Arecor

Advancing today's therapies to enable healthier lives

Arecor Therapeutics plc
Annual Report and Accounts for the year ended 31 December 2022

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.

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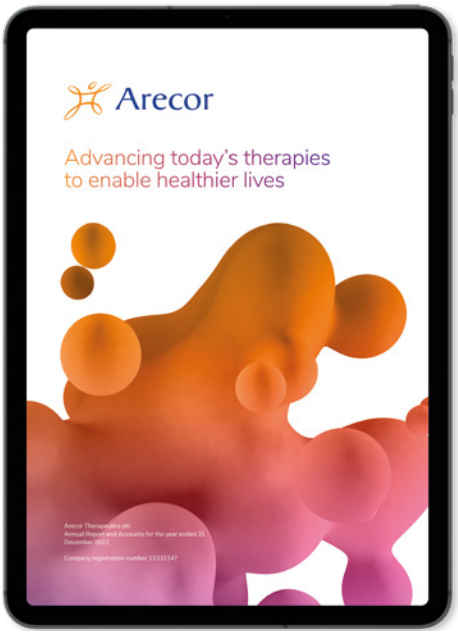

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Strategic Report

In this section:

Who We Are

Transforming patient care by bringing innovative medicines to market

World-class

Arestat™ proprietary formulation technology platform

- Enhances properties of existing therapeutic medicines
- Improving performance, patients' outcomes and quality of life
- Extensive IP protection with >75 granted patents in US, Europe and key territories
- Strength and value of technology validated by licensing deals and blue-chip pharma collaborations

Best-in-Class

Proprietary Products

- **In-house portfolio of proprietary products** within diabetes and specialty hospital care
- Clinical Stage Diabetes Products:
- Novel formulations of existing insulins, enabled by Arestat™
- Best-in-class profiles demonstrated in clinical studies versus current gold standard insulins
- AT247, an ultra-rapid acting insulin, has potential to be life-changing for people with Type 1 diabetes by enabling a fully automated artificial pancreas
- AT278, 'disruptor insulin', the first concentrated rapid acting mealtime insulin to improve blood glucose control for growing number of people with diabetes who require high doses of daily insulin to control their blood glucose and to enable next generation miniaturised insulin delivery systems

Specialty Hospital

- 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
- One Arecor programme licensed to Hikma Pharmaceuticals
- Portfolio of in-house R&D programmes offering future licensing upside potential

Partnered

with leading healthcare companies

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

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 speciality products across the UK and Europe
- Future significant milestone and royalty licensing upside potential from technology partnerships and licensing of proprietary diabetes and specialty hospital products

Strong

Executive Team

- >100 combined years of scientific research, drug development and commercial experience
- Experienced management team with scientific depth and breadth
- World renowned Scientific Advisory Board

Growing Arecor's reputation and reach

"As Arecor's reputation for innovative drug development continues to build, we have demonstrated our strengths both in partnership with leading pharmaceutical companies and through progress with our own insulin portfolio. We will continue to build on that work in the coming year to cement our status and expand our reach within the industry."

Celebrating its first full year as a quoted company, Arecor continued to make strong progress in 2022. Against a background of major global challenges impacting the financial markets, we focused on our strategy; delivering clinical data for one of our lead diabetes programmes, bolstering our portfolio of blue-chip partners and successfully completing a £6 million Placing to acquire Tetris Pharma, a complementary commercial acquisition in the specialty hospital products field.

2022 was a year characterised by macroeconomic turmoil and geopolitical events that impacted financial markets and affected all segments of industry including the pharmaceutical sector. Whilst this has had only a limited impact on the day-to-day business through rising costs for companies such as Arecor, the resultant ripples has impacted the way that the industry connects and works together.

"Arecor continued to make strong progress in 2022"

Against this backdrop we are very encouraged by how much progress Arecor has made. Our new partnerships with leading pharmaceutical companies only strengthen our reputation as an innovator that pharma and biopharma can work with and clearly demonstrates the strength and relevance of our platform and intellectual property. The progress of our partnered pipeline products and the achievement of licence milestones further exemplifies this success.

Within our own portfolio of insulin-based products notably, AT278 and AT247, we have continued to build out excellent clinical data sets, which is key to demonstrating where they best fit within the clinical landscape and with potential commercial partners. We successfully completed a further Phase I clinical trial in diabetes for AT247, an insulin candidate, which clearly showed that it possesses characteristics that facilitate a fully closed loop artificial pancreas, with optimal automated delivery of insulin. This will enable far more effective disease management, making living with the disease easier and less burdensome for people with Type I diabetes.

Furthermore, we closed the year with initiation of a second Phase I clinical trial for AT278, an ultra-rapid acting, ultra-concentrated (500 U/mL) insulin candidate, in Type 2 diabetic patients. This head-to-head study is important to demonstrate AT278's potential as a single injection treatment for patients who need higher doses of insulin. Its highly concentrated formulation also has the potential to advance the miniaturisation of delivery devices. With ~537 million people living with diabetes worldwide and ~64 million requiring insulin daily, finding solutions to improve the lives of people living with diabetes is more critical than ever.

Diabetes and metabolic disorders are principally treated by endocrinologists, a group of clinical specialists that Arecor already interacts closely with in the development of its diabetes franchise. In August, we successfully raised £6 million to acquire Tetris Pharma, providing Arecor with a marketing, sales and distribution capability focused on injectable specialty products across the UK and Europe. The lead product Ogluo®, a treatment for severe hypoglycaemia is prescribed to diabetics by endocrinologists and so is complementary to our therapeutic focus. This acquisition provides Arecor with greater optionality in the future both for our specialty products franchise and potential partner products.

"2023 shows no sign of slowing for Arecor"

Looking forward, 2023 will build on the solid platform we have produced in 2022, and will be a year of accelerated delivery across the key areas of our business. One critical aspect of this will be the way we work with both commercial and technology partners. Building successful partnerships is of great importance to Arecor. It requires two-way commitment and engagement, and I would like to thank our partners for their contribution in making our current and future potential partnerships succeed. The success of our partners with products incorporating our technology is our success.

I would also like to thank our shareholders for their continued belief in our vision, strategy and team. Their support has enabled us to grow Arecor into a successful UK biopharmaceutical company on the international stage and it is pleasing to shine a light on examples of British science and expertise that maintain the UK's strong reputation within the industry.

Finally, the Company would not be where it is today without the hard work and commitment of our employees. 2023 shows no sign of slowing for Arecor. Our focus is ensuring both scientific and commercial delivery across our business pillars; a focus that will drive value for our shareholders.

Andrew Richards
Non-Executive Chair
27 April 2023

Capturing long-term value through partnerships

Arecor has a revenue-generating commercially focused business model, offering significant potential future returns from successful drug development, de-risked through the reformulation of existing medicines using our Arestat™ technology platform, and a pan-European commercial product sales platform.

The Company has established a well-balanced development pipeline consisting of a combination of partnered programmes, coupled with select in-house best-in-class proprietary products with material upside potential from licensing. We have a proven track record of partnering with pharmaceutical companies.

Best-in-class proprietary products
We are developing a portfolio of best-in-class enhanced proprietary products that can transform patients' lives and provide significant future licensing upside potential.

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

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

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

Tetris Pharma
The acquisition of Tetris Pharma adds a key commercially available diabetes product and a sales, marketing and distribution platform, offering the potential to accelerate revenue growth and provide future value for the Group's proprietary specialty hospital products.

Significant momentum across internal and partnered portfolio

"Arecor's ambition is to build a significant self-sustaining biopharmaceutical company and in 2022 we made excellent progress across all aspects of our business, advancing our lead diabetes clinical development programmes, delivering on our partnerships portfolio and accelerating our commercially driven strategy."

Highlights (including post-period events):

AT247

Positive results from US Phase I clinical trial of ultra-rapid acting insulin, AT247

- Delivered by continuous subcutaneous infusion over 3 days via an insulin pump
- Reinforces AT247 potential to enable a fully closed loop artificial pancreas system

AT278

Initiation of second Phase I trial of ultra-rapid acting, ultra-concentrated AT278 in people with Type 2 diabetes, with first patient dosed in Q1 2023

Specialty Hospital

Ready-to-use (RTU) injectable medicine AT307 transferred to Hikma

- Arestat™ enabled product to deliver safe, fast and effective treatment options for patients
- Transferred to Hikma for further development, triggering license milestone for Arecor

Partnership portfolio

Further strengthened

- Two new collaborations with a top five global pharmaceutical company and pharmaceutical division of one of world's largest chemicals marketing and pharmaceuticals companies

Acceleration

of commercially driven strategy with acquisition of Tetris Pharma Ltd

- £6 million Placing to add key commercial diabetes product, Ogluo®, and build out Arecor's Specialty Hospital Products franchise with scalable sales, marketing and distribution platform

Appointment

of Dr. Manjit Rahelu as Chief Business Officer

Our vision is to transform patient care through the enhancement of existing therapeutic products. By applying our innovative proprietary formulation technology platform, Arestat™ we are developing novel formulations of medicines with enhanced properties that genuinely transform patient care, improving outcomes and bringing safer, more effective and affordable treatments for the benefit of patients and healthcare systems.

Combining our extensive know-how and expertise alongside the power of Arestat™, allows us to deliver differentiated, patent-protected products, bringing benefits to patients and achieving a commercial advantage in valuable and often competitive fields of medicine. The progress in 2022 across our internal portfolio of proprietary products and within our partnered programmes, reflects the strength and broad applicability of our formulation technology and expertise.

Within our Diabetes franchise, we made excellent progress in the continued clinical development of our two lead insulin candidates, AT247 and AT278. The latest data from our clinical trials continue to reinforce our belief in the value of these products and that they offer the potential to simplify and improve blood glucose control for people living with diabetes and could enable the development of next generation miniaturised insulin delivery systems and a fully closed loop/artificial pancreas system – the Holy Grail of diabetes management.

The steady growth in demand for ready-to-use (RTU) and ready-to-administer (RTA) hospital care medicines that are administered by healthcare professionals, underlines the significant opportunity for Arecor within our Specialty Hospital Products franchise. The transfer of our novel RTU therapeutic to Hikma, which triggered the payment of a license milestone to Arecor, was a significant advancement for the programme and for our Company – important validation from a major pharmaceutical company of the potential of our Arestat™ technology to deliver difficult to achieve, but important RTU medicines, which are becoming increasingly desirable for fast, safe and effective treatment of patients at the point of care.

The acquisition of Tetris Pharma, and lead product Ogluo®, brought an opportunity to accelerate our commercially driven strategy. Now a subsidiary of Arecor, this business provides us with a revenue-generating sales, marketing and distribution platform which complements our Specialty Hospital Products franchise and adds the optionality of taking selected products to market in the UK and Europe, in addition to our already proven partnering strategy. Its targeting of endocrinologists with Ogluo® provides a valuable link for Arecor to the clinical community most closely engaged with diabetes patients.

"Combining our extensive know-how and expertise alongside the power of ArestatTM, allows us to deliver differentiated, patent protected products"

"Results from the AT247 trial clearly demonstrate faster insulin absorption than the currently available, gold standard, rapid acting insulins"

In April 2023, we were delighted to welcome Dr. Manjit Rahelu as Chief Business Officer. Manjit brings extensive experience nurturing the growth of companies and driving deals to commercial success, which will be invaluable to Arecor as we deliver on our key strategic goals, leveraging the potential of our ArestatTM platform technology, advancing our pipeline of proprietary products and further expanding our partnered portfolio.

Operational review

Diabetes: Clinical progress with faster acting and more concentrated faster acting insulins, AT247 and AT278. During the year we made further significant progress advancing our proprietary diabetes focused portfolio through clinical development. Our Arestat™ enabled novel formulations of insulin are designed to accelerate insulin absorption post injection, enabling more precise and effective management of blood glucose levels for people living with diabetes, particularly around difficult to manage mealtimes.

In 2022, under an IND we undertook a US Phase I clinical trial of our ultra-rapid acting insulin candidate, AT247, delivered by continuous subcutaneous infusion and designed to further demonstrate the superiority of AT247 compared to current best-in-class insulins available to patients today. Results from that trial clearly demonstrate faster insulin absorption than the currently available, gold standard, rapid acting insulins, NovoRapid® and Fiasp®, and reinforce the potential of AT247 to enable a fully closed loop artificial pancreas system, a potentially life changing treatment option for people living with diabetes. The successful completion of this first trial to

investigate the potential of AT247 when delivered by subcutaneous infusion via an insulin pump over a period of 3 days, was an important milestone for Arecor. With a superior PK profile and promising PD results, the data support the potential that AT247 can enable even more effective disease management for people with Type I diabetes using fully automated delivery of insulin via a pump in closed loop mode.

Both clinical trial and real-world evidence show that closed loop systems are more effective in keeping blood glucose in a healthy range than standard care, which entails regular measurement of blood glucose level by the patient. This fact, in addition to patient testimony describing the reduced mental load in the management of their diabetes afforded by such systems, has led to a recommendation by NICE that there should be wider access to closed loop technology for people with Type 1 Diabetes.

The availability of AT247 with its ultra-rapid acting PK/PD profile will be a key component in the move from the currently available systems to those that are fully automatic and require limited input from patients, allowing them to 'fully switch off' from worrying about dipping into hypoglycaemia.

We have also initiated a second Phase I clinical trial of AT278, our ultra-rapid acting, ultra-concentrated insulin candidate, in Type 2 diabetic patients, illustrating the rapid progress we are making in our clinical development programmes. This candidate has a very promising profile, already demonstrated in our previous study, which delivered results at the high end of expectations. In 2022 we took these results to key scientific conferences, showcasing our research to the diabetes research community. At both the International Advanced Technologies and Treatments for Diabetes (ATTD) meeting and the Annual Meeting of the European Association for the Study of Diabetes (EASD), the data were well received. A key opinion leader webinar, entitled "The Need for Concentrated and Rapid Acting Insulin Treatments in Diabetes Care", which we hosted following the ATTD meeting, brought together four world-class experts in the field of diabetes care to discuss the AT278 clinical data and highlighted the clear clinical and patient need.

"AT278 has the potential to disrupt the market for insulin treatment as the first concentrated, yet very rapid acting insulin"

When speaking about the unmet need for concentrated, rapid acting insulin in the Arecor KOL webinar, Wendy Lane, MD, highlighted the potential benefits to patients with the use of AT278 when delivered by either pen or pump. Patient comfort and convenience are likely to be improved with the smaller injection volume needed and the ultimate development of smaller, longer wear-time devices that concentrated insulin will allow. Importantly, these benefits would come with no compromise to the known clinical benefits of better blood glucose control and outcomes for patients when using fast acting insulin around mealtimes. Currently there are no highly concentrated rapid acting insulins available for these patients.

AT278 has the potential to disrupt the market for insulin treatment as the first concentrated, yet very rapid acting insulin, and thereby become the gold standard insulin for the growing population of people with diabetes with high daily insulin needs. It has the potential to be a critical enabler in the development of next generation miniaturised insulin delivery systems that are beginning to dominate segments of the market. We look forward to generating further data to support this candidate's profile, with results from our second phase I clinical trial anticipated in Q4 2023. We believe that further investment in the diabetes programme will take the products to a significantly higher value inflexion prior to partnering.

Advancing specialty hospital proprietary portfolio

Our Specialty Hospital Products franchise is developing medicines that are administered within the hospital setting by health care professionals, particularly during the treatment of serious infections, cancer and emergency care. Leveraging our Arestat™ technology, we are developing RTU and RTA medicines within this 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.

Under a co-development agreement announced in January 2020 with Hikma, and subsequently expanded in October 2020, we have been responsible for optimising novel formulations of two products using our Arestat™ technology platform. In 2022 we successfully completed the application of this technology platform for both products, and in January 2023, Hikma made the very positive decision to take on full responsibility for the further development and commercialisation activities for one of those products, AT307, a RTU injectable hospital medicine. Hikma will now further develop this product and seek approval under the U.S. Food and Drug Administration's 505(b)(2) regulatory pathway. Hikma will generate all data required for regulatory submission and approval in its territories, including the United States. Under the terms of our royalty-based agreement with Hikma, this transfer also triggered a milestone payment to Arecor, following the upfront payment to Arecor in October 2020 when the co-development and license agreement was signed.

The transfer of AT307 was a significant milestone for Arecor and a clear demonstration of the value that our 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.

