RNS Number : 0847O
Fusion Antibodies PLC
29 September 2023

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse (amendment) (EU Exit) Regulations 2019/310 ("MAR"). With the publication of this announcement via a Regulatory Information Service, this inside information is now considered to be in the public domain.

29 September 2023

Fusion Antibodies plc
("**Fusion**" **or the** "**Company**")

Final results

Fusion Antibodies plc (AIM: FAB), a contract research organisation ("CRO") providing discovery, design, and optimisation services for therapeutic antibodies to the global healthcare market, announces its final results for the year ended 31 March 2023.

Commercial and operational highlights

- Full year revenues lower by 40% to £2.9m (2022: £4.8m)
- Loss for the year of £2.6m (2022: loss £1.2m)
- Investment in R&D £0.8m (2022: £0.7m)
- Introduction of Integrated Therapeutic Antibody Service
- Introduction of Mammalian Display service
- Appointment of Adrian Kinkaid as CEO in August 2022
- Cash position at the year-end £0.2m (2022: £2.0m)

Post period end highlights

- Share proceeds of £1.5m (net of costs)
- Appointment of Stephen Smyth as interim CFO in September 2023
- Memorandum of Understanding ("MoU") signed with leading US basedAI/ML business and the first purchase order received

Separately, the Annual Report and Accounts for the year ended 31 March 2023 and the Notice of the Company's Annual General Meeting ("AGM") are being posted to shareholders shortly. A copy of the 2023 Annual Report and Accounts, the Notice of AGM and accompanying form of proxy will soon be available to download from the Company website here: https://www.fusionantibodies-ir.com/.

The AGM will be held on 27 October 2023 at 11.00 am at the Company's offices at Springbank Industrial Estate, 1 Springbank Rd, Dunmurry, Belfast BT17 0QL.

Director change

Sonya Ferguson, Non-executive Director, will not be seeking re-election at the AGM, as she has decided to pursue another business opportunity. She will cease to be a Director of the Company at the close of the AGM.

Adrian Kinkaid, CEO of Fusion Antibodies commented: *"This has been a challenging year for the Company and we have been through a number of changes over the last few months. We successfully raised funds in a very difficult market in May and implemented some additional cost saving measures to provide us with the necessary capital we needed to progress the business.*

"More recently, we announced we had signed an agreement with a US based AI/ML business to support our antibody discovery service, AI/ML-Ab™ and subsequently received our first order under the framework of this agreement. We are continuing to work on other aspects of the OptiMAL® programme, and in particular the development of the fully human antibody library which we remain confident in.

"On a separate note, the Board would like to offer our sincere thanks to Sonya Ferguson for her service to the Company as a Non-executive Director. She has been with the Company since 2016, prior to our admission to trading on AIM. We wish her well on her future endeavours. As a Company, we are looking forward to better times ahead, reaching profitability and delivering value to our shareholders."

Investor briefing

Fusion will host an online live presentation open to all investors on Wednesday, 4 October 2023 at 11am BST, delivered by Dr Adrian Kinkaid, CEO and Stephen Smyth, CFO. The Company is committed to providing an opportunity for all existing and potential investors to hear directly from management on its results whilst additionally providing an update on the business and current trading.

The presentation will be hosted through the digital platform Investor Meet Company.

Investors can sign up to Investor Meet Company for free and add to meet Fusion Antibodies plc via the following link: https://www.investormeetcompany.com/fusion-antibodies-plc/register-investor

For those investors who have already registered and added to meet the Company, they will automatically be invited. Questions can be submitted pre-event via your IMC dashboard or in real time during the presentation, via the "Ask a Question" function. Whilst the Company may not be in a position to answer every question it receives, it will address the most prominent within the confines of information already disclosed to the market through regulatory notifications. A recording of the presentation, a PDF of the slides used, and responses to the Q&A session will be available on the Investor Meet Company platform afterwards.

Enquiries:

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About Fusion Antibodies plc

Fusion is a Belfast based contract research organisation ("CRO") providing a range of antibody engineering services for the development of antibodies for both therapeutic drug and diagnostic applications.

The Company's ordinary shares were admitted to trading on AIM on 18 December 2017. Fusion provides a broad range of services in antibody generation, development, production, characterisation and optimisation. These services include antigen expression, antibody production, purification and sequencing, antibody humanisation using Fusion's proprietary CDRx TM platform and the production of antibody generating stable cell lines to provide material for use in clinical trials. Since 2012, the Company has successfully sequenced and expressed over 250 antibodies and successfully completed over 200 humanisation projects and has an international, blue-chip client base, which has included eight of the top 10 global pharmaceutical companies by revenue.

The Company was established in 2001 as a spin out from Queen's University Belfast. The Company's mission is to enable pharmaceutical and diagnostic companies to develop innovative products in a timely and cost-effective manner for the benefit of the global healthcare industry. Fusion Antibodies provides a broad range of services in antibody generation, development, production, characterisation and optimisation.

Fusion Antibodies growth strategy is based on combining the latest technological advances with cutting edge science to deliver new platforms that will enable Pharma and Biotech companies get to the clinic faster, with the optimal drug candidate and ultimately speed up the drug development process.

The global monoclonal antibody therapeutics market was valued at $186 billion in 2021 and is forecast to surpass $445 billion in 2028, an increase at a CAGR of 13.2 per cent. for the period 2022 to 2028. Approximately 150 monoclonal antibody therapies are approved and marketed globally as of June 2022 with the top four antibody drugs each having sales of more than $3 bn in 2021.

Chairman's Statement

This year has been a tough year for the Company and very commercially challenging. The year has seen a downturn in market conditions and investment into our customers' early-stage therapeutic pipelines Venture capital funding, typically the primary source of investment for early-stage biotech, has fallen to its lowest level since 2019.

The Biotechnology sector's contribution to the global R&D pipeline has been growing in the last decade. There are more biotech companies now than ever before, but consequently there is less investment to go around and this lack of growth capital for many biotech companies means they must be very cautious in their spending. This has resulted in projects being delayed and reductions in head counts. However, we believe that the reprioritization of pipelines and optimisation of development strategies will give Fusion more opportunities going forward as companies could look to outsource more of their projects to give them greater control of their fixed cost base. We believe that Biotech companies generally are moving towards leveraging early engagement opportunities with full-service partners like Fusion to optimise the impact of external expertise across the development program, and to maximise their probability of success.

With the biotechnology sector's funding environment undergoing significant changes, creative solutions are required and Fusion has responded by introducing our new ITAS (Integrated Therapeutic Antibody Services) strategy which addresses this new market dynamic. ITAS pulls together all our current solutions to provide a continuous service from target discovery to a final stable cell line ready for larger scale production and is consistent with Fusion's established philosophy to "begin with the end in mind". Furthermore, we are looking at ways that the antibody drug discovery timescale can be shortened, with the development of OptiMAL®, our human antibody library and also through strategic alliances with AI/ML (artificial intelligence/machine learning) companies.

Business performance

The year showed a significant downturn in revenue from the previous year at £2.9m (2022: £4.8m) due to a combination of factors. As mentioned, this is primarily due to weak market investment conditions for new drug discovery and development programs and the subsequent delays to a number of our contracts, both large and small, combined with the reduced drug development activity of some of our customers. Notably, a small number of valuable projects have been suspended by clients due to delayed investment into those businesses. We are advised by our clients that we should expect these projects to recommence once their funding is secured, although the continued uncertainty of timescales to win and close out contracts and to recognise the revenues remains a challenge.

This situation was further compounded by the several months without a CEO in place and the unusually high turnover in the commercial group this year, necessitating the recruitment and training of new staff which created some short-term loss of traction with our customer base. The industry in general has seen significant movement in staff during and after the pandemic but more recently this situation has stabilised. It is worth noting that whilst the Company continues to retain an interest of longer-term future success milestone or royalty payments in many of our client projects, there were no such payments this year.

