Arecor

Advancing today's therapies to enable healthier lives

Arecor Therapeutics plc
Annual Report and Accounts for the year ended 31 December 2023

Company registration number 13331147

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

Financial highlights

£5.7m

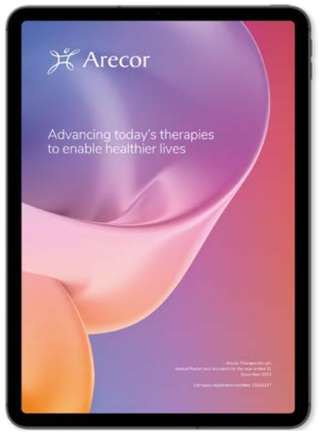
Total Income

£4.6m

Total revenue

£8.6m

Loss after tax for the year



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Who We Are

Transforming patient care by bringing innovative medicines to market

Best-in-Class Proprietary Products

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

Clinical stage diabetes products AT278 & AT247:

- Novel formulations of existing insulins, enabled by Arestat™
- Best-in-class product profiles demonstrated in clinical studies versus current best marketed insulins
- AT278, 'disruptor insulin', the first ultra-concentrated rapid acting mealtime insulin. Has the potential to improve outcomes for the growing number of people with diabetes who require high doses of daily insulin to control their blood glucose
- AT278 'disruptor insulin' enables next generation miniaturised insulin delivery systems
- 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

Specialty hospital Products

Portfolio of ready-to-use and ready-to-administer products to enable, fast, safe and effective treatment options for patients and caregivers within the hospital setting

- Arecor programme licensed to Hikma Pharmaceuticals who are continuing its development under the FDA's abbreviated 505(b)(2) pathway
- Portfolio of in-house R&D programmes offering future licensing upside potential

Licensing and partnering with leading healthcare companies

- Developing Arestat™ enhanced versions of both our in-house proprietary and our partners' therapeutic medicines, gaining product benefits which would otherwise be unachievable
- Three licensed programmes, under milestone and royalty-based agreements or equivalent
- First partnered product incorporating Arestat™ technology launched in late 2023 triggering a milestone payment and now generating royalties in a multi-billion $ market segment
- Revenue generating technology licensing model
- Portfolio of pre-license technology partnerships with significant future license upside potential, with six new agreements signed in 2023 and earlier this year

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
- Tetris Pharma sales, marketing and distribution platform focused on injectable specialty products across the UK and Europe, including key commercial diabetes product Ogluo®, a ready-to-use glucagon auto-injector pen to treat severe hypoglycaemia
- Future significant milestone and royalty licensing upside potential from technology partnerships and licensing of proprietary diabetes and specialty hospital products

Underpinned by Arestat™ proprietary formulation technology platform

- Enhances properties of existing therapeutic medicines
- Improves performance, patients' outcomes and quality of life
- Extensive IP protection with >90 granted patents in US, Europe and key territories
- Strength and value of technology validated by licensing deals and blue-chip pharma collaborations

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

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

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

"The past year has been one of continued growth and value creation for the Group, with excellent commercial performance and increased revenue generation."

Core to our strategy is forging strong, win:win collaborations and partnerships with companies that value the product differentiation that our technology can provide. We put considerable efforts into building and maintaining these long-term relationships, the returns from which are being rewarded. We finished the year with the first product launch, in Europe, by a partner incorporating Arecor's Arestat™ technology – a clear demonstration of our strategy at work and an authorised validation and regulatory acceptance of our platform.

We believe that through collaboration, the success of our partners becomes our success, and Sanofi's intention to acquire Inhibrx's INBRX-101 exemplifies this, as the Arecor technology licensed to Inhibrx will enter Sanofi's clinical pipeline. With multiple collaborations ongoing, we expect to see many partnered launches in the coming years.

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

Our diabetes franchise is advancing successfully through the clinical pathway and we continue to build relationships with key therapeutic and device players in the diabetes ecosystem. The medical need for improved therapies remains high, as evidenced by the devastating impact that diabetes has on our health and the heavy disease management burden globally. It remains at pandemic levels with shifting demographics and lifestyles, and the clinical trends towards better monitoring and tighter glucose control, creating a demand for insulins that are faster acting – a key characteristic of our clinical insulin candidates. These proprietary products have the potential to transform the treatment paradigm, offering solutions to significant challenges and the potential to facilitate revolutionary delivery systems, including smaller, automated devices for people requiring higher, more frequent doses and ultimately the artificial pancreas. With further clinical data due in H1 2024 from our ultra-concentrated, ultra-rapid candidate, AT278, we will have a further opportunity to showcase the promise of a next-generation diabetes therapy, enhanced for the benefit of patients.

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

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

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

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

Andrew Richards
Non-Executive Chair
15 May 2024

Building long-term value through commercial partnerships

Our business model targets significant returns from successful drug development, de-risked through the reformulation of existing medicines using our Arestat™ technology and through our growing commercial platform.

We have a balanced pipeline consisting of revenue-generating partnered programmes coupled with our in-house best-in-class proprietary products, which bring significant upside potential from licensing at the optimal time.

We have a proven track record of commercial partnerships with pharmaceutical companies and are generating product revenues through Tetris Pharma and the UK/EU sales of Ogluo®.

Best-in-class proprietary products

We are developing best-in-class products to transform patients' lives.

We are progressing the development to optimal value inflexion points and will seek strategic partners, to bring these important products to patients and to the market.

World-class Arestat™ platform

We apply Arestat™, our innovative and proprietary formulation technology platform, to develop superior therapeutic products that can transform patients' lives.

We partner using a licensing model to generate milestone payments and royalties, driving long term value for our shareholders.

Tetris Pharma

Our sales, marketing and distribution team generates revenue from the sales of pharmaceutical products.

We are focused on sales growth and building market share for our licensed Ogluo® product.

Successful delivery of strategy

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

Highlights (including post-period events)

Commercial

Total Income of £5.7 million (2022: £3.7 million)

- Total Group revenue of £4.6 million (2022: £2.4 million), 90% year-on-year growth
- Tetris Pharma product sales of £2.9 million (2022: £1.1 million) with a focus on commercial roll-out of Ogluo®
- Cash, and short-term investments of £6.8 million, ahead of market expectations

Diabetes

- Enrolment completed in second Phase I trial of ultra-concentrated, ultra-rapid acting AT278 with results expected H1 2024
- Phase I trial data for ultra-rapid acting AT247 delivered via insulin pump presented at ADA 83rd Scientific Sessions
- Research collaboration established with TRx Biosciences for the formulation development of an oral glucagon-like peptide-1 (GLP-1) receptor agonist product
- Research collaboration established with Medtronic to develop a novel, high concentration, thermostable insulin for use by Medtronic's Diabetes business in a next-generation implantable pump

Licensed programmes

Milestones and first royalties triggered

- Partner's commercialisation of AT220 triggered milestone payment and now generating royalties on product sales under a worldwide license agreement
- AT307 transferred to Hikma and positive pre-IND meeting held between Hikma and FDA confirming abbreviated 505(b)(2) regulatory pathway
- Sanofi announces intention to acquire from Inhibrx all assets and liabilities associated with INBRX-101, currently in a registrational trial for orphan disease AATD

Partnership portfolio further strengthened

- Six new technology partnerships established with leading global companies to enhance their proprietary products across a range of indications and stages of development

Leadership

- Key hires have strengthened capabilities with appointment of Dr. Manjit Rahelu as Chief Business Officer and Dr. Helen Parris joins Group as Senior Vice President, Commercial and General Manager of Tetris Pharma Ltd
- Susan Lowther decided to step down from her role as Chief Financial Officer, Company Secretary and as a Board Director, to pursue new opportunities

Diabetes – creating disrupter insulins

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

Arecor's insulin candidates have the potential to significantly improve healthcare outcomes for people living with diabetes. We continue to build the value of our insulin programmes through the development of clinical strategies and data packages which would best realise their future potential and maximise partnering potential and value in the growing diabetes market.

$6.4bn

The existing meal-time insulin market.

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

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

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

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

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

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

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

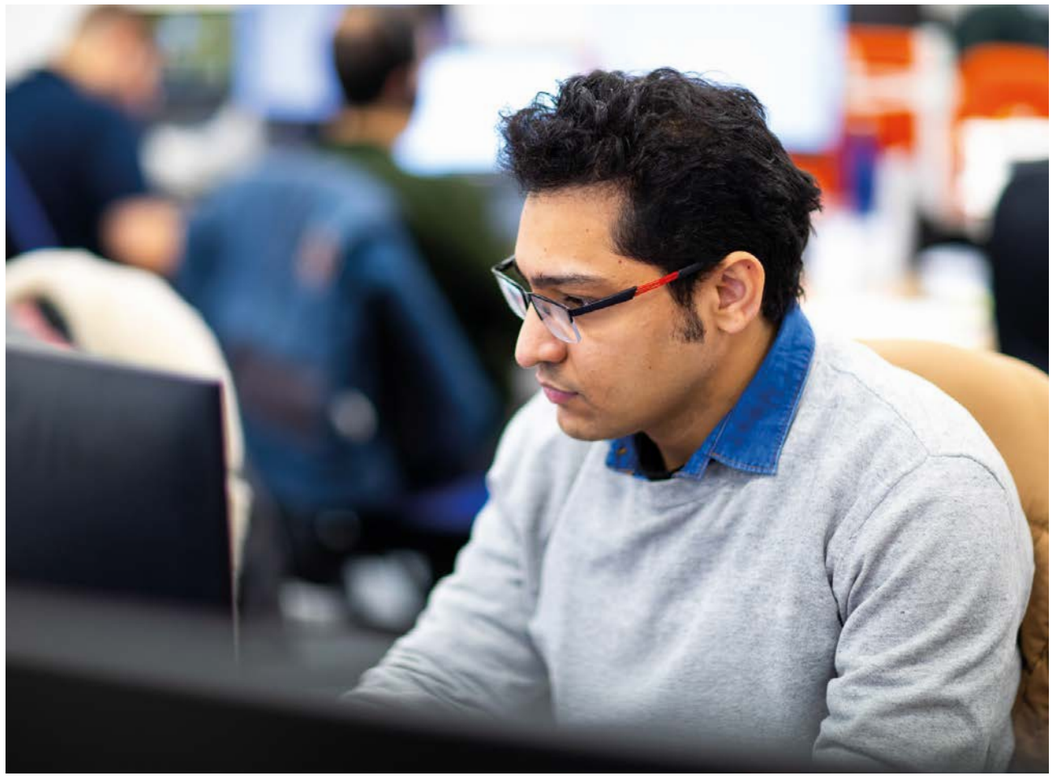
We continue to expand our portfolio of revenue-generating licensed programmes and technology partnership deals with leading pharmaceutical and biotechnology companies. These partnerships have continued to build steadily since Arecor's IPO and, following the appointment of Dr. Manjit Rahelu as the Group's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

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

Operational Review (including post-period events)

Licensed programmes – growing a diversified revenue stream

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



Partnered with major pharma & biotech companies under revenue generating licenses.

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

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

Technology partnerships – new revenue-generating collaborations

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

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

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

AT220

First product incorporating Arestat™, AT220, launched and generating royalties to Arecor under a worldwide license agreement.

c. £100m

Existing market across the licensed territory for Ogluo®

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

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

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

Tetris Pharma – continued success of Ogluo® roll-out

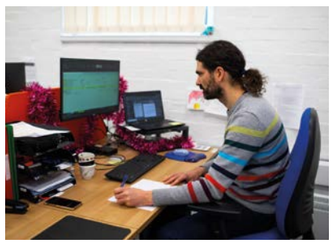
Our specialty pharmaceutical business, Tetris Pharma, continues to build sales momentum through the commercial roll-out of its ready-to-use glucagon auto-injector pen, Ogluo®, for severe hypoglycaemia. Tetris Pharma product sales increased to £2.9m (2022: £1.1m for the five months ended 31 December 2022),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

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

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

Building a robust intellectual property portfolio

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



~90%

Total group revenue year-on-year growth.

Financial Progress

The consolidated financial results for the year ended 31 December 2023 report the performance of Arecor Therapeutics plc and its trading subsidiaries; Arecor Limited and Tetris Pharma Ltd.

Total income for the year of £5.7 million (2022: £3.7 million) included revenue and other income. Revenue recognised in the year increased by 90% to £4.6 million (2022: £2.4 million) and included sales of pharmaceutical products of £2.9 million (2022: £1.1 million).

Other operating income of £1.1 million (2022: £1.3 million) included grant income and RDEC (Research and Development Expenditure Credit) other income. Grant income of £1.0 million (2022: £1.1 million) was received under a £2.8 million grant awarded by Innovate UK in March 2021. The grant project was successfully completed in the year.

Investment in R&D of £6.0 million (2022: £8.6 million) was lower than the prior year and included costs of the ongoing clinical trial for AT278. R&D expenditure in the year ended 31 December 2022 included costs for the AT278 study and the US Phase I clinical trial for AT247.

The increase in Sales, General and Administrative costs of £8.9 million (2022: £5.6 million) included operating expenditure incurred by Tetris Pharma Ltd for the full financial year. The prior year costs represented five months of Tetris Pharma expenditure following the acquisition in August 2022.

The total loss after tax for the year was £8.6 million (2022: £9.3 million).

The Group ended the year with cash, cash equivalents and short-term investments of £6.8 million (2022: £12.8 million).

Summary and outlook

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

The growing recognition from leading pharmaceutical and biotechnology companies of our formulation expertise both validates and highlights the potential of our Arestat™ platform. In 2023 we saw the results of our strategy at work, creating a broad revenue mix and realising the potential for future growth in the coming years.

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

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

Sarah Howell
Chief Executive Officer
15 May 2024

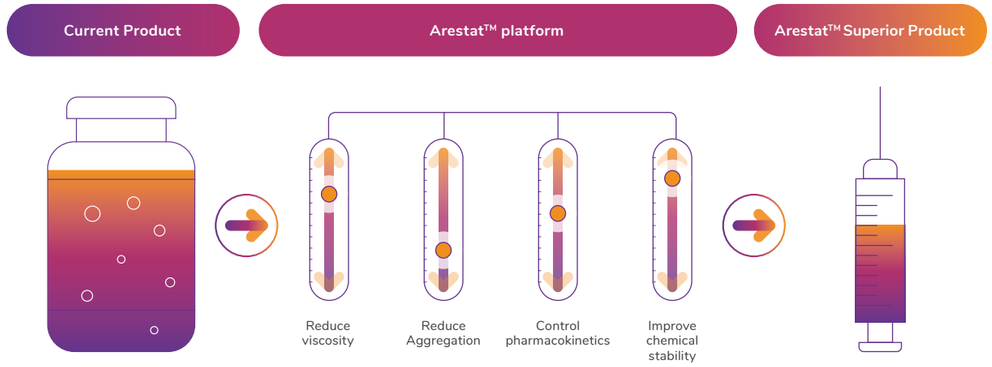
Arestat™ enables superior products with enhanced properties that improve patient care and outcomes

The Arestat™ reformulation technology platform consists of a patented series of over ten different 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 improved shelf-life and stability outside the cold chain through to previously unattainable high concentrations, greater patient convenience and superior therapeutic profiles. Arestat™ can be applied to a broad range of products, notably antibodies, complex biologics, peptides and vaccines. Development of the formulations with enhanced properties using the Arestat™ technology follows four key steps:

Step 1	Step 2	Step 3	Step 4
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 molecular mechanisms that are preventing these enhanced properties being achieved by existing technologies.	Apply our Arestat™ technology platform in a data-driven approach 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 and ensure patent protection for our inventions.

How our technology works

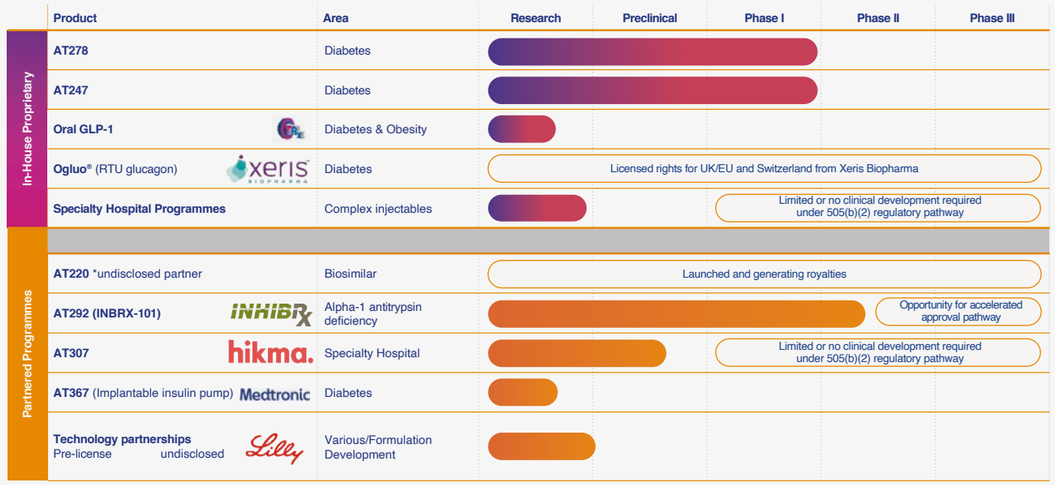


Arestat™ results in improved product formats with enhanced properties ranging from greater safety and convenience through to superior therapeutic profiles which can improve patient care and health outcomes.