Following a product portfolio review, Hikma also made the decision to deprioritise AT282, the second RTU medicine within our co-development and licensing agreement. All rights to this product have been returned to Arecor and with the strong data package generated and Arecor owned patents, we are now assessing options for gaining a new commercial partner for this potentially important product.

Expansion of revenue generating partnership deals

The year brought further validation of the scientific strength of our Arestat™ technology platform and the value of our offering to leading healthcare companies, with the addition of two new technology partnerships to our roster of collaborations. Working with our partners we are applying our Arestat™ platform technology to develop enhanced formulations of our partners' proprietary products, with superior target product profiles.

In June 2022, we entered into an exclusive formulation study collaboration with a top 5 global pharmaceutical company to develop improved, stable, high concentration liquid formulations of its proprietary products.

"The transfer of AT307 was a significant milestone for Arecor and a clear demonstration of the value that our expertise and technology can bring to leading pharmaceutical companies developing innovative products to improve patient care"

In November 2022, we entered an exclusive formulation collaboration with the pharmaceutical division of one of the world's largest chemicals marketing and pharmaceutical companies, to develop a differentiated, stable, liquid drug product for intravenous RTU administration. The new product formulation supports safe medication practices and operational efficiency by eliminating the need for reconstitution.

In February 2023, we entered into an additional formulation study agreement with an existing top five global pharmaceutical partner, building on a collaboration formed in 2022, to develop improved, stable, high concentration, liquid formulations of its proprietary product.

These partners who gain access to our technology, fund the development work and have the option to acquire the rights to the new proprietary formulation and associated Intellectual Property (IP) under a technology licensing model to further develop and commercialise the product.

Partnerships provide near-term revenues as they typically involve upfront and milestone payments and, if successful, they provide significant future recurring revenue upside potential from a royalty stream or equivalent. These also provide continued learnings on where our technology can be applied.

Among our three licensed programmes, we continue to expect the first partnered product incorporating the Arestat™ technology, AT220, to be on the market within 2023. This is our most advanced partnered programme and is a novel and differentiated formulation of a product licensed to a global pharmaceutical company, targeting a multi-billion market opportunity. Arecor will receive development milestones and royalties on sales from continued development and commercialisation.

"2022 was a year of delivery and execution of our strategy"

These partnerships with leading biotech and biopharma companies validate the need and demonstrate the opportunity for the Arestat™ platform and are testament to our world-leading expertise and innovation in formulation science.

Building a robust intellectual property portfolio

Throughout the year we have continued to invest in building a strong patent portfolio to protect our Arestat™ technology platform and proprietary pipeline products. The Group's IP portfolio currently comprises 36 patent families, including >75 granted patents in Europe, the US and in other key territories. The strength of our patents are a key valuable asset in licensing negotiations.

In 2022 we further strengthened the portfolio with six significant patents granted and a further three post-period, protecting our proprietary Arestat™ technology and novel formulations of existing therapeutic medicines with enhanced features. The European Patent Office granted a patent (EP3496734B) protecting novel compositions of insulin glargine with improved thermostability and two patents (EP3592383B1 and EP3592385B1) protecting our novel formulations of high-concentration adalimumab; the United States Patent and Trademark Office granted a patent (US11278624) protecting novel formulations of AT247 and AT278, as did the Japan Patent Office (JP7145849). The same patent was also granted in South Korea.

In February 2023, the Indian Patent Office granted a patent (IN412485) protecting novel formulations of the Group's proprietary insulin products, AT247 and AT278, until 2038. In addition, the United States Patent and Trademark Office has granted two patents (US11534402 and US11534403) protecting the Group's novel formulations of high-concentration adalimumab until 2038.

These are important additions to our comprehensive IP strategy and provide further proof of the potential of our Arestat™ technology in the development of enhanced products.

Acquisition of Tetris Pharma and initiation of European roll-out of Ogluo®

2022 provided an opportunity to further build on our ambition to become a significant self-sustaining biopharmaceutical company through the successful £6 million Placing to acquire Tetris Pharma. Tetris Pharma is a strong, strategic fit for the Group, giving Arecor a commercial stage speciality pharmaceutical business with a

marketing and distribution platform across the UK and European markets with a core focus on niche injectable and hospital-based prescription products. That platform has the potential to add future optionality to our Specialty Hospital Products franchise by providing the capability to take select products to market in the UK and Europe, where appropriate. While there is no change to the Group's overall strategy, we believe Arecor is stronger as a result of this complementary acquisition. We have gained a key commercial diabetes product for our portfolio, with Ogluo®, a ready-to-use glucagon auto-injector pen to treat severe hypoglycaemia, a key patient need. The acquisition also complements Arecor's existing Specialty Hospital Products franchise, offering the potential to accelerate significant revenue growth for the Company.

Following an earlier UK launch, the Tetris Pharma team has continued the European commercial roll out of Ogluo®, which is now also available to patients in Germany and Austria. Syneos Health, along with selected potential partners, is supporting Ogluo's® continued roll-out across Europe, with additional launches planned across key territories to further support anticipated revenue growth.

Outlook

2022 was a year of delivery and execution of our strategy. As clinical development of the two lead insulin candidates in our Diabetes franchise rapidly advances, 2023 should provide further evidence of their potential to enable a new frontier in diabetes management. We continue to build a strong pipeline of potential collaborations and future revenue opportunities to grow our portfolio of partnerships. In 2023 we anticipate the first product incorporating the Arestat™ technology, AT220, to be marketed by our partner under a royalty generating license agreement in a multi-billion market. The commercial roll-out of Ogluo®, Tetris Pharma's key diabetes product, will accelerate across key European territories meeting a key patient need for people living with diabetes at risk of severe hypoglycaemia.

Arecor enters 2023 in its strongest position yet to transform patient care with enhanced, differentiated, life-changing treatments. I would like to thank our Board, partners, stakeholders and shareholders for their belief in Arecor. And above all, my colleagues for their exceptional efforts and scientific achievements.

Sarah Howell
Chief Executive Officer
27 April 2023

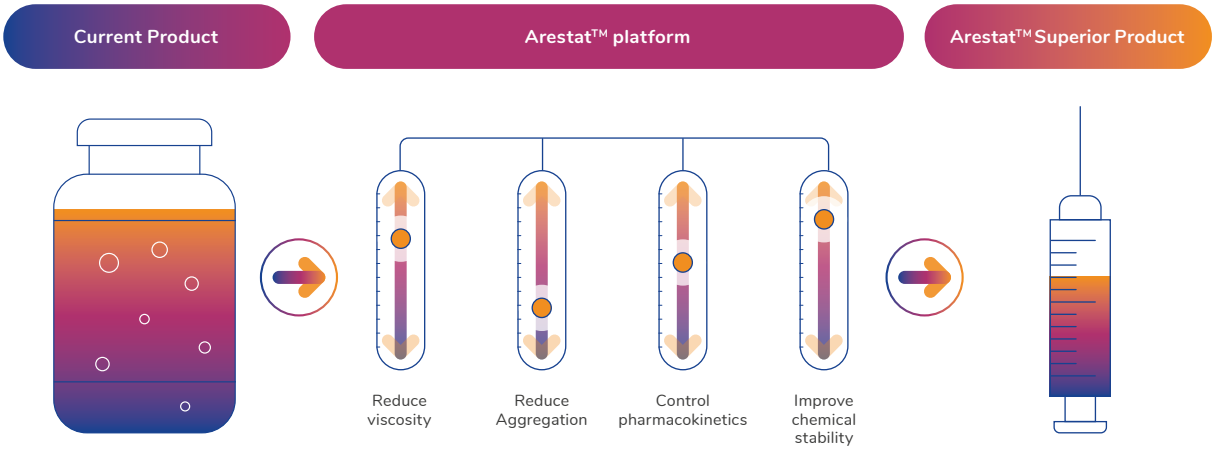
"Arecor enters 2023 in its strongest position yet to transform patient care with enhanced, differentiated, life-changing treatments"

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, previously unattainable concentrations, greater patient convenience and superior therapeutic profiles. Arestat™ can be applied to a broad range of products, notably antibodies, peptides, biologics, and vaccines.

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 mechanisms that are preventing these enhanced properties being achieved.	Apply our ArestatTM 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.

How our technology works

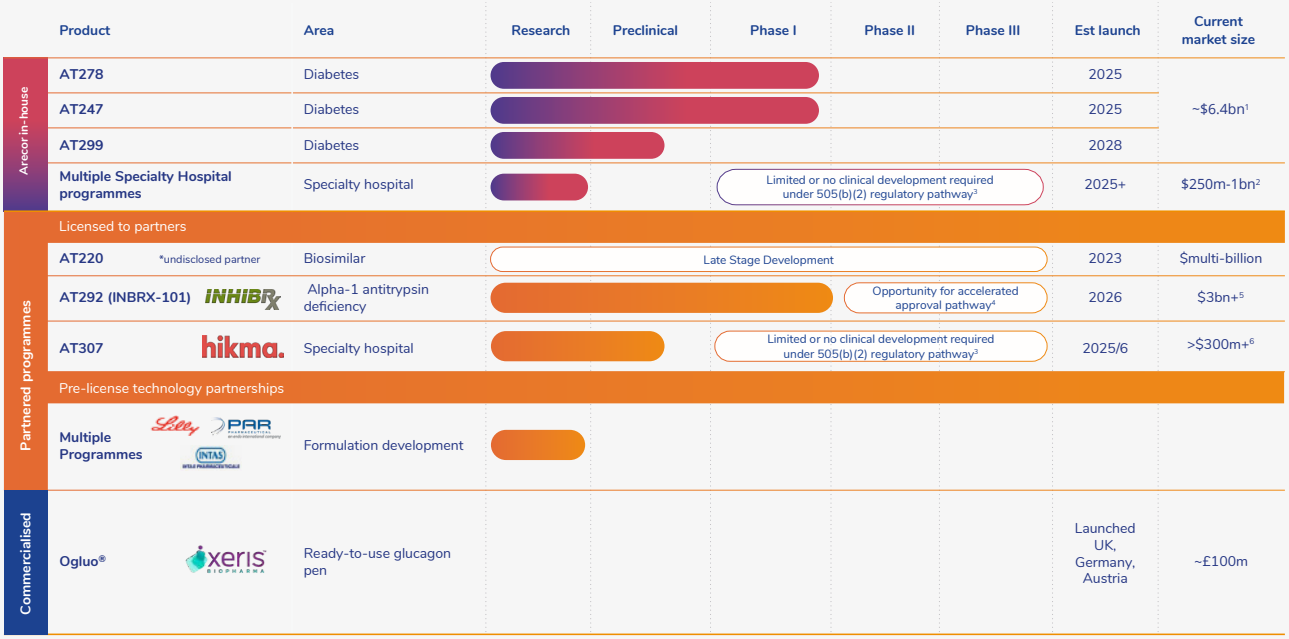


Arestat™ results in improved product formats with enhanced properties ranging from greater safety and convenience through to superior therapeutic profiles which can improve patient care and health outcomes.

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.



1. Meal-time rapid and ultra-rapid acting insulin market 2021, including Humulin franchise, 2021 sales revenues reported in Company Annual Reports; 2. Range of currently marketed products, source company annual reports and IQVIA; 3. Management assumption that new formulation will not require clinical data for approval under 505(b)(2) guidelines, to be validated for each product with US Food & Drug Administration; 4. Inhibrx press release dated 4 Oct 2022; 5. Inhibrx Corporate presentation, March 2023 6. Product towards upper end of hospital RTU/RTA market sales

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

We also partner with leading pharmaceutical and biotechnology companies through technology partnerships to enhance their proprietary products across a range of indications and stages of development. A number of ongoing partnered programmes generate a modest revenue stream during development with significant upside recurring revenue potential from future licensing.

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

The acquisition of Tetris Pharma adds Ogluo® to the portfolio, a novel stable liquid ready-to-use 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 formulations of existing therapeutic medicines that deliver superior products that can bring significant benefits to patients. In doing so, it builds shareholder value. Our focus is in diabetes, where we are developing ultra-fast acting insulin products and specialty hospital products, where our technology can deliver safer, 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, leads to serious health complications, including heart disease, kidney failure, nerve damage or blindness.

$966bn

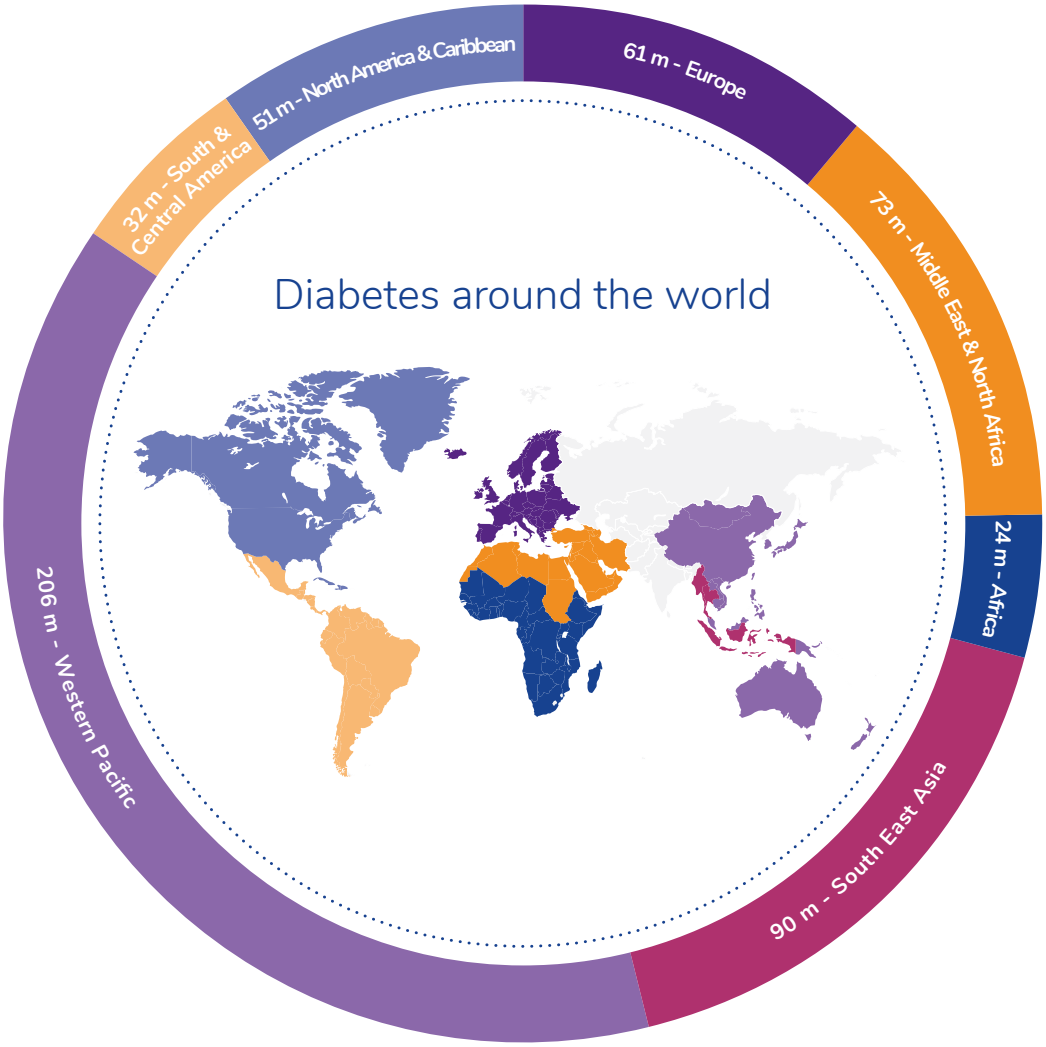
estimated global expenditure

6.7m

deaths due to diabetes in 2021

537m

adults are living with diabetes

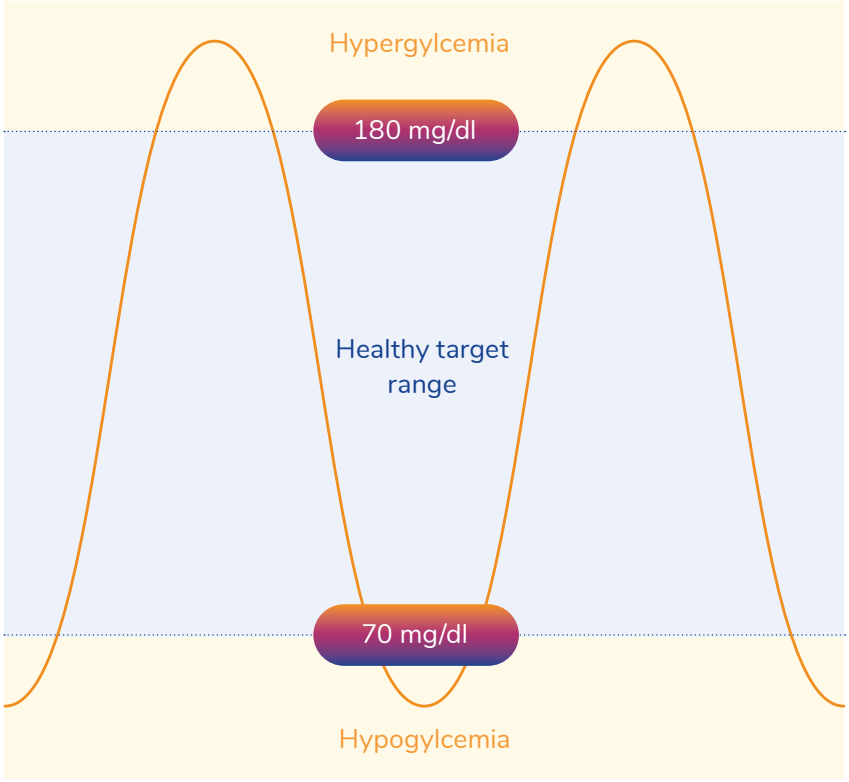


Diabetes is equally spread between men and women and is the fifth leading cause of death globally. Approximately 10% of diabetics worldwide are Type 1 requiring daily insulin injections to survive. The remainder are Type 2; who can initially manage their disease through a combination of diet and lifestyle 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 gold standard 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 gold standard insulins on the market today, there is still a need for faster acting insulins to counteract that very swift rise in blood glucose and to bring it down into the healthy target range much more quickly. This is important as it is this time spent outside of the healthy target range that leads to the very serious disease complications associated with diabetes, leading to long-term morbidity and healthcare costs.

