to seek early scientific and regulatory advice • Track the changing regulatory environment to ensure that we are compliant with regulations and expectations • Liaise with licensees to stay up-to-date with their development plans
Intellectual property	The Group's success and ability to compete effectively is in large part dependent upon exploitation of proprietary Arestat™ technology and enhanced products that the Group has developed internally or through technology partnerships. The Group relies primarily on patent law and contractual duties of confidence to protect its core intellectual property rights. There can be no assurance that the scope of the Group's patents will provide the Group with a monopoly covering all its products and technologies and/ or products that solve the same problem as the Group's technologies and products by a different means.	• Robust IP strategy which, to date, has provided adequate protection for the Group's technologies, including successful defence of key patents • Regularly review patentability of formulations in development • Invention Disclosure system in place to capture possible inventive angles and desired claims • External IP counsel is sought when required

Risk Category	Risk Description	Management
Commercialisation		
Commercial agreements with partners and collaborators	The Group's development and commercialisation strategy is largely dependent on working with third party partners under collaboration and licensing agreements. The timing and likelihood of receiving milestones and royalties from partners may be outside of the Group's control and subject to continued development of the products by partners and by their commercial abilities and efforts.	• Regular contact with existing partners to understand potential changes to their development and, or commercialisation plans • Run numerous partnered projects in parallel to manage the risk of reliance on a single project
Reliance on third parties and their significant regulation	The Group's use of third-party contract research and manufacturing organisations for its clinical research and the manufacturing of drug products may have an adverse effect on the Group's business if these parties do not successfully carry out their contractual duties or obligations. Violations related to the significant regulation that these third parties are subject to could impact the regulatory approval of the Group's product candidates until such violations are corrected to the satisfaction of the relevant regulatory authority.	• Audit of external contract manufacturing organisations and contract research organisations to ensure compliance with GMP and GCP, respectively • Quality technical agreements in place with CROs, CMOs and other vendors • Manufacturing strategy to determine optimal manufacturing partner(s) for clinical-stage programmes
Business operations		
Execution of strategy	The Group's future growth depends on its ability to successfully implement its business strategy, and to achieve its business objectives. The Company may be required to raise further investment.	• Experienced Board of Directors, support management to implement the Group's strategy • Regular review of progress against corporate objectives and effective decision making by the Board, Executive Directors and Leadership team • Maintain competent and prudent planning and management • Ensure adequate system of internal control and accurate accounting records • Maintain financial and business reputation with investment market
Dependence on key executives and personnel	The Group depends to a significant degree on the experience, performance and continued service of its senior management team including Directors. Loss of the services of any of the Directors or other members of the senior management team may have a material adverse effect on the Group and its commercial and financial performance.	• Succession planning, training, development and incentive plans are in place to ensure that the Group can attract and retain talent, including share options that vest over a number of years
Talent recruitment and management	The ability to continue to attract and retain employees with the appropriate expertise and skills, and ensure they maintain a culture unpinned by ethical decision making, cannot be guaranteed. If the Group is unable to hire, train and retain such personnel in a timely manner, execution of the Group's strategy could be impaired.	• Training, development and incentive plans are in place to ensure that the Group can attract and retain talent • Benefits and rewards are reviewed by the Remuneration Committee to ensure they remain competitive • Focus on maintaining a strong culture and a good working environment for employees

Risk Category	Risk Description	Management
Business operations		
IT systems, data and infrastructure	Service interruptions or security breaches in the Group's systems or the unauthorised or inadvertent wrongful access or disclosure of confidential information, trade secrets or proprietary information could adversely affect the Group's business operations, financial position and/ or results of operations.	• Comprehensive cybersecurity risk processes in place • Monitored by an IT Steering Group formed of members from across the Group • Confidentiality is explicitly detailed in employees' contracts, and training is provided to staff to mitigate the risk of inadvertent disclosure • IT disaster recovery plan to reduce business disruption in the event of a technological failure
External factors		
Industry dynamics	Preparedness, response, continuity and recovery from disruptive events, such as natural catastrophe, economic turmoil, operational issues, pandemic, political crisis, and regulatory intervention which may require the Company to adapt the way in which it operates to maintain commercial viability.	• Monitor activities in the sector and take advice from independent experts as appropriate • Assess political changes on business, recruitment and legislation practices • Risk processes include regular communication either written (in risk registers) or group discussions (Health & Safety or project meetings). This information is collated in the Company Risk register which is the responsibility of the Management Team both in reporting and taking action to address risk • Monitor potential impact on clinical trials, drug approval regulations or patent law, and implement mitigating strategies • Health & safety committee monitors government recommendations for pandemics situations e.g. home working and essential workplace attendance • Corporate insurance to ensure appropriate coverage of high-impact, low-likelihood events

Section 172 statement

The Directors are required under Section 172 of the Companies Act 2006 (s.172) to act in the way they consider, in good faith, would be most likely to promote the success of the Group for the benefit of its shareholders as a whole. In doing so they must have regard for the following:

a. the interests of the Company's employees;
b. the need to foster the Company's business relationships with suppliers, customers and others;
c. the impact of the Company's business relationships with suppliers, customers and others;
d. the impact of the company's operations on the community and the environment;
e. the desirability of the Company maintaining a reputation for high standards of business conduct;
f. the need to act fairly between members of the Company.

In fulfilling their duties and in making decisions, the Directors seek to understand what is important to shareholders and to balance the different requirements of stakeholders with the Group's long-term success and delivering on its business objectives.

The Board seeks to understand and meet its s.172 duties through training and seeking guidance when required. Non-Executive Directors bring additional value by sharing their knowledge or insight gained from previous or current roles which inform the decision-making environment.

Board papers include information about stakeholder matters including items that are of interest to our employees. Board engagement with the Leadership team during the year includes strategic and business planning discussions with outputs feeding into the budget planning cycle. Board and Committee decisions are recorded and cascaded for implementation at different levels of the Group as appropriate.

Details of our different stakeholder groups and how the Company and the Directors engage with them are set out on pages 46 to 49. The Corporate Governance Report sets out how the Group approaches corporate governance and how it applies the ten principles of the QCA Code in support of its growth. This is set out on the Group's website, and in the Corporate Governance Report on page 42 of this report.

The Group's activities, strategy and future prospects are discussed in the Strategic Report, beginning on page 2. The Directors are committed to effective engagement with our key stakeholders who are described more fully on pages 46 to 47.

Matters considered by the Board in the year under review

The following are some of the matters considered by the Board in the year, which demonstrate how s.172 is taken into account in discussions and decision-making:

Matters considered	s.172 impact	Board involvement
Supply chain environment	Recognising and managing the impact of macro and micro environments on the Group's supply chain. Continuing to develop business relationships with key suppliers	The Board provide oversight of management's relationships with key suppliers. Focus in the year included the inflationary environment and availability of raw materials. The Board received and discussed information about how management was seeking to ensure resilience in its relationships with suppliers.
Employee safety and well-being	Understanding matters which are of interest and important to employees	Oversight of actions taken by management in accordance with global and local COVID-19 guidance. The consideration and approval of changes to employee benefit schemes. Meet the board sessions were initiated post Admission. This interactive engagement provides employees with information about the role of Non-Executive Directors and the experience that they bring to bear.
Environmental, social and governance policies and procedures	Impact on the local community and environment	The Board reviewed and approved the Environmental and Social Governance policy, published in November 2021. Such objectives also reflect the interests of many employees who provide their own time as volunteers.

The Directors confirm that they have acted in good faith in the way they consider what would be most likely to promote the success of the Company for the benefit of its members as a whole.

By order of the Board

Sarah Howell
Chief Executive Officer
23 April 2022

Susan Lowther
Chief Financial Officer
23 April 2022

Corporate Governance

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Ilaria Passarini
Scientist

Andrew Richards,
Ph.D., CBE
Non-Executive Chair

Andrew Richards has extensive experience from the UK biotechnology sector in drug development, investment, commercial deals and the successful scale-up of companies. He is the Chairman of Congenica Ltd, Owlstone Medical Ltd, Ieso Digital Health Ltd and Closed Loop Medicine Ltd, and a Director of Cancer Research Technology Ltd (the commercial board of Cancer Research UK) and The Scale-Up Institute, and is a council member of the UKRI Medical Research Council.

Andrew has a Ph.D. in Chemistry from Cambridge and was a founder of Chiroscience in 1992 and an Executive Director through to the Celltech deal in 1999. Andrew has a track record as a founder, active investor in, and Director of, more than 25 innovative healthcare and life-science companies, including Vectura plc and Arakis Ltd. He is an experienced board Director for several public companies, including Chiroscience plc, Vectura plc, IXICO plc and Silence Therapeutics plc.

Sarah Howell
Ph.D., Chief Executive Officer

Sarah Howell was appointed Chief Executive Officer of Arecor in 2015, having joined in 2011 as Chief Operating Officer and Executive Director. During her time at Arecor she has led the transformation of the business into a successful clinical stage biotechnology company. Sarah has a background in clinical and commercial pharmaceutical product development, manufacture, supply and licensing across a range of product types and therapeutic areas.

She has served in a number of senior roles in the pharmaceutical industry, including Vice President CMC & Technical Development at BTG Plc., and Director of Outsourced Manufacturing at UCB-Celltech. Sarah holds a BSc in Chemistry from the University of Birmingham and a Ph.D. in Physical Organic Chemistry from the University of St Andrews.

Susan Lowther
Chief Financial Officer and Company Secretary

Susan Lowther was appointed Chief Financial Officer and Company Secretary at Arecor in 2019. She brings significant financial leadership experience across a broad range of public and private life science companies. Peviously she was CFO at IXICO plc where she raised growth capital as part of a path to profitability strategy. At Novacyt S.A. she oversaw the acquisition of Lab21 Limited, she was CFO at BioWisdom Limited until its acquisition by Instem Plc, and Finance Director of RiboTargets Limited, from start-up until its acquisition by Vernalis plc. Susan's life-sciences career started at Celltech Group plc and included Head of Finance at Lonza Biologics (previously Celltech Biologics).

Susan has been a member of executive boards since 1997 and a Fellow of the Chartered Institute of Management Accountants since 2003. She is a Non-Executive Director and Chair of the Audit & Risk Committee of BiVictriX Therapeutics plc.

Sam Fazeli
Ph.D., Non-Executive Director

Sam Fazeli has served as a member of the Arecor Board of Directors since September 2017 and brings over twenty-two years of experience of conducting equity research as a pharmaceutical analyst, working at firms including Nomura International and HSBC. Currently, he is Director of EMEA Research and Senior Pharmaceutical Analyst at Bloomberg Intelligence in London, where he specialises in global pharmaceuticals.