The Company has been carefully managing costs and in particular towards the later part of the year headcount has been reduced by 11% from an average of 54 to a headcount of 48 at the year end. To minimise the impact on capacity and capability to deliver customers' projects, significant cross training of staff from different laboratories has been implemented.

The focus for our R&D has continued on the OptiMAL® library project, with investment in R&D increasing by 29% over the same period in the previous year to £0.8m (2022: £0.7m).

The downturn in revenues generated an operating loss for the year of £2.6m (2022: loss £1.2m). Post year end, the Company successfully completed a £1.67m fundraise to provide additional working capital and we have now implemented circa. £1.6m in restructuring savings, including a further reduction in headcount from 48 at March 31 year end 2023 to 29. The Company had previously announced anticipated annualised cost savings of £2.2 million based on comparisons against the Company's budgets and plans in place at that time. As the outrun for FY 2023 was lower than originally budgeted, the revised annualised cost savings identified now total £1.6m. The Board will continue to closely monitor the Company's cost base and seek to identify additional cost savings that can be implemented without further impacting the operating capacity of the Company.

Development of New services

While trading conditions remain challenging, the Company continues to strive to be at the front of innovation

While trading conditions remain challenging, the Company continues to strive to be at the front of innovation and to provide new and cutting-edge services to the market. We have implemented a new strategy and are introducing a new integrated approach in response to client needs and to ultimately increase revenues. We are re-aligning the Company's service offering to best serve our clients who are seeking to outsource more of their work in therapeutic antibody drug discovery and positioning ourselves as more of a collaborative partner rather than just a fee-for-service relationship. Our Integrated Therapeutic Antibody Service (ITAS) integrates our current Discovery, Engineering and Supply services into one proposition which aims to enhance the client journey with the development of high performing antibodies to their targets. This approach has been trialled with an existing client with positive results and the Company's aim is to build on this, while continuing to support our smaller clients who may wish to select individual services.

The antibody drug discovery industry is gradually moving away from the use of animals, something that as a Company we recognise and support. Our R&D program to develop a cell-based mammalian display technology screening library, OptiMAL®, for the direct identification of intact fully human antibodies against biomarkers and other targets of interest is progressing, with key stages of the process now developed, although further optimisation work is still required to deliver the full operational screening parameters. We will continue to build a body of data with a view to establishing commercial relationships for further validation and the Directors remain optimistic about its likely reception by the market.

Since our last report, processes to transfect cells with unique sequences, express those sequences as antibodies and screen and select antibodies have been optimised. Work is ongoing to optimise the extraction of specific antibodies to build a body of data with a view to establishing commercial relationships for further validation. Already, the R&D investment is bearing fruit with two stages of the OptiMAL® process adding value in that they enable us to further broaden the Company's integrated service offering. The OptiMAL® process includes a novel DNA library of antibody sequences at the front end and a Mammalian Display platform as the final step to enable the library antibodies to be expressed on the surface of mammalian cells as fully intact human IgG antibodies. We have commenced the development of two further discovery platforms utilising these two key OptiMAL® steps.

The Mammalian Display platform is ideally suited to be used in conjunction with the output from artificial intelligence/machine learning (AI/ML) discovery platforms. These AI/ML platforms provide a method of designing panels of antibodies *in-silico*, with the AI/ML algorithms typically producing small libraries of sequences which are an excellent match with our Mammalian Display platform, which can transform these designs into real protein molecules for screening and final selection. This is a potentially powerful combination to speed up the discovery process and the Company is actively engaging with leading AI/ML companies as potential partners to make these novel approaches available to our client base. In August 2023 we announced that the negotiations with a leading AI/ML company based in the USA have been finalised and the first order emanating from this collaboration to generate de-novo antibody sequences has been received.

Furthermore as previously announced a Memorandum of Understanding (MoU) with another AI/ML company based in Europe has also been signed. These collaborations are expected to provide for the development of partnerships that will enable the derivation and evaluation of AI generated antibodies and offer clients a new route to market using the AI/ML-AB™ service (pronounced AIM Lab), which will be complementary to our established discovery methods.

The novel DNA library of antibody sequences from OptiMAL® will also be used as the input design for OptiPhage™, a phage display based version of the same DNA library. These DNA sequences are packaged into a more commonly used Phage display format where smaller antibody fragments can be screened, compared to whole antibodies via OptiMAL®. We believe that the provision of OptiPhage™ at a lower price point provides the Company with an ability to protect the premium pricing of the OptiMAL® programme whilst meeting budgetary constraints of its customers. It may also be the platform of choice for those wanting antibody fragments as their end product.

As a Company, we are proud of our innovations and of our dedicated team of scientists who work on the next generation of antibody discovery technologies and we will continue to protect novel ideas through the filing of patents. This year saw the filing of two new patents. The first one is in respect of the Company's antigen display technology, which should increase the success rate in identifying highly potent antibodies from Fusion's range of Antibody Discovery technologies, although it does have a wider potential application. The second is for a panel of antibodies that bind to an important target for cancer therapeutics. These antibodies have the potential to inhibit the pro-tumourigenic activity of their target in cancer, which is supported by early pre-clinical data. The Company is exploring options to out-licence these antibodies to a clinical development company to progress them into Phase I clinical trials.

Board and Employees

I was very pleased to announce the arrival of our new CEO, Dr Adrian Kinkaid, in August last year. Adrian brings a depth of experience in the life science and biotherapeutics industries and has expertise in the development and commercialisation of all the main classes of affinity reagents with over twenty-five years' experience working in the bioscience sector. Adrian's previous experience has included senior management positions in drug discovery, reagent technology and diagnostics and joins at a time where his strong leadership and vision will be key in the Company's turnaround strategy.

One further change to the Board during the financial year was Mr Tim Watts, who steppeddown as a Non-Executive Director in September 2022. Tim joined the Company at the time of the IPO in December 2017, was the Chair of the Company's Audit Committeeand has made a valuable contribution to the Company, particularly from his knowledge and experience of public companies. On behalf of the Board, I would like to thank him for all that he had done for the Company and wish him well in his retirement.

Post the end of the year we announced that Mr James Fair, our Chief Financial Officer, was stepping down from the Board effective 31 May 2023. The Board would like to thank James for his significant contribution to the Company over the past 14 years and wish him well in his future endeavours. We are grateful to Ms Frances Johnston who stepped in as the Company Secretary until the appointment in September 2023 of Mr Stephen Smyth as an interim part time CFO and Company Secretary. Stephen Smyth was designated Company Secretary on 28 July 2023 and appointed on Companies House on 16 September 2023. We have outsourced some other financial management accounting activities until the point where the Company is in a stronger financial position to allow more permanent solutions.

I would also like to mention all the staff, who at the beginning of the year were still working under Covid-19 restrictions, with many of our business development and financial teams continuing to work from home. The Company is continuing to offer flexible hybrid working where possible within the employee retention strategy.

The Fusion team has worked well under difficult conditions with a strong collaborative team effort and disciplined commitment for which the board is very grateful. The formation of the new Scientific Advisory Panel (the "SAP") was announced last year and is a making a positive input into the Companies scientific strategy. During the year there was a change in the makeup of the group with Professor Terry Rabbitts stepping down and with Dr Ulf Grawunder attending SAP meetings. I would like to thank Professor Rabbitts for his contribution and welcome Dr Grawunder, who is based in Basel and who has extensive experience in the development of antibody-based therapeutics. He co-founded a company specializing in the development of therapies for cancer patients and has experience in mammalian cell-based antibody display platforms.

The appointment of these industry experts has already had an impact in our new AI/ML focus, withProfessor Charlotte Deane, Professor of Structural Bioinformatics at the University of Oxford sharing her insights in the development and application of future machine learning algorithms in the field of antibody design.

Corporate governance

The long-term success of the business and delivery on strategy depends on good corporate governance. The Company complies with the Quoted Companies Alliance Corporate Governance Code as explained more fully in the Governance Report of the annual report and accounts.