A broad portfolio of de-risked and innovative assets

The Arecor portfolio is significantly de-risked with higher technical 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.



We have an internal pipeline of proprietary products within our Diabetes and Specialty Hospital franchises. Our two lead products for diabetes, AT278 and AT247, have successfully completed three Phase I clinical trials in total to date, demonstrating best-in-class profiles when compared against the best insulin(s) available to patients today. We have a number of programmes in pre-clinical, or formulation proof of concept stages, progressing in diabetes and specialty hospital care, which are future out-licensing candidates.

We also partner with leading pharmaceutical and biotechnology companies through technology partnerships, enhancing their development projects across a range of indications and stages of development. Ongoing partnered programmes generate revenue streams during development with significant upside potential expected from future licensing.

We have three programmes which have progressed through licensing, one originating from our internal Specialty Hospital pipeline and two from our technology partnership model, where we apply the Arestat™ platform to develop novel formulations of our partners proprietary products. The first of these licensed products incorporating the Arestat™ technology, AT220, has been launched and is now generating recurring royalties for Arecor under a worldwide license agreement.

The acquisition of Tetris Pharma in 2022 added Ogluo® to the portfolio, a novel stable liquid RTU glucagon delivered through an easy-to-use auto-injector pen. Ogluo® treats severe hypoglycaemia (very low blood sugar), a potentially life-threatening condition that affects both Type 1 and Type 2 diabetes patients who take insulin. It can lead to seizure and loss of consciousness and is generally an emergency situation that requires rapid treatment. Tetris Pharma has the rights to sell Ogluo® across the EEA, UK and Switzerland.

Our Markets

Arecor's key strength is its ability to develop novel patent-protected formulations of existing therapeutic medicines that deliver superior product profiles that can bring significant benefits to healthcare providers and patients. In doing so, we build shareholder value. Our focus is in diabetes, where we are developing ultra-fast acting insulins and specialty hospital products, where our technology can deliver safer, more effective and 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.

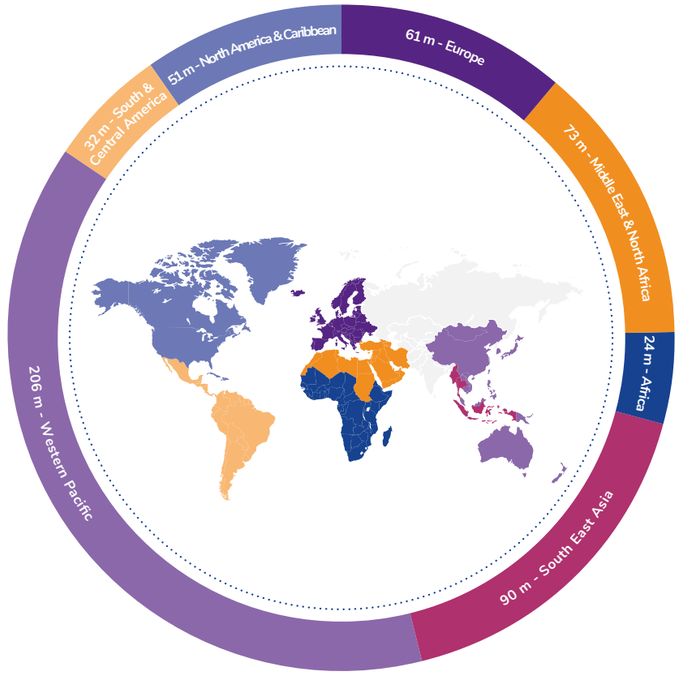
Diabetes is caused by either the pancreas not producing enough insulin or the body not responding properly to the insulin that is produced. This results in fluctuations in blood sugar levels as a person eats and glucose is generated, but not metabolised. In Type 1 diabetes a patient does not produce 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, lead 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.

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 insulin therapies. However, the challenge comes around mealtimes. After eating a meal, 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 insulins on the market today, there is still an unmet 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.

Diabetes around the world



$966bn

estimated global expenditure

6.7m

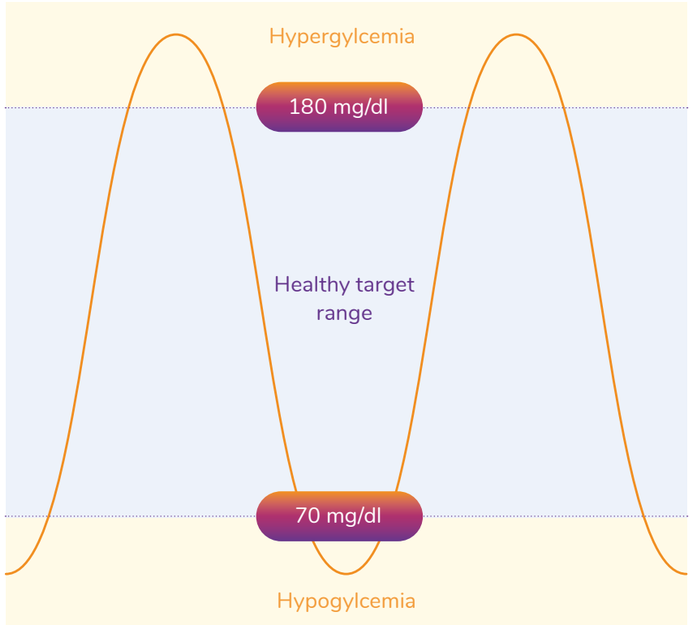
deaths due to diabetes in 2021

537m

adults are living with diabetes

Reference: Diabetes Facets and Figures, International Diabetes Federation (idf.org)

Blood glucose



Trinity Delta research, Panmure Gordon research, American Diabetes Association

There are a number of mealtime insulins on the market today, making up between them, an existing >$6 billion prandial insulin market. Arecor insulins have a unique profile and will provide additional treatment option to those available today. Our insulins are either faster action for a more predictable more controllable action, or are more concentrated, with maintained speed of action to improved efficacy and convenience when high daily doses are required.

In terms of healthcare benefits, the cost of treating diabetes and its complications is significant with an estimated global annual expenditure of $966 billion[3], $413 billion[4] in the US alone. Expenditure is on the rise, increasing by 316% over the last 15 years.

The diabetes market remains attractive not only because of its growth prospects, due to well-documented shifts in demographics and lifestyles, but continuous blood glucose monitoring allows better monitoring and tighter glucose control. This combined with the desire for innovations in delivery devices including miniaturised pumps, with longer wear times and better more physiologic, automated delivery of insulin moving towards the holy grail of a fully closed loop artificial pancreas, have the potential to change the paradigm of diabetes treatment. Arecor's faster and or more concentrated insulins have a potential market leading position in enabling these next generation developments. In addition to Arecor's strong position within the insulin market, Arecor has established a research collaboration for the formulation development of an oral GLP-1 receptor agonist product with TRx Biosciences Limited.

Arecor's best-in-class insulin candidates are designed to reduce burden and improve outcomes for people with diabetes, targetting areas of high unmet need in a high value market.

$966bn

Global annual expenditure of treating diabetes and its complications.

[3] https://idf.org/news/diabetes-now-affects-one-in-10-adults-worldwide/
[4] https://diabetes.org/newsroom/press-releases/new-american-diabetes-association-report-finds-annual-costs-diabetes-be

Stabilising delivery of hospital treatments

US$ 11 billion compounding pharmacies market US accounts for ~50% of market value

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.

Arecor's Specialty Hospital Products franchise is focused on improving injectable products that have clear challenges with their use, such as the need to be reconstituted, e.g. a powdered drug that requires a complex preparation before injection. Arecor has proven expertise in identifying differentiated novel ready-to-use (RTU) and ready-to-administer (RTA) formulations of existing medicines with attractive market need and differentiation potential and is leveraging its Arestat™ technology to develop these medicines, which are becoming increasingly important to enable fast, safe and effective treatment of patients at point of care in a hospital setting. These RTU and RTA new stable liquid product formulations improve safe medication practices, reduce hospital adverse events and simplify care by eliminating the need for reconstitution.

The lack of a RTU or RTA version of a product is usually due to technical challenges in developing stable and efficacious liquid formulations. Arecor has demonstrated its capability 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$11 billion in 2020, with projected growth at around 5.5%. CAGR from 2022 to 2030[5], 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.

[5] Global Market Insights report titled 'Compounding Pharmacies Market Analysis, 2022 – 2030, August 2022

Technology partnerships working in collaboration

Offering near-term revenues and future significant licensing revenue upside potential

~$12bn

~$12 billion Biosimilars

~$41bn

~$41 billion Vaccines

~$32bn

~$32 billion Peptides

~$269bn

~$269 billion Biologics

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 developmental and commercial high-value complex biological products.

These collaborations typically start with identification of a differentiated product opportunity and then 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 technology development 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 has a strong reputation as a reliable and collaborative partner. We work with like-minded companies to ensure that our partnerships align with partners' interests to maximise the chances of success.

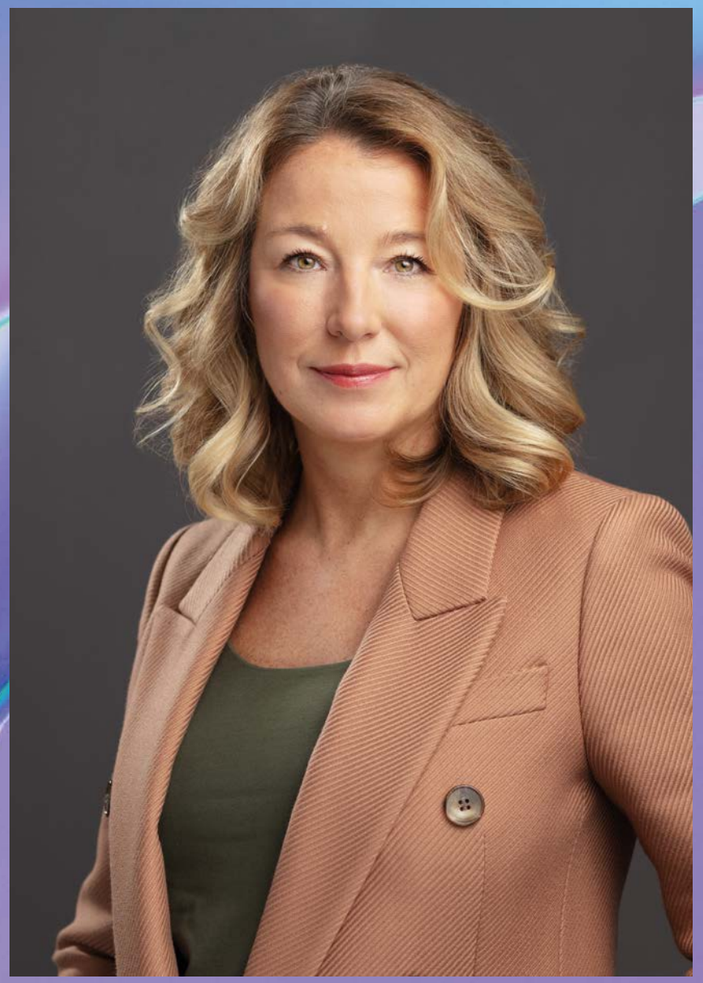
Arecor is targeting its technology partnering programmes at high-value biologics, including biosimilars, novel biologics, peptides and vaccines, as well as future potential applications such as oral delivery, mRNA and cell and gene therapies. The products can be at any stage in development from early 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 a milestone and royalty bearing co-development and licensing agreement which demonstrates the commercial potential and medical need for RTU/RTA products. The experience gained from working with leaders in the space, such as Hikma, has allowed Arecor to identify further promising products for its own proprietary Specialty Hospital pipeline. Arecor has a dedicated team developing further RTU/RTA products for future optimal partnering.

In terms of target market size, these specialty 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 specialty products is increasing, with 78% of new brand spending on specialty products ($130 billion of the $165 billion expected by 2024), offering a significant opportunity for Arecor.

Tetris Pharma

Tetris Pharma has a vision to become the European market leader in the emergency hypoglycaemia market and provide the capability to take selected Arecor pipeline products to this market in the future.



"Over the course of the year, we continued the pan-European roll-out of Ogluo® which is now available in six territories"

Tetris Pharma targets the UK and European markets with a core focus on niche specialty pharma injectable products.

Tetris Pharma has continued to make strong progress in the emergency hypoglycaemia market across the UK and Europe, with a solid sales performance in the year ended 31 December 2023. Our key product, Ogluo®, is a novel stable liquid formulation of glucagon delivered through an easy-to-use auto-injector pen for the management of severe hypoglycaemia in patients with diabetes, addressing currently underserved patient needs.

Over the course of the year, we continued the pan-European roll-out of Ogluo® which is now available in six territories – Germany, Austria, the UK, Denmark, Norway and the Netherlands. With further geographical expansion planned, Tetris Pharma is well positioned for the continued adoption of this key product. With an existing market opportunity estimated to be approximately £100 million across the UK and Europe based on actual 2021 unit sales (1.65 million units) multiplied by the premium pricing achieved for ready-to-use glucagon we believe there is significant potential to further grow this revenue stream.

With our established sales, marketing and distribution platform, Tetris Pharma has the capability to take selected products from Arecor's portfolio to market in the UK and Europe which could be highly complementary to Arecor's already proven licensing and partnering strategy.

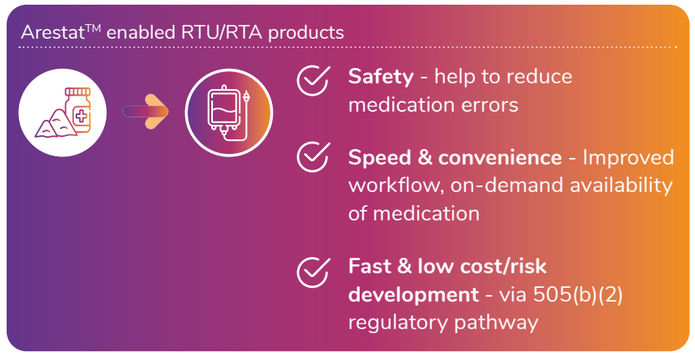
"Looking forward to 2024 I believe we can continue to build sales momentum and deliver value to Arecor's shareholders."

Helen Parris
SVP Commercial & GM
Tetris Pharma
15 May 2024

Specialty Hospital

Addressing unmet medical needs that are patient and health care system centric; making existing drugs safer, more effective and improving workflow and efficiency by making them easier to prepare or to administer.

Leveraging our Arestat™ technology, Arecor is developing ready-to-use (RTU) and ready-to-administer (RTA) medicines within its Specialty Hospital Products franchise, which provide significant benefits through point of care use including safety benefits through reduced risk of inappropriate dosing and efficiency benefits through avoiding the need for pharmacy reconstitution.



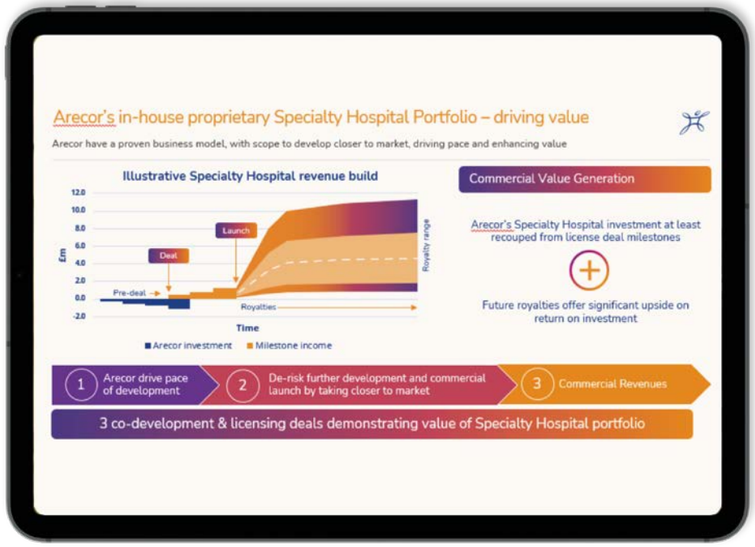
AT307 partnership with Hikma

An example of de-risking development and bringing a product closer to market

Challenge

Arecor's Specialty Hospital Products franchise is developing medicines that are administered within the hospital setting 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.

Arecor is focused on improving injectable products that have clear challenges with their use, such as the need to be reconstituted, e.g. a powdered drug that requires a complex preparation before injection. These ready-to-use (RTU) and ready-to-administer (RTA) new stable liquid product formulations improve safe medication practices and simplify care by eliminating the need for reconstitution. The lack of a RTU or RTA version of a product is usually due to technical challenges in developing stable and efficacious liquid formulations. Arecor has demonstrated its capability to leverage the Arestat™ platform to reformulate existing products into RTU and RTA injectables.



Solution

Arecor leveraged its expertise in this area to independently identify a compelling differentiated product opportunity to develop a RTU injectable hospital medicine. Arecor subsequently partnered with Hikma in October 2020 under co-development and license agreement. Under this partnership, Arecor was initially responsible for the early development of the novel RTU format of this medicine, AT307, and upon success of this first phase, full development and commercialisation responsibilities were transferred to Hikma in January 2023. Hikma is now responsible for the further development of this product and, following a positive pre-investigational new drug application meeting between Hikma and the US Food and Drug Administration (FDA) the continued development of AT307 will be under the abbreviated 505(b)(2) regulatory pathway, offering a fast and reduced risk pathway to approval.