Prior to joining Bloomberg in 2010, Sam worked at Piper Jaffray, Ltd. as a pharmaceutical analyst and head of European research. Before transitioning to investment banking, he was a research scientist for seven years. Sam has been ranked a top analyst by both the UK and Pan-European Extel surveys. He holds a degree from Cardiff University, and a Ph.D. in Pharmacology from the University of London.

Jeremy Morgan
Non-Executive Director

Jeremy Morgan completed a Senior Executive Programme in General Management from London Business School and holds a BSc (Hons) in Applied Biology from Coventry University. He is an experienced Pharmaceutical and Biotech General Manager, having been responsible for product development and market access, as well as commercial strategy development and product launches at a national, regional and global level.

Jeremy was Vice President of Diabetes, International, for Eli Lilly & Company from 2014-2017, leading and developing individuals and teams across Europe, Japan, Canada and Australia and working across functions, geographies and products. From 2018-2019 Jeremy served as Chief Operating Officer at market access and reimbursement specialists PHMR Limited, where he was also Non-Executive Chairman from 2019-2020. He is currently Senior Vice President, Commercial, for Kyowa Kirin International plc.

Alan Smith
Ph.D., FRS, CBE
Non-Executive Director

Alan Smith is the former Senior Vice President and the Chief Scientific Officer of Genzyme Corporation, Cambridge MA, where he had overall responsibility for the company's science. Prior to its acquisition by Genzyme in 1989, Alan was the Scientific Director of Integrated Genetics, a biotechnology company. Previously, he was head of the biochemistry division at the National Institute of Medical Research. Alan currently sits on the Scientific Advisory Boards of Pharnext, a genomics company and he is on the Board of Directors of Candel Therapeutics, an immune-oncology company.

Alan has published extensively on the genetic code and protein synthesis, tumour virology, cell biology and cystic fibrosis. He holds a B.A. from Christ's College, Cambridge and a Ph.D. from the Laboratory of Molecular Biology, Cambridge, England. He is a fellow of the Royal Society of London and of Christ's College.

Christine Soden
Non-Executive Director

Christine Soden is a Non-Executive Director of Elementis plc, the Cell and Gene Therapy Catapult and Fertility Focus Limited. Christine is a Chartered Accountant and holds a degree in Mathematics from the University of Durham. She has significant experience in the commercialisation of innovative technology and a strong track record of leading innovative private and public biotechnology, life science and pharmaceutical companies, both private and public.

Previously Christine was CFO and Company Secretary of Acacia Pharma Group plc, a public quoted provider of pharmaceutical products designed to improve the outcomes and recovery for surgical patients and CFO and non-executive Director of AIM-listed Electrical Geodesics, Inc., which was acquired by Philips NV in 2017. Other CFO and finance leadership roles include Optos plc, BTG plc (former FTSE250 constituent), Oxagen Limited and Celltech Chiroscience Group plc and Medeva plc.

Communicating with Key Stakeholders

Partners

As a globally focused biopharmaceutical company, we aim to transform patient care by bringing innovative medicines to market through the enhancement of existing therapeutic medicines, and partners play a key role in our commercial strategy.

By applying our innovative proprietary formulation technology platform, Arestat™, we are developing an in-house proprietary portfolio to optimal inflexion points, at which stage we will seek a partner with the reputation, skill and commitment to drive our products to market.

In addition, we collaborate with leading healthcare companies to deliver enhanced formulations of their therapeutic products through a revenue-generating licensing model, with milestones and royalties. These collaborations validate the value of our Arestat™ platform and provide a basis for long-term future growth of the Company.

We believe that all our employees play an important role as ambassadors for Arecor, and communicate with our partners through:

- Direct feedback via regular meetings and team conference calls
- Scientific webinars
- Industry events
- Published articles

People

The Arecor team is our biggest asset. Without their hard work we would not be able to develop our pipeline of proprietary and partnered assets. We are committed to providing the environment to allow them to succeed.

We have a culture of open communication, transparency, teamwork, accountability, and innovation. We engage with our employees through communication of Company news and information in a variety of formats. As management we encourage feedback from and engage in dialogue across all levels of the business through an open-door policy for all staff:

- Direct access to key management
- Monthly all-staff meetings
- Intranet
- Scientific meetings
- Events and socials
- Meet-the-Board events

Building a strong and respected company through open communications.

Shareholders

Shareholder support is critical to the success of our business.

We believe it is important to maintain regular and transparent dialogues with shareholders to ensure they understand the strategic objectives, financial and operational performance, governance of the Company and the value of what we do by:

- The CEO and CFO meet with major institutional investors twice per year to present the financial results
- All members of the Board attend the Annual General Meeting to meet with shareholders
- Provide regular business updates on the progress of our proprietary and partnered products
- CEO interviews via platforms including Proactive Investor to talk about latest news
- Social media updates

Communities

We aim to have a positive impact in healthcare, beyond our scientific innovation, by engaging with local communities, caring for the environment, and improving access to and the reputation of the healthcare industry.

We believe that by behaving as a good corporate citizen we can reflect our values and aspirations in our working environment which not only positions Arecor as a good company to work for, and with, but will ultimately drive value for our business by:

- Developing affordable treatments to improve patient outcomes and quality of life
- Acting fairly in our interactions with suppliers, partners and other third parties
- Social events and fundraising for local communities and charities
- Promoting the Arecor positive culture through the engagement of our employees in our local communities

An Innovative and Inspiring Culture

At Arecor we are committed to recruiting, developing, retaining and rewarding highly motivated people who are talented, creative and focused on delivering excellence.

Our Values

Our core values are at the heart of the Arecor culture. They are part of who we are, what we stand for and how we act. For all our stakeholders – our investors, partners and staff alike – we embrace the highest ethics and morals and aim to engage in professional, open and transparent relationships which promote excellence, responsibility and integrity in the way that we act and the things that we do.

Building our talented team

Our employees are our biggest asset and we are committed to enabling them to realise their potential to develop their career with Arecor. We believe in the value of diversity and strive to be an equal opportunity employer. We have a diverse group of employees in terms of both ethnicity and gender, with over 50% of our employees and senior leadership team being female. Through our inclusive culture, we are promoting an organisation where everyone plays their part to build a culture of creativity, innovation and trust.

We believe that diverse teams achieve greater performance. We look to celebrate and support our differences, so that all our employees can contribute in their own way. Training and development opportunities are provided so that our employees can gain experience and develop their expertise through their role and contribution to Arecor's success. We want to ensure that every employee feels appreciated and is fairly rewarded.

We believe that Arecor is a great place to work and that we are building the right environment to ensure the long-term growth of the Company.

Our environment and social commitments

Our purpose is to provide affordable medicines of the future in a responsible and efficient manner. We aspire to apply sustainable management standards equal to our business ambitions and we expect the same values of those we work with as our suppliers and partners. At Arecor, we are committed to the conservation principles of reduce, reuse and recycle.

We strive to make a difference in the communities in which we operate by maintaining sound business practices, acting as a good corporate citizen and a valued employer.

Enabling our employees through trust, inclusion and reward

Fostering an inclusive culture

Encouraging diversity and inclusion is fundamental to the culture at Arecor. We aim to attract and retain highly talented people from all backgrounds.

Providing a secure and supportive working environment

We have proactively and carefully navigated our way through a global pandemic and adapted our working environment to maintain the safety and wellbeing of our staff. This has enabled them to balance their own personal work-life balance and risks in an uncertain environment.

Rewarding with competitive incentives

To motivate and reward our people, we provide competitive remuneration and benefits. Our professional development framework is designed to promote long-term career progression. Through our share option schemes, all employees can share in the Company's long-term growth and success.

Left: Bernardo Tavares, Scientist

Employee Q&A Jan Jezek, Chief Scientific Officer

What is your role at Arecor? What does it incorporate?

I am the CSO of the company. I am responsible for setting the strategy for leveraging Arecor's proprietary technology to develop therapeutic products that improve the lives of patients. This includes continuous innovation and development of the technology, making sure it nimbly adapts to the latest trends in the Pharma industry, as well as selecting suitable products for commercial development and providing scientific leadership in the development programmes.

What made you want to become a scientist?

This has always been my path. Even from a very early age, I have felt an urge to have a deeper understanding of the things around me, especially things that cannot be seen very easily. What is air made of? What happens inside my body? With this thirst for knowledge, to question and to push for answers as a child, you will eventually become a scientist who wants to explore the difficult questions more systematically and push the boundaries of science.

How did you come to work at Arecor and how has your role evolved since you first joined?
I am one of the scientific founders of the Company. Prior to setting up Arecor I was developing medical devices for wound care, and during that time I made very useful discoveries in the area of protein stabilisation. These discoveries served as a scientific foundation of Arecor and we then focused on how to translate them into products that will actually make a difference for the patients. My role quickly evolved from a purely scientific one to a much more strategic one to ensure the scientific principles are translated into useful products that can compete within the increasingly complex pharmaceutical market.

What are the main challenges you face in your role?
There are numerous scientific and technological challenges. Our technology is very robust, but we have to be very creative to apply it properly to each individual product we are developing. This requires a thorough understanding of the products themselves, the way they are used by the patients or the healthcare professionals, but also the market dynamics, reimbursement etc. We have to understand all of these things and make the right choices to succeed. Of course, there are challenges you would rather not have, for example if an instrument fails or if a pandemic affects your ability to work efficiently, but that is life and we have to accept it as it is and deal with it.

What is the best aspect of it?
The above challenges themselves and the way we approach and solve them are the most exciting and enjoyable aspects of my role. I also love the fact that we work with a really broad range of therapeutic products, including monoclonal antibodies, complex proteins, therapeutic peptides or vaccines. They all have different structures, modes of action and stability requirements. Gaining deep understanding of the products and working creatively with our excellent scientists to improve them using our technology is very rewarding.

Why do you like working at Arecor?
Firstly, I like science and exploring ways of applying it to something useful and my job allows me to do exactly that. Secondly, the products we are developing have a great potential to improve the lives of patients which is of course extremely rewarding as well. I consider myself very lucky to be in this job for these reasons.

Who are your science heroes?
It may sound like a lazy answer, but I have always admired Albert Einstein, particularly his ability and courage to think about the world around us in a completely new and different way. I also like his life philosophy, especially the notion of the importance to maintain our childhood playfulness and ability to marvel. He said “if we lose these two things our eyes become dimmed”. It may sound like a cheap quote but I think it is actually very deep. Our eyes and minds must be open to understand science and a need to test, investigate and evolve ideas and knowledge to be truly innovative, and that’s when science delivers.

What do you like to do to relax?
I do a lot of running and a good amount of cycling. I have learned how to switch off completely and focus entirely on the movement and the surroundings. It is by far the best way for me to relax.

Corporate Governance Introduction

As Chair, I assume principal responsibility for the Group's corporate governance environment and together with my fellow Board members, set clear expectations concerning the Group's culture and conduct. As a Board we monitor internal control processes to ensure that good standards of corporate governance operate throughout the Group.