Post year end and outlook

As mentioned previously, the significant downturn in revenues generated a larger than anticipated operating loss for the FY23 and as this put a major strain of the cash levels, a new round of funding was commenced at the end of this FY and completed successfully in June 2023. Unfortunately, the need for this fundraising materialised at a point when investor confidence, and confidence in Fusion were at a low-point, resulting in a significant discount in the price at which new monies could be raised.

The subscription of new shares was through a placing, a Directors subscription and a retail offer and I would like to thank all the shareholders, both current and new, who supported us in this round, and in particular the Directors who subscribed for just over 8% of the shares. A total of£1,671,938 (£1.5m net of expenses) was raised through the issue of 33,438,768 ordinary shares at 5p per share.

In light of the macro-economic headwinds which the Company and its customers are facing, the Board identified £1.6 million of annualized savings, which were implemented after the fund raise. This cost saving includes a significant reduction in headcount across all levels of the Company, including the Company's non-executive directors having agreed to forgo all remuneration that they are entitled to and the Company's executive directors having agreed to changes in their remuneration (which include taking shares in place of some cash remuneration) to further conserve cash until such time that the Company's trading has recovered to an appropriate level.

The Directors believe that, notwithstanding these cost reductions, the Company will still be able to progress the launch of ITAS. Budgets have been maintained for sales and marketing and travel and, where possible, the Company will seek client contributions for further collaborative trials with a view to full commercialization of OptiMAL® and the initial AI/ML-Ab™ and OptiPhage™ projects. As mentioned, in August 2023, we were pleased to announce that an agreement had been signed with a leading US-based AI/ML company and the first order received, from a customer based in Australia. This represents an important first step in delivering this strategy.

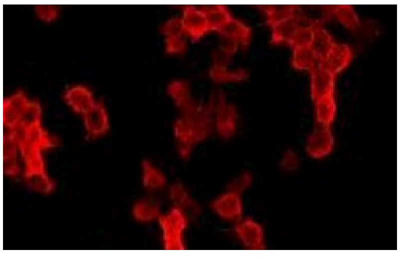
Whilst there remains a significant amount of uncertainty over the timing and implementation of future contract wins due to reduced investment in the broader biotech sector, we expect trading to recover incrementally over the short to medium term both in respect of existing services and the new services coming on stream.

Simon Douglas
Chairman
28 September 2023

CEO's report and operations review

The Therapeutics industry's need for antibodies has arguably never been higher, with significant breakthroughs such as the approval of lecanemab, donanemab and others for Alzheimer's disease demonstrating the applicability of antibodies to treat central nervous system diseases and that a new set of therapeutic targets are now to be considered viable. Similarly, the diagnostics industry is enjoying an unprecedented level of awareness and familiarity, especially with antibody enabled lateral flow devices having been used extensively in the detection of Covid 19. However, largely due to macro-economic factors, FY2023 was also a challenging year for the associated services industry with investment into the biotech sector reducing significantly in the principal geographical regions as Covid related investment rebalanced. As we entered the financial year, the Company was inevitably exposed to these factors with a high proportion of our business directly linked to venture capital funded clients. Faced with uncertainty about their funding, many clients opted to place projects on hold and not to initiate new projects until the economic landscape had improved.

Transitioning to a model whereby we can derive more revenue from those clients still actively progressing their research programmes became increasingly important to the Company and I am pleased to say we have made significant progress with the launch of our Integrated Therapeutic Antibody Services (ITAS). This also positions the business to better exploit our emerging platforms for antibody discovery, or "Discovery Engines", which we are developing from the OptiMAL® research project. The initial objective for the research project was to create OptiMAL®, a groundbreaking and industry leading platform for the discovery of human antibodies through a highly diverse library of DNA sequences expressed as fully intact antibodies, or IgG molecules, expressed on the surface of mammalian cells. We now have clear evidence that this has been achieved with cells stained to show the antibodies displayed on the cell surface. With the antibody on the cell surface, a cell can be individually selected and manipulated to produce larger quantities of the antibody of interest and it is this last stage that requires further optimisation.



This image shows individual cells at high magnification. The cells have been stained with a red stain that is specifically for the expressed human antibody created by the OptiMAL® process. The red stain is seen predominantly on the cellular surface showing that antibodies are being produced by the cell and on the cell surface. Such cells can be individually selected and manipulated to produce larger quantities of the antibody of interest and it is this last stage that requires further optimisation.

We are also in the process of spinning out two further discovery platforms from the same research program: AI/ML-Ab™ and Optiphage™. The Mammalian Display element of OptiMAL® is being combined with algorithms for the *de novo* design of novel antibodies from various artificial intelligence (AI) and Machine Learning (ML) technologies (AI/ML-Ab™) which have very much come to the fore in the last year or two, whilst Optiphage™ utilizes a library based on the same sequences as OptiMAL®, but modified for use in a more industry standard phage-display format. The availability of these diverse and complementary proprietary discovery engines, which can be deployed singly or in concert, also enables us to provide a de-risked approach to antibody discovery, further benefiting our clients and strengthening Fusion Antibodies' position as the partner of choice. In August 2023 we were pleased to announce that we had a signed agreement with a leading US-based AI/ML company. t is envisaged that both parties will co-market the combined service offerings and as announced we have already received the first order. This purchase order demonstrates commercial traction for AI/ML-Ab™ and we believe that there is significant market potential for this service offering.

At Fusion, our aim is to develop a range of services that gives our clients choice and a range of solutions best suited to the biological needs of their targets. We understand that 'one size' does not fit all and aim to broaden our service menu to give the customer the best chance of meeting their technical objectives with the least risk. This is already in place with our cell line development (CLD) and stabilization services, where we offer a number of cell lines. We offer our clients the choice of three separate cell lines, all in-licensed, which have different biological characteristics and financial price points. The final selection process is empirical, with the screening process involving the assessment of yield and stability which will vary from antibody to antibody. CLD is a service that is required towards the end of the development process and we intend to develop and introduce a similar choice at the beginning: at the discovery end of the development plan.

Due to the strong headwinds caused by the macro-economic conditions, the Company ended the year looking to secure additional investment which it successfully completed in June 2023, raising just under £1.7 million (before expenses). Thanks to the continued support of our shareholders, we can move forward with re-establishing our presence in the market and maintaining investment in our new discovery services.

Business Review

The Company's revenue performance for the financial year to 31 March 2023 fell by 40% vs 2022 to £2.9m due to the macroeconomic headwinds. Despite the reduction in revenues, we have experienced continuing interest and uptake of our proprietary RAMP™ technology service platform which represents a key driver of revenues for the business. Over the course of the year, Fusion has initiated and successfully completed a number of RAMP™ client projects, which further affirms the valuable contribution of this service offering to both the Company and to our customers. The key geographical region of North America represented 50% of revenues and with a number of key client accounts. The Asia Pacific markets such as Japan, India and Korea, where we have appointed distributors, were also impacted by the global downturn in the sector, although client relationships are strengthening and opportunities are increasing. In addition to the 'Fee for Service' revenue model, and where there is a significant contribution to the client's intellectual property, we look to enter into a collaborative agreement structure which will enable Fusion to access the downstream value of the services and share in the commercial success. This will further enable the Company to unlock the intrinsic value that our proprietary service platforms provide to our clients and generate additional shareholder value.

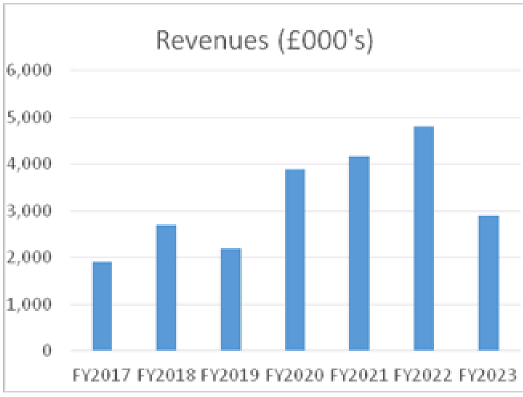
We continued to drive investment and innovation into the R&D pipeline of new service offerings. In the financial year, we made further progress on the development work of OptiMAL® with successful proof of concept for the Mammalian Display element. This has already been harnessed to support the AI/ML-Ab™ offering, which is itself attracting market attention, and is already generating new leads. I strongly believe that AI/ML-Ab™, Optiphage™ and OptiMAL® represent key differentiators and future drivers of growth for the business and will enable the Company to access a sizeable addressable market generating significant shareholder value.