Arecor has built a deep relationship with Hikma over several years and the transfer of AT307 was a significant milestone for Arecor and a clear demonstration of the value that the Group's expertise and technology can bring to leading pharmaceutical companies developing innovative products to improve patient care. It is also an important further step in bringing this important medicine to patients, through Hikma's commitment to the product's further development and future commercialisation.

- Arecor has proven expertise in being able to identify areas of need for differentiated novel RTU/RTA medicines with attractive market potential and to subsequently leverage the Arestat™ platform to enable and further develop these products, and has shown it can do deals with leading pharmaceutical companies in this space.
- Approximately two years from identification of product to develop novel formulation and data package for full transfer to development and commercialisation partner.
- Approximately five years from product nomination to potential commercial launch.

Financial Review

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

Highlights:

£5.7m

Total Income of £5.7 million (2022: £3.7 million) including grant and RDEC income

£6.0m

Investment in Research & Development ('R&D') of £6.0 million (2022: £8.6 million)

£8.6m

Loss after tax for the year of £8.6 million (2022: £9.3 million)

£4.6m

Total revenue of £4.6 million (2022: £2.4 million) representing over 90% growth

£8.9m

Sales, General & Administrative ('S,G&A') expenses of £8.9 million (2022: £5.6 million)

£6.8m

Cash and short-term investments of £6.8 million at 31 December 2023 (2022: £12.8 million)

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

Cashflow forecasts and going concern

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

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

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

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

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

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

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

Further details are set out in the Going concern note in the financial statements on page 100.

Key financial performance indicators

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Susan Lowther
Chief Financial Officer
15 May 2024

Understanding and managing risk

In delivering our business objectives we seek to understand and manage risk in the context and environment in which we operate and the risk priorities of our commercial partners and suppliers.

We manage uncertainty through a framework across the Group which we use to identify, assess and manage risk through our working practices, policies and procedures. Different levels of activity are interlinked and support each other to manage risk.

Risk culture

Our risk culture is part of our decision-making processes, procedures and working practices. It is reflected in our behaviour as employees take responsibility for risk management embedded in our business policies and professional standards.

Risk is managed by internal staff through defined roles and responsibilities whether acting as an individual or part of a team.

The Board is ultimately responsible for risk management and reviewing the internal control systems. The Group's management of risk is part of a framework of shared responsibility which supports our business objectives and corporate culture.

Our risk management processes and procedures are intended to identify, quantify and manage business risk and can only provide reasonable and not absolute assurance that the principal risks are managed to an acceptable level.

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

Specific risks

Cost inflation and foreign exchange volatility were specific risks which the Group faced in the year. Cost inflation affected the Group's supply chain including rising raw materials, packaging, shipping and transport costs. Services provided to the Group also increased reflecting rising wage inflation.

Rising supply chain costs have resulted in increased operating expenditure. Cost increases have been managed by close analysis of actual expenditure in line with budget and discussions with key parts of the supply chain to identify potential efficiencies. Supply chain costs which are relatively fixed and support revenues have been absorbed by the business which has resulted in increased costs.

The functional currency of the Group is UK Sterling (GBP) with currency exposure including the US Dollar and Euro. Foreign exchange losses in the year were £135,000 (2022: gain of £69,000). Currency requirements are forecast each month on a rolling basis and exchange rates are carefully monitored.

Foreign currency exposure will continue to be a specific risk as non-GBP trading, particularly by Tetris Pharma, continues to grow. The exposure to foreign currency movements is managed by matching foreign currency receipts in Euros with outflows to provide a natural hedge, together with forward contracts as required for trading in US dollars.

Principal risks and uncertainties

The following pages set out a summary of the principal risks that we manage as a Group. It is not intended to include all risks that could ultimately impact our business and the risks are presented in no particular order.

Trend key

↑ Increasing Risk ↓ Decreasing Risk ↔ Unchanged

Risk Category	Risk Description	Management	Movement
Research and, product development			
Research and product development	There is a risk in developing new and innovative products. This risk applies to proprietary products and partnered programmes. Could result in the termination of R&D projects and loss of licensing opportunities.	• There is a rigorous technical and commercial process for selecting proprietary products for development, which is managed by the Portfolio Review Committee. • Once selected there are clear go/no-go decision criteria to progress to the next phase of development. • Regular dialogue and engagement with partners and potential partners to ensure that the potential product continues to meet their requirements.	↔
Technology	Technologies may not meet the requirements of internal teams or partners. Technological advances may surpass the technologies used by the Group.	• Dialogue and engagement with partners to ensure that the Arestat™ platform continues to meet expectations. • New innovations are monitored, and research collaborations are evaluated.	↔
Clinical trials	Clinical trials could lead to unanticipated results which require further development and lead to delays and increased costs.	• An experienced team including clinical advisers monitor the clinical trials to make appropriate decisions based on data outcomes.	↔

Trend key

↑ Increasing Risk ↓ Decreasing Risk ↔ Unchanged

Risk Category	Risk Description	Management	Movement
Legal, regulatory and intellectual property			
Product approvals and regulatory environment	Proprietary or partnered products may not receive regulatory approval.	• Seek early scientific and regulatory advice. • Track regulatory environment to understand changes and expectations.	↔
Intellectual property for technologies and products	Reliance on patent strategy, patent law and contractual duties of confidence to protect core intellectual property rights.	• Robust IP strategy which, to date, has provided adequate protection including successful defence of key patents.	↔
Commercial			
Partnerships for proprietary diabetes products	Later completion of ARE-278-104 clinical study may impact plans to progress the Group's proprietary products to value inflexion points and commercial partnerships.	• Broaden commercial engagement and dialogue with potential partners to update on our progress and plans.	↑
Technology partnerships with pharmaceutical companies	The timing and likelihood of receiving milestones and royalties from partners are not under the Group's control.	• License milestones received in the year demonstrate partner's progress. • Multiple partnered projects mitigate risk of reliance on a single project or partner. • Risk of receiving royalties reduced in the year as the product has been launched. • Risk changed to the growth and quantum of royalty receivables.	↑
Operational risks			
Reliance on third party suppliers	Third-party contract research and manufacturing organisations do not successfully carry out their contractual duties or obligations. Violations of regulations that these third parties are subject to could impact the regulatory approval of the Group's product candidates.	• 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.	↔
Retention of key executives and personnel **Recruitment, management and retention of a skilled employee base**	Failure to attract and retain key personnel could weaken the Group's commercial, scientific and operational management capability.	• Recruitment, training and development processes attract and build high performing teams. • Benchmarking competitive remuneration and benefits.	↔
IT systems, data integrity and cyber security	Breaches in the Group's IT systems, or the unauthorised or inadvertent wrongful access or disclosure of proprietary, confidential data could adversely affect the Group's business operations.	• Comprehensive cybersecurity risk processes in place including the Cyber Essentials accreditation. • IT policies and processes monitored by external IT provider and an internal IT Steering Group.	↔
In-licensed pharmaceutical products	Balancing sales growth forecasts in new markets with a long supply chain and current inventory approaching the end of its useful life. Inventory levels have increased to meet sales forecasts. Inventory mix has changed to reflect specific territory and language(s). Sales to date are predominantly UK which reflects the team's knowledge and experience. If sales forecasts are not achieved the stock write off could be significantly higher than previous provisions.	• Regular review by cross-functional teams to ensure appropriate supply chain and inventory management.	↑
Financial			
Execution of strategy	The Group's future growth depends on its ability to successfully implement its business strategy and meet business objectives.	• Board of Directors provide oversight and support to Leadership team. • Regular reporting of progress against corporate objectives. • Effective decision making by the Board, Executive Directors and Leadership team.	↔
The Group may be required to raise further capital	The Group is investing in R&D and is not profitable. Revenue generating activities may not be able to sustain the business which results in a reliance on investors. The timing and amount of available funding may impact cash, and short-term investments	• Prudent planning and financial management ensure that resources are used to support the achievement of commercial goals. • The Group may not be able to raise further capital to meet its business objectives, which represents a material uncertainty. • Further information is set out in the going concern note to the accounts on page 100.	↔
External factors			
Geopolitical events	Geopolitical events including conflicts result in economic uncertainty.	• Rising costs have been mitigated by careful management and prioritization of expenditure.	↔
Infrastructure costs	Prolonged inflationary pressures impact energy and infrastructure costs.	• Building lease renewed in the year. Rent did not increase and is fixed for three years.	↓
Environmental	Increased severity and frequency of adverse weather conditions could impact laboratory and office facilities.	• Monitoring and maintenance of current facilities. • In the year the roof on the laboratory building was replaced as planned maintenance, and to target better energy usage.	↑

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 company for the benefit of its members as a whole.

In doing so, s.172 requires the Directors to have regard, amongst other matters, to the:

- likely consequences of any decision in the long term;
- interests of the Group's employees;
- need to foster the Group's business relationships with suppliers, customers and others;
- impact of the Group's operations on the community and the environment;
- desirability of the Group maintaining a reputation for high standards of business conduct and
- the need to act fairly between members of the Group.

In discharging its s.172 duties, the Directors consider the matters set out above to ensure that decisions are made on a consistent basis and meet the above factors.

The Board aims to promote the long-term success of the Group on behalf of shareholders whilst considering the interests of all stakeholders in the delivery of business objectives. Detailed briefing papers and reports are provided as part of the Board's review of matters relating to scientific, commercial and financial performance; business strategy; key risks; legal and regulatory compliance matters. Such reviews occur over the course of the financial year and include looking ahead to future financial periods.

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 delegated for implementation at different levels of the Group as appropriate.

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.

Engaging with the Group's stakeholders is an important part of how the Group operates and is an important consideration for the Directors when making decisions. Details of how the Board engages with different stakeholder groups are set out on pages 48 to 51, including the Group's responsibilities to health, safety and environmental matters affecting our employees, suppliers, partners and local communities.

The Corporate Governance Report sets out the Group's approach to corporate governance and how the ten principles of the QCA Code are applied. This is set out on the Group's website and in the Corporate Governance Report on pages 54 to 64.

The Group's activities, strategy and future prospects are discussed in the Director's Report on pages 75 and 76.

Matters considered by the Board in the year under review

The following are some of the matters considered by the Board in the year:

Matters considered	s.172 impact	Board involvement
Supply chain	Recognising and managing the impact of macro and micro-environments on the Group's supply chain.	The Board considered the impact of rising inflation and the prioritisation of operating expenditure.
Employee safety and well- being.	Understanding matters which are of interest and important to employees. Understanding labour market to attract and retain staff.	Monitoring the impact of rising prices on employees and taking action to provide support. Monitoring the effects of wage inflation. Review of staff retention plans including career development strategies.
Company Strategy	Understanding consequences of key strategic decisions on the business, its staff and its shareholders.	The board extensively reviews and discusses company strategy. In particular in relation to (i) the development of its clinical stage diabetes product portfolio including options for further development and strategic partnering and (ii) strategic partnering opportunities in new technology development areas.
Building commercial team	Experienced leadership in Chief Business Officer role to lead commercial strategy.	Board members involved in the recruitment process. Meeting short-listed candidates and providing feedback.
Succession planning at Tetris Pharma	Business leadership and an experienced commercial SVP and General Manager.	Board members involved in the recruitment process. Meeting short -listed candidates and providing feedback.
Environmental, social and governance policies and procedures	Impact on the local community and environment.	Review of facilities, including new lease extension, roof and lighting improvements in the laboratory building.

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
15 May 2024

Susan Lowther
Chief Financial Officer
15 May 2024

Corporate Governance

In this section:

Andrew Richards,
CBE, Ph.D
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 is a director of RNAvate and Our Future Health Trading, as well as being 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 and Executive Director

Sarah Howell has been Chief Executive Officer of Arecor since 2015.

Through her leadership, Arecor has grown significantly into a publicly listed clinical stage biopharmaceutical company. Since her appointment, Sarah has led Arecor through a period of continued growth and transformation, playing an instrumental role in progressing its proprietary pipeline and strengthening important collaborations with global partners.

Sarah has a background in clinical and commercial pharmaceutical product development, manufacturing, supply and licensing across a range of product types and therapeutic areas, with previous 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 Executive Director/ Company Secretary

Susan Lowther was appointed Chief Financial Officer and Company Secretary at Arecor in 2019 and has significant financial leadership experience across a broad range of public and private life science companies. Previously 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 25 years of experience of conducting equity research as a pharmaceutical analyst, working at firms including Nomura International and HSBC.

Currently, he is Director of Research, Global Industries 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 President, Kyowa Kirin International plc.

Alan Smith
CBE, FRS, PhD
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 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 Christ's College, Cambridge and the Royal Society of London.

Christine Soden
Non-Executive Director

Christine Soden is a Non-Executive Director of Elementis plc, the Cell and Gene Therapy Catapult and viO HealthTech 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

Partnerships are at the heart of our business and executing our business strategy. We maintain our commercial relationships through regular communication and engagement. We increasingly focus on building deeper relationships with potential strategic partners on product development and commercialisation.

In formulation development projects we discuss progress towards achieving agreed goals in project or Joint Steering Committee meetings. In our licensed partnerships we maintain a regular dialogue and provide support as required as the product moves towards commercialisation.

Such interactions are extremely important. The formulation development projects are funded by the partner so are revenue generating. License agreements provide long-term revenue through milestones and recurring royalties. We currently have four licensed programmes.

The Group achieved a major milestone in the year with first partnership royalties from our AT220 license agreement.

People

Our employees are central to our engagement with partners.

Without the commitment of our employees, we would not be able to develop our commercial partnerships and our pipeline of proprietary products. We are committed to providing an environment in which they contribute to the company's growth by developing their skills and experience.

Our culture is based on communication, transparency, teamwork, accountability, and innovation. It is the Group's policy to involve employees in its progress, development and performance. We engage with our employees, many of whom are either shareholders or share option holders, through communication of Group-wide news and information in a variety of formats. The updates include key events in the financial calendar and following the announcement of key business developments.

We encourage feedback from all employees through confidential staff surveys and across all levels of the business through an open-door policy:

- Direct access to key management
- Company-wide meetings
- Intranet
- Scientific and technical meetings
- Social events

Company-wide meetings are a platform to share scientific, technical or commercial progress against our business objectives. They are also an opportunity to provide insight into the roles and responsibilities carried out by different teams, welcome new joiners and celebrate personal achievements.

Building our business through effective communication

Shareholders

Shareholder support is critical to the success of our business. We maintain regular and transparent dialogue with our shareholders to ensure they understand the strategic objectives, financial and operational performance, governance of the Company, and the value of what we do.

Our engagement with shareholders includes:

- Providing regular business updates on the progress of our proprietary and partnered products
- Interviews or presentations via on-line platforms following news releases.
- The CEO and CFO meet with investors to present the full year and interim financial results
- Social media updates
- Board members attend the Annual General Meeting to meet with shareholders

Customers

The Tetris Pharma customer base includes wholesalers, community and hospital pharmacists, and healthcare professionals involved in the management of diabetes in the UK and EU. Tetris Pharma operates in accordance with the Association of British Pharmaceutical Industry (ABPI) code of conduct across sales and marketing activities, including:

- Interactions with healthcare practitioners and patient organisations
- Ensuring that all sales & marketing personnel are well trained with expertise in the therapy area
- Operate in a professional, ethical and transparent manner

As we continue to build our market knowledge we engage with a wide range of organisations including regulatory and pricing reimbursement authorities as part of providing safe and cost-effective healthcare products.

Communities

We aim to positively engage with local communities. Also to be good corporate citizens caring for the environment as part of developing new pharmaceutical products and related innovations.

We believe that our values and aspirations define the Group as a good place to work and partner with, and will drive value 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 a positive culture through the engagement of our employees in our local communities

Service providers and suppliers

We maintain positive relationships with external organisations to access appropriate expertise. We select the most appropriate service provider to build commercial relationships whether they are a small specialist organisation or a global business.

These relationships are a critical part of generating high-quality data to attract world-class partnerships either as part of technology licensing deals or the commercialisation of our proprietary products.