Blood glucose



$966bn

estimated global expenditure

316%

increase over the last 15 years

There are a number of mealtime insulins on the market today, making up between them, an existing $6.4 billion prandial insulin market. Arecor is targeting a share of this existing market with AT247 and AT278.

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

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

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

Stabilising delivery of hospital treatments

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

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. In this case, Arecor is leveraging its Arestat™ technology to develop ready-to-use (RTU) and ready-to-administer (RTA) medicines, which are becoming increasingly important to enable fast, safe and effective treatment of patients at point of care in a hospital setting. These RTU and 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. This market thus offers Arecor the opportunity to deliver differentiated products in a valuable, but often competitive space.

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

US$ 10.3bn

billion compounding pharmacies market

~50%

US accounts for ~50% of market value

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

Technology partnerships working in collaboration

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

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

These collaborations typically start with a formulation development study, where Arecor applies Arestat™ to develop a novel formulation of the partner's medicine to achieve a superior target product profile. Such collaborations are revenue generating from day one through research fees. Upon completion, the partner has the option to enter into a license agreement for rights to access the intellectual property and further develop and commercialise the novel formulation. These licenses typically involve both milestone and royalty payments and represent significant future recurring revenue upside potential. Arecor has a strong reputation as a reliable and collaborative partner. We work with like-minded companies to ensure that our partnerships align with both 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 mRNA and cell and gene therapies. The products can be at any stage in development from early phase clinical development through to products that are already on the market. The most likely candidates are complex specialty products used for the treatment of chronic or life-threatening diseases with a high cost, requiring special storage, handling or complex administration where Arecor can leverage the Arestat™ technology to improve and differentiate these characteristics.

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

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

~$12bn

~$12 billion Biosimilars

~$41bn

~$41 billion Vaccines

~$32bn

~$32 billion Peptides

~$269bn

~$269 billion Biologics

Arestat™ technology

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

Tetris Pharma

Commercial-stage UK and pan-EU sales, marketing and distribution platform provides future optionality for Arecor and partnered products.

Arecor's Tetris Pharma business is a sales, marketing and distribution platform targeting the UK and European markets with a core focus on niche specialty pharma injectable products addressing currently underserved patient needs. The portfolio comprises nine license and distribution agreements. The lead diabetes 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.

The existing market opportunity for Ogluo® is 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. The total potential addressable market opportunity for Ogluo® is estimated to be worth in the region of $1 billion across the UK and Europe if all patients with diabetes who take insulin were prescribed premium rate ready-to-use glucagon (2 units of glucagon per prescription).

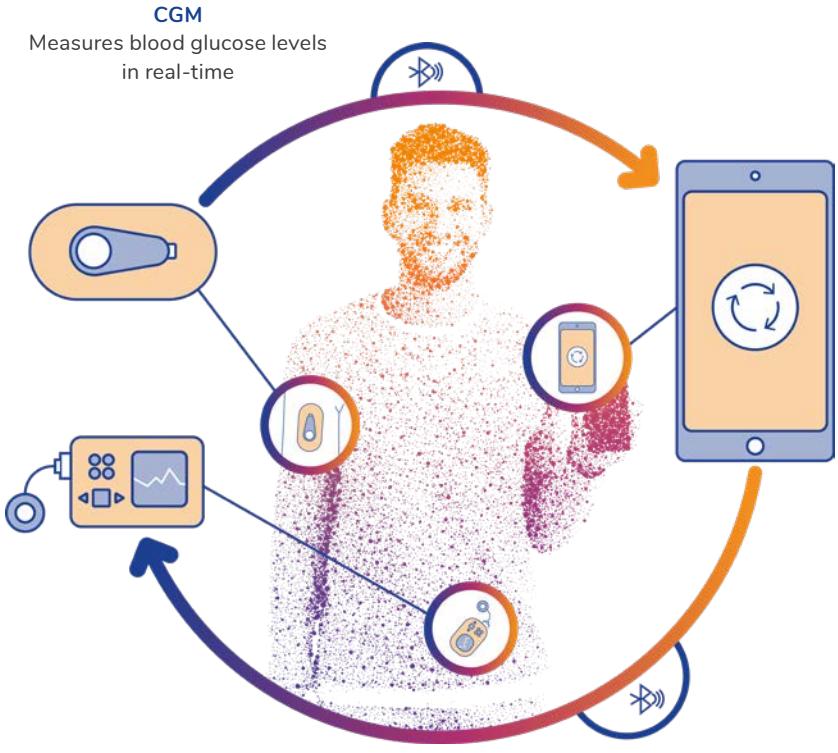
Ogluo®'s profile fits well with Arecor's skillset of improving 'difficult to use' injectable products and the Tetris Pharma platform provides optionality to our specialty hospital products franchise by providing the capability to take selected products to market in the UK and Europe.

Tetris Pharma Ltd launches in the UK, Germany and Austria

AT247: Potential to facilitate a fully closed-loop artificial pancreas

A life-changing treatment option for people with diabetes.

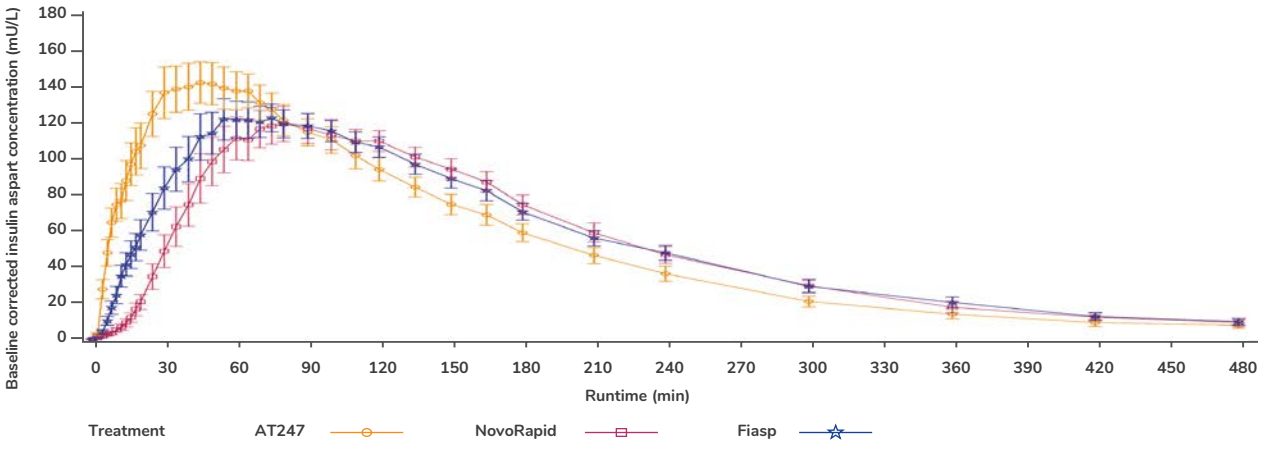
AT247, a novel proprietary formulation of an existing insulin, has been designed to accelerate the absorption of insulin post injection. With its best-in-class profile it has the potential to enable a transformational fully closed loop artificial pancreas system where there remains a need for even faster acting, more physiological insulins.

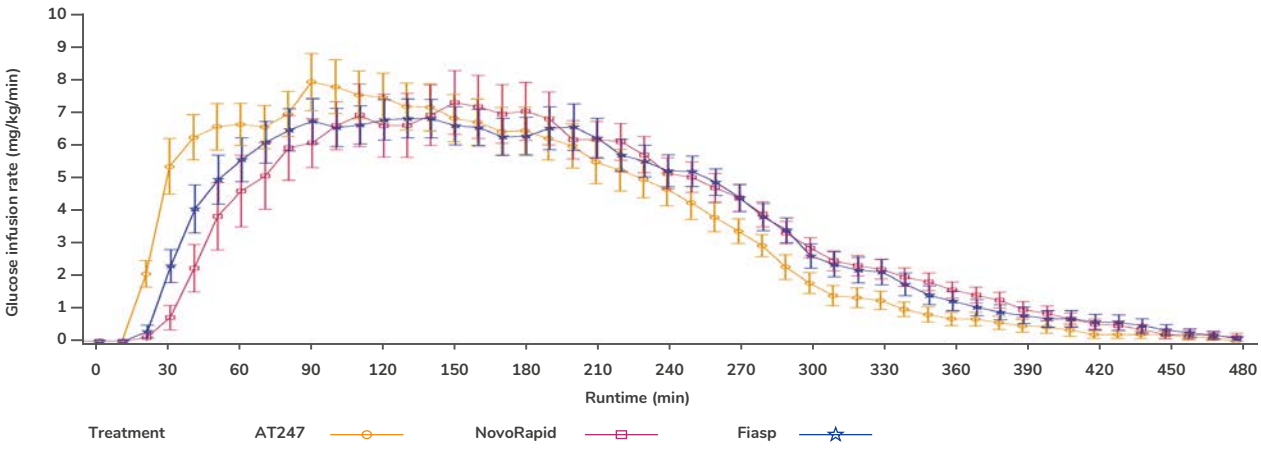


The Challenge:

Diabetes has reached pandemic levels worldwide, with an estimated 537 million people living with diabetes bringing significant patient health and financial burden on every nation in the world. There has never been a greater need to develop improved treatment options to help people better manage their condition with the need for treatment simplification and improved glycaemic control, particularly around difficult to control mealtimes. There remains a need for insulins that more closely match the physiological insulin mealtime response of a person without diabetes. Such insulins have the potential to significantly improve post-prandial glucose control and flexibility of insulin dosing as well as provide the potential clinical benefits of avoiding both hypo and hyperglycaemia.

Phase I clinical study results





The Solution:

In the first Phase 1 clinical study in Type 1 diabetic patients AT247 clearly demonstrated faster insulin absorption with an accelerated Pharmacokinetic (PK) and Pharmacodynamic (PD) profile compared to NovoRapid® and Fiasp®

- Study Design: double-blind, randomised, single dose, three-period cross over Phase I clinical study (EudraCT:2018-003934-34) compared the PK/PD profiles of AT247 to NovoRapid® and Fiasp® in 19 men with Type I diabetes
- AT247 exhibited an earlier insulin appearance, exposure, and offset, with corresponding enhanced early glucose-lowering effect compared with currently marketed best-in-class insulins

In second Phase 1 clinical study in Type 1 diabetic patients AT247 demonstrated a significantly accelerated insulin absorption and early exposure (PK profile) compared with NovoLog® and Fiasp® when delivered via an insulin pump

- Study Design: Double-blind, randomised, three-way crossover study compared the PK/PD profiles of AT247 to NovoRapid® in participants with type I diabetes when delivered by continuous subcutaneous infusion via insulin pump over a period of three days
- AT247 delivered a statistically significant superior glucose lowering effect compared with NovoLog®, supporting the accelerated absorption and early exposure PK profile, and a similar PD profile to Fiasp®
- Safe and efficacious when delivered by continuous subcutaneous (SC) infusion
- Results further support candidate's potential to enable more effective disease management for people with Type I diabetes via a fully closed loop artificial pancreas

The acquisition of Tetris Pharma Ltd and the associated placing of £6 million in the year, accelerates our commercial strategy and complements our proprietary diabetes portfolio and partnered products.

"We are grateful to our shareholders for their support of the acquisition of Tetris Pharma, the associated raise and our vision of building a commercially-focused business with the potential to derive significant revenue from existing and future partnering opportunities."

Highlights:

£3.5m

Total Income of £3.5 million (2021: £1.8 million)

£8.6m

Investment in R&D of £8.6 million (2021: £5.4 million)

£9.3m

Loss after tax for the year of £9.3 million (2021: £6.2 million)

£12.8m

Cash and short term investments of £12.8 million at 31 December 2022 (2021: £18.3 million)

£6.0m

Successful placing of £6.0 million (before expenses)

Acquisition

Acquisition of Tetris Pharma Ltd

On 1 August 2022, the Group acquired the entire issued share capital of Tetris Pharma Ltd. On 4 August 2022, the Group raised £6 million (before expenses), through the issue of an aggregate of 2,000,000 placing shares to existing institutional and other shareholders at a price of 300 pence per ordinary share. Certain of the Company's directors participated in the placing and subscribed an aggregate of £113,271 for 37,755 shares.

At the end of the financial year, the Group had cash resources of £12.8 million (2021: £18.3 million) and remained debt free. Cash and operating expenditure continue to be carefully managed.

Cashflow forecasts and going concern

The directors regularly review rolling 12 monthly cash flow forecasts. These forecasts indicate that the Group expects to remain cash positive to continue to deliver on its business strategy. This includes a period of at least 12 months from the date of approval of these financial statements. The review of forecasts for this period includes levers and controls which could be applied, if it was necessary to do so.

Taking such factors into account, these financial statements have been prepared on a going concern basis.

Key financial performance indicators

A summary of the financial KPIs is set out below:

	2022 £'000	2021 £'000
Total Income	**3,535**	**1,798**
Formulation development projects	1,352	1,158
Product sales	1,051	-
Other operating income	1,132	640
Loss after tax	**(9,260)**	**(6,169)**
Cash, and short term investments	**12,806**	**18,316**
Net Assets	**17,455**	**18,549**

Total Income increased to £3.5 million in the year (2021: £1.8 million), including revenue of £2.4 million (2021: £1.2 million) and other operating income of £1.1 million (2021: £0.6 million).

Revenue recognised in the year increased to £2.4m million (2021: £1.2 million). On a like-for-like basis, revenue from formulation development projects increased to £1.4 million (2021: £1.2 million) including two new agreements signed in the year. Net Product sales of £1.0 million (2021: Nil) from Tetris Pharma Ltd were generated in the five-month period from August to December 2022.

Other operating income of £1.1 million (2021: £0.6 million) was derived from a full project year of the Innovate UK grant awarded in March 2021.

The loss after tax of £9.3 million (2021: £6.2 million) included R&D expenditure which increased to £8.6 million (2021: £5.4 million). This was focused investment in our proprietary products including the US Phase I clinical trial of AT247, with headline results announced in October, and the EU Phase I clinical trial of AT278 which was initiated in December 2022.