We are pleased to report that the Company filed a patent application for a panel of antibodies that bind an important target for cancer therapeutics. These antibodies have the potential to inhibit the pro-tumourigenic activity of their target in cancer, which is supported by pre-clinical data. The Company is exploring options to out-licence these antibodies to a clinical development company to progress them into Phase I clinical trials. Our Scientific Advisory Panel of industry experts and thought leaders in the field of antibody discovery and services has been particularly valuable in the development of the new platforms and it is anticipated that their continued guidance will further support the commercialisation of these valuable assets.

Inventory of consumables has been maintained at relatively high levels to allow for any supply chain disruption from the UK's departure from the European Union and the disruption caused by the Coronavirus pandemic. In the year, 14% of the Company's revenues arose from exports to the EU countries and we look to build on this, supported by Northern Ireland's unique trading position with the EU and UK. We also continue to develop other export markets as our services find universal acclaim and to mitigate risks of overexposure to any one geographical market.

Financial Results

Full year revenues for the year in total were down by 40% to £2.9m (2022: £4.8m).



The EBITDA loss for the year was £2.5m (2022: £0.6m loss) (see note 26) and, excluding the R&D expenditure of £0.8m, EBITDA for the year was a loss of £1.5m. The loss before tax was £2.9m (2022: £1.3m loss).

The Company held current net assets of £0.8m at 31 March 2023 (2022: £3.1m) which mainly comprised inventories and trade and other receivables.

The Company ended the year with £0.2m of cash and cash equivalents, having used £1.7m of cash in operations during the year of which £0.8m was for R&D, invested £0.1m in property, plant and equipment and £0.1m servicing asset-based borrowings. As previously mentioned, in June 2023 the Company issued equity for net proceeds of c.£1.5m which puts it in a good position to continue its sales and marketing activities and the development of new discovery platforms and services.

The current financial year commenced with similar conditions to those experienced in the latter part of FY 2023, with new business significantly lower than historic levels. In the past few months, the Company has enjoyed an uplift in business engagement from lead generation through to quote drafting and, pleasingly, purchase orders received. We've seen a strengthening of the pipeline of approximately three-fold since the end of 2023. As a result, revenues for FY2024 will be significantly weighted towards the second half of the year. The Board is optimistic that our new services, such as AI/ML-Ab, will contribute positively to future revenue growth.

Despite FY2023 being a commercially challenging year, I feel optimistic about the year ahead. Since the year end we have reduced our cost base significantly but kept a strong and broad technical base within the Company, raised finance and are in a good cash position and have some exciting and enviable discovery services in development. I believe that the slowdown in the market is beginning to show a level of recovery, with our pipeline already showing growth, and that we are in a good position to return to growth on a stronger more stable foundation.

Adrian Kinkaid

Chief Executive Officer
28 September 2023

Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 March 2023

	Note	2023 £'000	2022 £'000
Revenue	4	**2,901**	4,799
Cost of sales		**(2,327)**	(2,333)
Gross profit		**574**	2,466
Other operating income		**11**	30
Administrative expenses		**(3,443)**	(3,821)
Operating loss	5	**(2,858)**	(1,325)
Finance income	8	**3**	1
Finance expense	8	**(4)**	(9)
Loss before tax		**(2,859)**	**(1,333)**
Income tax credit	10	**263**	133
Loss for the financial year		**(2,596)**	(1,200)
Total comprehensive expense for the year		**(2,596)**	(1,200)
		Pence	Pence
Loss per share			
Basic	11	**(10.0)**	(4.6)
Diluted	11	**(10.0)**	(4.5)

Statement of Financial Position

As at 31 March 2023

	Notes	2023 £'000	2022 £'000
Assets			
Non-current assets			
Intangible assets	12	**-**	-
Property, plant and equipment	13	**375**	633
		375	633
Current assets			
Inventories	15	**539**	585
Trade and other receivables	16	**690**	1,517
Current tax receivable		**263**	131
Cash and cash equivalents		**195**	2,049
		1,687	4,282
Total assets		**2,062**	4,915
Liabilities			
Current liabilities			
Trade and other payables	17	**844**	1,142
Borrowings	18	**35**	66
		879	1,208
Net current assets		**808**	3,074
Non-current liabilities			
Borrowings	18	**40**	3
Provisions for other liabilities and charges	19	**20**	20
		60	23
Total liabilities		**939**	1,231
Net assets		**1,123**	3,684

Equity

Equity			
Called up share capital	21	**1,040**	1,040
Share premium reserve		**7,647**	7,647
Accumulated losses		**(7,564)**	(5,003)
Total equity		**1,123**	3,684

Simon Douglas **Adrian Kinkaid**

Director Director

Registered in Northern Ireland, number NI039740

Statement of Changes in Equity

For the year ended 31 March 2023

	Notes	Called up share capital £'000	Share premium reserve £'000	Accumulated losses £'000	Total equity £'000
At 1 April 2021		1,024	7,547	(3,824)	4,747
Loss and total comprehensive expense for the year	-	-	-	(1,200)	(1,200)
Issue of share capital		16	100	-	116
Share options - value of employee services	-	-	-	21	21
Total transactions with owners, recognised directly in equity		16	100	21	137
At 31 March 2022	21	1,040	7,647	(5,003)	3,684
At 1 April 2022		**1,040**	**7,647**	**(5,003)**	**3,684**
Loss and total comprehensive expense for the year	**-**	**-**	**-**	**(2,596)**	**(2,596)**
Share options - value of employee services	**-**	**-**	**-**	**35**	**35**
Total transactions with owners, recognised directly in equity	**-**	**-**	**-**	**35**	**35**
At 31 March 2023	**21**	**1,040**	**7,647**	**(7,564)**	**1,123**

Statement of Cash Flows

For the year ended 31 March 2023

	Notes	2023 £'000	2022 £'000
Cash flows from operating activities			
Loss for the year		**(2,596)**	(1,200)
Adjustments for:			
Share based payment expense		**35**	21
Depreciation		**372**	749
Amortisation of intangible assets	-	**-**	2
Finance income		**(3)**	(1)
Finance costs		**4**	9
Income tax credit		**(263)**	(133)
Decrease/(Increase) in inventories		**46**	(105)
Decrease/(increase) in trade and other receivables		**819**	(82)
(Decrease)/increase in trade and other payables		**(299)**	309
Cash used in operations		**(1,885)**	(431)
Income tax received		**131**	101
Net cash used in operating activities		**(1,754)**	(330)
Cash flows from investing activities			
Purchase of property, plant and equipment	**13**	**(114)**	(258)
Finance income - interest received	**8**	**3**	1
Net cash used in investing activities		**(111)**	(257)
Cash flows from financing activities			
Proceeds from new issue of share capital net of transaction costs	**-**	**-**	116
Proceeds from new borrowings	**18**	**69**	-
Repayment of borrowings	**18**	**(62)**	(162)

Repayment of borrowings	18	(62)	(162)
Finance costs - interest paid	8	(4)	(9)
Net cash generated/(used in) from financing activities		**3**	(55)
Net decrease in cash and cash equivalents		**(1,862)**	(642)
Cash and cash equivalents at the beginning of the year		**2,049**	2,686
Effects of exchange rate changes on cash and cash equivalents		8	5
Cash and cash equivalents at the end of the year		**195**	2,049

Notes to the Financial Statements

For the year ended 31 March 2023

1 General information

Fusion Antibodies plc is a company incorporated and domiciled in the United Kingdom and is registered in Northern Ireland having its registered office at 1 Springbank Road, Springbank Industrial Estate, Dunmurry, Belfast, BT17 0QL.