As Directors we acknowledge the importance of high standards of corporate governance and the principles set out in the Corporate Governance Code for small and mid-sized companies issued by the QCA ("QCA Code"). The QCA Code has become a widely recognised benchmark for corporate governance of small and mid-sized companies, particularly AIM companies. It takes key elements of good governance and applies them in a manner which is workable for the different needs of growing companies. Accordingly, we have adopted and apply the QCA Code to the extent that is appropriate for a business of the Group's size and stage of development.

The Board comprises seven Directors including a Non-Executive Chair, two full-time Executive Directors and four Non-Executive Directors, of which three are considered to be independent.

The Directors have complementary experiences and backgrounds, different skills and knowledge. Our board composition brings together relevant experience to meet the Group's challenges and opportunities as a public company, product development expertise in the markets within which it operates and ensures that no individual (or a small group of individuals) can dominate the Board's decision making.

The Board meets regularly to review the Group's progress towards its strategic goals and to approve corporate plans and actions, budgets and financial reporting. The Board is supported by committees which fulfil specific functions and have clear terms of reference that set out defined duties and responsibilities.

The Audit & Risk Committee and Remuneration Committee meet at least three times per year and otherwise as required. Both committees are chaired by independent Non-Executive Directors.

The Nomination Committee meets at least once per year and otherwise as required.

When the need arises, separate committees may also be set up by the Board to consider specific issues.

Andrew Richards
Chair
23 April 2022

Left: Jan Jezek, Jalini Gugagayanan, Scientist

Corporate Governance Statement

The Board is responsible for the long-term success of the Group and agrees the business strategy, implementation plans and management of risk. It provides leadership and is responsible for the overall corporate governance of the Company. The Directors are responsible for ensuring that the strategy, operations, financial reporting and management of risk are underpinned by processes which promote a culture of engagement, transparency and responsibility throughout the Group.

The Board believes that good corporate governance is an integral part of the mid and long-term success of the Group. Accordingly, the Directors have adopted the QCA Code to establish the governance framework for the business of the Group and as appropriate for its size.

The following sections provide information about how such principles have been adopted and are being applied by the Group. This is also set out on our website (www.arecor.com)

Our strategy and business model

The Group is a revenue-generating, commercially focused business with the potential to derive significant future revenue from existing and future partnering opportunities. The Group's strategy is to develop an in-house portfolio of enhanced proprietary products to optimal value inflexion points prior to partnering with major healthcare companies under a revenue-generating licence model with the potential for the Group to receive royalties and significant milestone payments.

The Group also operates under a technology licensing arrangement when developing enhanced reformulations of its partners' products, with the potential for milestone and royalty payments.

The Group's proprietary product development can be divided into diabetes and specialty hospital care. In addition, the Group also develops novel enhanced formulations of its partners' biological products that include biosimilars, biological products and vaccines, which are derived from the Group's formulation development and technology licensing programmes and are referred to as Technology Partnerships.

The Board holds at least one session each year dedicated to strategy, including input from the leadership team and external advisers as appropriate.

Further details of our strategy and business model are set out in the Strategic Report.

Meeting shareholders needs and expectations

The Board is committed to open and ongoing engagement with shareholders through:

- annual report and accounts;
- interim and full-year results announcements;
- trading updates (where required or appropriate);
- the annual general meeting; and
- the Company's investor relations website (in particular, the Investor Centre "RNS News" and "AIM Rule 26" pages).

Regular meetings are held between the Chief Executive Officer, Chief Financial Officer and institutional investors and analysts to ensure that the Company's strategy, financial and business development activities are communicated effectively. The Chair is also available for discussions with shareholders as and when appropriate.

The Chief Financial Officer as Company Secretary is the primary contact for shareholders. There is a dedicated e-mail address for shareholder questions and comments.

Board members attend the Annual General Meeting ('AGM') and are available to answer questions raised by shareholders.

Stakeholder engagement and responsibilities

The Board recognises that the long-term success of the Company is reliant upon the efforts of all stakeholders.

The Arecor team is key to the business and regular meetings are held to ensure that all staff are aware of the direction of the business, key milestones and progress to date. Communication with employees includes Company-wide meetings and Meet-the-Board sessions with the Directors.

The Group draws upon a range of different resources and relationships to drive the business forward. The focus on pharmaceutical product development means working collaboratively in a matrix organisation and as part of cross functional teams.

External relationships reflect our business objective of building and maintaining a network of relationships with pharma industry partners, academia, key opinion leaders, clinicians, and regulators. These relationships are valued and underpinned by processes and systems to ensure that there is appropriate oversight and engagement.

Environmental and Social Governance

The Group recognises the importance of Environmental and Social Governance (ESG) matters. ESG thinking is at the heart of our business and the way that we operate.

Our core vision, to enhance existing therapeutic medicines to enable healthier lives, is aligned with UN SDG 3 Good Health and Wellbeing. The technologies we apply use known ingredients and simple manufacturing techniques consistent with UN SDG 12 Responsible Consumption and Production. We aim to source our materials and services locally where possible and manage our supply chain in accordance with our health, safety and environmental aims.

The Group's product strategy has a strong social focus, as our lead products are designed to improve the quality of life of people living with diabetes. We are developing rapid acting insulins to enable better control and management of the disease and facilitate the use of miniaturised insulin pumps. Our speciality hospital franchise is developing ready-to-administer and ready-to-use injectable medicines. The application of the Arestat technology to products which do not require cold chain (or ultralow temperatures) can improve access to healthcare in countries which do not have an established cold chain infrastructure. This can help to advance healthcare provision for underserved populations and geographical locations.

The Group is committed to the equal treatment of all employees and applicants regardless of their gender, marital status, sexual orientation, age, race, colour, nationality, ethnic origin, disability, or religious or philosophical beliefs. The Group's responsibilities as a company to our employees and the expectations of employees as representatives of the Company are set out in the Company Handbook. The Handbook is provided to all employees as part of their induction training. Employment policies are regularly reviewed and updated to ensure that they remain up to date and relevant. All employees are given appropriate training to enable them to fully and safely perform their roles and to develop within the organisation.

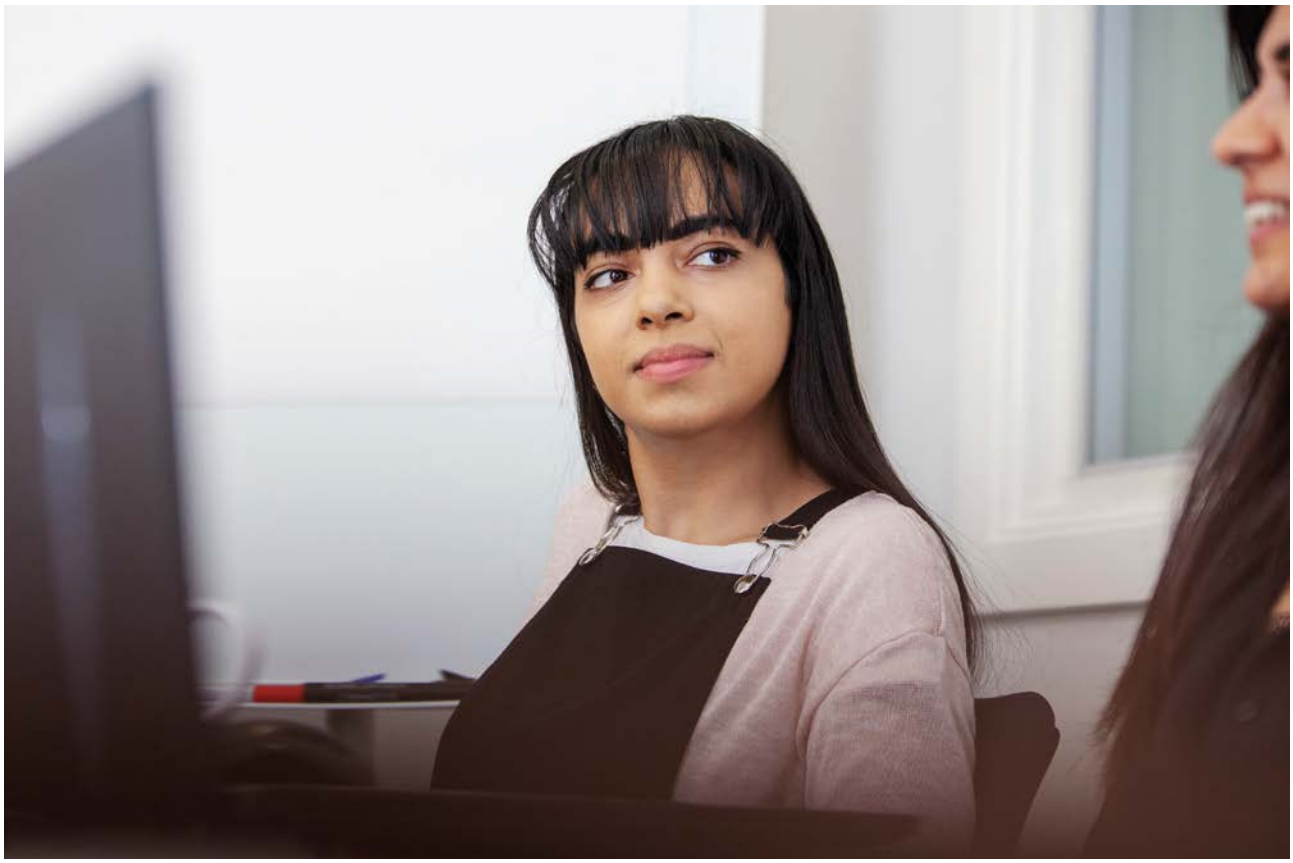
The terms of reference of our Health and Safety committee, which is run by employee representatives, include maintaining a safe and healthy working environment for employees and ensure, so far as is reasonably practicable, that the Group is fulfilling its legal responsibilities. The terms of reference of our Social Committee, which is also run by employees, includes identifying opportunities to support our local community and charities. Many of our employees work as volunteers in our local area.

About CamSAR

CamSAR is a member team of Lowland Rescue. We align with Mountain Rescue, Cave Rescue, HM Coastguard, RNLI and other Search and Rescue services of the UKSAR Operators Group to provide Cambridgeshire Constabulary with specially-trained team in the search for vulnerable missing persons where an emergency response is vital.

Barry Carter
Director of Quality at Arecor, is Chair of Cambridge Search and Rescue. (www.camsar.org).