Sales, General and Administrative expenses increased to £5.6 million (2021: £2.9 million) and included expenditure by Tetris Pharma Ltd from August onwards including non-recurring costs of £0.2 million arose in respect of the acquisition and placing. The prior year non-recurring expenditure of £0.5 million was placing and AIM admission costs.

Net assets of £17.5 million (2021: £18.5 million) included cash and short term investments of £12.8 million (2021: £18.3 million). Trade and other receivables increased to £2.2 million (2021: £1.4 million) and included trade receivables and grant project debtors. Current liabilities increased to £3.7 million (2021: £2.3 million) and included final amounts due for the US Phase I clinical trial of AT247.

Susan Lowther
Chief Financial Officer
27 April 2023

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 partners as part of our commercial activities.

We manage uncertainty through a framework across the Group which we use to identify, assess and manage risk through operational working practices and activities. Different levels of activity are interlinked and support each other to manage risk in an appropriate way through the organisation.

Risk culture

At Arecor, people are aware of their roles and responsibilities in managing business risk, whether as an individual, as a member of teams or functions. This risk culture is established in our decision-making processes, procedures and our working practices. It is also reflected in our behaviour as employees understand and take responsibility for complying with Company policies and standards.

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

This framework of shared responsibility supports our strategic objectives, corporate culture and how the Company conducts its business.

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

Specific risks

There were two specific risks which occurred in the year; cost inflation and foreign exchange volatility.

The Group's supply chain included rising raw materials, packaging, shipping and transport costs. There was a further indirect risk due to the pressures faced by smaller suppliers or consultants. We have close working relationships with our supplier base and have tried to balance increased costs between what is reasonable for the provider's business and fair to the Company.

In the year we managed delays in delivery of materials, IT equipment and laboratory equipment by incorporating longer lead times into our planning. The IT software and hardware upgrade in the laboratory was much later than anticipated, however it was part of ongoing improvements, so existing systems continued and did not impact the function of the laboratory.

The functional currency of the Group is UK Sterling (GBP). During 2022 there was increased, significant US Dollar (USD) expenditure in US clinical study, in a period when the value of GBP against the USD was volatile. Foreign exchange management focused on mitigating severe, adverse movements. Currency requirements are forecast each month on a rolling basis and exchange rates carefully monitored. GBP was converted and held in USD to meet specific expenditure so that when the P.O. commitment was made the foreign exchange exposure was addressed. It is likely that foreign currency exposure will continue to be a specific risk in the year ahead as it is expected that non-GBP trading will further increase.

Trend key

Increasing Risk Decreasing Risk Unchanged

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:

Risk Category	Risk Description	Management	Trend compared to prior year
Research, product development and technologies			
Research and Development	The Group may fail to develop an enhanced version of an existing therapeutic medicine. This risk applies to proprietary products and partnered programmes. The impact could be the termination of R&D projects and loss of future licensing opportunities.	• Multiple products in parallel, provide a pipeline of assets • Clear go/no-go decision criteria to progress projects • Work closely with partners to ensure that the potential product continues to meet their expectations. • Programmes evaluated at the outset and on an ongoing basis using commercial and scientific criteria	↔
In-licensed pharmaceutical products	Pricing might not be approved or at a price that, once launched, will be commercially successful. New market launches may result in chal-lenges meeting de-mand. Alternatively stock levels may be too high is demand is lower or slower than forecast.	• Focus on effectiveness, safety and ease of use. • Closely monitor the marketplace and active engagement with Key Account Managers	↑
Technology	The Group's technologies may not meet the requirements of internal teams or partners. Technological advances may surpass the technologies used or developed by the Group	• Collaboration with partners to ensure that the Arestat™ platform continues to meet their expectations • Innovations in formulation science technologies are monitored and evaluated	↔
Legal, regulatory and intellectual property			
Product approvals and regulatory environment	The Group or its partners' products may not be successful in obtaining regulatory approvals.	• Aim to seek early scientific and regulatory advice • Track the changing regulatory environment to ensure that we are compliant with regulations and expectations	↔
Intellectual property	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 for the Group's technologies, including successful defence of key patents • Regularly review of the patentability of formulations under development • Invention Disclosure system in place to capture possible inventive angles and desired claims • Working closely with experienced external IP counsel	↔

Trend key

Increasing Risk | Decreasing Risk | Unchanged

Risk Category	Risk Description	Management	Trend compared to prior year
Commercial			
Timing	It may take longer than expected to progress the Group's proprietary products to advance the commercial partnering strategy.	• Ongoing commercial engagement with existing and potential licensees to update on our progress and plans. Appropriate project management of financial and human resources to meet planned timelines	↔
Technology partnering commercial strategy	The timing and likelihood of receiving milestones and royalties from partners are not under the Group's control.	• Commercially reasonable efforts to progress licensed programmes are discussed as part of regular contact and dialogue with the partner. Includes potential changes to plans and timing. • Run multiple partnered projects in parallel to manage the risk of reliance on a single project or partner	↔
In-licensed product agreements	Licensors right to terminate if agreed product launch dates or sales targets are not achieved.	• Work closely with the licensor to discuss and understand market dynamics, plans and timing • Regular reporting, reviews and engagement with the licensor about sales performance and plans in the licensed territories.	↑
Operational risks			
Reliance on third party suppliers	Third-party contract research and manufacturing 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 potentially weaken the Group's commercial, scientific and operational management capability, which could impact the growth of the business.	• Leadership Team is appropriately structured for the size of the Group and its business plans. • Recruitment, training and development processes attract and build high performing teams • Monitoring and providing competitive remuneration and benefits • Maintaining a strong culture and a good working environment	↔

Risk Category	Risk Description	Management	Trend compared to prior year
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 a Steering Group of members from across the Group	
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 their expertise and support to an experienced Leadership team. • Regular review of progress against corporate objectives and 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 loss making. Revenue generating activities may not be able to sustain the business which results in a reliance on investors. The Group maybe unable to raise sufficient capital to achieve its strategic objectives.	• Prudent planning and financial management ensure that resources are used to support the achievement of commercial goals. • Maintain financial and business reputation with investment market, current and potential investors.	
External factors			
COVID-19 pandemic	COVID-19 could lead to economic uncertainty and impact the health and welfare of our employees.	• Our Health and Safety Committee oversees internal processes and monitor government recommendations and announcements.	
Geopolitical events in Europe	The escalation of geopolitical events in Europe could result in further economic uncertainty leading to further, continuing inflationary pressures which could negatively affect the Group's business operations.	• The Leadership team monitor economic events and trading conditions in the territories where we operate currently or have plans to do so in the future.	
Environmental	The severity and frequency of adverse weather conditions could impact laboratory and office facilities. Indirect impacts include higher energy and infrastructure costs.	• We continue to monitor our carbon footprint as a business and explore initiatives for more efficient use of our resources.	

Section 172 statement

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

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

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

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

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

Details of our different stakeholder groups and how the Company and the Directors engage with them are set out on pages 50 to 51. The Corporate Governance Report sets out how the Group approaches corporate governance and how it applies the ten principles of the QCA Code in support of its growth. This is set out on the Group's website, and in the Corporate Governance Report on pages 58 to 66.

The Group's activities, strategy and future prospects are discussed in the Strategic Report, beginning on page 4.

Matters considered	s.172 impact	Board involvement
Supply chain environment	Recognising and managing the impact of macro and micro-environments on the Group's supply chain. Business relationships with key suppliers.	Focus in the year included the impact of rising inflation, availability of materials and increasing costs.
Employee safety and well-being.	Understanding matters which are of interest and important to employees. Understanding and managing a competitive labour market to attract and retain staff.	Monitoring the impact of rising prices on employees and taking action to provide support. The consideration and approval of changes to employee benefit schemes.
Environmental, social and governance policies and procedures	Impact on the local community and environment.	Review of facilities and use of space
Treasury management	Impact of foreign exchange movements.	Review of rolling, forecast cashflows and associated currency requirements.

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
27 April 2023

Susan Lowther
Chief Financial Officer
27 April 2023

Corporate Governance

In this section:

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

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

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

Sarah Howell
Ph.D., Chief Executive Officer and Executive Director

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

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

Susan Lowther
Chief Financial Officer and Executive Director/ Company Secretary

Susan Lowther was appointed Chief Financial Officer and Company Secretary at Arecor in 2019. She brings significant financial leadership experience across a broad range of public and private life science companies. 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 EMEA Research and Senior Pharmaceutical Analyst at Bloomberg Intelligence in London, where he specialises in global pharmaceuticals.

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

Jeremy Morgan
Non-Executive Director

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

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

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

Alan Smith is the former Senior Vice President and the Chief Scientific Officer of Genzyme Corporation, Cambridge MA, where he had overall responsibility for the company's science. Prior to its acquisition by Genzyme in 1989, Alan was the Scientific Director of Integrated Genetics, a biotechnology company. Previously, he was head of the biochemistry division at the National Institute of Medical Research.

Alan 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.

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 central to the execution of our business strategy. We maintain our commercial relationships across many areas of the Group with clear communication and engagement.

As partners in a formulation development project we discuss progress towards achieving agreed goals in project or Joint Steering Committee meetings which are integral to a shared, open dialogue and engagement. When we licensed products we maintain a regular dialogue and provide support to our partners as required during the journey to market.

Such interactions are extremely important to us. The formulation development projects are funded by the partner so are revenue generating. License agreements provide long-term revenue potential through milestones and royalties. We currently have four licensed programmes and expect the first partnered product AT220 to be on the market during our next financial year.

Our employees are central to a continuing engagement with partners as we support and grow these commercial relationships.

People

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 can make a contribution to the company's growth whilst develop their skills and expertise.

Our culture is based on regular communication, transparency, teamwork, accountability, and innovation. We engage with our employees through communication of Company news and information in a variety of formats. We encourage feedback from all employees through confidential staff surveys or dialogue across all levels of the business through an open-door policy for all staff:

- Direct access to key management
- Company-wide meetings
- Intranet
- Scientific meetings
- Events and socials
- Meet-the-Board events

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. Including new technology partnership deals
- The CEO and CFO meet with investors to present the full year and interim financial results
- Social media updates
- Members of the Board attend the Annual General Meeting to meet with shareholders

Continuing to build our business through open and regular communication.

Customers

With the addition of Tetris Pharma Ltd as a supplier of licensed pharmaceutical products. Arecor's customer base now includes wholesalers, community and hospital pharmacists, and healthcare professionals involved in the management of diabetes in the UK and EU. Tetris Pharma Ltd 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 build our presence across the UK and Europe we engage with a wide range of organisations including regulatory and pricing reimbursement authorities as part of providing safe and cost-effective healthcare products. Tetris Pharma Ltd also works with partners including Syneos Health as a Contract Sales Organisation for the UK and Germany.

Communities

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

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

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

Service providers and suppliers

We are focused on building strong relationships with external organisations to access appropriate expertise as we progress our proprietary or licensed products. We select the most appropriate service provider and build a relationship whether they are a small specialist organisation or a large multinational.

These relationships are important to optimise delivery, communication and efficiency. They are critical as we generate high-quality data packages which attract world-class partnerships in our technology licensing deals and the commercialisation of our proprietary products.

An Innovative and Inspiring Culture

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

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

Our people are key. A growing, ambitious business needs engaged, committed, talented and motivated people to achieve its goals. We are committed to enabling our employees to realise their potential to develop their career with the Group. 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 over 50% of our employees and leadership team being female. Through our inclusive culture, we are promoting an organisation where everyone plays their part in building the Group and contributing to continued success.

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 develop 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 with our purpose. This makes Arecor an employer of choice and a great place to work.

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, reuse and recycle.

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

Enabling our employees through 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.

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 Sheena Singadia, Scientist

What is your role at Arecor? What does it incorporate?
As a scientist in the Product Development Team, I help plan and test different applications for our Insulin products, such as delivery methods through cartridges and pumps. These projects lead to stability trials which require testing every so often in-house. I collaborate a lot with other departments to ensure smooth running of our clinical trials and our projects with contracted companies.

What made you want to become a scientist?
My favourite subject was always biology, and after studying a Psychology A level, I discovered Neuroscience. I really enjoyed the crossover between biological pathways and learnt behaviour. I have always had a vision of working in healthcare, wanting a to make a positive impact on society through science, so I started to pursue the science field. After being exposed to analytical equipment in university labs, I realised I enjoyed working with machines and the analytical work that came with them. I saw a way to help make a difference in the pharmaceutical field that could improve people's lives, and that's always been the core to my scientific career.

How did you come to work at Arecor and how has your role evolved since you first joined?
Previously in R&D, I wanted to leave routine testing for yield improvement for something more closely associated with real life application. Having our insulin product in clinical trials makes my work feel valued and being able to see end results for our lab work is very rewarding. We have been more quality focused in the past year, which really improves our outlook and confidence as scientists.

What are the main challenges you face in your role?
There are so many ideas we wish to implement into our work and into the future aspirations of Arecor, they all fight for a space on our timeline! Ideas turn into projects and before we know it, our year is already booked up. Having an overview of the upcoming year's projects is great, and with a growing company, our ambitions are high. This often leads to the lab getting busy and having less time for other responsibilities. As a mental health first aider, I promote knowledge of stress awareness and stress management. I make sure I find time for national Time to Talk days and mental health activities and promotions.

What is the best aspect of it?
Working with like-minded people. Having an interest in the work we do in one thing but having great relationships with your team and happy cohesion at work is the best aspect. I have a safe and welcomed space to share my ideas here, and I didn't realise how important being respected was to me until my journey at Arecor.

Why do you like working at Arecor?
There is a good mix of people here, some lifers, some graduates. There is flexibility over your career here, and open communication to make the best choices for yourself. We have had people transfer departments, people join quality from scientists, some people move to across to have more of a business role. There is so much opportunity and potential for us at Arecor, and the freedom and support to figure it out. I don't feel out of place asking questions, and I am encouraged to think about my path, not just the Company's.

Who are your science heroes?
David Attenborough. I think I've watched most of his documentaries from a young age, and his passion for the natural world started my interest first in animals, then in biology. He started as a camera man for a documentary for the BBC, and his passion for nature has made him into the figure head for saving our planet. He's made me more of an explorer, and a huge empath for our world.

What do you like to do to relax?
When the sun is out, I am out. bike rides, painting outdoors, reading outdoors – I am a solar powered being. When its winter, I hibernate with my cat.

Corporate Governance Introduction

As Chair, I lead the Board, which is collectively responsible for the long-term success of the Group. My role includes ensuring that we have a Board which contains the right balance of skills, sets the business strategy and provides oversight of its successful execution by the business.

As directors we understand the importance of corporate governance and have implemented frameworks which reflect the principles of the Corporate Governance Code for small and mid-sized companies issued by the QCA ("QCA Code") to the extent that is appropriate for a business of the Group's size and stage of development.

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 reflected in how we conduct our business and engage with our wide-ranging stakeholder base which includes our employees, partners, suppliers and the communities in which we do business. You can read more throughout this report about how we engaged with these groups during the period.

The Board's role includes ensuring that our strategic objectives are delivered. Our board composition provides relevant experience to meet the Group's challenges and opportunities as a public company, together with extensive product development and commercial expertise.

The Board comprises seven Directors including a Non-Executive Chair, two full-time Executive Directors and four Non-Executive Directors, of which three are considered to be independent. The board structure ensures that no individual (or a small group of individuals) can dominate the Board's decision making.

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

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

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

Andrew Richards
Chair
27 April 2023

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 as a whole, 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 2022 and as at the date of this report.

Our strategy and business model

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

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

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

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

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

Meeting shareholders needs and expectations

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

- Annual report and accounts;
- Interim and full-year results announcements;
- Trading updates;
- 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 also available for discussions with shareholders as and when appropriate.

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

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

Stakeholder engagement and responsibilities

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

The Arecor team is key to the business and regular company-wide meetings ensure that all staff are aware of the direction of the business, upcoming milestones and progress against business objectives.

The Group draws upon a range of different resources and relationships which includes working collaboratively in cross functional teams.

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

Environmental and Social Governance

The Group recognises the importance of Environmental and Social Governance (ESG) matters.

ESG 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.

The Group's product strategy has a strong social focus as we are aiming to develop and market products which improve the quality of life of people living with diabetes. We are developing rapid acting insulins to enable better control and management of the disease and facilitate the use of miniaturised insulin pumps.

Ogluo® the primary focus of the Tetris Pharma team, 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, and so meets a real medical need. This forms part of our speciality hospital franchise where we are developing ready-to-administer and ready-to-use injectable medicines.