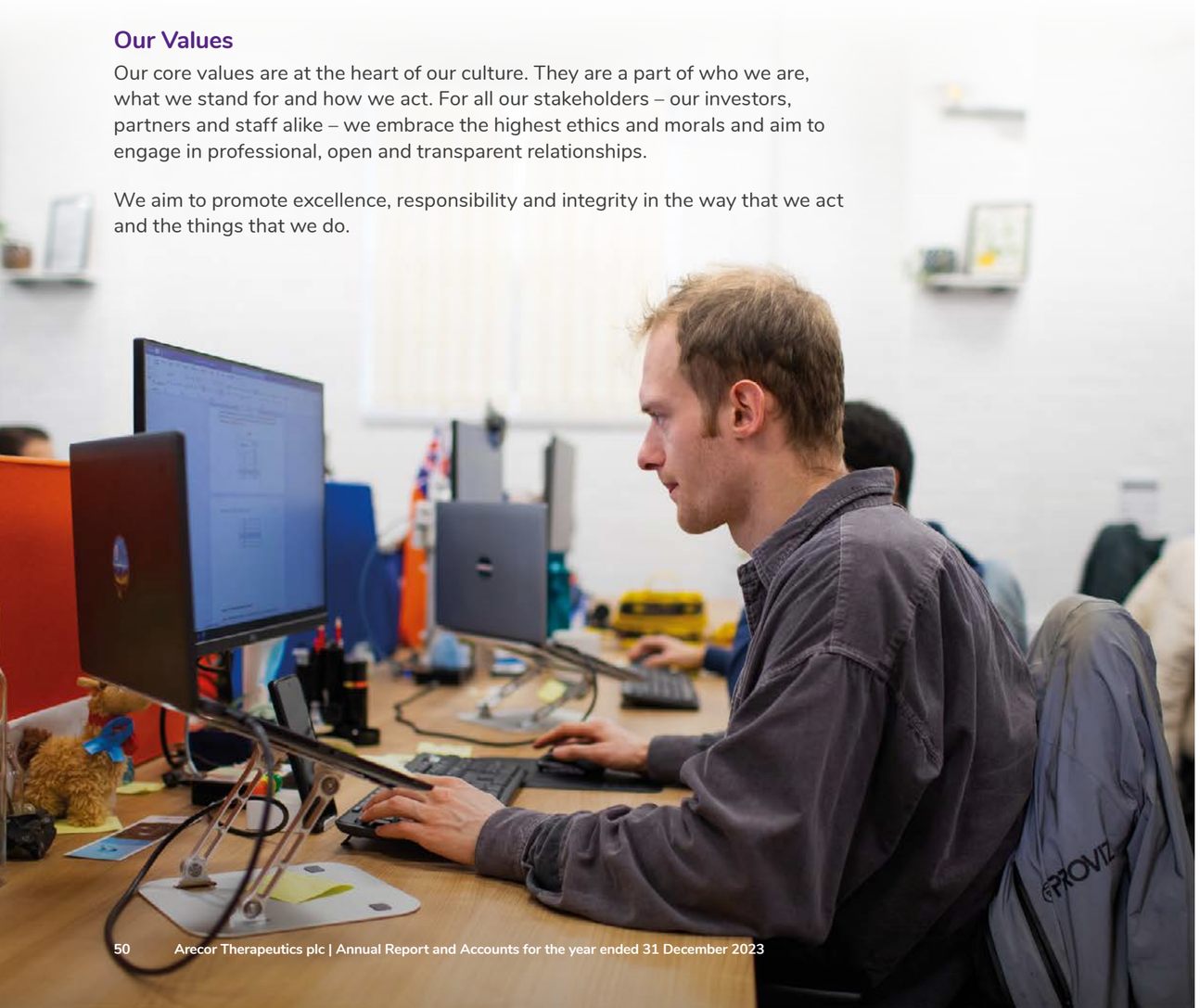
An Innovative and Inspiring Culture

We are committed to fostering a high-performance culture that aligns with the company's values and goals to enhance employee engagement, satisfaction, professional development and retention.

Our Values

Our core values are at the heart of our culture. They are a 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.

We aim to promote excellence, responsibility and integrity in the way that we act and the things that we do.



Building our talented team

People are key to us achieving our goals and we have built our team with engaged, committed, talented and motivated people. We are committed to enabling our employees to realise their potential to develop their career with the Group. We foster a culture of growth-focused dialogues that enable personal development and align to individual career aspirations. We believe in the value of diversity and strive to be an equal opportunities employer. We have a diverse group of employees in terms of both ethnicity and gender, with 49% of our employees being female. In addition, with the appointment of Dr. Helen Parris in January 2024, the Leadership Team comprises 50% female members which means diversity at all levels of the business. Through our inclusive culture, we are aligned by purpose and can individually contribute to our continued success and our goal of improving patient outcomes.

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 employees can gain experience and build their expertise alongside their peers. We want to ensure that every employee feels appreciated and key successes are celebrated.

In attracting and retaining the best people we are building a high performing growth organisation aligned behind our purpose. We celebrate what makes Arecor a great place to work with our Employee Value Proposition at the core.

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, including our suppliers and partners. We are committed to the conservation principles of reduce, re-use 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 inclusion, trust 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.

Our social committee organises a calendar of events throughout the year celebrating a diverse range of global national days and supporting charities throughout the year.

Providing a secure and supportive working environment

We have proactively adapted our working environment to maintain the safety and wellbeing of our staff. This has enabled them to maintain their own personal work-life balance supported by our comprehensive employee assistance programme and mental health initiatives.

Rewarding with competitive incentives

To motivate and reward our people, we provide competitive remuneration and a benefit package that supports holistic wellbeing. 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.

Employee Q&A – Rafic Sukar, Scientist

"Arecor provides its scientists with the ability to work closely with other departments."

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

I'm a scientist at Arecor. My role involves using scientific instrumentation, such as high-performance liquid chromatographs (HPLC), to assess factors such as purity and quantity of our API (Active Pharmaceutical Ingredient) formulations. In short, the techniques I use help to determine whether medication is safe for patient use.

What made you want to become a scientist?

Well, from a young age I have been a Type 1 diabetic. As a result, I have been surrounded by medications and medical equipment my whole life. In the end, it was inevitable that I would end up wanting to explore the field of research and development. This explains why I studied chemistry at university – where I studied modules such as separation science and organic chemistry, learning how to analyse and synthesise biomolecules. Ultimately, I chose to work in industry and apply my knowledge in these subject matters in the real world to make a difference for patients' lives – including mine, where at Arecor one of our main focuses is making insulin delivery easier and more effective for patients.

How did you come to work at Arecor and how has your role evolved since you first joined?

What immediately caught my eye was Arecor's focus on enhanced insulin products and its overarching goal of enhancing existing therapies to bring safer, more effective and convenient treatments to patients. Technically, my role has evolved enormously within the formulation development programmes we have with external partners. At first, we were mainly using high-performance liquid chromatography (HPLC) analysis. Now, although this remains the main analytical method, we are using a lot more tertiary methods of analysis, such as capillary electrophoresis to determine impurities, viscosity assessments to determine how viscous (how 'runny') our formulations are and plate readers to determine concentrations – this shows how, just in three years, our capabilities have advanced.

Why do you like working at Arecor?

As well as my scientific work, which is hugely gratifying, Arecor provides its scientists with the ability to work closely with other departments such as Quality Assurance, Chemistry, Manufacturing and Controls (CMC) and Business Development, giving us better exposure to other important aspects of our industry. That only helps to make more well-rounded scientists.

Who are your science heroes?

For me, it would be a 9th century mathematician, known as 'Al-Khwarizmi' (the father of algebra), hailing from the Islamic golden age. In our roles today, we use mathematics in every aspect of our work, such as statistical analysis, integrations, and calculations (all of which involve algebra). However, we pay little attention to where the numbers we use originate from and who developed the theories of algebra. That's where Al-Khwarizmi comes in. His theories on algebraic calculations and development on the Hindu-Arabic numeral systems (which later replaced the Roman numeral system) inspired many mathematicians in Europe, such as Fibonacci. As a result, Al-Khwarizmi should be credited for his early works in mathematics and science.

Chair's statement on corporate governance

As Chair I lead the Board, which has a collective responsibility to promote the long-term interests and success of the Group.

My role includes ensuring that the Board has the right balance of skills to set business strategy and provide oversight through effective decision-making.

The members of our Board believe strongly in the value and importance of corporate governance.

We have adopted a corporate governance framework which reflects the Quoted Companies Alliance Corporate Governance Code for small and mid-size quoted companies ('The QCA Code').

The QCA Code is based upon ten broad principles and related disclosures. The QCA has stated what it considers to be appropriate arrangements for growing companies and companies provide an explanation about how they meet such principles.

Our corporate governance framework includes Board leadership and effectiveness, Board remuneration and the internal controls used in the normal course of business. This framework is based upon practices which the Board believes to be proportionate to the stage, size and complexity of the Group.

As a Board we 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.

Our business processes and practices seek to ensure that our expected standards of governance, corporate values and behaviour are consistently applied.

These standards are part of how we conduct our business and engage with a wide-ranging stakeholder base, including employees, partners, suppliers and the communities in which we do business.

Andrew Richards
Chair
15 May 2024

Corporate Governance Statement

The Board is responsible for the long-term success of the Group and is committed to ensuring that it provides leadership to the business, having regard to the views of its shareholders and other stakeholders.

It is also responsible for setting the Group's business strategy, values and standards in its oversight of implementation plans and management of risk.

The Board believes that good corporate governance is an integral part of the mid and long-term success of the Group. The following sections provide information about how such principles have been adopted and are being applied by the Group and are set out on our website (www.arecor.com).

The Board confirms that the Group has applied the principles of the QCA Code during the year ended 31 December 2023 and at the date of this report.

Our strategy and business model

The Group's strategy is to develop a portfolio of enhanced proprietary products to value inflexion points with the potential to derive significant future revenue from existing and optimal future partnerships. The Group's product development is focused on diabetes and specialty hospital care products.

Partnerships with pharmaceutical companies under licence agreements provide revenue from milestones as products progress through clinical development and recurring royalties following market launch. In the final part of the year ended 31 December 2023, product royalties were received for the first time, following our partner's launch of a product incorporating our Arestat™ technology.

In Technology Partnerships we apply our Arestat™ technology to develop novel enhanced formulations of partners' biological products which can include biosimilars, biological products or vaccines. These technology partnerships are revenue generating and if the partner licenses the Arecor developed formulation, it could result in product milestones and royalties.

The Board holds at least one session each year dedicated to strategy, working with the Leadership Team and external advisers by invitation and as appropriate. In the year ended 31 December 2023, strategy meetings of the Board and Leadership Team were held in June and November 2023.

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;
- the Annual General Meeting; and
- the Company's website, in particular, the Investor Centre 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 available for discussions with shareholders as required.

Shareholder questions and comments are also addressed via the dedicated e-mail: ir@arecor.com.

Board members attend the Annual General Meeting 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 due to the efforts of all stakeholders.

The Group draws upon a range of different resources and relationships which includes working collaboratively in cross functional teams. Company-wide meetings ensure that all employees are aware of the direction of the business, upcoming milestones and progress against business objectives. Employee feedback is collated through questionnaires with trends and themes presented at a Company-wide meeting.

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 underpinned by processes and systems to ensure that there is appropriate oversight and engagement.

Corporate social responsibility

The Board recognises the importance of corporate social responsibility and seeks to take account of the interests of the Group's broad stakeholder groups. The Board works to build and maintain an environment within which employees, suppliers and customers involved in the Group's business activities behave in an ethical and socially responsible way.

Environmental and Social Governance (ESG)

ESG is at the heart of our vision to enhance existing therapeutic medicines to enable healthier lives. Our technologies and approach use known ingredients and simple manufacturing techniques. Where possible, we source our materials and services locally and manage our supply chain relationships in accordance with our health, safety and environmental objectives.

Our proprietary diabetes product strategy has a strong social focus as we aim to develop products to improve the quality of life of people living with diabetes. Ogluo®, sold by Tetris Pharma, is a ready-to-use glucagon auto-injector pen to treat severe hypoglycaemia, a serious emergency condition for people living with Type 1 or Type 2 diabetes.

We are committed to behaving responsibly by updating or introducing new processes to manage our environmental obligation as part of supporting a sustainable environment. We work with suppliers who share our commitment to recycling and zero landfill. Where possible, we prioritise the sourcing our raw materials from suppliers recycling services. Employees are part of this commitment and identify ways to improve our environmental footprint.

Employee welfare and engagement

The Group is a committed equal opportunities employer. Employees and job applicants are given equal treatment regardless of their gender, marital status, sexual orientation, age, race, colour, nationality, ethnic origin, disability, or religious or philosophical beliefs.

The Group's responsibilities to our employees and the expectations of employees as business representatives are set out in the Company Handbook. The handbook is provided to all employees as part of their onboarding and 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 perform their roles and to develop within the organisation.

The terms of reference of our Social Committee, includes identifying opportunities to support local communities and charities. Many of our employees work as volunteers in our local communities.

Health and safety

The Group has defined health and safety policies and procedures which follow a review calendar to ensure that they are up to date and fit for purpose. Our overarching health and safety objectives are to ensure compliance with current legislation to protect employees, contractors and visitors attending our business premises. The Group's health and safety policies and procedures are part of staff on-boarding and training programmes.

The terms of reference of our Health and Safety committee, includes maintaining a safe and healthy working environment so that the Group can meet its legal responsibilities. The Health and Safety committee holds quarterly meetings to update and inform all colleagues about the Committee's activities.

Effective risk management

The Board has identified principal business risks which are included in the Strategic Report on pages 39 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 finance report 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, including matters reserved for the Board
- 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.

Board structure, skills and compliance

The Board has a collective responsibility and legal obligation to promote the interests of the Group and to define the corporate governance framework. At 31 December 2023, the Board comprised five Non-Executive Directors and two Executive Directors; the Chair, Chief Executive Officer, Chief Financial Officer and four Non-Executive Directors. The profiles of the Directors together with their biographical details, skills, experience and other directorships are set out on pages 46 to 47.

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 composition is to bring to bear a 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.

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 Leadership Team. During the year Manjit Rahelu joined as Chief Business Officer with Helen Parris joining as SVP Commercial and General Manager Tetris Pharma in January 2024.

Independence

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.

In accordance with the principles of the QCA Code, Christine Soden, Jeremy Morgan and Sam Fazeli are regarded as independent. Andrew Richards and Alan Smith have served on the board of directors for more than nine years and are not regarded as independent in accordance with the QCA Code.

The Board believes that the board of Non-Executive Directors and the Non-Executive Chair provide a blend of different experiences and backgrounds to bring an independent judgement to bear.

The Board is aware of the other commitments of its Directors and changes to these commitments are 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 Board requires each Director to declare to the Board the nature and extent of any direct or indirect interest in a proposed transaction or arrangement with the Group. A register is maintained of Directors' other interests, including other Board positions.

Non-Executive Directors are appointed to provide independent oversight and constructive challenge together with 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.

The designation of the respective responsibilities of the Chair and Chief Executive Officer are clearly defined and independent. The Chair's role is to ensure the effectiveness of the Board. The Chief Executive Officer has responsibility for the day-to-day business and performance of the Group.

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, 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.

The annual evaluation of Board performance is co-ordinated and led by the Chair. The process includes peer appraisal, completion of questionnaires and discussions. Succession planning for the Board is monitored and considered during the annual evaluation of Board performance.

Culture and values

The Board recognises that decisions about business strategy and risk impact the culture of the Group which in turn will impact the performance of the Company. The tone and culture set by the Board is disseminated through the Company and influences behaviour.

The Board's assessment of the culture within the Company is that there is respect for individuals, open dialogue and a commitment to building and maintaining stakeholder relationships.

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 Anti-Corruption and bribery policy provides clear guidance about recognising and handling potential bribery and corruption issues. This policy and approach applies to all persons working for the Group or on its behalf in any capacity, including employees at all levels, Directors, officers, consultants and agents.

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.

Board responsibilities

The Directors, together, act in the best interests of the Group via the Board and its Committees. They devote sufficient time and consideration as necessary to fulfil their duties. Each Director brings different skills, experience and knowledge to the Group with the Non-Executive Directors bringing independent thought and judgement.

Matters specifically reserved for the Board include strategy and capital; financial reporting and controls; internal controls; significant contracts; communication; board membership and other appointments; remuneration; delegation of authority and corporate governance matters including policies. These matters are set out in a formal schedule of matters reserved for the Board which is reviewed to ensure it remains relevant and reflects the business structure.

To discharge its responsibilities effectively, the Board has a system of delegated authorities, which enables the day-to-day operation of the business and so that significant matters are brought to the attention of the Leadership Team and the Board, as appropriate. Through this system the Board is able to provide oversight and direction to the Executive Directors, the Leadership Team and the wider business.

Division of responsibilities

The 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.

Non-Executive Chair – key responsibilities

- Responsible for the effectiveness and leadership of the Board
- Builds and maintains an effective and complementary Board of Directors
- Sets the agenda, style and tone of Board discussions
- Promotes a culture of openness and debate by facilitating the effective contribution of Non-Executive Directors
- Ensures active engagement in meetings, through effective relationships between the Executive and the Non-Executive Directors.

Chief Executive Officer – key responsibilities

- Is responsible for day-to-day leadership and management of the Group
- Develops the Group's objectives and strategy for Board review and approval
- Creates and recommends to the Board an annual business plan, including an annual budget
- Delivers the annual business plan
- Executes the agreed Group strategy and other agreed objectives

Non-Executive Directors – key responsibilities

- Evaluate and appraise the performance of the Executive Directors and Leadership Team against agreed objectives
- Participate in defining and developing the Group's strategy and monitor against it
- Monitor the financial information, risk management and controls processes of the Group
- Approve annual budget
- Formulate Executive Director remuneration and succession planning

Board Committees

The Board's principal committees are the Audit and Risk Committee, Remuneration Committee and Nomination Committee. Each committee has written terms of reference that set out specific authorities and duties.

As required, separate committees are 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, reviewing the Company's annual and interim financial statements, reviewing and monitoring the extent of the non-audit services undertaken by 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.

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

Membership:
Christine Soden, Jeremy Morgan and Sam Fazeli.

Committee Chair:
Christine Soden.

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 members of the Leadership Team. 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.

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

Membership:
Jeremy Morgan, Christine Soden and Sam Fazeli.

Committee Chair:
Jeremy Morgan.

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 Nomination Committee meet each year and as required.

Membership:
Andrew Richards, Christine Soden, Jeremy Morgan, Alan Smith and Sam Fazeli.

Committee Chair:
Andrew Richards.