Right: Adele Smy, Laboratory Manager



As Arecor has grown as a business, so too has our dedication to behaving responsibly and introducing more formal processes to demonstrate our commitment to managing our environmental obligation and creating a sustainable environment. We are committed to ensuring that building enhancements are ethical and sustainable.. We have a commitment to zero landfill and during a recent office refurbishment all redundant office furniture was recycled. We have carefully selected suppliers who share our commitment to recycling and zero landfill. Where possible, we prioritise the sourcing of raw materials from suppliers recycling services. Employees are part of this commitment and have suggested ideas including switching off monitors and desktops when not in use and removing under desk bins.

Effective risk management

The Board has identified principal business risks which are included in the Strategic Report on pages 34 to 41.

The Board is responsible for establishing the system of internal control used by the Group and reviewing its effectiveness. This system is intended to understand and manage risk which could potentially impact the business. The Board also monitors expenditure and information used in decision making. Established controls include:

- Monthly management accounts issued to the Board
- Detailed board reports of progress against company goals
- Annual budget and rolling forecasts reviewed and approved by the Directors
- Authority limits approved by the Board, with matters reserved for the Board including approval of significant contracts and overall project expenditure
- Ongoing review of the IP strategy including status of IP applications and grants

In addition to its other roles and responsibilities, the Audit & Risk Committee is responsible to the Board for monitoring the effectiveness of internal controls and authorities across the Group. This includes a corporate risk register which sets out risks and mitigation steps in the normal course of business.

Board of Directors

The Group is governed through its Board of Directors, comprising the Chair, Chief Executive Officer, Chief Financial Officer and four Non-Executive Directors. The names of the current Directors together with their biographical details, skills, experience and other directorships are set out on pages 44 to 45.

The current Directors served following the admission of the Company to the Alternative Investment Market (AIM), a market operated by London Stock Exchange plc, on 3rd June 2021.

All Directors are subject to election by the shareholders at the general meeting immediately following their appointment to the Board and at re-election intervals of not more than three years.

Skills and experience

The Board has been constructed to ensure that it has the right balance of skills, experience, independence and knowledge of the business. The board structure provides a breadth and depth of skills and experience to deliver the business strategy of the Group for the benefit of shareholders over the medium to long-term.

The Directors believe that the Board has an appropriate balance of sector, financial, and public markets skills and experience. Board members are kept up to date on a regular basis on key issues and developments pertaining to the Company as well as their responsibilities as members of the Board.

The Board are supported by an experienced senior management team. The Directors believe that the senior management team is appropriately structured for the Group's size and is not overly dependent upon any particular individual.

The Board will keep the corporate governance framework under review to ensure it remains appropriate for the size, stage, complexity and risk profile of the Group.

Independence

The Board believes that all Non-Executive Directors together with the Non-Executive Chair bring an independent judgement to bear. No Non-Executive Director has been an employee of the Group, has had a material relationship with the Group, receives remuneration other than Directors fees, has close family ties with any of the Group's advisers, Directors or senior employees, or holds cross-directorships. The Non-Executive Chair and one of the Non-Executive Directors has served on the Board of Directors for more than nine years and therefore do not meet the definition of independent in the Combined Code.

The Board is aware of the other commitments of its Directors and changes to these commitments must be reported to the Board. The Group has procedures in place to deal with conflicts of interest, the Directors do not participate in any vote in which they have a conflict of interest and do not contribute to discussions involving such interests.

The Group has adopted a policies and procedure for dealing in the securities of the Group, which is appropriate for a company listed on AIM. All share purchases or sales, grant or exercise of share options are approved by the Board. They are disclosed via a RNS release which is published on the Company's website.

Professional development

On appointment each Director takes part in an induction programme in which they receive information about the Group and the role of the Board including matters reserved for its decision, the terms and reference of the Board and committees. They receive guidance about the responsibilities of AIM company Directors as set out in the AIM Rules for Companies and relevant aspects of the Market Abuse Regulation legislation.

The Directors can access independent professional advice at the Group's expense when it is considered necessary in order for them to carry out their responsibilities.

Evaluation of Board Performance

Internal evaluation of the Board and individual Directors is carried out to determine effectiveness and performance of the Board and the Directors' continued independence and capacity. The criteria against which effectiveness is considered is aligned to the strategy and business plans of the Company.

This evaluation of Board performance is co-ordinated and led by the Chair. The process includes peer appraisal, completion of questionnaires and discussions. The first evaluation occurred on 28 March 2022 and it is planned that this will be undertaken on an annual basis.

Culture and values

The Board recognises that its decisions regarding strategy and risk will impact the corporate culture of the Group which in turn will impact the performance of the Company. The Board is very aware that the tone and culture set by the Board will greatly impact all aspects of the Company as a whole and the way that employees behave. The importance of sound ethical values and behaviours is crucial to the ability of the Company to successfully achieve its corporate objectives.

The Board assessment of the culture within the Company at the present time is one where there is respect for all individuals, there is open dialogue within the Company and there is a commitment to maintain relationships with key stakeholders.

The Group takes a zero-tolerance approach to bribery and corruption and is committed to acting professionally, fairly and with integrity in all business dealings and relationships wherever they occur. The Company has adopted an anti-bribery and anti-corruption policy which provides guidance to those working for the Company on how to recognise and deal with bribery and corruption issues and the potential consequences. This applies to all persons working for the Company or on its behalf in any capacity, including employees at all levels, Directors, officers, consultants and agents.

The Company has also adopted, with effect from Admission, a share dealing policy regulating trading and confidentiality of inside information for the Directors and other persons discharging managerial responsibilities (and their persons closely associated) which contains provisions appropriate for a company whose shares are admitted to trading on AIM (particularly relating to dealing during closed periods which will be in line with the Market Abuse Regulation). The Company takes all reasonable steps to ensure that Directors and any relevant employees comply with the terms of that share dealing policy.

Employees are at the heart of the Group's corporate culture. Our employees know that they can make a positive contribution to people's lives in the development of new treatments in areas of high unmet need. This is a strong motivator and drive for change, which is reflected in our core Company values of Ambition, Innovation, Creativity, Collaboration, Transparency and Integrity.

Governance structures and processes

The division of responsibilities is clearly defined. Ultimate authority for all aspects of the Company's activities rests with the Board with the respective responsibilities of the Non-Executive Chair and Chief Executive Officer as delegated by the Board.

The Chair is responsible for the effectiveness and leadership of the Board, promoting a culture of openness and debate by facilitating the effective contribution of Non-Executive Directors and ensuring constructive relations between the Executive and the Non-Executive Directors. The Chairman is also responsible for ensuring that the Directors receive accurate, timely and clear information. The primary contact with shareholders has been delegated by the Board to the Chairman.

The Chief Executive Officer is responsible for day-to-day business activities.

Non-Executive Directors are appointed not only to provide independent oversight and constructive challenge but to provide strategic advice and guidance. There is a rigorous and transparent procedure for the appointment of new Directors to the Board. The search for Board candidates will be conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the Board.

Board Committees

The Group has established Audit, Remuneration and Nomination Committees with written terms of reference for each which deal with their authorities and duties. If required, separate committees may also be set up by the Board to consider specific issues.

Audit and Risk Committee

The Audit and Risk Committee assists the Board in discharging its responsibilities of corporate governance, financial reporting, external and internal audits and controls. This includes, amongst other things, reviewing the Company's annual financial statements, reviewing and monitoring the extent of the non-audit services undertaken by external auditors, advising on the appointment of external auditors, and reviewing the effectiveness of the Company's internal controls and risk management systems. The ultimate responsibility for reviewing and approving the annual report and accounts and the half yearly reports rests with the Board.

Membership of the Audit and Risk Committee comprises Christine Soden, Jeremy Morgan and Sam Fazeli and it is chaired by Christine Soden.

The Audit and Risk Committee meet not less than three times a year and otherwise as required.

Remuneration Committee

The Remuneration Committee is responsible for executive remuneration and the remuneration packages of individual Directors. This includes agreeing with the Board the framework for remuneration of the Executive Directors and such other members of the executive management of the Company as it is designated to consider. The Committee is responsible for determining the total individual remuneration packages of each Director including, where appropriate, bonuses, incentive payments and share options. No Director is involved in any decision as to their own remuneration.

Membership of the Remuneration Committee comprises Jeremy Morgan, Alan Smith, Christine Soden and Andrew Richards, and is chaired by Jeremy Morgan.

The Remuneration Committee meet not less than three times a year and otherwise as required.

Above: Leon Zakrzewski, Team Leader

Nomination Committee

The Nomination Committee is responsible for the structure and composition of the Board and its committees taking into account the balance of skills and diversity. This includes consideration of the appointment and succession planning of Executive and Non-Executive Directors. The membership of the Nomination Committee comprises Andrew Richards, Christine Soden, Jeremy Morgan, Alan Smith and Sam Fazeli. The Committee is chaired by Andrew Richards.

The Nomination Committee meet each year and otherwise as required.

Board meetings

The Board will meet at least eight times each year or any other time deemed necessary for the good management of the business. They meet at a location agreed between the Board members. Face-to-face meetings occur where practicable.

The Executive Directors attend for part of Committee meetings at the invitation of the Chair.

The number of Board and Committee meetings attended by each of the Directors following Admission on 3 June 2021, was as follows:

	Board meeting	Audit & Risk Committee	Remuneration Committee
Andrew Richards	5	-	3
Sarah Howell	5	1	-
Susan Lowther	5	2	-
Sam Fazeli	5	2	-
Jeremy Morgan	5	2	3
Alan Smith	5	-	3
Christine Soden	5	2	3

Statement from the Committee Chair

On behalf of the Board, I am pleased to present the Remuneration Committee report for the year ended 31 December 2021. I was appointed Chair of the Remuneration Committee on 25 May 2021 and have continued the Committee's focus to ensure that remuneration is fair, retains executive level talent, is linked to performance and aligns the interests of the Executive Directors with those of shareholders.

The key matters considered by the Committee during the year and post the year end in respect of the year ended 31 December 2021 were as follows:

a) The adoption of a new Long Term Incentive Plan (LTIP)
The Company's LTIP is used to grant options to Executive Directors and senior management. The LTIP options vest after three years subject to meeting performance criteria set out in an option deed. Ordinary shares acquired on exercise of the LTIP award are subject to a holding period of a minimum of one year from the date of vesting.

b) The adoption of a new All-Employee Share Option Plan (AESOP)
This new AESOP continues the Group's philosophy of encouraging company-wide employee share ownership through the EMI scheme to align the interests of employees, who contribute to the long-term growth and success of the business, with shareholders. The AESOP allows the grant of tax efficient Enterprise Management Incentives (EMI) share options.

Awards were made under the LTIP and AESOP on Admission to AIM on 3 June 2021.

c) Base salary
The base salary for the Executive Directors was reviewed and increased upon the Company's admission to AIM. The Committee considered several factors including the current position and development of the Group, individual contribution and market salaries for comparable organisations.

d) Discretionary, performance related bonus
The Committee considers that a discretionary annual bonus is an appropriate incentive to achieve the Group's targets and objectives. Bonus awards are typically considered in the first quarter following the end of a financial year.