The principal activity of the Company is the research, development and manufacture of recombinant proteins and antibodies, particularly in the areas of cancer and infectious diseases.

2 Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

Basis of preparation

The financial information included in this preliminary announcement does not constitute statutory accounts of the Company for the years ended 31 March 2023 and 31 March 2022 but is derived from those accounts. Statutory accounts for the year ended 31 March 2022 have been delivered to the Registrar of Companies and those for 2023 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts: their reports were (i) unqualified, although included an emphasis of matter in respect of material uncertainty around going concern and (ii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The financial statements have been prepared on the historical cost convention.

The financial statements are prepared in sterling, which is the functional currency of the Company. Monetary amounts in these financial statements are rounded to the nearest £1,000.

The financial statements of Fusion Antibodies plc have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

The preparation of financial statements in conformity with International Financial Reporting Standards ("IFRS") requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Going concern

The Company has returned a loss of £2.6m for the year ended 31 March 2023 (Year ended 31 March 2022: Loss of £1.2m) and at the year-end had net current assets of £0.8m (31 March 2022: Net current assets of £3.1m) including £0.2m (31 March 2022: £2m) of cash and cash equivalents. Since the reporting date the Company has raised net proceeds of £1.5m from the issue of ordinary shares and has undergone a restructuring process to reduce annual costs by approximately £1.6m. The Company continues to expend cash in a planned manner to both grow the trading aspects of the business and to develop new services through research and development projects. Revenues for the year were £2.9m, significantly below market expectations and 40% lower than revenues for the prior year. Uncertainty in levels of investment in the sector and, therefore, the amounts to be invested in R&D by our customers has resulted in a number of projects being delayed in FY2023 and a continued softness in the marketplace at the beginning of FY2024. This situation was further compounded by the several months without a CEO in place and the unusually high turnover of staff in the Company's commercial team in the year, necessitating the recruitment and training of new staff which created some short-term loss of traction with our customer base.

The financial statements have been prepared on the going concern basis, which assumes that the company will continue to be able to meet its liabilities as they fall due for at least twelve months from the date of signing these financial statements. The directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence at least for 12 months from the reporting date. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements. To support the going concern basis of preparation, cash flow forecasts have been prepared which incorporate a number of assumptions upon which sensitivities have been performed to reflect severe but plausible downside scenarios. These assumptions include the rate at which revenue growth can be achieved.

The directors note that there is inherent uncertainty in any cash flow forecast, however this is further exacerbated given the nature of the company's trade and the industry in which it operates. Due to the risk that revenues and the related conversion of revenue to cash inflows may not be achieved as forecast over the going concern period, the Directors believe that there exists a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the provision of services in the ordinary course of the Company's activities. Revenue is shown net of value added tax and where a contractual right to receive payment exists.

The Company's performance obligations for its revenue streams are deemed to be the provision of specific services or materials to the customer. Performance obligations are identified on the basis of distinct activities or stages within a given contract that the customer can benefit from, independent of other stages in the contract. The transaction price is allocated to the various performance obligations, based on the relative fair value of those obligations, and then revenue is recognised as follows:

- Revenue is recognised over the period that services are provided using the percentage of completion method, based on the input method using costs incurred to date relative to the expected total costs for each performance obligation; and
- Where a contract includes a payment contingent upon the customer subsequently achieving a pre-defined milestone with their development programme, revenue in the amount of the total success payment due is recognised when the pre-defined condition(s) have been met.

Contract assets arise on contracts with customers for which performance obligations have been satisfied (or partially satisfied on an over time basis) but for which the related amounts have not yet been invoiced or received.

Contract liabilities arise in respect of amounts invoiced during the year for which the relevant performance obligations have not been met by the year-end. The Company's contracts with customers are typically less than one year in duration and any contract liabilities would be expected to be recognised as revenue in the following year.

Grant income

Revenue grants received by the Company are recognised in a manner consistent with the grant conditions. Once conditions have been met, grant income is recognised in the Statement of Comprehensive Income as other operating income.

Research and development

Research and development

Research expenditure is written off as incurred. Development expenditure is recognised in the Statement of Comprehensive Income as an expense until it can be demonstrated that the following conditions for capitalisation apply:

- it is technically feasible to complete the scientific product so that it will be available for use;
- management intends to complete the product and use or sell it;
- there is an ability to use or sell the product;
- it can be demonstrated how the product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the product are available; and
- the expenditure attributable to the product during its development can be reliably measured.

Intangible assets

Software

Software developed for use in the business is initially recognised at historical costs, net of amortisation and provision for impairment. Subsequent development costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Software is amortised over its expected useful economic life, which is currently estimated to be 4 years. Amortisation expense is included within administrative expenses in the Statement of Comprehensive Income.

Property, plant and equipment

Property, plant and equipment are initially recognised at historical cost, net of depreciation and any impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial year in which they are incurred.

Subsequently, property plant and equipment are measured at cost or valuation net of depreciation and any impairment losses.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Software acquired with hardware is considered to be integral to the operation of that hardware and is capitalised with that equipment. Software acquired separately from hardware is recognised as an intangible asset and amortised over its estimated useful life.

Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost less estimated residual value of each asset on a straight line basis over its expected economic useful life as follows:

Right of use assets	The remaining length of the lease
Leasehold improvements	The lesser of the asset life and the remaining length of the lease
Plant and machinery	4 years
Fixtures, fittings & equipment	4 years

Leases

Leases in which a significant portion of the risks and rewards of ownership remain with the lessor are deemed to give the Company the right-of-use and accordingly are recognised as property, plant and equipment in the statement of financial position. Depreciation is calculated on the same basis as a similar asset purchased outright and is charged to profit or loss over the term of the lease. A corresponding liability is recognised as borrowings in the statement of financial position and lease payments deducted from the liability. The difference between remaining lease payments and the liability is treated as a finance cost and taken to profit or loss in the appropriate accounting period.

Impairment of non-financial assets

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

All individual assets or cash-generating units are tested whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. Value in use is based on estimated future cash flows from each cash-generating unit or individual asset, discounted at a suitable rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures is directly linked to the Company's latest approved budgets, adjusted as necessary to exclude any restructuring to which the Company is not yet committed. Discount rates are determined individually for each cash-generating unit or individual asset and reflect their respective risk profiles as assessed by the directors. Impairment losses for cash-generating units are charged pro rata to the assets in the cash-generating unit. Cash generating units and individual assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. Impairment charges are included in administrative expenses in the Statement of Comprehensive Income. An impairment charge that has been recognised is reversed if the recoverable amount of the cash-generating unit or individual asset exceeds the carrying amount.

Current tax and deferred tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the UK, where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences arising between the carrying amounts of assets and liabilities and their tax bases. 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 only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities.

Share based employee compensation

The Company operates equity-settled share-based compensation plans for remuneration of its directors and employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. The fair value is appraised at the grant date and excludes the impact of any non-market vesting conditions (e.g. profitability and remaining an employee of the Company over a specified time period).

Share based compensation is recognised as an expense in the Statement of Comprehensive Income with a corresponding credit to equity. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates.

The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium when the options are exercised.

Financial assets

Classification

The Company classifies its financial assets in the following measurement categories:

- Those to be measured at amortised costs; and
- Those to be measured subsequently at fair value (either through Other Comprehensive Income or through profit and loss).

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. The Company reclassifies its financial assets when and only when its business model for managing those assets changes.

Recognition and measurement

At initial recognition, the Company measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Subsequent measurement of financial assets depends on the Company's business model for managing those financial assets and the cash flow characteristics of those financial assets. The Company only has financial assets classified at amortised cost. Cash and cash equivalents represent monies held in bank current accounts and bank deposits. These assets are those held for contractual collection of cash flows, where those cash flows represent solely payments of principal and interest and are held at amortised cost. Any gains or losses arising on derecognition is recognised directly in profit or loss. Impairment losses are presented as a separate line in the profit and loss account.