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

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

We remain committed behaving responsibly and introducing more formal processes to demonstrate our commitment to managing our environmental obligation and creating 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.

Effective risk management

The Board has identified principal business risks which are included in the Strategic Report on pages 38 to 43.

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

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

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

Board of Directors

The Group is governed through its Board of Directors, comprising the Chair, Chief Executive Officer, Chief Financial Officer and four Non-Executive Directors. The names of the current Directors together with their biographical details, skills, experience and other directorships are set out on pages 48 to 49.

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 over the medium to long-term.

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

The Board are supported by an experienced Leadership Team which the Directors believe is appropriate for the Group's size. During the year Shafiq Choudhary joined the Leadership Team representing the Tetris Pharma Ltd products and team.

The Board reviews the corporate governance framework to ensure it appropriately meets the needs of the business and the development of the Group.

Independence

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

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.

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

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 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 the defining and developing the Group's strategy
- Monitor the financial information, risk management and controls processes of the Group
- Meet together without the Executive Directors present
- Formulate Executive Director remuneration and succession planning

Board Committees

The Board's principal committees are the Audit and Risk Committee, Remuneration 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, Alan Smith, Christine Soden and Andrew Richards.

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	11	0	3	1
Sarah Howell	11	1*	3*	1
Susan Lowther	11	3*	3*	1
Sam Fazeli	11	3	0	1
Jeremy Morgan	10	3	3	1
Alan Smith	10	0	2	1
Christine Soden	10	3	3	1

*The Executive Directors attend for part of Committee meetings 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 2022.

This year we have continued to build upon the remuneration principles we established in 2021 following the Company's Admission to AIM. In doing so we are addressing the following objectives:

- Remuneration which is competitive with the Group's 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.

This focus was reflected in the key matters which we considered during the year and post the year end, including:

- Awards under the AESOP and LTIP;
- Review of base salary;
- Performance related bonus ;
- Introduction of new benefits.

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
27 April 2023

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, the Company Chair and senior managers including bonuses, incentive payments and grant of share options.
3. Exercising independent judgement and discretion when determining remuneration awards, taking account of 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 Company Secretary acts as secretary to the Committee. The Chief Executive Officer attends Committee meetings at the invitation of the Chair.

Remuneration report for the year ended 31 December 2022

Summary

In its first full year as a public company, Arecor continued to make good progress. The team has focused on progressing our proprietary diabetes portfolio, and with Tetris Pharma Ltd, acquired a complementary business and team.

Executive Directors remuneration

No Executive Director is involved in decisions setting their remuneration.

Remuneration summary (audited)

	Salary £000	Bonus £000	Pension £000	2022 £000	Salary £000	Bonus £000	Pension £000	2021 £000
Sarah Howell	250	150	21	421	218	111	14	343
Susan Lowther	200	90	16	306	189	69	12	270

Fixed and variable remuneration (audited)

	Fixed	%	Variable	%	2022 £000	Fixed	%	Variable	%	2021 £000
Sarah Howell	271	64	150	36	421	232	68%	111	32%	343
Susan Lowther	216	71	90	29	306	201	74%	69	26%	270

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 individual Director's experience, responsibilities and performance.

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

Pension

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

Performance related pay

Performance related pay is in the form of an annual bonus. All bonus payments are discretionary and decided by the Committee and reflects its 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.

Performance related pay is capped at 100% of base salary for the Chief Executive Officer and 75% of base salary for the Chief Financial Officer. In the year ended 31 December 2022 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	Other Leadership Team members	50%	50%	100%
4	Team Leaders and senior managers	30%	70%	100%
5	Below Team Leaders and senior managers	10%	90%	100%

Bonus payments made to the Tetris Pharma Ltd team were based on a combination of revenue and EBITDA targets and individual performance.

Benefits

New benefits were introduced during the year for all employees. This included a fixed monthly contribution to a health & wellbeing platform or a fixed monthly contribution to gym membership. Private Medical Insurance with AXA Health was also introduced during the year. Group life assurance continued to be provided.

Share options

Share option grants and the exercise of share options are at the ultimate discretion of the Committee.

The Committee has an overriding ability to ensure that vesting reflects its view of corporate performance during the vesting period. This discretion includes the ability in exceptional circumstances to adjust the targets and/or set different measures and alter weightings.

The Company operates LTIP and AESOP schemes.

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.

AESOP

Share option grants under the AESOP are at the discretion of the Committee. Share option grants under the AESOP do not have performance conditions.

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

Non-Executive Directors remuneration

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

Non-Executive Directors remuneration summary (audited)

	Fees £000	Consultancy	2022 £000	Fees £000	Consultancy £000	Fees paid to third parties £000	2021 £000
Andrew Richards	80		80	51	31		82
Christine Soden	40		40	23			23
Jeremy Morgan	40		40	23			23
Sam Fazeli	35		35	25			25
Alan Smith	35		35	25			25
Andrew Lane				4	31		35
Alexander Crawford						7	7
Jeremy Curnock-Cook						4	4

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 taking into account fee levels at other companies of a similar size and complexity. 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.

In the prior year, Non-Executive Directors who represented a shareholder on the board received a fee from the shareholder and not the Group. Monitoring fees for services provided by such Non-Executive Directors were paid to the shareholder.

Directors' shareholdings (audited)

Directors' interests in the shares of the Group, including family and beneficial interests between 31 December 2021 and 31 December 2022 were:

Director	Number of shares held at 31/12/2021	% of total shares in issue	Exercised share options	Purchase of shares	Number of shares held at 31/12/2022	% of total shares in issue
Sarah Howell	840,406	3.00%	20,666	6,666	867,738	2.83%
Susan Lowther	136,515	0.50%	62,000	3,334	201,849	0.66%
Andrew Richards	217,168	0.80%	-	6,666	223,834	0.73%
Alan Smith	181,765	0.70%	-	0	181,765	0.59%
Sam Fazeli	107,952	0.40%	-	7,756	115,708	0.38%
Jeremy Morgan	20,503	0.10%	-	6,666	27,169	0.09%
Christine Soden	12,500	0.00%	-	6,667	19,167	0.04%
	1,516,809	**5.50%**	**82,666**	**37,754**	**1,637,229**	**5.32%**

None of the Directors sold shares in the year.

Directors' interests in share options (audited)

Directors' interests to acquire ordinary shares in the Group, with a nominal value of £0.01 between 31 December 2021 and 31 December 2022 were:

	Option Type	Exercise price	Number of options held at 31/12/2021	Granted	Exercised	Number of options held at 31/12/2022
Sarah Howell	EMI 2018	£0.01	20,666	-	20,666	-
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	EMI 2018	£0.01	62,000	-	62,000	-
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
			682,666	**199,333**	**82,666**	**799,333**

Gains made by Directors on exercise of share options

	Option Type	Date of exercise	Number of shares exercised	Exercise price	Market value on date of exercise	Gain on exercise of share options
Sarah Howell	EMI 2018	11/11/2022	20,666	£0.01	£2.50	£51,458
Susan Lowther	EMI 2018	11/11/2022	62,000	£0.01	£2.50	£154,380

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.

Following the exercise on 11 November 2022, the Executive Directors no longer hold EMI 2018 options.

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
27 April 2023

Statement from the Committee Chair

I am pleased to present this Audit & Risk Committee report covering the financial year ended 31 December 2022.

Like many businesses, the Group has faced increasing business risk in the year due to major global challenges and an uncertain macroeconomic environment. Particular areas of focus for the Group were rising costs and exposure to foreign currency fluctuations.

The Committee has considered several key matters in the year of which the most significant related to the acquisition of Tetris Pharma Ltd.

This report covers the activities of Arecor Therapeutics plc ('Company') for the full financial year, Arecor Limited for the full financial year and Tetris Pharma Ltd from the five months period August to December 2022 ('Group'). The report includes references to the Company and Group respectively.

Role and responsibilities

The role and primary responsibility of the Audit & Risk Committee is to assist the Board by providing appropriate oversight of the Group's financial reporting, internal controls and risk framework.

Members of the Audit & Risk Committee are considered to have recent and relevant financial experience and are independent. The principal responsibilities of the Committee include:

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

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

Schedule of meetings and attendance

The planned schedule of meetings is in line with the Company's financial reporting calendar.

There were three 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 Chief Financial Officer and Chief Executive Officer are not members of the Committee. They attend meetings regularly to report on key matters and assist the Committee with the fulfillment of its oversight responsibilities.

Key matters

Matters and key issues which we have considered this year include:

Non-audit services

We monitored the nature and level of any non-audit services provided. All non-audit services undertaken require the prior review and approval of the Committee.

The non-audit services increased in the year, mainly due to the enlargement of the Group following the acquisition of Tetris Pharma Ltd. The non- audit services which we reviewed and approved in the year included:

Type of service	Provider	Company
Payroll and taxation services	Lakin Rose LLP	Arecor Limited and Tetris Pharma Ltd
Audit of grant claims	Lakin Rose LLP	Arecor Limited
Payroll and VAT services	RSM Netherlands Accountants N.V	Tetris Pharma Ltd
Acquisition and fair value analysis	RSM UK Tax and Accounting Limited	Arecor Therapeutics plc
Fair value of share awards	First Actuarial	Arecor Therapeutics plc

External auditors

We monitored the auditor's performance and independence including feedback from the Chief Financial Officer, Chief Executive Officer and finance teams. We are content that Grant Thornton are independent.

We assessed 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.

The activities we carried out in the year included the review of the following audit services provided by Grant Thornton LLP:

- Agreed upon procedures and process for the interim results to 30 June 2022
- Audit planning and process for the financial audit for the year ended 31 December 2022

Matters reviewed by the Committee

In the year we considered and approved the following:

- FY2021 Annual Report, including financial statements for year ended 31 December 2021
- Interim statements for the period ended 30 June 2022
- Areas of significant judgement or estimation including
  - Share-based payment charges; assumptions and risk factors applied in Black Scholes and Monte Carlo models;
  - Going concern analysis;
  - Application of IFRS 15 Revenue from Contracts with Customers;
  - Application of IFRS 3 Business Combinations

Risk and control framework

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

Our assessment of risk factors included:

- The overall risk management framework used by the Group
- Financial authorities applied by the Group, including authorisation levels and limits for operating and capital expenditure
- Proposed updates of matters reserved for the Board
- Proposed updates to the treasury management policy and processes, specifically foreign currency

Christine Soden
Chair of Audit & Risk Committee
27 April 2023

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 2022.

The Corporate Governance statement on page 56 and the governance section on pages 56 to 66 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 48 to 49.

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 45.

Business review

The Strategic Report on pages 4 to 45 is a review of the business and the Group's trading for the year ended 31 December 2022. 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 £9.3 million (2021: loss £6.2 million). The Directors do not recommend the payment of a dividend (2021: £nil).

Financial instruments

Information regarding financial instruments can be found in note 23 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 74.

Research and development
The Group continues to invest in research and development with expenditure of £8.6 million (2021: £5.4 million) in the year. Further details are set out in the Strategic Report.

Donations
No charitable or political donations were made in the year (2021: £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 45, information required to be contained in the Directors' Report by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, Sch. 7, where not already disclosed in the Directors' Report.

Post balance sheet events
Page 125 and note 30 of the Consolidated Financial Statements refer to any significant events after the reporting date.

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 9 June 2023. 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
27 April 2023

Arecor Therapeutics plc
Chesterford Research Park
Little Chesterford
CB10 1XL

Company registration number: 13331147

Directors' responsibility statement

The Directors are responsible for preparing the Strategic Report, the Directors' 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 and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice and applicable law including FRS101 "Reduced Disclosure Framework".

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

- Select suitable accounting policies and apply them consistently
- Make judgements and accounting estimates that are reasonable 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 and 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. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps 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:

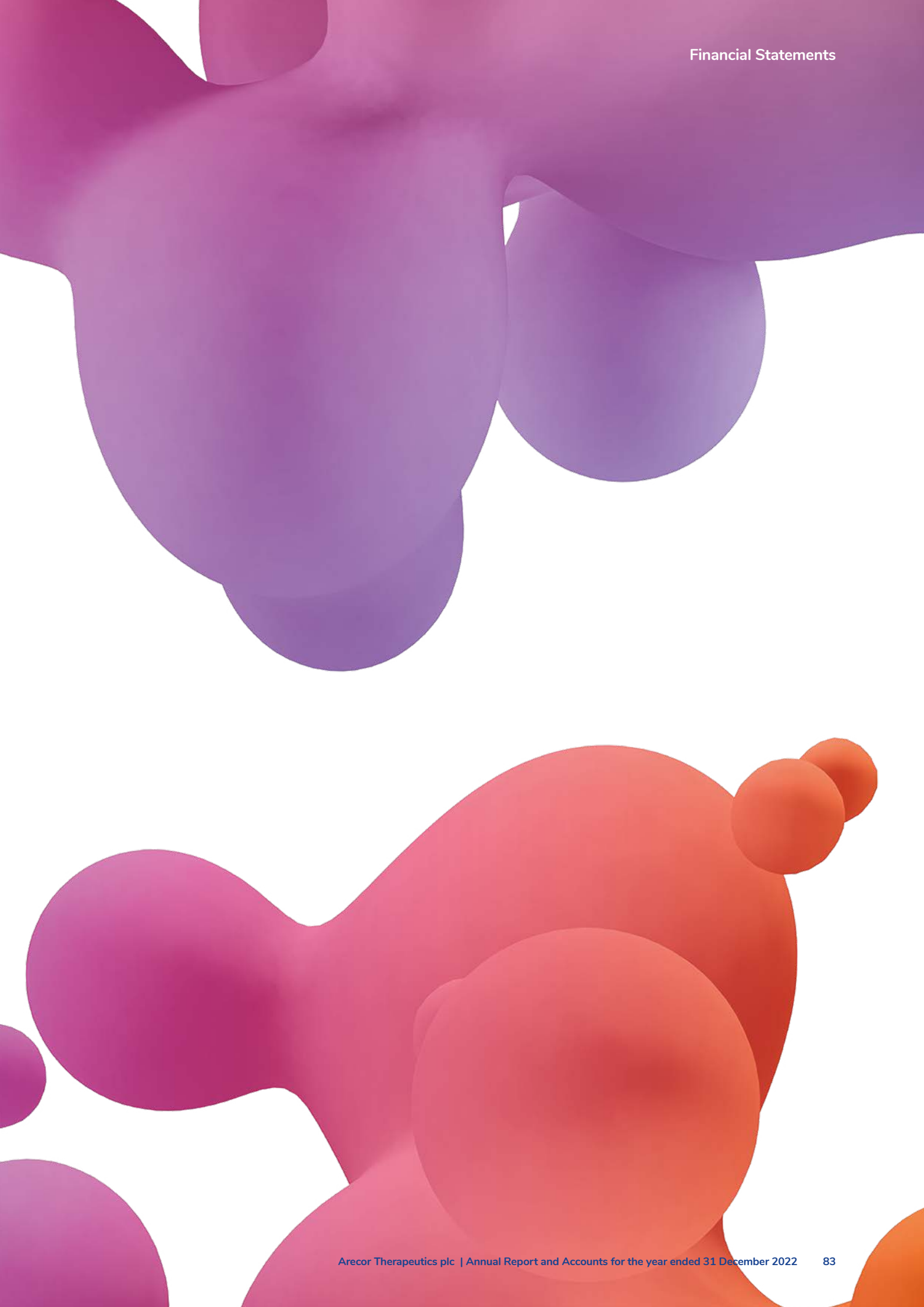
- The Group financial statements, have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- 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
27 April 2023

Susan Lowther
Chief Financial Officer and Company Secretary
27 April 2023

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 2022, which comprise the Consolidated Income Statement, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements of Changes in Equity, the Consolidated Statement of Cash Flows and notes to each of the Group and Consolidated 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 2022 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

- discussions with management on their assessment of the Group's ability to continue as going concern;
- obtaining management's assessment for the period to June 2024, which included a base case, sensitised case and a sensitised case with mitigations;
- obtaining an understanding of how management's forecasts were compiled;
- testing the reliability of management's forecasting by comparing the accuracy of the actual financial performance with forecast information obtained in the prior period;
- 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;
- considering whether the assumptions are consistent with our understanding of the business derived from other detailed audit work undertaken; 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'.