Following careful review of these key matters, the Committee is satisfied that the incentives and remuneration during the financial year under review were appropriate and reasonable.

Jeremy Morgan
Chair of Remuneration Committee
23 April 2022

Remuneration policy and principles

The main objectives of the Group's remuneration policy are to:

- set remuneration at a competitive level against the Group's peer group;
- enable the Group to attract and retain high-calibre employees with the requisite skill-set to support the Group's business focus and strategy;
- promote long-term sustainable success;
- reflect the principles of clarity, simplicity, risk mitigation, predictability, proportionality and alignment to culture.

The Committee applies these principles in several ways, by:

1. Reviewing the ongoing appropriateness and relevance of the remuneration policy. Including the design of all share incentive plans for approval by the Board and, where required, shareholders. Review and approve share option grants, including the amount of such awards, individual option grants for Executive Directors and senior managers, together with performance targets to be used.
2. Determining the total individual remuneration package of each Executive Director, the Company Chair and senior managers including bonuses, incentive payments and grant of share options.
3. Exercising independent judgement and discretion when determining remuneration awards, taking account of Company and individual performance, and wider circumstances.
4. Using discretion under appropriate specified circumstances to override formulaic outcomes and to recover and/or withhold sums or share awards under appropriate specified circumstances.

The Committee has authority to appoint remuneration consultants and to commission or purchase any reports, surveys or information to assess the remuneration policy and its application.

The Company Secretary acts as secretary to the Committee. The Chief Executive Officer attends Committee meetings at the invitation of the Committee.

Application of the Remuneration Policy
in Year Ended 31 December 2021

Summary

2021 was a transformational year for the Group and established a strong foundation for Arecor's continued development and growth. Achievements included the advancement of our innovative pipeline and the expansion of our blue-chip partner portfolio. Our successful IPO was a key milestone.

This performance was achieved by the commitment, dedication, and talent of the team at Arecor, led by Sarah Howell, and Susan Lowther as Executive Directors. In 2021 they guided Arecor to become a public company, with a clear business model, strategy and vision to create long-term shareholder value.

Executive Directors remuneration

No Executive Director is involved in decisions setting their remuneration.

Remuneration summary (audited)

The comparatives with the prior year and the first half of year ended 31 December 2021, are in respect of remuneration paid by Arecor Limited.

Post the Admission to AIM on 3 June 2021, remuneration was paid by Arecor Therapeutics plc.

	Salary £000	Bonus £000	Pension contributions £000	Total remuneration Year ended 31 December 2021 £000	Salary £000	Pension contributions £000	Total remuneration Year ended 31 December 2020 £000
Sarah Howell	218	111	14	343	174	7	181
Susan Lowther	189	69	12	270	174	7	181

Fixed and variable remuneration (audited)

	Fixed	%	Variable	%	Total remuneration year ended 31 December 2021	Fixed	%	Variable	%	Total remuneration paid year ended 31 December 2020
Sarah Howell	232	68%	111	32%	343	181	100%	0	0%	181
Susan Lowther	201	74%	69	26%	270	181	100%	0	0%	181

Base salary
The purpose of the base salary is to ensure that the Group can recruit and retain high-calibre executives.

Salaries are set by the Committee considering a number of factors, including market rates, benchmarking to peers, as well as the individual Director's experience, responsibilities and performance.

Salaries are paid monthly in arrears by bank transfer and are reviewed annually.

Pension
Retirement benefits are regarded as an important element of the Group's benefits package to attract and retain talent. Executive Directors receive a pension contribution of 8% of base salary as members of the Group's defined contribution pension scheme, or in agreed circumstances, a cash allowance in lieu of pension.

Performance related bonus
The purpose of the annual bonus is to incentivise the Executive Directors and senior management to deliver strategic and financial success, as well as long-term growth to the benefit of the Group and its shareholders.

Targets for the Executive Directors are set annually by the Committee. Performance criteria include clinical, commercial and financial targets of the Group, underpinned by clear and measurable objectives.

The Executive's performance against defined objectives is assessed by the Committee. All bonus payments are discretionary and decided by the Committee. The Committee retains an overriding ability to ensure that overall bonus payments reflect its view of corporate performance during the year.

The performance related bonus is capped at 100% of base salary for the Chief Executive Officer and 75% of base salary for the Chief Financial Officer. Bonuses are paid in cash, typically in the second quarter of the year, following the completion of the accounts for the year under review.

Benefits
In the year under review the benefits provided to Executive Directors included life assurance of four times annual salary.

Share option schemes
The Directors consider that employees play a key role in the Group's success, and it is therefore important that the Group can continue to recruit, retain and motivate high-calibre employees. Share incentive arrangements which give all employees the opportunity to take a financial interest in the Company are an effective way of achieving this objective.

The exercise of share options is at the ultimate discretion of the Committee and the Committee retains an overriding ability to ensure that vesting reflects its view of corporate performance of the set period. This discretion includes the ability in exceptional circumstances to adjust the targets and/or set different measures and alter weightings.

The Company currently operates LTIP and AESOP share schemes.

LTIP

The Company's LTIP is used to grant options to Executive Directors and senior management at an exercise price which shall be the nominal value of an ordinary share, unless the Committee decides otherwise.

Share options awarded under the LTIP are long term incentives. The right to exercise share options under a LTIP grant is conditional upon achieving a performance condition or conditions as determined by the Committee at the date of grant.

Share options awarded under the LTIP, vest and become exercisable on the date on which the Committee decides that the performance condition has been satisfied. This is typically based on a three-year performance period.

LTIP options will normally be exercisable until the tenth anniversary of the date of grant. Ordinary shares acquired on the exercise of an option granted under the LTIP, are subject to a holding period of one year from the date on which the option vests.

The performance condition which triggers the vesting of the 2021 LTIP is based on total shareholder return in relation to the techMARK mediscience index over a three- year period from the date of grant.

AESOP

Share option grants under the AESOP are at the discretion of the Committee. Share option grants may be EMI qualifying options or unapproved options. Share option grants under the AESOP do not have performance conditions.

Options will normally be exercisable until the tenth anniversary of the date of grant. Ordinary shares acquired on the exercise of an option granted under the AESOP are not subject to a holding period.

Non-Executive Directors remuneration

No Non-Executive Director is involved in decisions setting their remuneration.

Non-Executive Directors remuneration summary (audited)

	Fees £000	Consultancy £000	Fees paid to third parties £000	Total remuneration Year ended 31 December 2021 £000	Fees £000	Consultancy £000	Fees paid to third parties £000	Total remuneration Year ended 31 December 2020 £000
Andrew Richards	51	31		82	12	35		47
Andrew Lane*	4	31		35	9	3		12
Alan Smith	25			25	12			12
Alexander Crawford*			7	7			15	15
Sam Fazeli	25			25	12			12
Jeremy Curnock-Cook*			4	4			10	10
Christine Soden	23			23				0
Jeremy Morgan	23			23				0

*Resigned as a Director on 25 May 2021. Compensation for loss of office was not paid.

Arecor Limited paid consultancy fees to Andrew Richards and Andrew Lane up until 25 May 2021. Fees were paid to Calculus Capital Limited in respect of the services provided by Alexander Crawford. Fees were paid to Downing LLP in respect of the services provided by Jeremy Curnock-Cook.

The aim of remuneration paid to Non-Executive Directors is to ensure that the Group is able to attract and retain experienced and skilled executives who are able to advise and assist with establishing and monitoring the strategic objectives.

The remuneration of the Chair and the Non-Executive Directors is payable in cash fees. They are not eligible to participate in bonus or share incentive schemes. Their services do not qualify for pension or other benefits. Fees are paid monthly and reasonable expenses are authorised and reimbursed where appropriate.

Fees for the Chair are determined by the Remuneration Committee. Fees for other Non- Executive Directors, as well as any supplementary fee paid to Committee Chairs to reflect their additional responsibilities, are determined by the Chief Executive Officer and Chair. Fees paid reflect remuneration paid to Non-Executive Directors of comparator companies, individual time commitment and responsibilities of the role.

Non-Executive Directors who represented a shareholder on the board received a fee from the shareholder and not the Group. Monitoring fees for services provided by such Non-Executive Directors were paid to the shareholder. Post Admission, none of the Non-Executive Directors represent specific shareholders.

The Non-Executive Directors do not participate in the share option schemes.

Directors' shareholdings (audited)

Directors' interests in the shares of the Group, including family and beneficial interests between 31 December 2020 and 31 December 2021 were:

Director	Number of shares held at 31/12/2020	% of total shares in issue	Exercise share options	Conversion of loan notes	Purchase of shares	Shares received from bonus issue	Number of shares held at 31/12/2021	% of total shares in issue
Sarah Howell	102,179	3.8%	80,942			657,285	840,406	3.0%
Susan Lowther	-	-	42,195		12,515	81,805	136,515	0.5%
Andrew Richards	32,170	1.2%		11,648	12,500	160,850	217,168	0.8%
Alan Smith	28,570	1.1%		10,345		142,850	181,765	0.7%
Sam Fazeli	17,992	0.7%				89,960	107,952	0.4%
Andrew Lane*	3,356	0.1%		1,215		16,780	21,351	0.1%
Jeremy Morgan	-	-		20,503			20,503	0.1%
Christine Soden	-	-			12,500		12,500	0.0%
	184,267	**6.8%**	**123,137**	**23,208**	**58,018**	**1,149,530**	**1,538,160**	**5.5%**

*Resigned as a Director on 25 May 2021.

None of the Directors sold shares in the year.

Directors' interests in share options (audited)

Directors' interests to acquire ordinary shares in the Group, with a nominal value of £0.01 between 31 December 2020 and 31 December 2021 were:

	Option Type	Exercise price	Number of options held at 31/12/2020	Bonus issue *	Granted	Exercised	Number of options held at 31/12/2021
Sarah Howell	EMI 2018	£0.01	41,333	60,275	-	80,942	20,666
Sarah Howell	EMI 2021	£2.26	-	-	100,000	-	100,000
Sarah Howell	LTIP 2021	£0.01	-	-	240,000	-	240,000
Susan Lowther	EMI 2018	£0.01	31,000	73,195	-	42,195	62,000
Susan Lowther	EMI 2021	£2.26	-		70,000		70,000
Susan Lowther	LTIP 2021	£0.01	-	-	190,000	-	190,000
			72,333	**133,470**	**600,000**	**123,137**	**682,666**

* 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.