Impairment

The Company assesses on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost. For trade receivables the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be

recognised from the initial recognition of the receivables. For other receivables the Company applies the three stage model to determine expected credit losses.

Inventories

Inventories comprise consumables. Consumables inventory is stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Cost represents the amounts payable on the acquisition of materials. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in selling and distribution.

Financial liabilities

Financial liabilities comprise Trade and other payables and borrowings due within one year and after one year, which are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method. The Company does not use derivative financial instruments or hedge account for any transactions. Trade payables represent obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year. If not, they are presented as non-current liabilities.

Provisions

A provision is recognised in the Statement of Financial Position when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability. The increase in the provision due to the passage of time is recognised as a finance cost. Provisions for dilapidation charges that will crystallise at the end of the period of occupancy are provided for in full.

Employee benefits - Defined contribution plan

The Company operates a defined contribution pension scheme which is open to all employees and directors. The assets of the schemes are held by investment managers separately from those of the Company. The contributions payable to these schemes are recorded in the Statement of Comprehensive Income in the accounting year to which they relate.

Foreign currency translation

The Company's functional currency is the pound sterling. Transactions in foreign currencies are translated at the exchange rate ruling at the date of transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the reporting date. Exchange differences arising on the settlement or on translating monetary items at rates different from those at which they were initially recorded are recognised in administrative expenses in the Statement of Comprehensive Income in the year in which they arise.

Equity

Equity comprises the following;

Called up share capital

Share capital represents the nominal value of equity shares.

Share premium

Share premium represents the excess over nominal value of the fair value of consideration received of equity shares, net of expenses of the share issue.

Accumulated losses

Accumulated losses represent retained profits and losses.

Adoption of new and revised standards and changes in accounting policies

In the current year the following new and revised Standards and Interpretations have been adopted by the company. The adoption has had no impact on the current period however may have an effect on future periods.

IFRS 3 (Amendments)	Reference to conceptual framework	1 January 2022
IAS 16 (Amendments)	Property, plant and equipment - proceeds before intended use	1 January 2022
IAS 37 (Amendments)	Onerous contracts - costs of fulfilling a contract	1 January 2022
IFRIC	Amendments to IFRS 1 (subsidiary as a first-time adopter), IFRS 9 (fees in the '10 liabilities), IFRS 16 (lease incentives), IAS 41 (taxation in the fair value measurements)	1 January 2022

Standards which are in issue but not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations, which have not yet been applied in these financial statements, were in issue but not yet effective (and in some cases had not yet been adopted by the United Kingdom):

IFRS 17	Insurance contracts	1 January 2023
IAS 1 and IFRS Practice Statement 2	Disclosure of accounting policies	1 January 2023
IAS 8 (Amendment)	Definition of accounting estimates	1 January 2023
IAS 12 (Amendment)	Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023
IFRS 16 (Amendment)	Liability in a Sale and Leaseback	1 January 2023
IAS 1 (Amendment)	Classification of liabilities as current or non-current - deferral of effective date	1 January 2023
IAS 1 (Amendment)	Non-current liabilities with covenants	1 January 2023

The directors do not expect that the adoption of the other Standards listed above will have a material impact on the financial statements of the Company aside from additional disclosures.

3 Critical accounting estimates and judgements

Many of the amounts included in the financial statements involve the use of judgement and/or estimates. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ from the amounts included in the financial statements. Information about such judgements and estimation is contained in the accounting policy and/or the notes to the financial statements and the key areas are summarised below:

Critical judgements in applying accounting policies

- *Revenue recognition*. The Company typically enters into a contract comprising one or more stages for each customer project. In the application of IFRS 15 "Revenue from Contracts with Customers" and the accounting policy set out in Note 2 to these financial statements, significant judgement is required to identify the individual performance obligations contained within each contract, particularly when a set-up charge is made relating to the initial collaboration with the customer to formulate a programme of development work, or when the pattern of sales invoices does not align with those stages explicit in the contract.

  Many customer contracts contain a non-refundable set up charge of up to 30% of contract value which becomes payable upon commencement of the project. This represents the value of the transfer of knowledge involved in design, planning and preparation for the work to be done, and for the time and consumables committed to commence work on the project. As this work is distinct and of benefit to the customer independent of later stages within the contract, it is therefore judged to be a separate performance obligation within the meaning of IFRS 15 and is recognised as revenue in line with the accounting policy.

The remaining performance obligations are based on the stages with defined deliverables which are explicitly outlined in the customer contracts.

During the process of delivering the contract, where delivery is part way through a stage at the reporting date, an estimate is made of the amount of revenue to recognise for that stage to reflect the work performed up to that date. This amount is estimated on a percentage completion basis.

Critical accounting estimates and assumptions

Deferred Taxation. The Company has accumulated tax losses of £13,000k (2022: £10,000k). In principle these losses would support a deferred tax asset of approximately £2,500k (2022: £2,000k). IAS 12 requires that a deferred tax asset relating to unused tax losses is carried forward to the extent that future taxable profits will be available. The company is in an investment phase, expecting to have increased expenditure on R&D and business development over the next two years which will increase the tax losses. After the investment period the Board expects the Company to generate healthy profits but it is difficult at this stage to reliably estimate the period over which profits may arise in the future. The Board has therefore determined to not recognise the asset at the reporting date. This approach does not affect the future availability of the tax losses for offset against future profits.

4 Revenue

All of the activities of the Company fall within one business segment, that of research, development and manufacture of recombinant proteins and antibodies.

Geographic analysis	**2023 £'000**	2022 £'000
UK	**621**	724
Rest of Europe	**409**	1,394
North America	**1,496**	2,000
Rest of World	**375**	681
	2,901	4,799

In the year there were three customers (2022: one) to whom sales exceeded 10% of revenues, those customers together accounted for £1,040k or 36% of revenues (2022: £693k or 14.4% of revenues).

5 Operating loss is stated after charging/(crediting):

	2023 £'000	2022 £'000
Employee benefit costs		
-wages and salaries	**2,201**	2,126
-social security costs	**247**	205
-other pension costs	**110**	103
-share based payments	**35**	21
	2,595	2,455
Depreciation of property, plant and equipment	**347**	678
Depreciation of property, plant and equipment (leased)	**25**	71
Other operating expenses		
Rates, utilities and property maintenance	**168**	100
IT costs	**30**	16
Fees payable to the Company's auditors		
- for the audit of the financial statements	**73**	40
Raw materials and consumables used	**1,129**	1,276
Decrease/(increase) in inventories	**47**	(105)
Patent costs	**30**	84
Marketing costs	**223**	115
Gain on foreign exchange	**(36)**	(23)
Other expenses	**1,139**	1,447
Total cost of sales and administrative expenses	**5,770**	6,154

Included in the costs above is expenditure on research and development totalling £806k (2022: £699k). Non-audit fees of £9k (2022: £23k) were paid in the year and are included in other expenses above.

6 Average staff numbers

	2023	2022
	Monthly Avg Number	Monthly Avg Number
Employed in UK (including executive directors)	**50**	53
Non-executive directors	**4**	5
	54	58

7 Remuneration of directors and key senior management

Directors

	2023	2022
	£'000	£'000
Emoluments	**470**	518
Pension contributions	**21**	22
	491	540

Highest paid director

The highest paid director received the following emoluments:

	2023	2022
	£'000	£'000
Emoluments	**120**	153
Pension contributions	**7**	9
	127	162

The highest paid director did not exercise any share option in the year. (2022: £nil).

Key senior management personnel

Key senior management is considered to comprise the directors of the Company with total remuneration for the year of £491k (2022: £540k). Share based payments for the year attributable to key senior management totalled £10k (2022: £15k).