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

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

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

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: £206,000, which is 1.5% of the Group's adjusted total expenditure, being total expenditure excluding non-recurring expenses.

Parent company: £164,800, which is 2% of the parent company's total assets, restricted to 80% of Group materiality.

Key audit matters were identified as:
- Contract revenue pinpointed to open contracts only (same as previous year)
- Acquisition accounting for Tetris Pharma Ltd and Tetris Pharma BV (new)

Our auditor's report for the year ended 31 December 2021 included one key audit matter which has been reported as a key audit matter in our current year's report. Our current year report includes an additional key audit matter, being the accounting for business combinations, relating to the acquisition of Tetris Pharma Ltd and Tetris Pharma BV in the year.

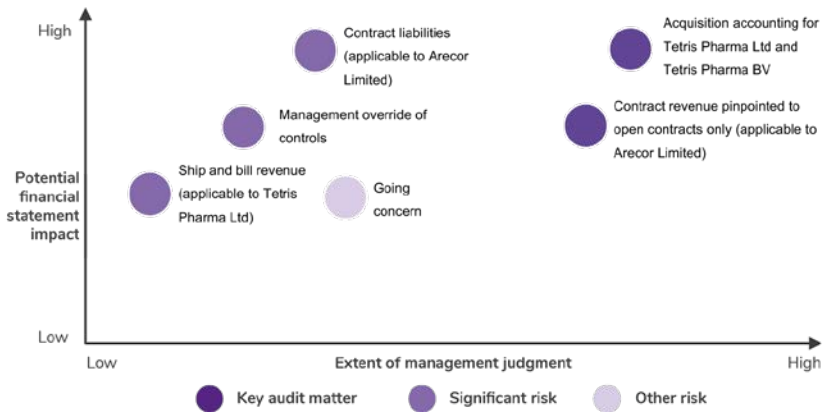
The key audit matter of contract revenue is only present within one component (Arecor Limited).

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.

Key audit matters

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

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



Key Audit Matter – Group	How our scope addressed the matter – Group
Contract revenue pinpointed to open contracts only (applicable to Arecor Limited) We identified the accuracy of contract revenue 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. Open contracts are contracts that are not complete at the end of the reporting period. Determining the amount of revenue 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 implications of agreement terms, including the identification of distinct performance obligations; the determination of the transaction price; the allocation of the transaction price to each performance obligation; and consideration as to how much revenue should be recognised over time using either the input or output basis under International Financial Reporting Standard ('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. The judgements above lead us to identifying a significant risk of material misstatement due to fraud.	In responding to the key audit matter, we performed the following audit procedures: • obtained an understanding of the relevant controls in relation to the revenue recognition process; • obtained an understanding of management's accounting policies and assessed their compliance with IFRS 15; • performed detailed testing on contracts that recorded a material amount of revenue in the period by agreeing revenue to timetables, contracts and other supporting documentation which included holding discussions with project managers to corroborate the accuracy of revenue; • evidenced that the transaction price for each performance obligation has been properly allocated based on the identifiable elements of each performance obligation; • corroborated management's explanations setting out the revenue recognised on significant contracts and the application of IFRS 15 to clauses within the contracts and recognition against performance obligations; and • for a sample of contracts in progress at the year end, corroborated the stage of completion by agreeing to meeting minutes with the customer to ensure consistency with revenue recognised in the year and recalculated that revenue to confirm that the balance was correctly accrued or deferred.
Relevant disclosures in the Annual Report and Accounts 20222 • Financial statements: Note 5, Revenue and Operating segments.	**Our results** We did not identify from our audit procedures indicators of inappropriate revenue recognition or any instance where revenue was not recognised in accordance with the stated accounting policies.

Key Audit Matter – Group	How our scope addressed the matter – Group
Acquisition accounting for Tetris Pharma Ltd and Tetris Pharma BV We identified accounting for business combinations as one of the most significant assessed risks of material misstatement due to error. Considering the pervasive nature of these transactions and the level of judgement involved, this has been identified as a financial statement level risk. On 4 August 2022, the Group acquired Tetris Pharma Ltd and its subsidiary Tetris Pharma BV for an agreed share purchase price of £2m. Under IFRS 3 'Business combinations' management is required to recognise, separately from goodwill, the assets acquired and liabilities assumed, and then to recognise goodwill on purchase. The valuation of assets acquired and liabilities assumed requires significant judgement in applying forecasts and assumptions selected by management. The principal risk relates to the estimates of the fair values of identifiable assets and liabilities assumed in preparing the purchase price allocation. Given the nature of the entity acquired, management have recognised intangible assets relating to a material contract and intellectual property in addition to goodwill, as part of the acquisition. Management has utilised the support of a third-party valuation expert to assist them with the valuation of these intangible assets, based on discounted cash forecasts, which require judgement by management concerning key assumptions such as revenue growth, discount rates and long-term growth rates.	In responding to the key audit matter, we performed the following audit procedures: • assessed whether the Group's accounting policy for the valuation of intangible assets is in accordance with UK-adopted international accounting standards, and determined whether the associated fair value measurements are accounted for in accordance with the stated accounting policy; • obtained the acquisition date balance sheet of each acquired subsidiary and performed audit procedures in respect of the material trading assets and liabilities acquired; • obtained an understanding of the relevant controls in relation to the valuation process; • obtained the details of the consideration paid, and agreed these to relevant source documents, such as sale and purchase agreements; • obtained management's purchase price allocation used to value specific acquired intangible assets and assessed the appropriateness and reasonableness of key assumptions made in the calculations, such as growth rates, discount rates, and engaged internal valuation specialists as an auditor's expert to assess the reasonableness of such models and assumptions, and thus inform our challenge; • engaged our internal valuation specialists as an auditor's expert to perform shadow calculations used to develop an auditor's point estimate for the value of certain intangible assets acquired which was used to compare to management's point estimate; • tested the accuracy of the data used in the intangible assets valuation by agreeing data to pertinent supporting documentation such as long-term growth forecasts; and • challenged management's assessment of the identifiable intangible assets acquired by the Group, and whether any further intangible assets should be identified.
Relevant disclosures in the Annual Report and Accounts 2022 • Financial statements: Note 14, Goodwill and acquisition of subsidiaries	**Our results** We have not identified material misstatements relating to the accuracy of accounting for business combinations for Tetris Pharma Ltd and Tetris Pharma BV.

No additional key audit matters were identified in relation to the parent company financial statements.

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.

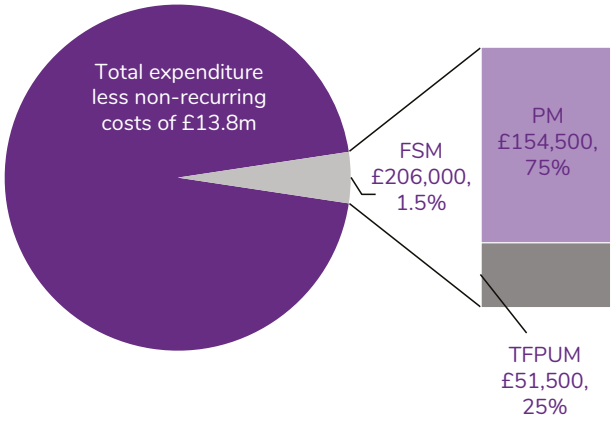
Materiality was determined as follows:

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	£206,000, which is 1.5% of the Group's adjusted total expenditure being total expenditure less non-recurring expenses.	£164,800, which is 2% of the parent company's total assets, restricted to 80% of Group materiality
Significant judgements made by auditor in determining the materiality	In determining materiality, we made the following significant judgements: • We considered the Group's total expenditure less non-recurring expenses to be the most appropriate benchmark because total expenditure includes research and development expenditure, which we consider to be of critical importance to the users of the financial statements. Any non-recurring expenses (relating to the acquisition) have been removed as they do not represent the ongoing operations of the business. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2021 as a result of the increase in the Group's total expenditure during the year	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 2021 reflecting the increase in the parent company's total assets at the year end and increased Group materiality.
Performance materiality used to drive the extent of our testing	We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.	
Performance materiality threshold	£154,500 which is 75% of financial statement materiality.	£123,600 which is 75% of financial statement materiality.

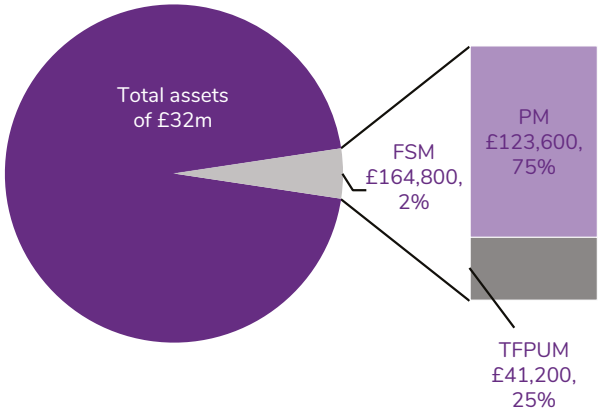
Materiality measure	Group	Parent company
Significant judgements made by auditor in determining the performance materiality	In determining performance materiality, we made the following significant judgements: • few control deficiencies have been identified in prior periods that would require a decrease 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.	In determining 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 of the normal course of business.	We determined a lower level of specific materiality for the following areas: • Directors' remuneration; and • Related party transactions outside of 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	£10,300 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£8,240 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

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

Overall materiality – Group



Overall materiality – Parent company



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

An overview of the scope of our audit

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

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

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.

The Group acquired Tetris Pharma Ltd and Tetris Pharma BV in the year. Tetris Pharma BV is based in Netherlands, however, the accounting process is resourced through a central function within the UK.

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 Group assets and total expenditure 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 the 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 key Group financial metrics including total expenditure and total assets. 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 whether any components were likely to include significant risks of material misstatement to the Group financial statements due to their specific nature of circumstances. 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 changes in the current year's scoping from prior year is set out below:

Audit approach	No. of components	% coverage total assets	% coverage total expenditure
Full-scope audit	3 (2021: 2)	96% (2021:100%)	99% (2021: 100%)
Specific-scope audit procedures	1 (2021: 0)	4% (2021: 0%)	1% (2021: <0%)

Changes in approach from previous period

The approach to the audit has changed with specific-scope procedures being performed on one entity, being Tetris Pharma BV, which was acquired by the Group during the year.

Other information

The other information comprises the information included in the annual report and accounts for the year ended 31 December 2022, 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 2022. 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' responsibility statement set out on pages 80-81, 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 that we obtained, we determined the most significant legal and regulatory frameworks which are directly relevant to specific assertions in the financial statements to be 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 enquiries of management, those responsible for legal and compliance procedures, and the company secretary. We corroborated our enquiries 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 areas of 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

27 April 2023

Consolidated income statement

for the year ended 31 December 2022

	Notes	31 December 2022 £000	31 December 2021 £000
Revenue	5	**2,403**	1,158
Other operating income	6	**1,132**	640
Research and Development	7	**(8,613)**	(5,386)
Sales, General & Administrative	7	**(5,552)**	(2,851)
Operating loss		**(10,630)**	(6,439)
Finance income	9	**109**	1
Finance expense	10	**(21)**	(507)
Loss before tax		**(10,542)**	(6,945)
Taxation	11	**1,282**	776
Loss for the financial year		**(9,260)**	(6,169)
Basic and diluted loss per share (£)	12	**(0.32)**	(0.27)

In the year ended 31 December 2022, Sales, General & Administrative costs included £0.2 million of non-recurring expenses incurred in the acquisition of Tetris Pharma Ltd. The prior year included £0.5 million of non-recurring IPO and placing costs.

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

The accompanying accounting policies and notes on pages 100 to 125 form an integral part of these financial statements.

Consolidated statement of financial position

At 31 December 2022

	Notes	31 December 2022 £000	31 December 2021 £000
Non-Current assets			
Intangible assets	13	**1,918**	30
Goodwill	14	**1,484**	-
Property, plant and equipment	15	**838**	328
Other receivables	16	**48**	48
Total non-current assets		**4,288**	406
Current assets			
Trade and other receivables	16	**2,215**	1,423
Current tax receivable		**1,325**	776
Cash and cash equivalents	17	**4,765**	18,316
Short term investments	18	**8,041**	-
Inventory	19	**1,131**	-
Total current assets		**17,477**	20,515
Current liabilities			
Trade and other payables	20	**(3,526)**	(2,141)
Lease liabilities	21	**(202)**	(126)
Total current liabilities		**(3,728)**	(2,267)
Non-current liabilities			
Lease liabilities	21	**(86)**	(105)
Deferred tax	14	**(496)**	-
Total non-current liabilities		**(582)**	(105)
Net Assets		**17,455**	18,549
Equity attributable to equity holders of the company			
Share capital	24	**306**	278
Share premium account	24	**28,976**	23,348
Share-based payments reserve		**893**	519
Other reserves	24	**11,455**	11,455
Merger relief reserve		**2,014**	-
Foreign exchange reserve		**(8)**	-
Retained losses		**(26,181)**	(17,051)
Total equity attributable to equity holders of the company		**17,455**	18,549

The financial statements of Arecor Therapeutics plc, registered number 13331147, were approved by the Board of Directors and authorised for issue on 27 April 2023.

Signed on behalf of the Board of Directors by:

Sarah Howell
Director

Consolidated statement of changes in equity

for the year ended 31 December 2022

	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 2021	27	11,594	-	-	1,045	-	(11,892)	774
Comprehensive income for the year								
Loss for the year	-	-	-	-	-	-	(6,169)	(6,169)
Transactions with owners								
Shares issued by Arecor Limited	1	-	-	-	-	-	-	1
Reserve transfer	-	-	-	-	(1,010)	-	1,010	-
Share bonus issue	139	(139)	-	-	-	-	-	-
Incorporation of Arecor Therapeutics Limited	-	(11,455)	11,455	-	-	-	-	-
Shares issued by Arecor Therapeutics plc	110	24,785	-	-	-	-	-	24,895
Share issue expense	-	(1,437)	-	-	-	-	-	(1,437)
Share based compensation	-	-	-	-	484	-	-	484
Issue of shares on exercise of share options	1	-	-	-	-	-	-	1
Total transactions with owners	251	11,754	11,455	-	(526)	-	1,010	23,944
Equity as at 31 December 2021	**278**	**23,348**	**11,455**		**519**	**-**	**(17,051)**	**18,549**
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	7,889
Equity as at 31 December 2022	**306**	**28,976**	**11,455**	**2,014**	**893**	**(8)**	**(26,181)**	**17,455**

The accompanying accounting policies and notes on pages 100 to 125 form an integral part of these financial statements.

Consolidated statement of cash flows.

for the year ended 31 December 2022

	31 December 2022 £000	31 December 2021 £000
Cash flow from operating activities		
Loss for the financial year before tax	**(10,542)**	(6,945)
Finance income	**(109)**	(1)
Finance costs	**21**	507
Share-based payment expense	**503**	484
Depreciation	**248**	163
Amortisation	**93**	8
Foreign exchange movements	**(69)**	(5)
	(9,855)	(5,789)
Changes in working capital		
Decrease / (increase) in Inventories	**587**	-
(Increase) / decrease in trade and other receivables	**(48)**	(1,257)
(Decrease) / increase in trade and other payables	**(2,198)**	838
Tax received	**734**	758
Net cash from operating activities	**(10,780)**	(5,450)
Cash flow from investing activities		
Acquisition of subsidiary net of cash acquired	**284**	-
Purchase of property, plant and equipment	**(299)**	(69)
Purchase of intangible assets	**(46)**	-
Short term investments	**(8,041)**	-
Interest received	**109**	1
Net cash used in investing activities	**(7,993)**	(68)
Cash flow from financing activities		
Issue of ordinary shares	**6,000**	20,002
Share issue costs	**(352)**	(1,437)
New loans received	**-**	2,500
Capital payments on lease liabilities	**(165)**	(112)
Interest paid on lease liabilities	**(21)**	(22)
Repayment of working capital facility	**(295)**	-
Other interest paid	**(7)**	-
Net cash generated from financing activities	**5,160**	20,931
Net (decrease) / increase in cash and cash equivalents	**(13,613)**	15,413
Exchange losses on cash and cash equivalents	**62**	5
Cash and cash equivalents at beginning of financial year	**18,316**	2,898
Cash and cash equivalents at end of financial year	**4,765**	18,316

The accompanying accounting policies and notes on pages 100 to 125 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 Group has two wholly owned trading subsidiaries; Arecor Limited and Tetris Pharma Ltd.