Gains made by Directors on exercise of share options

	Option Type	Date of exercise	Number of shares exercised	Exercise price	Market value on date of exercise	Gain on exercise of share options
Sarah Howell	EMI 2018	18/01/2021	22,389	£0.01	£6.60*	£147,544
Sarah Howell	EMI 2018	07/05/2021	6,889	£0.01	£6.60*	£45,399
Sarah Howell	EMI 2018	29/10/2021	51,664	£0.01	£4.05	£208,723
Susan Lowther	EMI 2018	18/01/2021	12,917	£0.01	£6.60*	£85,123
Susan Lowther	EMI 2018	07/05/2021	3,444	£0.01	£6.60*	£22,696
Susan Lowther	EMI 2018	29/10/2021	25,834	£0.01	£4.05	£104,369

*Share options were exercised for shares in Arecor Limited and occurred prior to the bonus issue of shares on 24 May 2021 and the admission to AIM on 3 June 2021. The market value per share on the date of exercise was considered to be the price paid to subscribe for Arecor Limited shares in 2018, the last capital raise prior to Admission. The subscription price paid, in accordance with the Investment Agreement of 4 September 2018, was £6.60 per share.

For share options exercised after the date of the AIM listing, the market value on date of exercise is the opening share price of Arecor Therapeutics plc on the date of exercise.

LTIP 2021

Options granted under the LTIP are at an exercise price of £0.01 per share. The LTIP options have a three-year term and a performance condition of total shareholder return in relation to the techMARK mediscience index over the same period.

EMI 2018

Prior to Admission, Arecor Limited operated the EMI 2018 share scheme under which Executive Directors and eligible employees were granted options at an exercise price of £0.01 with a three-year vesting period. The Directors resolved to allow such options to continue to vest in accordance with their existing vesting schedule after Admission. The options expire 10 years after the date of grant. The last grant of options under the scheme took place on 3 November 2020 and, consequently, all EMI 2018 options will have vested and become fully exercisable by 3 November 2023.

EMI 2021

A grant of EMI options under the AESOP was made on 3 June 2021 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. The EMI 2021 share options do not have performance conditions. The options expire 10 years after the date of grant.

Jeremy Morgan
Chair of Remuneration Committee
23 April 2022

Statement from the Committee Chair

I am pleased to present this Audit & Risk Committee (the 'Committee') report covering the financial year ended 31 December 2021. This is my first report, following my appointment as Chair of the Committee on 25 May 2021.

2021 was the year in which Arecor became a public company, following the Admission to AIM on 3 June 2021. This transition from a private company to life as a plc was a primary focus for the Committee, particularly in the period post Admission to the end of the financial year.

This report includes activities of Arecor Limited for the financial year and Arecor Therapeutics plc for the period following the Admission to AIM. It includes references to the Group and Company respectively.

Key matters considered in the year

The Committee has a planned schedule of meetings in line with the Company's financial reporting calendar. The key matters which we have considered this year as a committee include:

- The resignation of Lakin Rose as the statutory auditor to Arecor Limited
- Approval that non-audit services, including payroll services, would continue to be provided by Lakin Rose
- The appointment of Grant Thornton as the Group's external auditor
- Audit planning and process for the interim results to 30 June 2021
- Audit planning and process for the financial audit for the year ended 3 December 2021
  - Meeting with Grant Thornton to discuss audit scope and approval of the proposed audit plan and fees
  - Review of share-based payment charges, including Black Scholes and Monte Carlo modelling
  - Review of the going concern analysis
- Assessing the overall risk management framework used by the Group
  - Reviewing the Corporate risk register
- Review of the financial authorities for the Group, including approving the authorisation levels and limits for operating and capital expenditure
- Review of matters reserved for the Board
- Review of the treasury management policy and processes

- Review and approval of updates to the following corporate policies and procedures:
  - Whistleblowing
  - Anti-Bribery
  - Share Dealing Code
  - Publicity policy
  - Use of social media
- Review of the grant audit process which forms part of the Company's quarterly submissions to Innovate UK in respect of the £2.8m grant awarded in March 2021

Role and key responsibilities

Our role and primary responsibility as Committee members is to assist the Board by providing appropriate oversight of the Group's financial reporting, internal controls and risk framework.

Our key responsibilities include:

- Monitor the integrity of the Group's financial reporting and financial statements
- Review the appropriateness and the application of accounting policies, estimates and judgements
- Oversee the Company's processes, procedures and systems that identify, assess, manage and monitor business risk
- Assess the Company's internal control environment including the requirement for an internal audit function
- Ensure the adequacy and security of the Company's whistleblowing arrangements, procedures for detecting fraud and the prevention of bribery
- The relationship with the external auditor. Consider and make recommendations to the Board, in relation to the appointment, re-appointment and removal of the Company's external auditor and the provision of non-audit services

The Committee's terms of reference are available on the Company's website.

Assessing the risk and control framework

A key role of the Committee is to monitor the effectiveness of the internal control environment.

In the year we monitored the effectiveness of the Group's internal controls and considered the need for an internal audit function. The Committee decided that the internal controls and risk management framework are appropriate for the relative size and complexity of the Group's activities on a single site. This was discussed with the Board and it was agreed that the requirement for an internal audit function will be periodically reviewed.

External auditors

The Committee has reviewed the auditor's performance and independence including feedback from management and finance teams. We are content that Grant Thornton are independent. Audit fees were assessed to ensure that they were in line with market rates and reflect performance.

The Committee has also monitored the nature and level of any non-audit services provided. Any non-audit services undertaken are approved by the Committee.

Grant Thornton UK LLP were appointed as the Group's auditors on 27 August 2021.

Christine Soden
Chair of Audit & Risk Committee
23 April 2022

Directors' Report

The Directors present their report and the financial statements and independent auditor's report for the Group and Parent Company for the year ended 31 December 2021.

The Corporate Governance statement on pages 54 to 61 and the governance section on pages 42 to 75 form part of this report.

Directors

The Directors who were appointed to the Company, were in office during the year and up to the date of signing the financial statements, unless stated, were:

Executive

Sarah Howell
(appointed on 13 April 2021)

Susan Lowther
(appointed on 13 April 2021)

Non-Executive

Andrew Richards
(appointed on 13 April 2021)

Sam Fazeli
(appointed on 13 April 2021)

Alan Smith
(appointed on 13 April 2021)

Christine Soden
(appointed on 25 May 2021)

Jeremy Morgan
(appointed on 25 May 2021)

Andrew Lane
(appointed on 13 April 2021 and resigned on 25 May 2021)

Jeremy Curnock Cook
(appointed on 13 April 2021 and resigned on 25 May 2021)

Alexander Crawford
(Appointed on 13 April 2021 and resigned on 25 May 2021)

Directors' biographies are set out on pages 44 to 45.

No Director had an interest in any contract that was significant to the Group's business during the year.

The Company maintained Directors and Officers liability insurance cover throughout the year.

Principal activities

Details of the Group's current and future trading together with the principal risks and uncertainties are included in the Strategic Report on pages 2 to 41.

Business review

The Strategic Report on pages 2 to 41 is a review of the business and the Group's trading for the year ended 31 December 2021. It also sets out key performance indicators and an outlook of future development and risks. The Strategic Report is part of this Directors' Report.

Financial results and dividend

The Group's loss after tax for the year was £6.2 million (2020: loss £2.8 million). The Directors do not recommend the payment of a dividend (2020: £nil).

Financial instruments
Information regarding financial instruments can be found in note 21 of the Consolidated Financial Statements.

Directors' remuneration and interests
Details of the Directors' remuneration and interests in the share capital of the Group are included in the Directors' Remuneration report on pages 62 to 69.

Research and development
The Group continues to invest in research and development with expenditure of £5.4 million (2020: £3.9 million) in the year. Further details are set out in the Strategic Report.

Donations
No charitable or political donations were made in the year (2020: £nil).

Information provided to the Independent Auditor
The Directors at the date of approval of this Annual Report confirm that:

- So far as each Director is aware, there is no relevant audit information of which the Group's Independent Auditor is unaware, and
- Each Director has taken all steps that they ought to have taken as a Director, to make themselves aware of any relevant audit information and to establish that the Independent Auditor is aware of such information.

Strategic report
The Company has chosen in accordance with the Companies Act 2006, section 414C (11) to set out in the Company's Strategic Report on pages 2 to 41, information required to be contained in the Directors' Report by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, Sch. 7, where not already disclosed in the Directors' Report.

Post balance sheet events
Page 119 and note 28 of the Consolidated Financial Statements refer to any significant events after the reporting date.

Independent Auditor
Grant Thornton UK LLP was appointed as Independent Auditor on 27 August 2021. Grant Thornton UK LLP have expressed their willingness to continue in office as Independent Auditor. An ordinary resolution to reappoint Grant Thornton UK LLP and to authorise the Directors to agree the audit fee will be proposed at the forthcoming Annual General Meeting ('AGM').

AGM notice
The AGM of the Company will be held on 23 May 2022. The notice convening the AGM which will confirm details of the AGM format, together with an explanation of the resolutions to be proposed at the meeting, is included in the Notice of Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board.

Sarah Howell
Chief Executive Officer
23 April 2022

Arecor Therapeutics plc
Chesterford Research Park
Little Chesterford
CB10 1XL
Company registration number: 13331147

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Director's have to prepare the Group financial statements in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006 and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice and applicable law including FRS101 "Reduced Disclosure Framework".

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and the profit and loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and accounting estimates that are reasonable and prudent
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- The financial statements, have been prepared in accordance with the applicable set of accounting standards, to give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group undertakings included in the consolidated financial statements
- The Strategic Report and Directors' Report include a fair review of the development and performance of the business, the position of the Company and the undertakings included in the consolidation as a whole, together with a description of the principle risks and uncertainties that they face

We consider the Annual report and Accounts for the year ended 31 December 2021, to be fair, balanced and provide information for shareholders to assess the Group's position and performance, business model and strategy.

Sarah Howell
Chief Executive Officer
23 April 2022

Susan Lowther
Chief Financial Officer and Company Secretary
23 April 2022

Group Consolidated Financial Statements

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Steven Lane, Marie Clayton
Financial Controller and Finance Manager

Independent auditor's report to the members of Arecor Therapeutics plc

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Arecor Therapeutics plc (the 'parent company') and its subsidiary (the 'Group') for the year ended 31 December 2021, which comprise the Consolidated Income Statement, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements of Changes in Equity, the Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK-adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosures Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

Our evaluation of the directors' assessment of the Group's and the parent company's ability to continue to adopt the going concern basis of accounting included:

- discussions with management of their assessment of the Group's ability to continue as going concern;
- assessing the reasonableness of projected cashflow and working capital assumptions and critically evaluating the revenue and cost projections underlying the cashflow model;
- assessing how these cash flow forecasts were compiled, assessing their appropriateness by applying relevant sensitivities to the underlying assumptions, and challenging those assumptions including revenue growth assumptions;
- obtaining management's sensitised forecast's showing reduced growth and evaluating management's assumptions regarding the impact of this;
- considering whether the assumptions are consistent with our understanding of the business derived from other detailed audit work undertaken; and
- assessing the adequacy of related disclosures within the annual report.