Board meetings

The Board meets 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 at the Company's premises at Chesterford Research Park occur where practicable.

The number of Board and Committee meetings attended by each of the Directors in the year under review was as follows:

	Board meeting	Audit & Risk Committee	Remuneration Committee	Nomination Committee
Andrew Richards	9		3*	2
Sarah Howell	9		2*	2*
Susan Lowther	9	2*	3*	2*
Sam Fazeli	8	1	1	2
Jeremy Morgan	8	2	4	2
Alan Smith	9		3*	2
Christine Soden	9	2	4	2

*Attended at the invitation of the Chair.

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 2023.

In setting and reviewing the Group's remuneration policy the Committee considers the following key principles:

- Remuneration which is competitive with the Group's comparator peer group
- Attracting and retaining high-calibre employees with the requisite skill set to support the Group's business focus and strategy
- Promoting long-term sustainable success
- Principles of clarity, proportionality and alignment of interests

Key matters considered by the Committee during the year and post the end of the financial year included:

- Awards under the AESOP and LTIP share option plans
- Review of base salary
- Performance related bonus
- Review of external benchmarking
- Employee benefit structures

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
15 May 2024

Applying the remuneration principles

In the year the Committee applied the remuneration policy and principles in several ways, by:

1. Reviewing share option incentives. Including share option grants, the amount of such awards, individual option grants for Executive Directors, the Leadership Team and senior managers, together with performance conditions and option term
2. Determining the total individual remuneration package of each Executive Director and members of the Leadership Team including bonus awards and grant of share options
3. Exercising independent judgement and discretion when determining remuneration awards, taking account of performance against corporate objectives, individual performance and contribution and the context of the macroeconomic environment
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 Chief Executive Officer attends Committee meetings at the invitation of the Chair, to present proposals related to Leadership Team remuneration for the Committee's consideration and decision.

The Chief Financial Officer acts as secretary to the Committee, including the dissemination of meeting minutes to record Committee decisions, as directed by the Chair.

Executive Directors do not participate in Committee discussions about their remuneration.

Remuneration report for the year ended 31 December 2023

In 2023 the Leadership Team focused on progressing our diabetes portfolio, balanced with achieving revenue growth in our commercial partnerships and building Ogluo® product sales.

Executive Directors remuneration

No Executive Director is involved in decisions setting their remuneration.

Remuneration summary

	Salary £000	Bonus £000	Pension £000	2023 £000	Salary £000	Bonus £000	Pension £000	2022 £000
Sarah Howell	260	156	23	439	250	150	21	421
Susan Lowther	209	93	20	322	200	90	16	306

Fixed and variable remuneration

	Fixed	%	Variable	%	2023 £000	Fixed	%	Variable	%	2022 £000
Sarah Howell	283	64%	156	36%	439	271	64%	150	36%	421
Susan Lowther	229	71%	93	29%	322	216	71%	90	29%	306

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 factors that include market rates, benchmarking to peers, as well as the 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.

Performance related pay

Performance related pay is in the form of an annual bonus. Bonus payments approved by the Committee are discretionary and reflect the Board's view of corporate performance in the year.

The annual bonus applies to all employees, including the Executive Directors and Leadership Team. The objective is to deliver strategic and financial success, as well as long-term growth to the benefit of the Group and its shareholders.

Corporate objectives for the Group are prepared in the final quarter of the year for the new financial year ahead. Objectives are prepared by the Leadership Team and presented by the Chief Executive Officer for Board review and approval. Following Board approval, the relative weighting of objectives between company and individual performance is discussed and approved by the Remuneration Committee.

The corporate objectives reflect the Group's short and longer-term business plans. Actions and behaviours required to achieve these plans are agreed by the Leadership Team and cascaded throughout the organisation. The process aligns individuals and team objectives with company plans.

Targets for the Executive Directors are part of this process and are approved by the Remuneration Committee. Performance criteria includes clinical, commercial and financial targets of the Group, underpinned by clear and measurable objectives.

The appraisal process underpins bonus proposals and awards. In the first quarter of the year bonus proposals for employees are prepared by the Leadership Team. The Chief Executive Officer prepares proposals for the Leadership Team. The Remuneration Committee review and approve the proposals.

The Remuneration Committee discuss the performance of Executive Directors and decide the bonus award. No individual makes a decision about their own bonus payment.

Performance against corporate objectives in the year under review is assessed by the Remuneration Committee and communicated to the Chief Executive Officer. This establishes the company performance element of the bonus award.

In the year ended 31 December 2023 the following relative weightings between corporate and individual performance were applied:

Level	Description	Corporate	Individual	TOTAL
1	CEO	100%	0%	100%
2	CFO	80%	20%	100%
3	Leadership Team	50%	50%	100%
4	Directors of business teams, team leaders and senior managers	30%	70%	100%
5	All other employees	10%	90%	100%

Bonus payments made to the Tetris Pharma team were based on the achievement of sales and EBITDA targets.

Benefits

Benefits are provided to all employees. They include a monthly contribution to a health & wellbeing platform or gym membership. Private medical insurance and Group life assurance are also provided.

Share ownership and share options

The Group encourages employee share ownership and has many employee shareholders. Share ownership is provided through the operation of the Group's AESOP and LTIP schemes.

Share option grants and the exercise of vested share options are reviewed and approved by the Committee.

LTIP

The LTIP is used to grant options to Executive Directors and members of the Leadership Team 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 Committee has an overriding responsibility to exercise its discretion and judgement to ensure that the vesting of options granted under the LTIP, reflects the Board's view of corporate performance during such vesting period. This discretion includes the discretion in exceptional circumstances to adjust the targets and/or set different measures and alter weightings.

AESOP

All employees are eligible to participate in the AESOP. Share option grants under the AESOP are at the discretion of the Committee and do not include 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

	2023 £'000	2022 £'000
Andrew Richards	80	80
Christine Soden	40	40
Jeremy Morgan	40	40
Sam Fazeli	35	35
Alan Smith	35	35

Remuneration paid to Non-Executive Directors is to attract and retain experienced individuals who can advise and assist with establishing and monitoring the strategic objectives.

Fee levels reflect the time, commitment and experience of the Chair and Non-Executive Directors. 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.

The remuneration of the Chair and the Non-Executive Directors is payable in cash fees. They do not participate in bonus or share option schemes. Their services do not qualify for pension or other benefits. Fees are paid monthly with reasonable expenses reimbursed, in accordance with the Group's expenses policy.

Directors' shareholdings

Directors' interests in the shares of the Group, including family and beneficial interests at 31 December 2023 and 31 December 2022 were:

Director	Number of shares held at 31/12/2023	% of total shares in issue	Number of shares held at 31/12/2022	% of total shares in issue
Sarah Howell	867,738	2.83%	867,738	2.83%
Susan Lowther	201,849	0.66%	201,849	0.66%
Andrew Richards	223,834	0.73%	223,834	0.73%
Alan Smith	181,765	0.59%	181,765	0.59%
Sam Fazeli	115,708	0.38%	115,708	0.38%
Jeremy Morgan	27,169	0.09%	27,169	0.09%
Christine Soden	19,167	0.04%	19,167	0.04%
	1,637,230	**5.32%**	**1,637,230**	**5.32%**

None of the Directors exercised share options, purchased or sold shares in the year.

Directors' interests in share options

Directors' interests to acquire ordinary shares in the Group, with a nominal value of £0.01 between 31 December 2023 and 31 December 2022 were:

	Option Type	Exercise price	Number of options held at 31/12/2023	Number of options held at 31/12/2022
Sarah Howell	AESOP 2021	£2.26	100,000	100,000
Sarah Howell	LTIP 2021	£0.01	240,000	240,000
Sarah Howell	AESOP 2022	£2.45	33,000	33,000
Sarah Howell	LTIP 2022	£0.01	80,000	80,000
Susan Lowther	AESOP2021	£2.26	70,000	70,000
Susan Lowther	LTIP 2021	£0.01	190,000	190,000
Susan Lowther	AESOP 2022	£2.45	23,000	23,000
Susan Lowther	LTIP 2022	£0.01	63,333	63,333
			799,333	**799,333**

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 final exercise of 1,332 EMI 2018 options by employees who were all non PDMRs (Person Discharging Managerial Responsibilities) occurred on 1 November 2023.

AESOP 2021

The AESOP 2021 options are subject to graded vesting with one third vesting on the first, second and third anniversary of the date of grant. They do not have performance conditions. The options expire 10 years after the date of grant.

LTIP 2021

Options granted under the LTIP 2021 are at an exercise price of £0.01 per share. The LTIP 2021 options have a three-year term and a performance condition of total shareholder return in relation to the techMARK mediscience index over the three-year option term.

The LTIP 2021 options are subject to a holding period of one year from the date on which the option vests.

AESOP 2022

The AESOP 2022 options vest in full on the third anniversary of the date of grant. They do not have performance conditions. The options expire 10 years after the date of grant.

LTIP 2022

Options granted under the LTIP 2022 are at an exercise price of £0.01 per share. The LTIP 2022 options have a three-year term. Vesting is subject to meeting defined performance criteria.

Firstly, 60% of the total option grant vests one third (or 20%) on each anniversary of the date of grant provided that the total shareholder return target in relation to the techMARK mediscience index is achieved. The remaining 40% of the LTIP 2022 will vest subject to meeting defined commercial objectives during the three-year option term.

The 2022 LTIP options are subject to a holding period of one year from the date on which the option vests.

Jeremy Morgan
Chair of Remuneration Committee
15 May 2024

Statement from the Committee Chair

I am pleased to present this Audit & Risk Committee report for the financial year ending 31 December 2023.

Business risks faced by the Group in the year reflected an uncertain global, macroeconomic environment and the inherent uncertainties arising from our underlying business model of drug development. Specific risks included management of rising costs, exposure to foreign currency fluctuations and external funding.

The Committee considered several key matters in the year and provided oversight as Tetris Pharma Ltd was integrated into the Group's financial reporting.

Role and responsibilities

The Audit & Risk Committee provides appropriate oversight of the Group's financial reporting, internal controls, and risk framework. Members of the Committee have recent, relevant financial experience and are independent.

The terms of reference of the Audit & Risk Committee include the following responsibilities:

- Review of the Group's financial statements, including compliance with the appropriate accounting standards, before submission to the Board for approval.
- Oversight of processes, procedures and systems which identify, assess, and manage 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.
- Consider and make recommendations to the Board in relation to the appointment of the Company's external auditor and be satisfied with the auditor's independence, objectivity and effectiveness.
- Review and approve the provision of non-audit services.

Schedule of meetings and attendance

The planned schedule of Audit & Risk Committee meetings follows the Company's financial reporting calendar.

There were two scheduled meetings in the year which were attended by all members. After each Committee meeting the Chair reports to the Board on key issues discussed, including when appropriate, a recommendation from the Committee to approve the full year or interim results.

The Executive Directors are not members of the Committee. The Chief Financial Officer attends meetings at the invitation of the Chair to report on key matters and assist the Committee in the fulfilment of its oversight responsibilities.

Non-audit and accountancy services

Grant Thornton UK LLP provided non-audit agreed upon procedures and processes for the interim results to 30 June 2023.

Accountancy services provided by third parties, included:

Accountancy services	Provider	Company
Payroll and taxation services	Lakin Rose LLP	Arecor Therapeutics plc, Arecor Limited, Tetris Pharma Ltd
Audit of grant claims	Lakin Rose LLP	Arecor Limited
Payroll and VAT services	RSM Netherlands	Tetris Pharma B.V.
Fair value assessment	First Actuarial	Arecor Therapeutics plc
WACC assessment	Ernst & Young	Arecor Therapeutics plc
VAT review	Ernst & Young	Tetris Pharma Ltd

The terms of engagement and fees for providing non-audit and accountancy services were reviewed and approved by the Committee.

External auditors

The Committee monitors the external auditor's performance and independence. We consider that the external auditor's relationship with the Company is robust and effective. We consider Grant Thornton UK LLP to be independent.

We assessed the audit fees for the Group consolidated statements and the subsidiary financial statements to ensure that they were in line with market rates and reflect performance. All audit fees are approved by the Committee.

Matters reviewed by the Committee

In the year we considered and approved the following:

- FY2022 Annual Report, including financial statements for year ended 31 December 2022.
- Interim statements for the period ended 30 June 2023.

Key judgements and estimates

The Committee have reviewed and provided comments on the interim and audited statements. In doing so they considered the following key judgements and estimates, used in the preparation of the accounts.

Going concern

The Committee considered the cash flow forecasts and going concern review prepared by management, including the financial statements and disclosures on page 100.

Review of goodwill

The Committee reviewed management's analysis of the goodwill reported in the financial statements and whether an impairment of goodwill was required. The assessment of the assumptions used included the value in use of Tetris Pharma, as the cash generating unit to which the goodwill is associated, and the appropriateness of the discount rate used. Details of the assumptions applied are provided in Note 15.

Revenue recognition

The Committee reviewed the recognition of revenue, including the determination of revenue recognized in the performance of formulation development projects over time. The Committee reviewed royalty income recognized, to determine that recognition was in the period that the licensee made the sale in accordance with a royalty receivable statement and the license agreement.

In reviewing the key judgements applied, the Committee considered the analysis and views of the external auditor.

The Committee are satisfied that the judgements made in respect of the amounts included in the annual report for the year ended 31 December 2023 are appropriate.

Risk and control framework

The Committee has reviewed and consider that the internal controls and risk management framework are appropriate for the relative size and complexity of the Group's activities. We will continue to review the effectiveness of the Group's internal controls including the need for an internal audit function.

Our assessment of risk factors included:

- The risk management framework used by the Group.
- Review and update of financial authorities applied by the Group, including authorisation levels and limits for approval of operating and capital expenditure.
- Review and update of matters reserved for the Board.

Christine Soden
Chair of Audit & Risk Committee
15 May 2024

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 2023.

The Corporate Governance statement on page 56 and the governance section on pages 56 to 64 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
Susan Lowther

Non-Executive

Andrew Richards
Sam Fazeli
Alan Smith
Christine Soden
Jeremy Morgan

Directors' biographies are set out on pages 46 to 47.

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 4 to 43.

Business review

The Strategic Report on pages 4 to 43 is a review of the business and the Group's trading for the year ended 31 December 2023. 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 £8.7 million (2022: loss £9.3 million). The Directors do not recommend the payment of a dividend (2022: £nil)

Financial instruments

Information regarding financial instruments can be found in note 24 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 67 to 71.

Research and development

The Group continues to invest in research and development with expenditure of £6.0 million (2022: £8.6 million) in the year. Further details are set out in the Strategic Report.

Donations

No charitable or political donations were made in the year (2022: £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 4 to 43, 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

Significant events after the reporting date are set out in Note 31 of the Consolidated Financial Statements.

Independent Auditor

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 28 June 2024. 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
15 May 2024

Arecor Therapeutics plc
Chesterford Research Park
Little Chesterford
CB10 1XL

Company registration number:
13331147

Directors' Responsibility Statement

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

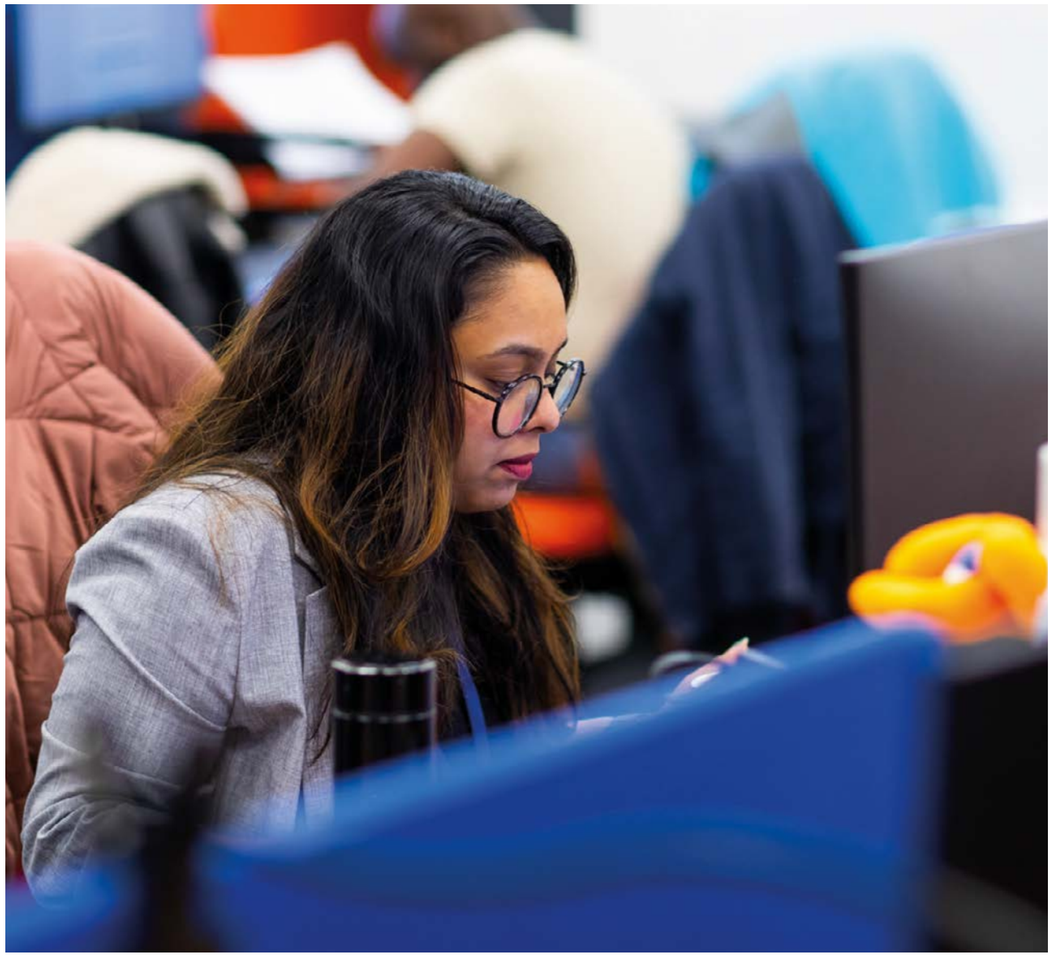
Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the Group financial statements in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006 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 of the Group and parent company and of their profit or loss for that period. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and accounting estimates that are reasonable, relevant, reliable and prudent;
- State whether applicable international accounting standards in conformity with UK adopted international 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 to enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and Article 4 of the IAS Regulation.