8 Finance income and expense

	2023	2022
Income	**£'000**	£'000
Bank interest receivable	**3**	1

	2023	2022
Expense	**£'000**	£'000
Interest expense on other borrowings	**4**	9

9 Share based payments

At the reporting date the Company had three share based reward schemes: two schemes under which options were previously granted and are now closed to future grants and a third scheme in place in which grants were made in the current year:

- A United Kingdom tax authority approved scheme for executive directors and senior staff;
- An unapproved scheme for awards to those, such as non-executive directors, not qualifying for the approved scheme; and
- A United Kingdom tax authority approved scheme for executive directors and senior staff which incorporates unapproved options for grants to be made following listing of the Company shares, "2017 EMI and Unapproved Employee Share Option Scheme".

Options awarded during the year under the 2017 EMI and Unapproved Employee Share Option Scheme have no performance conditions other than the continued employment within the Company. Options vest one, two and three years from the date of grant, which may accelerate for a change of control. Options lapse if not exercised within ten years of grant, or if the individual leaves the Company, except under certain circumstances such as leaving by reason of redundancy.

The total share-based remuneration recognised in the Statement of Comprehensive Income was £35k (2022: £21k). The most recent options granted in the year were valued using the Black-Scholes method. The share price on grant used the share price of open market value, expected volatility of 24.0% and a compound risk free rate assumed of 3.47% based on historical experience.

	2023 Weighted average exercise price £	**2023 Number**	2022 Weighted average exercise price £	2022 Number
Outstanding at beginning of the year	**0.478**	**787,083**	0.421	1,266,666
Granted during the year	**0.483**	**1,745,800**	1.275	250,000
Exercised during the year	**-**	**-**	0.288	(404,587)
Lapsed during the year	**0.486**	**(215,000)**	1.107	(324,996)
Outstanding at the end of the year	**0.481**	**2,317,883**	0.478	787,083

The options outstanding at the end of each year were as follows:

Expiry	**Nominal share value**	**Exercise price £**	**2023 Number**	2022 Number
May 2027	**£0.04**	**0.040**	**103,750**	103,750
December 2028	**£0.04**	**0.545**	**648,333**	683,333
September 2032	**£0.04**	**0.520**	**300,000**	-
September 2032	**£0.04**	**0.475**	**1,265,800**	-
Total			**2,317,883**	787,083

Of the total number of shares outstanding, 752,083 were exercisable at the reporting date at a weighted average price of £0.48p/share (2022: 787,083 at a weighted average price of £0.48p/share).

10 Income tax (credit)

	2023 £'000	2022 £'000
Current tax - UK corporation tax	**(263)**	(133)
Income tax credit	**(263)**	(133)

The difference between loss before tax multiplied by the standard rate of 19% (2022: 19%) and the income tax credit is explained in the reconciliation below:

	2023 £'000	2022 £'000
Factors affecting the tax credit for the year		
Loss before tax	**(2,859)**	(1,333)
Loss before tax multiplied by standard rate of UK corporation tax of 19% (2022: 19%)	**(545)**	(253)
Deferred tax not recognised on current year losses	**545**	253
RDEC/R&D tax credit	**(263)**	(131)
RDEC/R&D tax credit - adjustment relating to prior year	**-**	(2)
Total income tax credit	**(263)**	(133)

Impact of future tax changes are not expected to materially impact the position of the Company, and no corporate tax liability is expected in the subsequent period.

11 Loss per share

	2023 £'000	2022 £'000
Loss for the financial year	**(2,596)**	(1,200)
Loss per share	**pence**	pence
Basic	**(10.0)**	(4.6)
Diluted	**(10.0)**	(4.5)

	Number	Number
Issued ordinary shares at the end of the year	**26,014,946**	26,014,946
Weighted average number of shares in issue during the year	**26,014,946**	25,945,780

Basic earnings per share is calculated by dividing the basic earnings for the year by the weighted average

Basic earnings per share is calculated by dividing the basic earnings for the year by the weighted average number of shares in issue during the year. Diluted earnings per share is calculated by dividing the basic earnings for the year by the diluted weighted average number of shares in issue inclusive of share options outstanding at year end.

12 Intangible assets

	2023/2022 Software £'000	2022/2021 Software £'000
Cost		
At 1 April	8	8
At 31 March	8	8
Accumulated amortisation		
At 1 April	8	6
Amortisation charged in the year	-	2
At 31 March	8	8
Net book value		
At 31 March	-	-
At 31 March	-	2

Amortisation is included in administrative expenses on the statement of comprehensive income.

13 Property, plant and equipment

	Right of use assets £'000	Leasehold improvements £'000	Plant & machinery £'000	Fixtures, fittings & equipment £'000	Total £'000
Cost					
At 1 April 2022	240	814	2,356	301	3,711
Additions	-	30	72	12	114
Disposals	(226)	-	(32)	(36)	(294)
At 31 March 2023	14	844	2,396	277	3,531
Accumulated depreciation					
At 1 April 2022	210	752	1,891	225	3,078
Depreciation charged in the year	25	60	253	34	372
Disposals	(226)	-	(32)	(36)	(294)
At 31 March 2023	9	812	2,112	223	3,156
Net book value					
At 31 March 2023	5	32	284	54	375
At 31 March 2022	30	62	465	76	633

	Right of use assets £'000	Leasehold improvements £'000	Plant & machinery £'000	Fixtures, fittings & equipment £'000	Total £'000
Cost					
At 1 April 2021	240	784	2,181	247	3,452
Additions	-	30	175	54	259
At 31 March 2022	240	814	2,356	301	3,711
Accumulated depreciation					
At 1 April 2021	139	583	1,446	161	2,329
Depreciation charged in the year	71	169	445	64	749
At 31 March 2022	210	752	1,891	225	3,078
Net book value					
At 31 March 2022	30	62	465	76	633
At 31 March 2021	101	201	735	86	1,123

Plant & machinery with a net book value of £49k is held under hire purchase agreements or finance leases (2022: £85k).

The carrying value of right of use assets at the reporting date comprises fixtures, fittings and equipment of £6k (2022: £34k). In the prior year right of use assets comprised fixtures, fittings and equipment and the leased office space.

The depreciation expense is included in administrative expenses in the statement of comprehensive income in each of the financial years shown.

14 Investment in subsidiary

The Company has the following investment in a subsidiary:

	2023	2022
	£	£
Fusion Contract Services Limited 100% subsidiary Dormant company 1 Springbank Road, Belfast, BT17 0QL	**1**	1

Under section 402, group financial statements are not prepared on the basis that the subsidiary company is dormant and not material to the financial statements for the purpose of giving a true and fair view.

15 Inventories

	2023	2022
	£'000	£'000
Raw materials and consumables	**539**	585

The cost of inventories recognised as an expense for the year was £1,129k (2022: £1,276k).

16 Trade and other receivables

	2023	2022
	£'000	£'000
Trade receivables	**511**	900
Loss allowance	**(151)**	(124)
Trade receivables - net	**360**	776
Other receivables	**72**	117
Prepayments and accrued income	**258**	624
	690	1,517

The fair value of trade and other receivables approximates to their carrying value.

At the reporting date trade receivables loss allowance/impairment as follows:

	2023	2022
	£'000	£'000
Individually impaired	**122**	71
Expected credit loss allowance	**29**	53
	151	124

The carrying amount of trade and other receivables are denominated in the following currencies:

	2023	2022
	£'000	£'000
UK pound	**273**	664
Euros	**-**	1
US dollar	**238**	235
	511	900

The expected credit loss allowance has been calculated as follows:

31 March 2023	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	More than 120 days past due	Total
Expected loss rate	1.9%	2.1%	2.7%	4.9%	26.6%	
Gross carrying amount (£'000)	113	87	68	43	78	389
Loss allowance (£'000)	2	2	2	2	21	29

31 March 2022	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	More than 120 days past due	Total
Expected loss rate	1%	1.1%	1.4%	2.5%	13.8%	

Gross carrying amount (£'000)	304	133	19	-	373	829
Loss allowance (£'000)	3	1	-	-	49	53

Movements on trade receivables loss allowance is as follows:

	£'000	£'000
At 1 April 2022/2021	**53**	10
Movement in loss allowance	**(24)**	43
At 31 March 2023/2022	**29**	53

The creation and release of the loss allowance for trade receivables has been included in administrative expenses in the Statement of Profit or Loss and Other Comprehensive Income. Other receivables are considered to have low credit risk and the loss allowance recognised during the year was therefore limited to trade receivables.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Company does not hold any collateral as security.