In our evaluation of the directors' conclusions, we considered the inherent risks associated with the Group's and the parent company's business model including effects arising from macro-economic uncertainties such as Brexit and Covid-19, we assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the Group's and the parent company's financial resources or ability to continue operations over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

The responsibilities of the directors with respect to going concern are described in the 'Responsibilities of directors for the financial statements' section of this report.

Our approach to the audit

Overview of our audit approach

Overall materiality:
Group: £116,000, which represents 1.5% of the Group's adjusted total expenditure, being total expenditure less one-off costs.

Parent company: £87,000, which represents 1% of the parent company's total assets, capped at 75% of Group materiality.

The audit matter was identified as:
- Contract revenue.

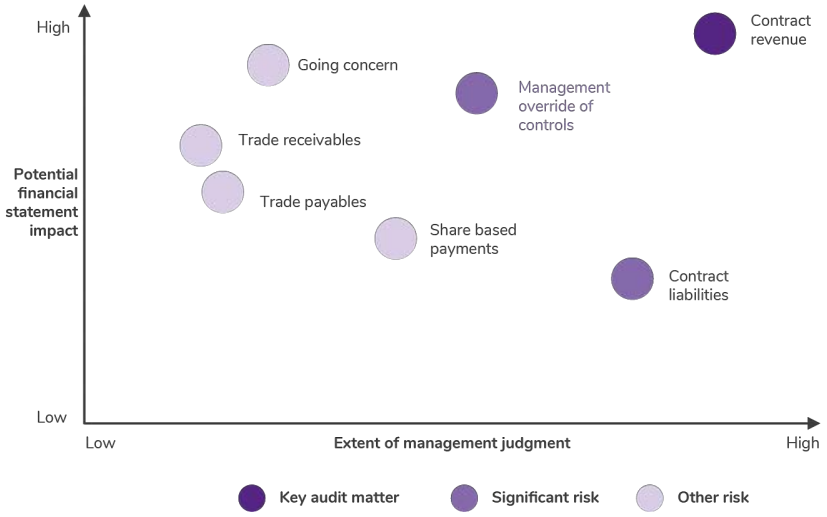
This is the first year of audit for the Group and the parent company. The Group was formed in the current year following the incorporation of Arecor Therapeutics plc and its acquisition of the entire issued share capital and loan notes in Arecor Limited.

We performed an audit of the financial information of the parent company, Arecor Therapeutics plc and its subsidiary Arecor Limited, using component materiality (full-scope audit).

Key audit matters

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

In the graph below, we have presented the key audit matters, significant risks and other risks relevant to the audit.



Key Audit Matter – Group	How our scope addressed the matter – Group
Contract revenue We identified contract revenue as one of the most significant assessed risks of material misstatement due to fraud. Under ISA (UK) 240 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements', there is a rebuttable presumption that there are risks of fraud in revenue recognition. We have not rebutted this presumed risk for contract revenue. Included in reported revenue of £1,158,000, £1,014,000 arises from contract revenue and £144,000 from grants. Contract revenues are recognised both over time for formulation development, and at a point in time for license agreements. For agreements that combine the grant of a license and provision of services the consideration is allocated between the two elements based on identifiable elements of the separate performance obligations. 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, which are then released in line with the work performed. There is judgement involved in the timing and amount of revenue recognised and a risk that revenue may be overstated due to contract performance obligations not being fully met or due to the incorrect application of International Financial Reporting Standard (IFRS) 15 'Revenue from Contracts with Customers'.	In responding to the key audit matter, we performed the following audit procedures: • Obtained an understanding of management's accounting policies and checked the accounting policies for compliance with IFRS 15; • Performed detailed testing on material revenue contracts by agreeing revenue to timetables, contracts and other supporting documentation to verify the occurrence of revenue; • Corroborated management's explanations setting out the revenue recognised on significant contracts and the application of IFRS 15 to clauses within the contracts and recognition against performance obligations; • For contracts in progress at the year end, corroborated the stage of completion to ensure consistency with revenue recognised in the year and recalculated to check that the balance was correctly accrued or deferred; and • Obtained a list of projects and corroborated to contracts to check completeness of revenue.
Relevant disclosures in the Annual Report and Accounts 2021 Financial statements: Note 5, Revenue and operating segments.	**Our results** Based on our audit work, we did not identify any material misstatements of contract revenue or any instance where contract revenue was not recognised in accordance with the stated accounting policies.

We did not identify any key audit matters relating to the audit of the financial statements of the parent company.

Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

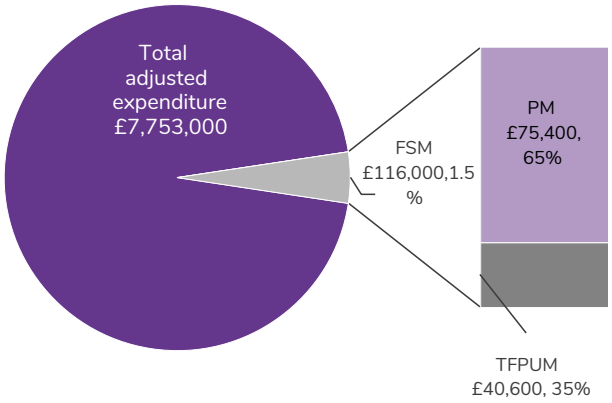
Materiality was determined as follows:

Materiality measure	Group	Parent company
Materiality for financial statements as a whole	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.	
Materiality threshold	£116,000, which is 1.5% of the Group's adjusted total expenditure, being total expenditure less one-off costs.	£87,000, which is 1% of the parent company's total assets, restricted to 75% of Group materiality.
Significant judgements made by auditor in determining the materiality	In determining materiality, we made the following significant judgements: • Arecor Therapeutics plc was listed on AIM during the year and incurred significant one-off costs associated with the IPO. Materiality has been set based on total expenses excluding these one-off costs to reflect the normal course of business and not exceptional costs during the period. The one-off costs that were excluded were finance costs of £485,000 and administrative expenses of £462,000. • The Group is loss making so it was determined by the audit team that a revenue or profit measure would not be appropriate. A balance sheet measure is not appropriate for a trading business. Total expenses less one-off IPO costs is deemed to reflect the financial position most appropriately. • This is the first year of audit of the Group and so the first year that materiality has been determined.	In determining materiality, we made the following significant judgements: • The parent is a non-trading entity. We calculated materiality using total assets as at 31 December 2021 as the benchmark and capped materiality to 75% of the Group materiality in order to address aggregation risk in the consolidated financial statements. • Total assets is considered the most appropriate benchmark because the entity is a non-trading holding company. • The company was formed during the financial year and therefore does not have a comparative materiality.
Performance materiality used to drive the extent of our testing	We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.	

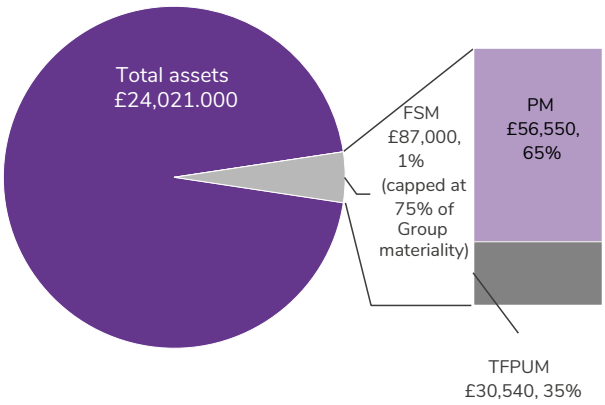
Performance materiality threshold	£75,400, which is 65% of financial statement materiality.	£56,550, which is 65% of financial statement materiality.
Significant judgements made by auditor in determining the performance materiality	We used 65% as a threshold as it is our first year as appointed auditors and this was the first period in which the group was listed. This threshold was deemed appropriate.	We used 65% as a threshold as it is our first year as appointed auditors and this was the first period in which the group was listed. This threshold was deemed appropriate.
Materiality measure	**Group**	**Parent company**
	to ensure testing was undertaken to sufficient detail.	to ensure testing was undertaken to sufficient detail.
Specific materiality	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.	
Specific materiality	We determined a lower level of specific materiality for the following areas: • Directors' remuneration; and • Related party transactions.	We determined a lower level of specific materiality for the following areas: • Directors' remuneration; and • Related party transactions.
Communication of misstatements to the audit committee	We determine a threshold for reporting unadjusted differences to the Audit and Risk Committee.	
Threshold for communication	£5,800 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£4,350 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality – Group



Overall materiality – Parent company



FSM: Financial statements materiality, PM: Performance materiality, TFPUM: Tolerance for potential uncorrected misstatements.

An overview of the scope of our audit

We performed a risk-based audit that requires an understanding of the Group's and the parent company's business and in particular matters related to:

Understanding the group, its components, and their environments, including group-wide controls

- We obtained an understanding of the Group and its environment, including Group-wide controls, and assessed the risks of material misstatement at the Group level;
- The Group financial reporting system is centralised, and the staff that work on all Group companies are the same, and report to the same individuals in the organisation;
- In assessing the risk of material misstatement of the Group financial statements, we considered the transactions undertaken by each component and therefore where the focus of our work was required; and
- We have tailored our audit response accordingly with all audit work undertaken by the Group engagement team.

Identifying significant components

- We considered the size and risk profile of each component, any changes in business and other factors when determining the level of work to be performed on the financial information of each component. Financial significance of each component was determined based on the percentage of the Group's total assets and total expenditure.

Type of work to be performed on financial information of parent and other components (including how it addressed the key audit matters)

- Audits of financial information of the component using component materiality ("full-scope audits") were performed on the financial information of both Arecor Therapeutics plc (the parent company) and Arecor Limited (the only subsidiary entity in the Group).
- The key audit matter of contract revenue was only present within the subsidiary company Arecor Limited. The parent company is non-trading and does not have any revenue nor contract liabilities.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

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

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

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors for the financial statements

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are most applicable to the Group and the parent company and determined that the most significant are those that relate to the operational environment, the financial reporting framework (being the Companies Act 2006, UK-adopted international accounting standards (for the Group) and FRS 101 (for the parent company)), and relevant data protection, health and safety, and patent laws.
- We obtained an understanding of how the Group is complying with legal and regulatory frameworks by making enquiries of management, and corroborated our enquiries through our review of board minutes.
- We enquired of management about the Group's policies and procedures relating to the identification, evaluation and compliance with laws and regulations and the detection and response to the risks of fraud and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of management and the Audit and Risk Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to areas of increased management judgements and estimates, which could be impacted by management bias, as well as the risk of fraudulent journal entries that increase revenue. Audit procedures included:
  - journal entry testing, including manual journal entries and journals with unusual account combinations;
  - challenging the assumptions and judgements made by management in its significant accounting estimates; and
  - recalculating revenue recognised under IFRS 15 as set out in the key audit matters section of our report.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it;
- The engagement partner assessed that the engagement team collectively had the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.
- We communicated relevant laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Use of our report

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

Andrew Hodgekins
Senior Statutory Auditor for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge
23 April 2022

Consolidated income statement

for the year ended 31 December 2021

	Note	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.