The Directors are also 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. They are responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and for the prevention and detection of fraud and other irregularities.

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

The Directors are responsible for preparing the annual report in accordance with applicable law and regulations. The directors consider the annual report and the financial statements, taken as a whole, provides the information necessary to assess the company's performance, business model and strategy and is fair, balanced and understandable.

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.

To the best of our knowledge:

- The Group financial statements, have been prepared in accordance with UK-adopted international accounting standards, to give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- 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 principal risks and uncertainties that they face.

Sarah Howell
Chief Executive Officer
15 May 2024

Susan Lowther
Chief Financial Officer
15 May 2024

Group Consolidated Financial Statements

In this section:

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 subsidiaries (the 'Group') for the year ended 31 December 2023, which comprise the Consolidated income statement, the Consolidated and Company statement of changes in equity, the Consolidated and Company statements of financial position, the Consolidated statements of cash flows and Notes to the consolidated and Company 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 Disclosure Framework' United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the Parent company's affairs as at 31 December 2023 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.

Material uncertainty related to going concern

We draw attention to the Going Concern note included in Note 4 in the financial statements which indicates the risk of the Group's and the Parent company's ability to continue as a going concern due to the uncertainty around the revenues and timing of receipts, as well as the ability of the Group to raise sufficient funding to meet its forecast costs. As stated in the going concern note, these events and conditions along with the other matters as set forth in the Going Concern note indicate that a material uncertainty exists that may cast significant doubt on the Group's and the Parent company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

Our evaluation of management's assessment of the entity's ability 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 on their assessment of the Group's and the Parent company's ability to continue as a going concern;
- Obtaining management's going concern assessment for the period to June 2025 which included a base case model, downside model, and an understanding of how the forecasts were compiled including any potential mitigations;
- Testing the reliability of management's forecasting by comparing the accuracy of the actual financial performance with forecast information obtained in prior periods and comparing forecast performance with actual performance post year end;
- Challenging the sensitivity analysis performed by management on the key assumptions and estimates to determine the impact of reasonably possible movements and assessing the reasonableness of mitigating actions available to management by agreeing to underlying supporting workings;
- Performing alternative sensitivity analysis to consider a number of additional plausible downside scenarios, to that prepared by management;
- Considering whether the assumptions are consistent with our understanding of the business derived from other detailed audit work undertaken and corroborating key assumptions back to supporting documentation;
- Considering management's assumptions in their plans for the future fund raises and assessing the plausibility of these amounts and timing of these fund raises; and
- Assessing the adequacy of the going concern disclosures included within the strategic report and accounting policies for compliance with the requirements of International Accounting Standard ('IAS') 1 'Presentation of financial statements'.

Our responsibilities

We are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and 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 responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Our approach to the audit

Overview of our audit approach

Overall materiality:
Group: £365,000, which represents 4% of the Group's loss before tax.

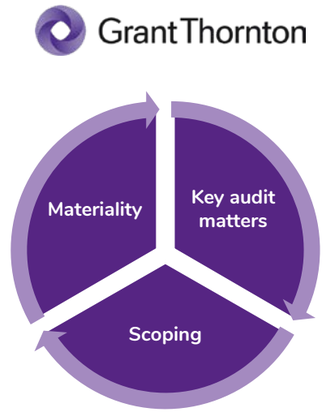
Parent company: £330,000 which is 1% of the Parent company's total assets.

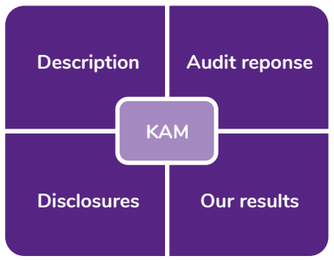
In addition to the matter described in the material uncertainty related to going concern section, key audit matters were identified as:

- Contract revenue and contract liabilities related to open contracts at the year end. Contract liabilities has been included as a KAM this year (new in the current year) due to the significant judgement involved in the stage of completion of open contracts, which has a direct effect on the amount of contract liability that is recognised. It has therefore been included as a combined KAM with revenue, as in the audit team's view the two are directly linked.
- Impairment of goodwill (new in the current year)
- Valuation of loan receivable from Tetris Pharma Ltd and risk of impairment of investment in subsidiary (new in the current year and applicable to parent company financial statements only)

Our auditor's report for the year ended 31 December 2022 included one key audit matter that has not been reported as a key audit matter in our current year's report. This related to the acquisition accounting for Tetris Pharma Ltd and Tetris Pharma BV of which is not applicable for the current year as no new acquisitions have occurred. In addition to this, the KAM for contract revenue has been revised in the current year to include the associated contract liabilities.

We performed an audit of the financial statements using component materiality (full-scope audit procedures) of three components based in the United Kingdom. We performed specific audit procedures relating to significant risks of material misstatement of the Group financial statements for one component in the Netherlands. This approach is the same as the previous year.

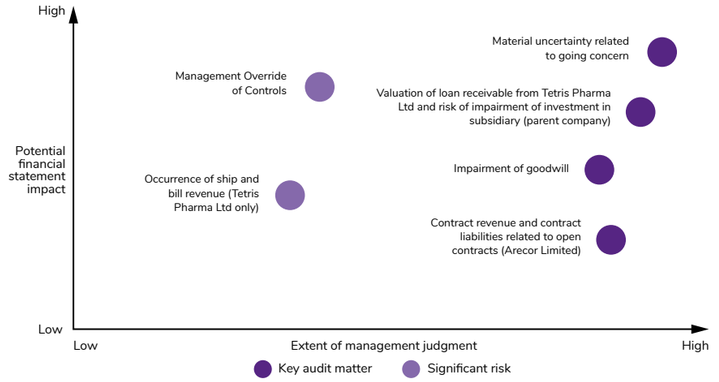




Key audit matters

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 and significant risks relevant to the audit.



Key Audit Matter – Group	How our scope addressed the matter – Group
Contract revenue and contract liabilities related to open contracts (applicable to Arecor Limited)	
We identified the accuracy of revenue and completeness of contract liabilities relating to open formulation development contracts at the year-end where revenue is being recognised over time as one of the most significant assessed risks of material misstatement due to fraud and error. Open contracts are contracts that are not complete at the end of the reporting period. Determining the amount of revenue and contract liabilities to be recognised required management to make significant judgements over the estimated progress of the contract in exchange for consideration. This is done by assessing the agreement terms, including the identification of distinct performance obligations; determination of the transaction price; allocation of the transaction price to each performance obligation; and consideration as to how much revenue should be recognised over time using the output basis under International Financial Reporting Stands ('IFRS 15') 'Revenue from contracts with customers'. 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. This means for open contracts significant contract liabilities are expected to be recognised at the balance sheet date.	In responding to the key audit matter, we performed the following audit procedures: • Obtained a management paper explaining the revenue and contract liabilities recognised on significant contracts and application of IFRS15 to clauses within the contracts to obtain an understanding of management's accounting policies and application of IFRS15 and assessed their compliance with IFRS15; • As part of our assessment of IFRS15 application, we challenged management over the identification of performance obligations and allocation of transaction price to those obligations in line with the contract; • Agreed all open contracts that recorded a material amount of revenue in the period back to timetables, contracts and other supporting documentation to verify the occurrence of revenue and completeness of contract liabilities; • Corroborated management's explanations setting out the revenue recognised on significant contracts and stage of completion to ensure balances were correctly accrued or deferred, focusing in particular on the completeness of contract liabilities by agreeing back to timelines agreed with the customer and corresponding open contracts.
Relevant disclosures in the Annual Report and Accounts 2023	**Our results**
• Financial statements: Note 6, Revenue and operating segments and Note 21, Trade and other payables	Based on our audit work, we did not identify any evidence of material misstatements in relation to contract revenue and their associated contract liabilities in relation to open contracts.

Key Audit Matter – Group	How our scope addressed the matter – Group
Impairment of goodwill	
We identified impairment of goodwill as one of the most significant assessed risks of material misstatement due to error. At 31 December 2023, the Group had goodwill of £1.5m (2022: £1.5m) recognised on the acquisition of Tetris Pharma Ltd. Under International Accounting Standard (IAS) 36 'Impairment of Assets', management is required to perform an impairment test annually for goodwill acquired in a business combination. There is a risk that the carrying value of the goodwill may be higher than the recoverable amount. This risk is heightened in the current period due to 2023 performance being lower than forecasted, resulting to lower headroom in the current year than expected. The process of making the impairment assessment through determination of appropriate inputs to the assessed fair value (including revenue growth, discount rates and long-term growth rates) contains significant judgment and is therefore subject to potential management bias and error. These assumptions can also significantly impact the results of the impairment assessment.	• In responding to the key audit matter, we performed the following audit procedures: • Evaluated management's assessment of impairment under the 'value in use' model and challenged their assessment of its appropriateness and methodology in line with the requirements of IAS 36; • Evaluated the mathematical accuracy of the model and key assumptions including the basis of forecasts, revenue growth rates and discount rates applied; • Engaged our internal valuation specialists as an auditor's expert to perform shadow calculations of the discount rate used in management's impairment calculation and used this in our evaluation of the appropriateness of management's discount rate; • Compared the forecast used in management's impairment assessment with the group's business plan and obtained explanations for variances; • Assessed management's forecasting accuracy by comparing forecasts to historical financial information and actual performance to date; • In addition to sensitivities performed by management, we performed additional downward sensitivity analysis on key assumptions; and • Tested the accuracy and sufficiency of management's accounts disclosures for compliance with IAS 36.
Relevant disclosures in the Annual Report and Accounts 2023	**Our results**
• Financial statements: Note 15, Goodwill and acquisition of subsidiaries	Based on our audit work, we did not identify any evidence of material misstatements in relation to the impairment of goodwill.

Key Audit Matter – Parent company	How our scope addressed the matter– Parent company
Valuation of loan receivable from Tetris Pharma Ltd and risk of impairment of investment in subsidiary	
We identified valuation of the loan receivable from Tetris Pharma Ltd and the risk of impairment of the investment in this subsidiary as one of the most significant assessed risks of material misstatement due to error. At 31 December 2023, the parent company had a gross intercompany loan receivable from Tetris Pharma Ltd of £6.6m (2022: £2.9m) against which an expected credit loss provision of £1.6m (2022: £nil) had been recorded and an investment in this subsidiary of £2.2m (2022: £2.2m) for which an impairment charge of £2.2m has been recorded in 2023 (2022: £nil). Tetris Pharma Ltd has generated losses in the current and prior year. Actuals in the current year are lower than previously forecast. Hence, there is a heightened risk that the investment may be impaired and that the intercompany loan receivable may not be recoverable. The directors are required to make an annual assessment to determine whether investments in subsidiaries and intercompany loan receivables are impaired. This assessment will incorporate a review of impairment indicators. Management's assessment for indicators of impairment includes significant management judgements that also lead to a heightened risk of misstatement.	In responding to the key audit matter, we performed the following audit procedures: **Intercompany loan receivable** • Evaluated and challenged management's assessment of the ability of Tetris Pharma Ltd to make payment of the full amount by assessing if the highly liquid assets at year-end are sufficient to repay the liability and evaluated if the entity has the financial capability to settle the amounts owed. ; and • Evaluated management's assessment of impairment under the 'expected credit loss' model and assessed if the underlying assumptions and methodology is in line with the requirements of IFRS 9. **Investment in subsidiary** • Evaluated the net asset value of the subsidiary balance sheet against the carrying value of the investment to assess whether there are indicators of impairment; • Obtained management's impairment assessment, including the underlying discounted cash flow forecasts used to determine value in use and confirmed the arithmetical accuracy of those calculations, including the associated sensitivity analyses, and obtained evidence to support the main assumptions. Through knowledge of the business, discussions with management and other external information, we assessed the reasonableness of management's assumptions; and • Considered the implications of the Group's goodwill and intangible asset impairment review for consistency with the conclusion reached for the investment carrying value and the resulting impairment charge.
Relevant disclosures in the Annual Report and Accounts 2023	**Our results**
• Parent company financial statements: Note 3, Investments in subsidiary undertakings and Note 4, Intercompany loan receivable	• Based on our audit work, we did not identify any evidence of material misstatements in relation to the valuation of the intercompany loan receivable from Tetris Pharma Ltd or the impairment of the investment in this subsidiary.

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.

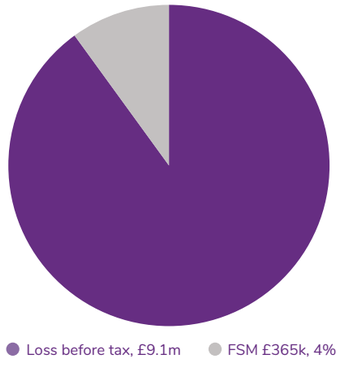
Materiality was determined as follows:

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	£365,000 which is 4% of Group's loss before tax.	£330,000 which is 1% of the Parent company's total assets.
Significant judgements made by auditor in determining materiality	In determining materiality, we made the following significant judgements: • Following the acquisition of Tetris Pharma Limited, total expenses now also includes costs relating to product sales as opposed to prior year where total expenses consisted mainly of research and development expenditure. • As a result of this, our conclusion is that the Group's loss before tax is a more appropriate benchmark than the total expenditure less non-recurring expenses included in prior year. We have also selected loss before tax as the most appropriate benchmark as the Group is a commercially focused organisation with loss before tax being a generally accepted audit benchmark. • We concluded on using 4% of loss before tax as our benchmark which was deemed reasonable given the size of the group and lack of complexity relative to larger peers. • Materiality for the current year is higher than the level that we determined for the year ended 2022 as the results include a full year of trading for Tetris Pharma Ltd.	In determining materiality, we made the following significant judgements: • We considered the Parent company's total assets to be the most appropriate benchmark because the entity is a non-trading holding company. • Materiality for the current year is higher than the level that we determined for the year ended 31 December 2022 due to materiality not being capped by Group materiality in the current year.
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	£255,500, which is 70% of financial statement materiality.	£250,800 which is 75% of financial statement materiality.
Significant judgements made by auditor in determining performance materiality	In determining performance materiality, we made the following significant judgements: • The results include a full year of trading for Tetris Pharma Limited for the first time. We identified a number of immaterial misstatements and control deficiencies in the prior period from Tetris Pharma Ltd, leading us to decrease performance materiality from 75% in the prior year to reflect aggregation risk. • There have been no changes to Group senior management within the year; and • There were no significant changes in the Group's business objectives or strategy.	In determining performance materiality, we made the following significant judgements: • Few control deficiencies have been identified in prior periods that would require a decrease in performance materiality; • There were no significant adjustments identified in the prior year audit which suggested a lower performance materiality may be necessary; • There have been no changes in senior management during the year and; • There were no significant changes in business objectives or strategy.
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 outside the normal course of business.	We determined a lower level of specific materiality for the following areas: • Directors' remuneration; and • Related party transactions outside the normal course of business.
Communication of misstatements to the audit committee	We determine a threshold for reporting unadjusted differences to the audit committee.	
Threshold for communication	£18,250 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£16,500 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

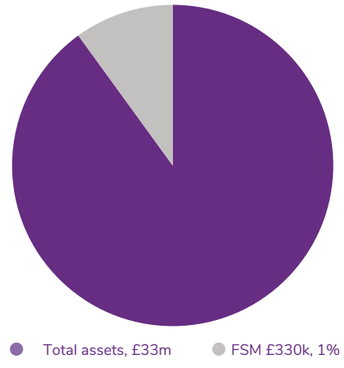
The graph below illustrates how performance materiality interacts with our overall materiality and the threshold for communication to the audit committee.

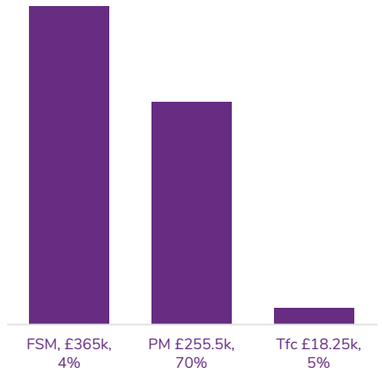
FSM: Financial statement materiality, PM: Performance materiality, TfC: Threshold for communication to the audit committee.