Tetris Pharma Ltd and its wholly owned subsidiary Tetris Pharma B.V were acquired on 4th August 2022.

2. Adoption of new and revised standards

New and amended accounting standards that are mandatorily effective for the current year.

The following amended standards and interpretations were also effective during the year, however, they have not had a significant impact on the consolidated financial statements:

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

New and amended accounting standards that have been issued but are not yet effective.

The following new or amended standards and interpretations are applicable in future periods but are not expected to have a significant impact on the consolidated financial statements.

- Amendments to IFRS 4 – Insurance contracts
- Amendments to IFRS 17 – Insurance contracts
- Extension to the temporary exemption from applying IFRS 9 – Financial instruments
- Amendments to IAS 1 – Presentation of Financial Statements – Identification of a material accounting policy
- Amendment to IAS 8 – Accounting policies changes in accounting estimates and errors - Definition of accounting estimates.
- Amendment to IAS 12 – Income taxes - Deferred tax arising from a single transaction

3. Significant accounting policies

Basis of preparation

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the subsidiaries at 31 December 2022.

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 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
The Directors have considered the Company's cashflow forecasts for a period which extends beyond 12 months from the signature of the accounts. The assessment included current cash and short term investments together with forecast receivables, which support forecast operating expenditure and investment in R&D. Sensitivities were applied to the cashflow forecasts to assess downside scenarios including for example, the potential impact of a 40% reduction in Group revenue without any reduction in operating expenditure. The aim was to consider the impact of potential sensitivities, together with mitigating actions, if required. The review indicated that in different downside scenarios, the cashflow forecasts extended to a period beyond 30 June 2024. This represents the Company's half year ending date and a going concern period of 15 months from the date of signing the accounts. Accordingly, the Directors have continued to adopt the going concern basis in preparing the Annual Report and Accounts.

Cash flow forecasts model sensitivities, controls and levers in the management of working capital. The potential impact of the COVID-19 pandemic on the Group's ability to execute its strategy has reduced however the business risk from macroeconomic factors has increased. The potential impact on the Group has been considered in the review of cashflow forecasts.

In reaching their decision to prepare financial statements on a going concern basis, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future.

Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

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 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.

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.

Research and development

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

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

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

Share based payments

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

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

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

Employee benefits

Defined contribution pension plan

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

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

Intangible assets

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

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

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

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

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	Straight line over term of asset lease
Other equipment	3 to 5 years

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

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 Company becomes a party to the contractual provisions of the financial instrument.

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

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

Classification and initial measurement of financial assets

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

Financial assets are classified into the following categories:

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

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

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

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

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

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

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

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

Impairment of financial assets
In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model to be applied. The expected credit loss model requires the Company to account for expected credit losses (ECL) and changes in the ECL at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. 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 Company to recognise a loss allowance for ECL on trade receivables. In particular, IFRS 9 requires the Company to measure the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition, the Company is required to measure the loss allowance for that financial instrument at an amount equal to 12 months ECL.

The Group's trade receivables are grouped into 30-day 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 Company designated a financial liability at fair value through profit or loss.

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

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

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

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

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

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

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

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

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

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

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

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

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

Under the current 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 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. 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 is 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 and the acquisition of Tetris Pharma Limited on 4 August 2022
- “Retained earnings / losses” represents the accumulated profits and losses attributable to equity shareholders

4. Critical accounting judgements and key sources of estimation uncertainty

Critical accounting judgements

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

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

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

Acquisition accounting

Judgement is required to determine the valuation of Tetris Pharma Ltd and the calculation of the associated goodwill. External experts were engaged to provide an independent valuation which was subject to audit review and challenge. This valuation includes judgements regarding the future sales and profitability of the acquired company and the appropriate discount rates to perform these calculations. Detail of these assumptions are provided in Note 14.

Impairment of goodwill

As required by IAS 36, goodwill is reviewed for impairment each year. If indicators of impairment are apparent, then 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 14.

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 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 R&D expenditure

When considering whether Research and Development expenditure is eligible to be capitalised, Management consider the criteria for capitalisation identified under IAS38 as follows:

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

In order to confirm the technical feasibility of the Group's clinical candidates 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 £2.8m 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 2022, a balance of £117,691 was included within trade debtors to reflect an audited and approved claim for the quarter ended 30 November 2022. At the reporting date a balance of £448,442 was included in accrued income which represented income due from unaudited costs incurred in December 2022. Based on the successful claims for the first three quarters of the grant, the Directors are satisfied that this balance is recoverable.

Key sources of estimation uncertainty

Share based payments.

During the year, the Group has granted 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 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.

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 2022 the expected R&D tax credits claimable for the period was £1,357,705 (2021: £775,683).

Valuation of intangibles at the balance sheet date

External consultants with the appropriate expertise were engaged to determine the value of the intangibles at the date of acquisition of Tetris Pharma Ltd. The valuation of the intangibles principally reflects the license and distribution agreement for Ogluo in the UK and Europe. The future cashflows used to calculate these valuations were based on the most recent forecasts available at the time.

The value of the acquired net assets of Tetris Pharma Ltd together with consideration paid, resulted in goodwill of £1.4 million.

Impairment of goodwill

The value of goodwill has been assessed and an impairment is not required. The in use value of the intangible assets associated with the cash generating unit are considered to be higher than the carrying value of the assets within the unit.

5. Revenue and operating segments

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

	31 December 2022 £000	31 December 2021 £000
UK	**1,136**	71
Switzerland	**240**	-
Rest of Europe	**108**	76
USA	**784**	940
India	**135**	40
Rest of world	**-**	31
	2,403	1,158

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 2022 £000	31 December 2021 £000
Formulation development projects	**1,352**	1,014
Sales of pharmaceuticals	**1,051**	-
Non-Government grants	**-**	144
	2,403	1,158

For the year ended 31 December 2022, revenue includes £349,311 (2021: £80,000) included in the contract liability balance at the beginning of the period.

Three customers each contributed more than 10% of the formulation development revenues respectively £490,000 (36%), £240,000 (18%) and £135,000 (10%) (2021: three customers, £328,000 (28%), £260,000 (22%) and £144,000 (12%).

At 31 December, the balance of receivables due from contracts with customers totalled £0.3 million (2021: £0.3 million). At the reporting date, the aggregate amount of revenue remaining to be recognised on signed agreements totalled £0.5 million (2021: £1.2 million) This balance is forecast to be recognised during 2024. 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.

6. Other operating income

Other operating income in the year was grant income received in respect of a £2.8m grant awarded by Innovate UK in March 2021.

7. Operating loss

	31 December 2022 £000	31 December 2021 £000
Operating loss is stated after charging:		
Audit fees (see below)	**148**	60
Other audit services	**10**	8
Audit of grant claims – Other professional services	**4**	40
Depreciation of property, plant and equipment:		
- Owned assets	**108**	68
- Right of use assets under leases	**140**	95
Amortisation of intangible assets	**93**	8
Research and Development costs not disclosed elsewhere in this note	**5,958**	3,570
Sales, General and Admin costs not disclosed elsewhere in this note	**2,934**	395
Non-recurring expenses	**171**	462
Foreign exchange gains	**(69)**	(5)
Directors and employee costs (Note 8)	**4,668**	3,536

Non-recurring expenses in the year were costs incurred in the acquisition of Tetris Pharma Ltd. Prior year costs were expenses incurred in the admission to AIM on 3rd June 2021.

Auditors' remuneration

	31 December 2022 £000	31 December 2021 £000
Audit of the Group and parent company accounts	**67**	30
Audit of the accounts of the Company's subsidiaries by the Group auditors	**69**	30
Total audit fees for the current year	**136**	60
Additional audit fees for the prior year	**12**	-
Total audit fees	**148**	60
Audit related services	**10**	15
Tax compliance services	**-**	8
Tax advisory services	**-**	11
Corporate finance services	**-**	175
Total non-audit fees	**10**	209

8. Remuneration of Directors and employees

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

	31 December 2022 £000	31 December 2021 £000
Wages and salaries	**3,574**	2,663
Share based payments	**503**	484
Social security	**417**	297
Pension costs	**174**	92
	4,668	3,536

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

	31 December 2022 £000	31 December 2021 £000
Research, Development and Operations	**34**	26
Sales, General and Administration	**10**	4
Executive and Non-Executive Directors	**7**	7
	51	37

Directors' remuneration for Companies Act purposes amounts to:

	31 December 2022 £000	31 December 2021 £000
Emoluments and fees for qualifying services	**917**	778
Company contributions to money purchase pension schemes	**37**	26
Gains on exercise of share options	**206**	614
	1,160	1,418

Remuneration of the highest paid Director

	31 December 2022 £000	31 December 2021 £000
Emoluments and fees for qualifying services	**400**	329
Company contributions to money purchase pension schemes	**21**	14
Gains on exercising share options	**51**	402
	471	745

Full details of Director's remuneration can be found in the Remuneration Committee Report on pages 67 to 74.

Remuneration data for the directors in the reporting period 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 2022 £000	31 December 2021 £000
Short term employment benefits	**1,824**	1,531
Post-employment benefits	**71**	56
Share based payments	**489**	434
	2,384	2,021

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

9. Finance income

	31 December 2022 £000	31 December 2021 £000
Bank interest received	**102**	1
Other interest received	**7**	-
	109	1

10. Finance expense

	31 December 2022 £000	31 December 2021 £000
Loan note conversion	**-**	485
Lease interest	**18**	22
Other interest expenses	**8**	-
	26	507

The prior year comparatives include a charge of £485,000 arising from the conversion of loan notes into ordinary shares at Admission.

11. Taxation

	31 December 2022 £000	31 December 2021 £000
Research & development tax credit receivable	**(1,325)**	(776)
Total tax	**(1,325)**	(776)

	31 December 2022 £000	31 December 2021 £000
Loss before tax	**(10,542)**	(6,945)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2021: 19%)	**(2,003)**	(1,320)
Tax effects of:		
Expenses not deductible for tax purposes	**248**	180
Enhanced R&D relief	**(560)**	(523)
Unrecognised deferred tax	**1,073**	887
Additional relief on capital expenditure	**(20)**	-
Origination and reversal of timing differences	**(63)**	-
Total tax (credit)	**(1,325)**	(776)

At 31 December 2022, the Group has accumulated tax losses of £20,164,670 (2021: £11,361,635). No deferred tax asset was recognised in respect of these accumulated tax losses due to uncertainty regarding the timing of recoverability in future years. Under UK tax law currently enacted, the accumulated tax losses are not limited by an expiry date.

As confirmed in the UK Government budget in March 2023, the level of UK Corporation tax will increase from 19% to 25% on 6 April 2023. This was substantively enacted on 24 May 2021. Accordingly, deferred tax has been calculated at the rate at which the relevant balance is expected to be recovered or settled.

12. 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 2022 £	31 December 2021 £
Loss per share from continuing operations	**(0.32)**	(0.27)

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

	31 December 2022 £000	31 December 2021 £000
Loss used in the calculation of total basic and diluted loss per share	**(9,260)**	(6,169)

Number of shares	31 December 2022 Number	31 December 2021 Number
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**28,936,088**	23,033,420

13. Intangible assets

Group	Patents £000	Licenses £000	Software £000	Total £000
Cost				
At 1 January 2021	150	-	-	150
Additions	-	-	-	-
At 31 December 2021	150	-	-	150
Additions	-	1,933	48	1,981
At 31 December 2022	**150**	**1,933**	**48**	**2,131**
Amortisation				
At 1 January 2021	112	-	-	112
Charge for the year	8	-	-	8
At 31 December 2021	120	-	-	120
Charge for the year	**8**	**83**	**2**	**93**
At 31 December 2022	128	83	2	213
Net book value				
At 31 December 2021	**30**	**-**	**-**	**30**
At 31 December 2022	**22**	**1,850**	**46**	**1,918**

Amortisation is recognised within administrative expenses.

14. Goodwill and acquisition of subsidiaries

On 4 August 2022, the Group acquired 100% of the share capital of Tetris Pharma Ltd and gained control of the company and its wholly owned subsidiary, Tetris Pharma BV. The fair value of the assets acquired and the resulting goodwill arising on acquisition 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			**1,484**
Total Consideration			**2,020**

Consideration was paid in the form of 651,726 ordinary shares in Arecor Therapeutics plc. On the date of the transaction, the market value was £310p per share.

	31 December 2022 £000	31 December 2021 £000
Goodwill on the acquisition of Tetris Pharma Ltd	**1,484**	-
	1,484	-

From the date of acquisition to the financial year end, Tetris Pharma Ltd contributed £1.0 million to group revenue and incurred a loss for the period of £1.2 million. Had the Group acquired Tetris Pharma Limited at the start of the reporting period the combined revenue for the Group would have been £3.1 million. The expected loss for the year had the Group acquired Tetris Pharma Limited at the start of the reporting period would have been £11.2 million.

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 million paid at the date of acquisition. Further consideration may fall due if specific sales and EBIT targets are met in each of the three years following the date of acquisition.

The additional consideration is considered to be contingent on future performance which is uncertain and therefore has not been included in the assessment of goodwill at the reporting date.

Up to a further £4.0 million deferred consideration may become payable, consisting of three earn out payments, subject to Tetris Pharma Ltd achieving sales and EBITDA targets in each of the three years following completion.

The earn out payments are payable through the issue of either i) new ordinary shares or ii) unsecured loan notes having an aggregate principal value equal to the amount of the relevant earn out payment, at the Company's election.

The goodwill arising at the date of acquisition has been tested for impairment. The recoverable amounts of goodwill have been calculated based on their in use value with key assumptions including projected sales growth. The discount rates have been estimated using post 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 are the latest forecasts being used by Tetris Pharma Ltd.

The WACC and terminal growth rates for the cash generating unit are as follows:

	2022		2021	
Cash Generating Unit	Pre Tax WACC %	Terminal Growth rate	Pre Tax WACC %	Terminal Growth rate
Tetris Pharma Ltd	16.7%	2%	n/a	n/a

When testing for impairment, the value in use of the CGU exceeded the value of the assets by £1.8 million (49%).

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 18.4% or
- a reduction in sales and associated direct cost by 4.5%.

Management believe that these sensitivities are reasonably possible in an uncertain macroeconomic environment during the early stage of the roll-out of the Ogluo product.

15. 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 2020	75	418	206	705	1,404
Additions	4	-	46	65	115
Disposals	-	-	-	(8)	(8)
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**
Depreciation					
At 31 December 2020	66	232	145	585	1,028
Charge for the year	6	62	33	62	163
Disposals	-	-	-	(8)	(8)
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**
Net book value					
At 31 December 2021	7	124	74	123	328
At 31 December 2022	**20**	**247**	**36**	**535**	**838**

16. Trade and other receivables

	31 December 2022 £000	31 December 2021 £000
Non-current receivables		
Other receivables	**48**	48
	48	48

	31 December 2022 £000	31 December 2021 £000
Trade and other receivables		
Trade receivables	**664**	712
Other receivables	**225**	67
Accrued grant income (other operating income)	**562**	16
Prepayments	**716**	628
	2,167	1,423

Included in prepayments at the reporting date was a balance of £0.3 million (2021: £0.5 million) relating to advance payments for clinical studies.

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 (2021: none).

17. Cash and cash equivalents

	31 December 2022 £000	31 December 2021 £000
Cash at bank (GBP)	**1,603**	18,299
Cash at bank (USD)	**1,713**	17
Cash at bank (EUR)	**1,449**	-
	4,765	18,316

18. Short term investments

	31 December 2022 £000	31 December 2021 £000
Short term investments held in notice accounts	**6,041**	-
Short term investments held in fixed term accounts	**2,000**	-
	8,041	-

At the reporting date all significant cash and cash equivalents were deposited in the UK with large international banks. A balance of £2 million (2021: Nil) was held in a fixed term deposit account with a maturity date of 22 February 2023.

19. Inventory

	31 December 2022 £000	31 December 2021 £000
Finished goods or goods for re-sale	**412**	-
Goods for packaging and packaging materials	**651**	-
Bulk pharmaceutical materials	**68**	-
	1,131	-

Finished goods, goods for re-sale and goods for packaging relate to pharmaceutical products sold by Tetris Pharma Ltd.