The accompanying accounting policies and notes on pages 91 to 119 form an integral part of these financial statements.

Consolidated statement of financial position

At 31 December 2021

	Note	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 £000	Share premium £000	Other reserves £000	Share-based payments reserve £000	Retained losses £000	Total equity £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**

The accompanying accounting policies and notes on pages 91 to 119 form an integral part of these financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2021

	Note	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 by / (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

The accompanying accounting policies and notes on pages 91 to 119 form an integral part of these financial statements.

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 accounting

The consolidated financial statements have been prepared in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006. The Directors have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice and applicable law including FRS101 "Reduced Disclosure Framework".

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 out below. They have been consistently applied to the period presented, unless otherwise stated. The consolidated financial statements are presented in Great British pound sterling.

Management are of the opinion that the Historical Financial Information accounts prepared as part of the Admission Document for listing on the London AIM market represents the first filed IFRS accounts for Arecor Therapeutics plc. As such there is no requirement to include an IFRS transition note as described under IFRS1.

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 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**	-
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 £000	31 December 2020 £000
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 key 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
Company contributions to money purchase pension schemes	**402**	136
	745	317

Full details of Director's remuneration can be found in the remuneration report on pages 62-69.

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

Number of shares	2021 Number	2020 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 £000	Right of use assets - office lease £000	Right of use assets - other equipment £000	Other equipment £000	Total £000
Cost					
At 31 December 2019	75	277	158	831	1,183
Additions	-	141	48	100	241
Disposals	-	-	-	(20)	(20)
At 31 December 2020	**75**	**418**	**206**	**911**	**1,404**
Additions	4	-	46	111	115
Disposals	-	-	-	(8)	(8)
At 31 December 2021	**79**	**418**	**252**	**1,014**	**1,511**
Depreciation					
At 31 December 2019	51	169	128	669	889
Charge for the year	15	63	17	81	159
Disposals	-	-	-	(20)	(20)
At 31 December 2020	**66**	**232**	**145**	**730**	**1,028**
Charge for the year	6	62	33	95	163
Disposals	-	-	-	(8)	(8)
At 31 December 2021	**72**	**294**	**178**	**817**	**1,183**
Net book value					
At 31 December 2020	9	186	61	181	376
At 31 December 2021	**7**	**124**	**74**	**197**	**328**

16. Trade and other receivables

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

	31 December 2021 £000	31 December 2020 £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 £000	Cash received £000	Legal fee paid £000	New leases £000	Interest accrued / fair value movement £000	Repaid in cash £000	Converted to Equity £000	At 31 December 2021 £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 £000	Cash received £000	Legal fee paid £000	New leases £000	Interest accrued / fair value movement £000	Repaid in cash £000	At 31 December 2021 £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 £000	Within 2 months £000	Within 2 to 6 months £000	Within 6 – 12 months £000	Within 1 to 2 years £000	Within 2 to 5 years £000
At 31 December 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 £000	Within 2 months £000	Within 2 to 6 months £000	Within 6 – 12 months £000	Within 1 to 2 years £000	Within 2 to 5 years £000
At 31 December 2021						
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 £000	31 December 2020 £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 Number	31 December 2021 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 2021 Number	31 December 2021 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	27.2	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 £24,784,999. 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	0.27% pa	£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

These shares are included in the values disclosed in the Remuneration Report on page 62.

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.

Company Financial Statements

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Steven Lane and Amy Broad
Financial Controller and Finance & Purchasing Assistant

Company statement of financial position

for the period ended 31 December 2021

Assets	Note	31 December 2021 £000
Non-current assets		
Investment in subsidiary	3	5,562
Intercompany loan receivable	4	7,580
Total non-current assets		**13,142**
Current assets		
Trade and other receivables	5	76
Intercompany receivables	5	327
Cash and cash equivalents	6	10,476
Total current assets		**10,879**
Current liabilities		
Trade and other payables	7	(98)
Total current liabilities		**(98)**
Net Assets		**23,923**
Equity attributable to equity holders of the Company		
Share capital	8	278
Share premium account	8	23,348
Share-based payments reserve	8	519
Other reserves	8	(167)
Retained loss	8	(55)
Total equity attributable to equity holders of the Company		**23,923**

The Company was incorporated 13 April 2021. As such, there are no comparative figures. The Company's loss for the period was £203,000.

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

Company statement of changes in equity

for the period ended 31 December 2021

	Share capital £000	Share premium £000	Share-based payments reserve £000	Other reserves £000	Retained losses £000	Total equity £000
At incorporation 13 April 2021	-	-	-	-	-	-
Comprehensive income for the period						
Profit / (loss) for the period	-	-	-	-	(203)	(203)
Transactions with owners						
Share for share exchange with Arecor Limited	167	-	-	(167)	-	-
Cancellation of shares	(-)	-	-	-	-	(-)
Issue of shares on listing	110	24,785	-	-	-	24,895
Share issue expense	-	(1,437)	-	-	-	(1,437)
Share based compensation	-	-	667	-	-	667
Issue of shares	1	-	-	-	-	1
Reserve transfer on exercise of share options	-	-	(148)	-	148	-
Total transactions with owners	278	23,348	519	(167)	148	24,126
Equity as at 31 December 2021	**278**	**23,348**	**519**	**(167)**	**(545)**	**23,923**

The accompanying accounting policies and notes on pages 124 to 128 form an integral part of these financial statements.

Notes for the company financial statements

Company 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.

1. Significant accounting policies

Basis of preparation

The financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with the Companies Act 2006.

The financial statements have been prepared on a historical cost basis. The Company continues to adopt the going concern basis of accounting in preparing these financial statements.

In preparing the financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards, but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions have been taken. In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A cash flow statement and related notes
- Comparative period reconciliations for share capital
- Disclosures in respect of transactions with wholly owned subsidiaries
- Disclosures in respect of capital management
- The effects of new, but not yet effective, IFRSs
- An additional balance sheet for the beginning of the earliest comparative period following the
- Retrospective change in accounting policy
- Disclosures in respect of the compensation of Key Management Personnel
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7

Financial Instrument Disclosures on the basis that the consolidated financial statements include the equivalent disclosures.

As the consolidated financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of IFRS 2 Share-Based Payment in respect of Group settled share-based payments. The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements. Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

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 currencies

Transactions in foreign currencies are recorded in the Company's functional currency, pounds sterling, 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.

Profit and loss account

Amounts paid to the Company's auditor and their associates in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis. The Company does not have any employees.

Investments

Balances are stated at cost less any provisions for any permanent impairment in value. Investments are considered for any potential impairment as laid out under IAS36, Impairment of Assets. The Company acquired the full share capital of Arecor Limited by means of a share for share swap at par on 24 May 2021. At the time of acquisition, the net assets of the subsidiary were negative. Therefore, the initial carrying amount was deemed to be nil with the difference between this amount and the share capital value being recorded in equity in the "other reserve". On the same date, the company took on the Convertible loan note liability from Arecor Limited. This has been treated a capital contribution.

Share option charges

The Group operates an equity-settled share-based payment scheme. 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.

Where options in Arecor Therapeutics plc are issued to employees of subsidiary companies, the expense incurred is considered as a further investment in the subsidiary by the parent and a capital contribution by the subsidiary.

2. Critical accounting judgements and sources of estimation uncertainty

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 evaluated, including historical experience and expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

Recoverability of investments

Interests in subsidiaries are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. Estimates are used in determining the level of investment that will not, in the opinion of the Directors be recoverable. At the reporting date, the Directors do not consider there to be any impairment on the investments in its subsidiaries and that any loans to subsidiary undertakings will be repaid in full.

3. Investments

	Investment in subsidiary undertakings £000
At 13 April 2021	-
Investment in Arecor Limited	4,895
Share based compensation to Arecor Limited employees	667
Balance at 31 December 2021	**5,562**

Name	Country of Incorporation	% of shareholding	Nature of Business	Direct or Indirect holding
Arecor Limited Chesterford Research Park, Little Chesterford, CB10 1XL	England and Wales	100%	Research and experimental development of biotechnology	Direct

4. Intercompany Loan receivable

	31 December 2021 £000
Loan receivable from Arecor Limited	7,580
	7,580

5. Trade and other receivables

	31 December 2021 £000
Intercompany receivables	327
Other receivables	76
	403

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.

6. Cash and cash equivalents

	31 December 2021 £
Cash at bank	10,476
	10,476

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

7. Trade and other payables

	31 December 2021 £
Current	
Trade payables	38
Accruals	60
	98

8. Share capital

	31 December 2021 Number	31 December 2021 £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**

The following shares were issued in the periods presented:

	Number	Share Capital £000	Share Premium £000
At incorporation 13 April 2021	1	-	-
Allotments			
One to one share swap with Arecor Limited ordinary shares at par	16,668,066	167	-
Conversion of loan notes	2,165,908	21	4,873
Issue of ordinary share of £0.01 during listing	8,849,558	88	19,912
Costs associated with issue of ordinary shares during listing	-	-	(1,437)
Issue of ordinary shares	151,492	2	-
Cancellations			-
Ordinary shares of £0.01	(1)	(-)	-
At 31 December 2021	**27,835,024**	**278**	**23,348**

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
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 £24,754,332. Registration and other regulatory fees incurred as a result of these transactions amounted to £1,436,778.

Other reserves

Upon acquiring the full share capital in Arecor Limited, the net assets of the subsidiary were negative. The investment value in the company was therefore considered to be the liability of the Convertible loan notes. The issue of share capital for the share for share swap was posted to Other reserves.

9. Financial commitments

There were no significant financial commitments at the reporting date.

10. Share capital and reserves

The movements on share capital and share premium accounts are disclosed in note 21 to the consolidated financial statements.

11. Related party transactions

The Company has taken advantage of the exemption included in FRS101, "Related Party Disclosures" for wholly owned subsidiaries not to disclose transactions with entities that are part of the Group qualifying related parties.

Corporate Information

Directors
Andrew Richards
(Non-Executive Chair)

Sarah Howell
(Chief Executive Officer)

Susan Lowther
(Chief Financial Officer)

Sam Fazeli
(Non-Executive Director)

Jeremy Morgan
(Non-Executive Director)

Alan Smith
(Non-Executive Director)

Christine Soden
(Non-Executive Director)

Company Secretary
Susan Lowther

Company registration number
13331147

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