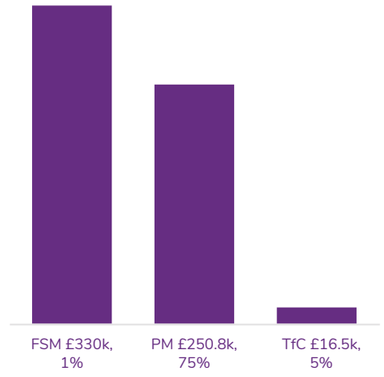
Overall materiality – Group



Overall materiality – Parent company







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
Our audit approach was a risk-based approach founded on a thorough understanding of the Group's and the Parent company's business, their environment and risk profile. 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 by performing walkthroughs across our identified risk areas such as management override of control and revenue.

Identifying significant components
The components of the Group were evaluated by the audit team based on a measure of materiality considering each as a percentage of total loss before tax to assess the significance of the component and to determine the planned audit response. As part of this, we evaluated the processes and controls over the financial reporting system identified as part of our risk assessment and critical accounting areas such as the key audit matters as identified above.

Type of work to be performed on financial information of Parent and other components (including how it addressed the key audit matters)
A full-scope audit approach for components evaluated as significant was determined based on their relative share of the Group's total loss before tax. For components classified as "individually financially significant to the Group" an audit of the financial information of the component using component materiality (full-scope audit procedure) was performed. We also considered the total Group coverage for each component to determine whether any further specific audit procedures were required, of which one component was noted (Tetris Pharma BV). The work on this component was performed by the Group team.

In order to address the audit risks identified during our planning procedures, including the key audit matters as set out above, the engagement team performed full-scope audit procedures on the financial statements of the Parent company (Arecor Therapeutics Plc) which holds the majority of the trade, Arecor Limited and Tetris Pharma Ltd.

Performance of our audit
An overview of the current year's scoping compared to prior year is set out below:

Audit approach	No. of components	% coverage total assets	% coverage total expenditure
Full-scope audit	3 (2022: 3)	91%	88%
Specific-scope audit	1 (2022: 1)	9%	12%

Other information

The other information comprises the information included in the annual report and accounts for the year ended 31 December 2023, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report and accounts for the year ended 31 December 2023. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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 their 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

As explained more fully in the directors' responsibilities statement set out on page 77, 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.

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Parent company and the Group, and the sector in which they operate, through our commercial and sector experience, making enquiries of management and those charged with governance, and inspection of the Parent company's and the Group's key external correspondence. We corroborated our enquiries through our review of board minutes and other information obtained during the course of the audit.
- Through the understanding we obtained, we determined the most significant legal and regulatory frameworks which are directly relevant to specific assertions in the financial statements are those related to the financial reporting framework, including UK-adopted international accounting standards, the AIM Rules for Companies, the Companies Act 2006, the Data Protection Act, Health and Safety regulations, Employment law and the relevant taxation regulations in the jurisdictions in which the Parent company and Group operate.
- We obtained an understanding of how the Parent company and the Group are complying with those legal and regulatory frameworks by making inquiries of management, those responsible for legal and compliance procedures, and the company secretary. We corroborated our inquiries through our review of Board minutes.
- We assessed the susceptibility of the Parent company's and the Group's financial statements to material misstatement, including how fraud might occur, by considering 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 estimation and significant judgement. These include revenue recognition and management override of controls.
- Our audit procedures included:
  - Making enquiries of management concerning the Parent company's and the Group's policies and procedures relating to: the identification, evaluation and compliance with laws and regulations; 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.
  - Enquiring with management and those charged with governance 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 corroborated the results of our enquires to relevant supporting documentation.
  - Challenging significant accounting assumptions, estimates and judgements made by management, including those relevant to the estimation and judgemental areas with a risk of fraud. These areas included potential management bias through revenue recognition and management override of controls.
  - We performed journal entry testing, with a focus on journals indicating large or unusual transactions or account combinations based on our understanding of the business.
  - We gained an understanding of and tested significant identified related party transactions; and
  - We performed audit procedures to consider the compliance of disclosures in the financial statements with the applicable financial reporting framework requirements.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The engagement partner's assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
  - Understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation.
  - Knowledge of the industry in which the Parent company and the Group operate; and
  - Understanding of the legal and regulatory requirements specific to the Parent company and the Group.
- Communications within the audit team in respect of potential non-compliance with laws and regulations and fraud included the potential for fraud in relation to areas of estimation, areas we have identified as a key audit matter and through management override of controls in the preparation of the 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.

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

15 May 2024

Consolidated income statement

for the year ended 31 December 2023

	Notes	31 December 2023 £000	31 December 2022 Restated £000
Revenue	6	**4,573**	2,403
Other operating income	7	**1,142**	1,250
Research and Development	8	**(5,977)**	(8,613)
Sales, General & Administrative	8	**(8,913)**	(5,552)
Operating loss		**(9,175)**	(10,512)
Other Income		**5**	-
Finance income	10	**284**	109
Finance expense	11	**(15)**	(21)
Loss before tax		**(8,901)**	(10,424)
Taxation	12	**347**	1,164
Loss for the financial year		**(8,554)**	(9,260)
Basic and diluted loss per share (£)	13	**(0.28)**	(0.32)

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

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

The accompanying accounting policies and notes on pages 98 to 127 form an integral part of these financial statements.

Consolidated statement of financial position

At 31 December 2023

	Notes	31 December 2023 £000	31 December 2022 £000
Non-Current assets			
Intangible assets	14	**1,812**	1,918
Goodwill	15	**1,484**	1,484
Property, plant and equipment	16	**834**	838
Other receivables	17	**77**	48
Total non-current assets		**4,207**	4,288
Current assets			
Trade and other receivables	17	**3,189**	2,215
Current tax receivable		**458**	1,325
Cash and cash equivalents	18	**5,093**	4,765
Short-term investments	19	**1,659**	8,041
Inventory	20	**771**	1,131
Total current assets		**11,170**	17,477
Current liabilities			
Trade and other payables	21	**(4,903)**	(3,526)
Lease liabilities	22	**(118)**	(202)
Provisions	23	**(129)**	-
Total current liabilities		**(5,150)**	(3,728)
Non-current liabilities			
Lease liabilities	22	**(220)**	(86)
Provisions	23	**(28)**	-
Deferred tax		**(452)**	(496)
Total non-current liabilities		**(700)**	(582)
Net Assets		**9,527**	17,455
Equity attributable to equity holders of the Group	25		
Share capital	25	**306**	306
Share premium account	25	**28,976**	28,976
Share-based payments reserve	25	**1,518**	893
Other reserves	25	**11,455**	11,455
Merger relief reserve	25	**2,014**	2,014
Foreign exchange reserve	25	**(20)**	(8)
Retained losses	25	**(34,722)**	(26,181)
Total equity attributable to equity holders of the Group		**9,527**	17,455

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

Signed on behalf of the Board of Directors by:

Sarah Howell
Director

Consolidated statement of changes in equity

for the year ended 31 December 2023

	Share capital £000	Share premium £000	Other reserves £000	Merger relief reserve £000	Share-based payments reserve £000	Foreign exchange reserve £000	Retained losses £000	Total equity £000
At 1 January 2022	278	23,348	11,455		519	-	(17,051)	18,549
Comprehensive income for the year								
Loss for the year	-	-	-	-	-	-	(9,260)	(9,260)
Transactions with owners								
Issue of shares on acquisition of Tetris Pharma Ltd	7	-	-	2,014	-	-	-	2,021
Issue of shares for working capital purposes	20	5,980	-	-	-	-	-	6,000
Share issue expense	-	(352)	-	-	-	-	-	(352)
Issue of shares on exercise of share options	1	-	-	-	-	-	-	1
Reserve transfer	-	-	-	-	(130)	-	130	-
Share-based compensation	-	-	-	-	503	-	-	503
Foreign exchange movements	-	-	-	-	-	(8)	-	(8)
Total transactions with owners	28	5,628	-	2,014	374	(8)	130	8,165
Equity as at 31 December 2022	**306**	**28,976**	**11,455**	**2,014**	**893**	**(8)**	**(26,181)**	**17,455**
Equity as at 1 January 2023	306	28,976	11,455	2,014	893	(8)	(26,181)	17,455
Comprehensive income for the year								
Loss for the year	-	-	-	-	-	-	(8,554)	(8,554)
Foreign exchange movements	-	-	-	-	-	(12)	-	(12)
Transactions with owners								
Reserve transfer	-	-	-	-	(13)	-	13	-
Share-based compensation					638	-	-	638
Total transactions with owners	-	-	-	-	625	-	13	638
Equity as at 31 December 2023	**306**	**28,976**	**11,455**	**2,014**	**1,518**	**(20)**	**(34,722)**	**9,527**

The accompanying accounting policies and notes on pages 98 to 127 form an integral part of these financial statements.

Consolidated statement of cash flows.

for the year ended 31 December 2023

	31 December 2023 £000	31 December 2022 restated £000
Cash flow from operating activities		
Loss for the financial year before tax	**(8,901)**	(10,424)
Finance income	**(284)**	(109)
Finance costs	**15**	21
Share-based payment expense	**638**	503
Depreciation	**390**	248
Amortisation	**106**	93
Foreign exchange movements	**135**	(69)
RDEC receivable	**(116)**	(118)
	(8,017)	(9,855)
Changes in working capital		
Decrease in inventories	**360**	587
Increase in trade and other receivables	**(1,003)**	(48)
Decrease/(increase) in trade and other payables	**1,377**	(2,198)
Decrease/(increase) in provisions	**157**	-
Tax received	**1,285**	734
Net cash used in operating activities	**(5,841)**	(10,780)
Cash flow from investing activities		
Acquisition of subsidiary net of cash acquired	**-**	284
Purchase of property, plant and equipment	**(151)**	(299)
Sale of property plant and equipment	**5**	-
Purchase of intangible assets	**-**	(46)
Transfer of short-term investments to cash	**6,382**	(8,041)
Interest received	**284**	109
Net cash received from/(used) in investing activities	**6,520**	(7,993)
Cash flow from financing activities		
Issue of ordinary shares	**-**	6,000
Share issue costs	**-**	(352)
Repayment of loans	**38**	-
Capital payments on lease liabilities	**(203)**	(165)
Interest paid on lease liabilities	**(15)**	(21)
Repayment of working capital facility	**-**	(295)
Other interest paid	**-**	(7)
Net cash generated from financing activities	**(180)**	5,160
Net Increase/(decrease) in cash and cash equivalents	**499**	(13,613)
Exchange (losses)/gains on cash and cash equivalents	**(171)**	62
Cash and cash equivalents at beginning of financial year	**4,765**	18,316
Cash and cash equivalents at end of financial year	**5,093**	4,765

The accompanying accounting policies and notes on pages 98 to 127 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 registered in England and Wales at Chesterford Research Park, Little Chesterford, Saffron Walden, CB10 1XL with registered number 13331147.

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

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

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

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

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

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

3. Adoption of new and revised standards

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

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

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

Effective for periods beginning on or after 1 January 2024:

- Amendment to IFRS 16 – Leases: Leases on sale and leaseback
- Amendment to IAS 1 – Presentation of Financial Statements: Non-current liabilities with covenants
- Amendments to IAS 7 – Statement of Cash Flows and IFRS 7 – Financial Instruments: Supplier finance

Effective for periods on or after 1 January 2025:

- Amendments to IAS 21 – The Effects of Changes in Foreign Exchange Rates: Lack of exchangeability

4. Significant accounting policies

Basis of preparation
The consolidated financial statements have been prepared in accordance with UK-adopted International Accounting Standards and applicable law, including the requirements of the Companies Act 2006.

The Directors have elected to prepare the Parent Company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and applicable law, including the requirements of the Companies Act 2006.

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

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

Control is achieved when the Company:

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

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

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

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

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

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

Business combinations
Business combinations are accounted for using the acquisition method as at the acquisition date. This is considered to be the date at which control is transferred to the Group. The consideration transferred for the acquisition is the fair value of any equity interests issued by the Group. Identifiable assets and liabilities assumed in the business combination are measured at their fair value at the date of acquisition. This includes the value of any intangible assets generated that could not previously be recognised by the entity pre-acquisition.

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

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

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

Operating forecasts include estimates of:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Goodwill arising on acquisition

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

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

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

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

Impairment of non-financial assets

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

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior periods. A reversal of an impairment loss is recognised in the statement of comprehensive income immediately.

Property, plant and equipment

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

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of comprehensive income.

Inventory

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

Cash and cash equivalents

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

Financial instruments

Recognition and derecognition

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

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

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

Classification and initial measurement of financial assets

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

Financial assets are classified into the following categories:

- Amortised cost
- Fair value through profit or loss (FVTPL)
- Fair value through other comprehensive income (FVOCI).

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

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

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

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

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

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

Subsequent measurement of financial assets
Financial assets at amortised cost
Financial assets are measured at amortised cost if the assets meet the following conditions:

- They are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- The contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

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

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

IFRS 9 requires the Group to recognise a loss allowance for ECL on trade receivables. In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition, the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12 months ECL.

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

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

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

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

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

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

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

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

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

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

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

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

- The lease term has changed, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used)
- A lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification

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

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

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

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

The depreciation starts at the commencement date of the lease.

Taxation

Current taxation

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

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

Deferred taxation

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

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

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

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

Foreign currency

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

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

Equity

Equity comprises the following:

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

5. Critical accounting judgements and key sources of estimation uncertainty

Critical accounting judgements

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

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

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

Impairment of goodwill

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

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

Revenue recognition

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

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

Treatment of Research and Development expenditure

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

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

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

Recoverability of grant debtors

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

Key sources of estimation uncertainty

Share-based payments

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

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

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

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

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

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

R&D tax credits

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

Provision of obsolete and slow-moving stock

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

Accruals for sales rebates due to wholesalers

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

Valuation of intangibles at the balance sheet date

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

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

6. Revenue and operating segments

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

	31 December 2023 £000	31 December 2022 £000
UK	**2,893**	1,136
Switzerland	**488**	240
Germany	**332**	78
Italy	**274**	-
Rest of Europe	**-**	30
USA	**556**	784
India	**30**	135
	4,573	2,403

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

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

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

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

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

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

7. Other operating income

	31 December 2023 £000	31 December 2022 £000
Grant Income	**1,028**	1,132
RDEC Claim	**114**	118
	1,142	1,250

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

8. Operating loss

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

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

Auditors' remuneration

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

9. Remuneration of Directors and employees

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

	31 December 2023 £000	31 December 2022 £000
Wages and salaries	**3,793**	3,574
Share-based payments	**638**	503
Social security	**433**	417
Pension costs	**207**	174
	5,071	4,668

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

	31 December 2023 £000	31 December 2022 £000
Research, Development and Operations	**30**	34
Sales, General and Administration	**13**	10
Executive and Non-Executive Directors	**7**	7
	50	51

Directors' remuneration for Companies Act purposes amounts to:

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

Remuneration of the highest paid Director

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

Full details of Director's remuneration can be found within the Remuneration Committee Report on pages 67 to 71.

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

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

	31 December 2023 £000	31 December 2022 £000
Short-term employment benefits	**1,926**	1,824
Post-employment benefits	**79**	71
Share-based payments	**620**	489
	2,625	2,384

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

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

10. Finance income

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

11. Finance expense

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

12. Taxation

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

	31 December 2023 £000	31 December 2022 £000
Loss before tax	**(8,901)**	(10,424)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.5% (2022: 19.00%)	**(2,092)**	(1,981)
Tax effects of:		
Expenses not deductible for tax purposes	**443**	253
Enhanced R&D relief	**(380)**	(487)
Surrender of losses at a different rate of tax from R&D tax credits	**403**	423
Prior period adjustment to R&D	**40**	-
Unrecognised deferred tax	**1,271**	1,097
Additional relief on capital expenditure	**-**	(20)
Origination and reversal of timing differences	**(32)**	(26)
Total tax (credit)	**(347)**	(1,164)

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

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

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

13. Basic and diluted loss per share

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

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

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

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

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

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

14. Intangible assets

	Patents £000	Licenses £000	Software £000	Total £000
Cost				
At 1 January 2022	150	-	-	150
Additions	-	1,933	48	1,981
At 31 December 2022	150	1,933	48	2,131
Additions	-	-	-	-
At 31 December 2023	**150**	**1,933**	**48**	**2,131**
Amortisation				
At 1 January 2022	120	-	-	120
Charge for the year	8	83	2	93
At 31 December 2022	128	83	2	213
Charge for the year	**8**	**89**	**9**	**106**
At 31 December 2023	136	172	11	319
Net book value				
At 31 December 2022	**22**	**1,850**	**46**	**1,918**
At 31 December 2023	**14**	**1,761**	**37**	**1,812**

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

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

15. Goodwill and acquisition of subsidiaries

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

Net assets acquired	Book value £000	Fair value adjustment £000	Fair value £000
Ogluo® license and distribution agreement, UK and Europe (Intangible asset)	-	1,781	1,781
UK Distribution agreements – Other products (intangible asset)		152	152
Property, plant and equipment	232	-	232
Inventory	1,719	-	1,719
Trade and other receivables	738	-	738
Cash at bank	284	**-**	**284**
Trade and other payables	(3,579)	505	(3,074)
Trade facility	(295)	-	(295)
Historic liabilities	-	(505)	(505)
Deferred tax on intangibles	-	(496)	(496)
Total	**(901)**	**1,437**	**536**
Goodwill acquired			**1,484**
Total Consideration			**2,020**

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

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

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

Goodwill reflects the share for share consideration of £2.0 million paid at the date of acquisition.