Bulk pharmaceutical materials are key reagents used in the production of clinical grade material used by Arecor Limited in clinical studies. These materials are considered to be consumed when the material is used in the manufacture of product to be used in a clinical trial.

20. Trade and other payables

	31 December 2022 £000	31 December 2021 £000
Trade payables	**1,709**	518
Other tax and social security	**120**	85
Other creditors	**217**	23
Contract liabilities	**206**	349
Accruals	**1,274**	1,166
	3,526	2,141

During the year Arecor Limited entered into two new formulation development agreements. At 31 December 2022 amounts paid in advance of £0.2 million (2021: £0.3 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 (2021: £0.4 million) relating to clinical study costs.

21. Leases

Right of use assets

The Group has leasing arrangements with a maximum term of 5 years relating to property, plant and equipment.

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

	31 December 2022 £000	31 December 2021 £000
Addition (carrying amount) on acquisition of Tetris Pharma Limited	**125**	**-**
Additions to right of use assets	**100**	46
Depreciation charge – right of use assets	**(140)**	(95)
Carrying amount at the beginning of the year – right of use assets:	**198**	247
Carrying among at the end of the year - right of use assets:	**283**	198

	31 December 2022 £000	31 December 2021 £000
Interest expense on lease liabilities	**18**	22
Total cash outflow for leases	**(187)**	(134)

Lease liabilities	31 December 2022 £000	31 December 2021 £000
Current	**202**	126
Non-current	**86**	105
	288	231

22. Borrowings

Reconciliation of liabilities arising from financing activities.

	At 1 January 2022 £000	Cash received £000	Legal fees paid £000	New leases £000	Interest accrued / fair value move-ment £000	Repaid in cash £000	Converted to Equity £000	At 31 December 2022 £000
Lease liabilities	231	-	-	218	26	(187)	-	288
	231	**-**	**-**	**218**	**26**	**(187)**	**-**	**288**

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

23. Financial instruments

Classification of financial instruments

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

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

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

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

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

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

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

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

Financial assets at amortised cost	31 December 2022 £000	31 December 2021 £000
Trade receivables	**664**	712
Other receivables	**228**	115
Accrued income	**562**	16
Cash, cash equivalents and short term investments	**12,806**	18,316
	14,257	19,159

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

Financial liabilities at amortised cost	31 December 2022 £000	31 December 2021 £000
Trade payables	**1,709**	518
Other payables	**217**	23
Lease liabilities	**283**	231
Accruals	**1,503**	623
	3,712	1,395

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.

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.

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

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

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

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

At the balance sheet date the Group did not have any borrowings.

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 2022 and 2021 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 2022						
Trade payables	1709	1,709	-	-	-	-
Other payables	217	217	-	-	-	-
Lease liabilities	314	23	102	93	45	51
Accruals	1,503	1,115	388	-	-	-
	3,743	**3064**	**490**	**93**	**45**	**51**

	Total £000	Within 2 months £000	Within 2 to 6 months £000	Within 6 – 12 months £000	Within 1 to 2 years £000	Within 2 to 5 years £000
At 31 December 2021						
Trade payables	518	518	-	-	-	-
Other payables	108	108	-	-	-	-
Lease liabilities	252	8	63	71	102	8
Accruals	623	475	148	-	-	-
	1,501	**1,109**	**211**	**71**	**102**	**8**

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 2022 £000	31 December 2021 £000
Equity	**17,455**	18,549
Cash, cash equivalents and short term investments	**(12,806)**	(18,316)
Net borrowings	**4,649**	233

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 year. The Directors believe that they have been able to meet their objectives in managing the capital of the Group.

24. Share capital

	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

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

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 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**

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

Share Premium

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

Share premium increases in the 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 Statement of Changes in Equity.

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.

25. 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 16 November at an exercise price of £2.45 per share. The options vest on the third anniversary of the date of grant. As there are no performance criteria linked to these options, the fair value of the options was calculated using the Black Scholes mode using the following assumptions:

	Grant on 16 November 2022
Exercise price	£2.45
Volatility	75%
Expected dividends	nil
Risk free interest rate	3.07%
Fair value per share	£1.24

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 5 December 2022 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 5 December 2022
Share price at date of grant	£2.50
Exercise price	£0.01
Volatility	75%
Expected dividends	nil
Risk free interest rate	3.25% pa
Fair value per share – market performance objectives	£1.65
Fair value per share – Commercial objectives	£2.49

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 2021	121,732
Options vested and exercised pre-bonus issue	(62,493)
Options lapsed pre-bonus issue	(3,000)
Balance pre-bonus issue (23/5/2021)	56,239
Bonus issue (five to one basis)	281,195
AESOP options granted	492,250
LTIP options granted	775,000
Options vested and exercised post-bonus issue	(151,492)
Options lapsed post-bonus issue	(38,248)
Balance at 31 December 2021	**1,414,944**
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**

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

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	0.7	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	

31 December 2021	Directors Number of Options	WAEP £	Staff Number of Options	WAEP £
Outstanding at the beginning of the year	72,333	0.01	49,399	0.01
Exercised pre-bonus issue	(45,639)	0.01	(16,854)	0.01
Expired pre-bonus issue	-	-	(3,000)	0.01
Bonus issue (five to one)	133,470	0.01	147,725	0.01
Exercised post-bonus issue	(77,498)	0.01	(73,994)	0.01
Issued post-bonus issue	600,000	0.65	667,250	1.81
Expired post-bonus issue	-	-	(38,248)	0.73
Outstanding at the year end	682,666	0.57	732,278	1.19
Number vested and exercisable at 31 December 2021	31,000	0.01	17,025	0.01
Weighted average remaining contractual life (years)	9.21	-	9.41	-

The Group recognised total share-based expenses of £0.5 million (2021: £0.5 million).

26. Related party transactions

Key management personnel are identified as the members of the Leadership Team. The remuneration of the Directors is disclosed in note 8.

At the reporting date, balances outstanding to Alan Smith in lieu of services provided as a Board member were £2,917 (2021: £8,750).

At the reporting date, balances payable to Tetris Pharma Ltd from Shafiq Choudhary, a Director of the company were £47,998.83.

27. 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, due to start in early 2023. Total payments agreed to be paid to these parties for undertaking the study are €1.6m.

28. Dividends

No dividends were paid or approved during the period ended (2021: nil).

29. Ultimate controlling party

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

30. Post balance sheet events

There were no adjusting or significant non-adjusting events between 31 December 2022 and the approval of the financial statements.

Company Financial Statements

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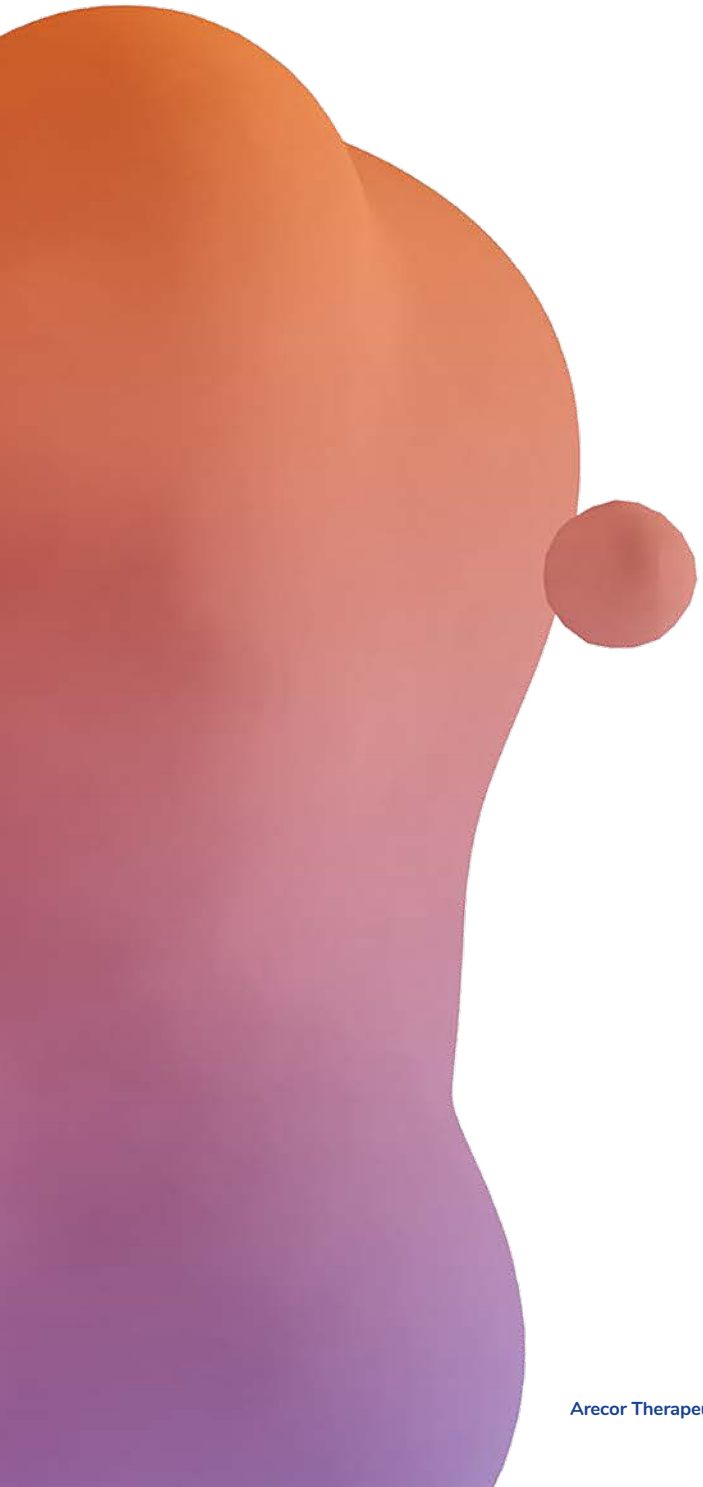

Company statement of financial position

At 31 December 2022

Assets	Note	31 December 2022 £000	31 December 2021 £000
Non-current assets			
Investment in subsidiaries	3	**8,086**	5,562
Intercompany loan receivable	4	**11,462**	7,580
Total non-current assets		**19,548**	**13,142**
Current assets			
Trade and other receivables	5	**156**	76
Intercompany receivables	5	**-**	327
Cash and cash equivalents	6	**4,397**	10,476
Short term investments	7	**8,041**	-
Total current assets		**12,594**	**10,879**
Current liabilities			
Trade and other payables	8	**(155)**	(98)
Total current liabilities		**(155)**	**(98)**
Net Assets		**31,987**	**23,923**
Equity attributable to equity holders of the company			
Share capital	9	**306**	278
Share premium account	9	**28,976**	23,348
Share-based payments reserve	9	**893**	519
Merger relief reserve	9	**2,014**	-
Other reserves	9	**(167)**	(167)
Retained loss	9	**136**	**(55)**
Total equity attributable to equity holders of the company		**32,158**	**23,923**

The Company's loss for the period was £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 27 April 2023.

Signed on behalf of the Board of Directors by:

Sarah Howell
Director

Company statement of changes in equity

for the period ended 31 December 2022

	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 incorporation 13 April 2021	-	-	-	-	-	-	-
Comprehensive income for the period							
Profit / (loss) for the period	-	-	-	-	-	(203)	(203)
Transactions with owners							
Share for share exchange with Arecor Limited	167	-	-	-	(167)	-	-
Cancellation of shares	(-)	-	-	-	-	-	(-)
Issue of shares on listing	110	24,785	-	-	-	-	24,895
Share issue expense	-	(1,437)	-	-	-	-	(1,437)
Share based compensation	-	-	667	-	-	-	667
Issue of shares	1	-	-	-	-	-	1
Reserve transfer on exercise of share options	-	-	(148)	-	-	148	-
Total transactions with owners	278	23,348	519	-	(167)	148	24,126
Equity at 31 December 2021	**278**	**23,348**	**519**		**(167)**	**(55)**	**23,923**
Comprehensive income for the year							
Profit for the year						61	61
Transactions 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	-	190	8,174
Equity at 31 December 2022	**306**	**28,976**	**893**	**2,014**	**(167)**	**136**	**32,158**

The accompanying accounting policies and notes on pages 130 to 134 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. The Group's activities and operations are carried out by Arecor Limited, the Company's wholly owned subsidiary whose principal activities are research and experimental development of biotechnology.

1. Significant accounting policies

Basis of preparation

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

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

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

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

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

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

Taxation

Current taxation

Current taxation for the 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 IAS36, Impairment of Assets. The Company acquired the full share capital of Arecor Limited by means of a share for share swap at par on 24 May 2021. At the time of acquisition, the net assets of the subsidiary were negative. Therefore, the initial carrying amount was deemed to be nil with the difference between this amount and the share capital value being recorded in equity in the "other reserve". On the same date, the company took on the Convertible loan note liability from Arecor Limited. This has been treated a capital contribution.

Share option charges

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

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

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

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

2. Critical accounting judgements and sources of estimation uncertainty

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

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

Key sources of estimation uncertainty

Recoverability of investments 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. At the reporting date, the Directors do not consider there to be any impairment on the investments in its subsidiaries and that any loans to subsidiary undertakings will be repaid in full.

3. Investments in subsidiary undertakings

	31 December 2022 £000	31 December 2021 £000
Investment in Arecor Limited	**6,058**	5,562
Investment in Tetris Pharma Ltd	**2,199**	-
	8,257	5,562

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. The fair value of the assets acquired and the resulting goodwill arising on acquisition is shown below. The fair value of the consideration paid for the acquisition was £2,020,000.

At 31 December 2022, 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

	31 December 2022 £000	31 December 2021 £000
Loan receivable from Arecor Limited	**8,521**	7,580
Loan receivable from Tetris Pharma Ltd	**2,941**	-
	11,462	**7,580**

The interest charged on loans to subsidiaries is at market rates (4.5%). The loans are repayable on demand. It is not intended to request repayment of the loans so they are considered to be non-current assets.

5. Trade and other receivables

	31 December 2022 £000	31 December 2021 £000
Intercompany receivables	**-**	327
Trade and other receivables	**156**	76
	156	**403**

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 any of the reporting dates presented.

6. Cash and cash equivalents

	31 December 2022 £000	31 December 2021 £000
Cash at bank and cash equivalents	**4,397**	10,476
	4,397	**10,476**

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 2022 £000	31 December 2021 £000
Short term investments held in notice accounts	**6,041**	-
Short term investments held in fixed term accounts	**2,000**	-
	8,041	**-**

8. Trade and other payables

	31 December 2022 £000	31 December 2021 £000
Trade payables	**98**	38
Accruals	**57**	60
	155	**98**

9. Share capital

	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**

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

The following shares were issued in the periods presented:

	Number	Share Capital £000	Share Premium £000
At 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**

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

Share premium

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

Other reserves

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

9. Financial commitments

There were no significant financial commitments at the reporting date.

10. Share capital and reserves

The movements on share capital and share premium accounts are disclosed in note 24 to the consolidated financial statements.

11. Related party transactions

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

Corporate Information

Directors
Andrew Richards
(Non-Executive Chair)

Sarah Howell
(Chief Executive Officer)

Susan Lowther
(Chief Financial Officer)

Sam Fazeli
(Non-Executive Director)

Jeremy Morgan
(Non-Executive Director)

Alan Smith
(Non-Executive Director)

Christine Soden
(Non-Executive Director)

Company Secretary
Susan Lowther

Company registration number
13331147

Principal place of business and registered office
Chesterford Research Park
Little Chesterford
CB10 1XL

Nominated Advisor and Broker
Panmure Gordon (UK) Limited
40 Gracechurch Street
London
EC3V 0BT

Statutory Auditor
Grant Thornton
101 Cambridge Science Park,
Milton Road
Cambridge
CB4 0FY

Legal Advisors
Covington & Burling LLP
22 Bishopsgate
London
EC2N 4BQ

Public Relations Advisors
Consilium Strategic Communications
41 Lothbury
London
EC2R 7HG

Registrar
Computershare Investor Services plc
The Pavillions
Bridgwater Road
Bristol
BS13 8AE

Website
www.arecor.com

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Arecor Therapeutics plc
Chesterford Research Park
Little Chesterford
CB10 1XL
United Kingdom

Telephone: +44 1223 426 060
Email: info@arecor.com

Arecor