17 Trade and other payables

	2023 £'000	2022 £'000
Trade payables	**480**	466
Social security and other taxes	**136**	68
Other payables	**51**	47
Accruals and deferred income	**177**	561
	844	1,142

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

Invest Northern Ireland hold a mortgage dated 9 December 2009 for securing all monies due or to become due from the Company on any account. At the reporting date a balance of £45k (2022: £nil) was due to Invest Northern Ireland.

18 Borrowings

	Lease liabilities £'000	Hire Purchase Contracts £'000	Total £'000
At 1 April 2022	**27**	**42**	**69**
Additions	**-**	**69**	**69**
Interest charged in year	**3**	**1**	**4**
Repayments	**(24)**	**(43)**	**(67)**
At 31 March 2023	**6**	**69**	**75**
Amounts due in less than 1 year	**5**	**30**	**35**
Amounts due after more than 1 year	**1**	**39**	**40**
	6	**69**	**75**

	Lease liabilities £'000	Hire Purchase Contracts £'000	Total £'000
At 1 April 2021	100	130	230
Interest charged in year	4	5	9
Repayments	(77)	(93)	(170)
At 31 March 2022	27	42	69
Amounts due in less than 1 year	24	42	66
Amounts due after more than 1 year	3	-	3
	27	42	69

All borrowings are denominated in UK pounds. Using a discount rate of 8.5% per annum the fair value of borrowings at the reporting date is £69k (2022: £65k discounted at 5.5%).

Borrowings are secured by a fixed and floating charge over the whole undertaking of the Company, its property, assets and rights in favour of Northern Bank Ltd trading as Danske Bank.

19 Provisions for other liabilities and charges

	2023 £'000	2022 £'000

Due after more than 1 year	**20**	20

Leasehold dilapidations relate to the estimated cost of returning a leasehold property to its original state at the end of the lease in accordance with the lease terms. The Company's premises are held under a lease which is renewed annually. The costs of dilapidations would be incurred on vacating the premises.

20 Financial instruments

The Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and methods used to measure them. There have been no substantive changes in the Company's exposure to financial instrument risks and the methods used to measure them from previous years unless otherwise stated in this note.

The principal financial instruments used by the Company, from which the financial instrument risk arises, are trade receivables, cash and cash equivalents and trade and other payables. The fair values of all the Company's financial instruments are the same as their carrying values.

Financial instruments by category

Financial instruments categories are as follows:

As at 31 March 2023	**Amortised cost £'000**
Trade receivables	**360**
Other receivables	**72**
Accrued income	**26**
Cash and cash equivalents	**195**
Total	**653**

As at 31 March 2022	Amortised cost £'000
Trade receivables	776
Other receivables	117
Accrued income	397
Cash and cash equivalents	2,049
Total	3,339

As at 31 March 2023	**Other financial liabilities at amortised cost £'000**
Trade payables	**480**
Other payables	**100**
Accruals	**127**
Borrowings	**75**
Total	**782**

As at 31 March 2022	Other financial liabilities at amortised cost £'000
Trade payables	466
Other payables	47
Accruals	279
Borrowings	69
Total	861

Capital management

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

In order to maintain or adjust the capital structure, the Company may issue new shares or sell assets to provide working capital.

Consistent with others in the industry at this stage of development, the Company has relied on issuing new shares and cash generated from operations.

General objectives, policies and processes - risk management

The Company is exposed through its operations to the following financial instrument risks: credit risk; liquidity risk and foreign currency risk. The policy for managing these risks is set by the Board following recommendations from the Chief Financial Officer. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. The policy for each of the above risks is described in more detail below.

Credit risk

Credit risk arises from the Company's trade and other receivables, and from cash at bank. It is the risk that the counterparty fails to discharge their obligation in respect of the instrument.

The Company is mainly exposed to credit risk from credit sales. It is Company policy to assess the credit risk of new customers before entering contracts. Also, for certain new customers the Company will seek payment at each stage of a project to reduce the amount of the receivable the Company has outstanding for that customer.

At the year end the Company's bank balances were all held with Northern Bank Ltd trading as Danske Bank (Moody's rating P-1).

Liquidity risk

Liquidity risk arises from the Company's management of working capital, and is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due.

At each Board meeting, and at the reporting date, the cash flow projections are considered by the Board to confirm that the Company has sufficient funds and available funding facilities to meet its obligations as they fall due.

The table below analyses the company's financial liabilities into relevant maturity groupings based on their contractual maturities. The amounts presented are the undiscounted cash flows.

	Less than 6 months £000	6 to 12 months £000	Between 1 and 2 years £000	Between 2 and 5 years £000
31 March 2023				
Trade and other payables	716	-	-	-
Accruals	127	-	-	-
Borrowings	-	35	40	-
	843	35	40	-
31 March 2022				
Trade and other payables	581	-	-	-
Accruals	279	-	-	-
Borrowings	-	66	3	-
	860	66	3	-

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company seeks to transact the majority of its business in its reporting currency (£Sterling). However, many customers and suppliers are outside the UK and a proportion of these transact with the Company in US Dollars and Euros. For that reason, the Company operates current bank accounts in US Dollars and Euros as well as in its reporting currency. To the maximum extent possible receipts and payments in a particular currency are made through the bank account in that currency to reduce the amount of funds translated to or from the reporting currency. Cash flow projections are used to plan for those occasions when funds will need to be translated into different currencies so that exchange rate risk is minimised.

If the exchange rate between Sterling and the Dollar or Euro had been 10% higher/lower at the reporting date the effect on profit and equity would have been approximately £34,000 (2022: £32,000) higher/lower and immaterial given the value of the balance of £158 (2022: £5,000) higher/lower respectively.

21 Called up share capital

	2023 £'000	2022 £'000
Allotted, called up and fully paid		
- 26,014,946 (2022: 26,014,946) Ordinary shares of £0.04	**1,040**	1,040

The company is authorised to issue 33,809,960 shares

No dividends were paid (2022: £nil). The directors do not recommend payment of a final dividend (2022: £nil).

22 Capital commitments

At 31 March 2023 the Company had contracted for but not incurred capital expenditure of £nil (2022: £17,000).

23 Retirement benefits obligations

The Company operates a defined contribution scheme, the assets of which are managed separately from the Company. During the year the Company charged £96,000 to the Statement of Profit or Loss and Other Comprehensive Income (2022: £103,000) in respect of Company contributions to the scheme. At the reporting date there was £19,000 (2022: £18,000) payable to the scheme and included in other payables.

24 Transactions with related parties

The Company had the following transactions with related parties during the year:

Invest Northern Ireland ("Invest NI") is a shareholder in the Company. The Company received invoices for rent and estate services amounting to £79,000 (2022: £78,000). A balance of £45,000 (2022: £nil) was due and payable to Invest NI at the reporting date.

25 Ultimate controlling party

There is no ultimate controlling party.

26 Post balance sheet events

Since the reporting date the Company has raised net proceeds of £1.5 million from the issue of ordinary shares. Additionally, the Company has undergone a restructuring process contributing to a reduction in costs in the current financial year of approximately £1.6m. These cost savings were primarily achieved due to staff redundancies and resulting payroll cost savings.

Subsequent to the reporting date, the Company has introduced a new revenue stream from the AI/ML-AB service offering.

27 Reconciliation of loss to EBITDA

	2023 £'000	2022 £'000
Loss before tax	**(2,859)**	(1,333)
Finance income	**(3)**	(1)
Finance expense	**4**	9
Depreciation and amortisation	**372**	751
EBITDA	**(2,486)**	(574)

END

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