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

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

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

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

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

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

When preparing the forecasts management have considered the levels of growth in sales of Ogluo® as the key driver towards profitability. When consolidating the expectations for the different sales regions the overall levels of growth from 2024 to 2028 are 48%, 135%, 32%, 21% and 11% respectively. When considering the corresponding sales, the value in use of the CGU exceeds the value of the assets by £1.4 million (41%) (2022: £0.9 million, 25%).

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

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

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

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

16. Property, plant and equipment

Group	Leasehold improvements £000	Right of use assets - Premises £000	Right of use assets - Equipment £000	Other equipment £000	Total £000
Cost					
At 31 December 2021	79	418	252	762	1,511
Additions on acquisition of Tetris Pharma Ltd	-	157	-	272	429
Additions	24	96	4	275	399
Disposals	-	-	-	(141)	(141)
At 31 December 2022	**103**	**671**	**256**	**1,168**	**2,198**
Additions	40	274	-	111	408
Disposals	-	(142)	-	(97)	(222)
At 31 December 2023	**143**	**803**	**256**	**1,182**	**2,384**
Depreciation					
At 31 December 2021	72	294	178	639	1,183
Additions on acquisition of Tetris Pharma Ltd	-	32	-	38	70
Charge for the year	11	98	42	97	248
Disposals	-	-	-	(141)	(141)
At 31 December 2022	**83**	**424**	**220**	**633**	**1,360**
Charge for the year	23	165	27	175	390
Disposals	-	(108)	-	(92)	(200)
At 31 December 2023	**106**	**481**	**247**	**716**	**1,550**
Net book value					
At 31 December 2022	20	247	36	535	838
At 31 December 2023	**37**	**322**	**9**	**466**	**834**

17. Trade and other receivables

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

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

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

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

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

18. Cash and cash equivalents

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

19. Short term investments

	31 December 2023 £000	31 December 2022 £000
Short-term investments held in notice accounts	**1,659**	6,041
Short-term investments held in fixed term accounts	**-**	2,000
	1,659	8,041

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

20. Inventory

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

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

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

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

21. Trade and other payables

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

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

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

22. Leases

Right of use assets

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

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

Net book value of leased assets held as fixed assets

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

Outstanding lease liabilities

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

	Leasehold Property £000	Equipment £000	Total £000
Balance at 1 January 2022	**157**	74	231
Additions on acquisition of Tetris Pharma	**122**	-	122
Other additions	**96**	4	100
Interest applied	**16**	6	22
Payments in the year	**(140)**	(47)	(187)
Disposal	**-**	-	-
Balance at 31 December 2022	**251**	37	288
Repayments:			
Within 1 year	**188**	30	218
2-5 years (inclusive)	**84**	10	94
Less:			
Future finance charges	**(21)**	(3)	(24)
Present lease obligations	**251**	37	288
In the statement of financial position:			
Due within 12 months (current)	**175**	27	202
Due in more than 12 months (non-current)	**76**	10	86
At 31 December 2022	**251**	38	288

23. Provisions

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

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

24. Financial instruments

Classification of financial instruments

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

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

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

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

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

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

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

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

Financial liabilities at amortised cost	31 December 2023 £000	31 December 2022 £000
Trade payables	**2,246**	1,709
Other payables (PAYE/NIC)	**192**	217
Lease liabilities	**338**	283
Accruals	**2,133**	1,503
	4,717	3,495

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

Fair value measurements

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

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

The Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the historical financial information approximate their fair values (due to their nature and short times to maturity).

Fair value of financial liabilities that are measured at fair value on a recurring basis

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

Financial instrument risk exposure and management

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

Credit risk

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

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

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

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

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

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

Interest rate risk

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

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

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

Foreign exchange risk

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

Liquidity risk

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

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

	Total £000	Within 2 months £000	Within 2 to 6 months £000	Within 6 – 12 months £000	Within 1 to 2 years £000	Within 2 to 5 years £000
At 31 December 2023						
Trade payables	2,246	2,246	-	-	-	-
Other payables	192	192	-	-	-	-
Lease liabilities	374	28	46	64	124	112
Accruals	2,101	905	1,191			5
	4,913	**3,371**	**1,237**	**64**	**124**	**117**

	Total £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 2022						
Trade payables	1,709	1,709	-	-	-	-
Other payables	217	217	-	-	-	-
Lease liabilities	314	23	102	93	45	51
Accruals	1,503	1,115	388	-	-	-
	3,743	**3,064**	**490**	**93**	**45**	**51**

Capital management

The Group's capital management objectives are:

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

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

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

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

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

25. Share capital

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

	31 December 2022 Number £000	31 December 2022 Nominal value £000
Ordinary shares – par value £0.01		
Allotted, called up and fully paid		
Ordinary shares of £0.01	30,618,183	306
At 31 December 2022	**30,618,183**	**306**

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

The following shares were issued in the periods presented:

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

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

Share Premium

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

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

Share-based payment reserve

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

Other reserves

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

Merger relief reserve

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

Foreign exchange reserve

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

26. Share based payments

Share Options

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

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

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

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

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

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

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

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

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

	Grant on 23 May 2023
Share price at date of grant	£2.55
Exercise price	£0.01
Volatility	65%
Expected dividends	nil
Risk free interest rate	4.2% pa
Fair value per share – market performance objectives	£1.71
Fair value per share – Commercial objectives	£2.54
Option life	10 years from date of grant

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

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

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

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

31 December 2022	Directors Number of Options	WAEP £	Staff Number of Options	WAEP £
Outstanding at the beginning of the year	682,666	0.57	732,278	1.19
Issued	199,333	0.70	383,417	1.64
Exercised	(82,666)	0.01	(48,767)	0.01
Expired	-	-	(238,458)	1.32
Outstanding at the year end	**799,333**	**0.66**	**828,470**	**1.43**
Number vested and exercisable at 31 December 2022	56,666	2.26	76,237	2.42
Weighted average remaining contractual life (years)	8.8		9.12	

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

27. Related party transactions

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

28. Financial commitments

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

29. Dividends

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

30. Ultimate controlling party

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

31. Post balance sheet events

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

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

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

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

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

Company Financial Statements

In this section:

Company statement of financial position

At 31 December 2023

Assets	Note	31 December 2023 £000	31 December Restated 2022 £000
Non-current assets			
Investment in subsidiaries	3	**6,696**	8,257
Intercompany loan receivable	4	**18,463**	11,462
Total non-current assets		**25,159**	**19,719**
Current assets			
Trade and other receivables	5	**82**	156
Cash and cash equivalents	6	**2,537**	4,397
Short-term investments	7	**1,659**	8,041
Total current assets		**4,278**	**12,594**
Current liabilities			
Trade and other payables	8	**(402)**	**(155)**
Total current liabilities		**(402)**	(155)
Net Assets		**29,035**	**32,158**
Equity attributable to equity holders of the Company			
Share capital	9	**306**	**306**
Share premium account	9	**28,976**	28,976
Share-based payments reserve	9	**1,518**	893
Merger relief reserve		**2,014**	2,014
Other reserves	9	**(167)**	(167)
Retained earnings		**3,612**	136
Total equity attributable to equity holders of the Company		**29,035**	**32,158**

The Company's loss for the year was £3.76 million (2022: profit of £0.1 million).

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

Signed on behalf of the Board of Directors by:

Sarah Howell
Director

Company statement of changes in equity

for the period ended 31 December 2023

	Share capital £000	Share premium £000	Share-based payments reserve £000	Merger relief reserve £000	Other reserves £000	Retained losses £000	Total equity £000
At 1 January 2022	278	23,348	519		(167)	(55)	23,923
Comprehensive income for the year							
Profit for the year	-	-	-	-	-	61	61
Transaction with owners							
Acquisition of Tetris Pharma Ltd	7	-	-	2,014	-	-	2,021
Issue of shares	20	5,980	-	-	-	-	6,000
Share issue expense	-	(352)	-	-	-	-	(352)
Issue of shares on exercise of options	1	-	-	-	-	-	1
Share-based compensation	-	-	503	-	-	-	503
Reserve transfer on exercise of share options	-	-	(130)	-	-	130	-
Total transactions with owners	28	5,628	373	2,014	-	130	8,174
Equity at 31 December 2022	**306**	**28,976**	**893**	**2,014**	**(167)**	**136**	**32,158**
Comprehensive income for the year							
Loss for the year	-	-	-	-	-	(3,760)	(3,760)
Transactions with owners							
Issue of shares on exercise of options	-	-	-	-	-	-	-
Share-based compensation	-	-	637	-	-	-	637
Reserve transfer on exercise of share options	-	-	(12)	-	-	12	-
Total transactions with owners	-	-	625	-	-	12	637
Equity at 31 December 2023	**306**	**28,976**	**1,518**	**2,014**	**(167)**	**(3,612)**	**29,035**

The accompanying accounting policies and notes on pages 132 to 136 form an integral part of these financial statements.

Notes to the Company financial statements

Company information

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

The principal activity of the Company is to act as a holding company.

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 applicable law, including the requirements of 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 ("IFRS") but makes amendments where necessary in order to comply with the Companies Act 2006. 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 IFRS 7 – Financial Instruments: Disclosures on the basis that the consolidated financial statements include the equivalent disclosures
- Exemptions from IAS 1 paragraphs 40 A-D to present a third statement of financial position and additional disclosures following a restatement of prior period figures

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.

Re-statement of prior period figures

Subsequent to the reporting of the prior period, it was noted that the figure included for Investments in subsidiaries within non-current assets was incorrect (Incorrect balance of £8,086k, correct balance of £8,257k). This was a typing error within the Financial statements that resulted in further errors in the associated subtotals and totals for net assets. The incorrect balance and all affected figures have been corrected in these financial statements. All equity figures in the prior period were deemed correct in the prior year published financial statements. The figure shown in Note 3 in the prior year financial statements was correct when published and did not require restatement.

Taxation

Current taxation

Current taxation for the Company 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.

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 IAS 36 – 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 "other reserves". 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.

After assessing the accounting policies and the nature of the business, the Directors do not believe there are any critical accounting judgements in either the current or prior year that require disclosure.

Key sources of estimation uncertainty and critical judgements

Recoverability of investments and intercompany receivables

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. In preparing these estimates management are required to make judgements on the key assumptions that drive the models to arrive at what they believe is the appropriate outcome. By assessing the sensitivities of these parameters management are able to understand which sensitivities result in the most significant changes in the model outcomes. Further information regarding those sensitivities is included in note 15 of the consolidated financial statements and note 3 and note 4 of these financial statements.

3. Investments in subsidiary undertakings

	31 December 2023 £000	31 December 2022 £000
Investment in Arecor Limited	**6,696**	6,058
Investment in Tetris Pharma Ltd	**-**	2,199
	6,696	8,257

On 4 August 2022, Arecor Therapeutics plc acquired 100% of the share capital of Tetris Pharma Ltd and gained control of the Company and its wholly owned subsidiary, Tetris Pharma BV. Further information regarding the prior year acquisition is included in Note 15 of the consolidated financial statements.

The company considers on an annual basis the value of the investment against the carrying value of the cash generating unit to determine the requirement for an impairment under IAS 36, Impairment of Assets. The recoverable amount in Arecor Limited is estimated based on the fair value less costs to sell and the Groups market capitalisation at 31 December 2023, with relevant adjustments to reflect the fact that Arecor Limited is a limited company. At the review date, it was concluded that no impairment on Arecor Limited was required.

The recoverable amount for Tetris Pharma Ltd was determined by comparing the discounted future free cash flows of the company after repayment of intercompany receivables, which could subsequently be paid to the parent company in the form of dividends against the value in use of the asset. As detailed within note 15 of the consolidated group financial statements, these key assumptions for Tetris Pharma Ltd include the level of sales and sales growth, the gross margins obtainable for Ogluo® in the different products and territories and assumptions surrounding the discount rates and terminal growth rates that drive the models. In assessing what were considered the most likely outcomes to a range of scenarios, Management are of the opinion that the investment in Tetris Pharma Ltd was not recoverable and was therefore impaired in full. This impairment was recognised as a loss in the year through the Income Statement.

At 31 December 2023, Arecor Therapeutics plc held investments in the following subsidiaries:

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 products	Direct
Tetris Pharma Ltd 2nd Floor, 79-81 High Street Marlow, Bucks. SL7 1AB	England and Wales	100%	Sale and distribution of pharmaceutical goods	Direct
Tetris Pharma BV Element Offices, Bargelaan 200, 2333 CW Leiden	The Netherlands	100%	Sale and distribution of pharmaceutical goods	Indirect

4. Intercompany Loan receivable

Gross Loan Balance	Arecor Limited	Tetris Pharma Ltd £000	Total £000
At 22 December 2021	**7,580**	**-**	**7,580**
Additions	941	2,941	3,882
At 31 December 2022	**8,521**	**2,941**	**11,462**
Additions	4,971	3,643	8,614
At 31 December 2023	**13,492**	**6,584**	**20,076**
ECL Provisions			
At 31 December 2021 and 31 December 2022	**-**	**-**	**-**
Increase in the year		1,613	1,613
At 31 December 2023	**-**	**1,613**	**1,613**
Net Loan Balance			
At 31 December 2022	**8,521**	**2,941**	**11,462**
At 31 December 2023	**13,492**	**4,971**	**18,463**

The interest charged on loans to subsidiaries is at market rates (increasing from 4.5% to 8.25% during the year in line with the increase in the bank base rate). The loans are repayable on demand. It is not intended to request repayment of the loans in the 12 months from the reporting date, so they are considered to be non-current assets.

As prescribed by IFRS 9, Financial Instruments, the provisions for expected credit losses on financial assets are reviewed annually. Management have evaluated a range of scenarios and use a weighted probability approach that were determined by evaluating the different scenario outcomes. With regards to Tetris Pharma Ltd, as disclosed in note 15 of the Group consolidated accounts, Management have identified that small changes in sales growth rates and discount rates, in addition to the current economic environment with the possibility of extended inflationary pressures on costs, could have a material impact on the performance of the company and its ability to repay balances due to Arecor Therapeutics plc. Whilst Management believe the most probable outcome is that current forecasts and expectations will be achieved, and that the loan balance would be repayable in full, there are reasonably possible scenarios where the loan is only partially recoverable, and a less likely scenario where the loan is not recoverable at all. With limited historical data and forecasts assuming significant growth in the coming years, judgements surrounding the probability of these different scenarios are viewed by management as providing a balanced and fair outcome.

When estimating the discounted free cashflows expected to be received from Tetris Pharma Ltd against the current balance and future interest charges at the current rate of 8.25%, a provision of £1.6 million has been put in place to cover the lifetime expected credit losses on the balance due. This equates to 24.5% of the balance due at 31 December 2023. This credit loss allowance was recognised as a loss in the year through the Income Statement.

5. Trade and other receivables

	31 December 2023 £000	31 December 2022 £000
Trade and other receivables	**82**	156
	82	**156**

A credit loss assessment has been performed and management have concluded that no expected credit losses (2022: £nil) exist in relation to the Company's receivables at any of the reporting dates presented.

6. Cash and cash equivalents

	31 December 2023 £000	31 December 2022 £000
Cash at bank and cash equivalents	**2,537**	4,397
	2,537	**4,397**

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

7. Short term investments

	31 December 2023 £000	31 December 2022 £000
Short-term investments held in notice accounts	**1,659**	6,041
Short-term investments held in fixed term accounts	**-**	2,000
	1,659	**8,041**

8. Trade and other payables

	31 December 2023 £000	31 December 2022 £000
Trade payables	**39**	98
Accruals	**363**	57
	402	**155**

Included in Accruals are accrued bonus costs for the Executive Directors that will be paid in the first half of 2024.

9. Share capital

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

	31 December 2022 Number	31 December 2022 £000
Ordinary shares – par value £0.01		
Allotted, called up and fully paid		
Ordinary shares of £0.01	30,618,183	306
At 31 December 2022	**30,618,183**	**306**

The following shares were issued in the periods presented:

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

	Number	Share Capital £000	Share Premium £000
At 1 January 2022	27,835,024	278	23,348
Allotments:			
Issue of ordinary shares of £0.01 during acquisition of Tetris Pharma Ltd	651,726	7	-
Issue of ordinary shares of £0.01	2,000,000	20	5,980
Costs associated with issue of ordinary shares	-	-	(352)
Issue of ordinary shares on grant of share options	131,433	1	-
At 31 December 2022	**30,618,183**	**306**	**28,976**

Share premium

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

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.

10. Financial commitments

There were no significant financial commitments at the reporting date (2022: £nil).

11. Share capital and reserves

The movements on share capital and share premium accounts are disclosed in Note 25 to the consolidated financial statements.

12. Related party transactions

The Company has taken advantage of the exemption under FRS 101 not to disclose transactions with wholly owned entities within the Group. There were no other disclosable related party transactions during the current or prior year.

Some of the information included in the notes to the consolidated financial statements is directly relevant to the financial statements of the company. Please refer to the following: Note 8 - Auditors' remuneration, Note 9 - Remuneration of Directors and employees, Note 26 - Share-based payments, Note 31 - Events occurring after the period end.

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

Principal place of business and registered office
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Statutory Auditor
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101 Cambridge Science Park
Milton Road
Cambridge
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Legal Advisors
Covington & Burling LLP
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