

Transforming cancer treatment

Incanthera plc
Annual Report & Accounts 2020

Registered number: 11026926

Incanthera is a specialist oncology company focused on transforming cancer treatment by creating environments in which cancer cannot survive.

What we do

We seek to identify and develop innovative solutions to current clinical, commercially relevant unmet needs, utilising new technology from leading edge discoveries and bring these to commercialisation.

Our current lead product and focus is Sol, a potentially innovative topical product for the treatment of solar keratosis and the prevention of skin cancers. This has achieved proof of concept and is currently being prepared for licensing to a commercial partner.

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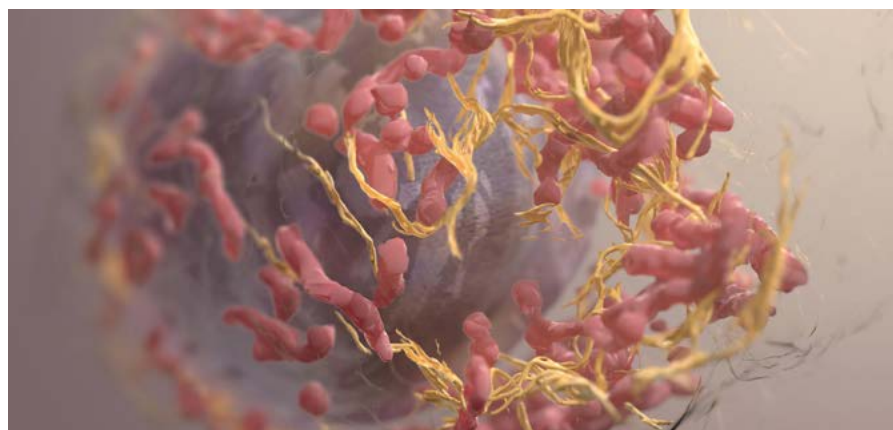
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Highlights

- Incanthera plc successful admission to Aquis Stock Exchange Growth Market ('AQSE Growth Market'), in February 2020, raising £1.2 million
- Progression of near to market skin cancer technology, Sol, towards further commercialisation goal
- Improved financial performance and security for the year ahead
- Oncology portfolio fully Patent protected for further progression



Cancer Statistics

US\$13.7bn

Sun care industry forecast to be US\$13.7 billion by 2024

Market size estimates sources from external commercial sector reports.

45%

The deadliest form of skin cancer, melanoma, has soared by over 45% in the last ten years

Skin cancer is the most common form of cancer in young adults in the UK

The sun care market is being driven by increased awareness of sun exposure

No clear evidence that sun creams protect the skin from carcinoma or melanoma

Incanthera at a Glance

Focusing on drug discovery

The Company* has created and continues to develop a rich pipeline of proprietary, flexible, tumour-targeting drug delivery systems with the potential to deliver new or existing and highly potent drugs.

Incanthera's strategy is to develop each candidate in the portfolio from initial acquisition or discovery to securing its future through commercially valuable partnerships at the earliest opportunity in its development pathway.

The majority of conventional cancer treatments (other than surgery) on the market are chemotherapy or radiotherapy based. These are non-selective by nature and highly toxic to healthy tissue as well as tumours. Accordingly, treatment can only be delivered in carefully controlled doses over a limited period of time. To address this problem directly, the Company has developed sophisticated formulation and prodrug targeting technologies to deliver treatment specifically to the tumour.

* Incanthera plc ('the Group' or 'the Company')

Our partners

The Company will be seeking licensing partners at a point in the development cycle (e.g. Phase I clinical results), which maximises the return of investment to shareholders, whilst minimising the investment required.

See <http://incanthera.com/partnering/our-partnerships/>

Our history: <http://incanthera.com/about-us/our-history/>



Our Pipeline

The following table represents the current pipeline of drug candidates being developed by the Company and indicates their various current and anticipated stages of development.

Acquisition				
Platform	Product	Indication	Preparation for licensing	Licensing
Sol	Topical Cream	Actinic Keratosis, melanoma & Sun care (US\$13.7bn)*	Bioavailability & Superiority	Market launch
EP0015	VDA and Theranostic	Lung, breast, ovarian cancers (\$5.9bn, \$15.3bn, \$1.6bn)*	Pre-clinical	Licensed
	Taxane	Ovarian, prostate cancers (\$1.6bn, \$8.6bn)*	Lead	
Equin	DT-diaphorase activation	Liver, brain, pancreatic cancers (\$0.5bn, \$0.35bn, \$2bn)*	Pre-clinical	
Duo-C	CYP activation	Bladder, colorectal cancers (\$0.36bn, \$8bn)*	Lead	

* Market size estimates sources from external commercial sector reports.

Sol

The Company's current lead product and focus is Sol, which the Company acquired in September 2018. Sol is a potentially innovative topical product for the treatment of solar keratosis and the prevention of skin cancers. This has achieved proof of concept and is currently being prepared for licensing to a commercial partner.

The Company commissioned an independent proof of principle study conducted at the University College London School of Pharmacy in Summer 2019. The study, using human skin penetration models, demonstrated that the Company's advanced formulation technology exceeds the bioequivalence test, which confirms that the Company is able to deliver a topical product for the prevention of actinic keratosis and skin cancer.

EP0015

Despite advances in targeted therapy over recent years, the treatment of most adult solid cancers remains palliative rather than curative and represents a major unmet need.

Solid cancers, particularly aggressively growing ones, are supported by a network of blood vessels. Vascular Disrupting Agents ('VDAs') were specifically designed to destroy the vascular network, depriving the growing tumour of essential nutrients and thereby killing it. However, their inherent cardiac toxicity is an obstacle to their effective use in the clinic. EP0015 seeks to address this by releasing the VDA only at the tumour site. EP0015 was licensed in 2017 and is currently being prepared for Phase 1 Clinical trial.

Equin

Equin is a quinone-based prodrug activated by the enzyme DT-diaphorase ('DTD') which itself is over-expressed in many solid tumours including breast, colon, liver, bladder, stomach, the central nervous system ('CNS'), lung tumours and in melanomas.

The expression of DTD is increased up to 80-fold in primary non-small cell lung cancer ('NSCLC') relative to normal lung cells and up to 35-fold in NSCLC relative to small cell lung cancer ('SCLC') cell lines.

Equin has been designed to overcome limitations associated with previously proposed bioreductive agents including, stability, solubility, poor efficacy and unsuitable clinical regimes. Equin is in the pre-clinical stage of development.

Duo-C

Duo-C focuses upon targeting colorectal cancer using duocarmycins, which are recognised for their extreme cytotoxicity, converted to a prodrug and designed to overcome their intrinsic toxicity and make them manageable and potentially useful in the clinical set up.

The prodrug is activated by CYP2W1, a catabolic enzyme over-expressed in colorectal cancer. Results to date show promising prospects for this new class of drug, demonstrating successful delivery of ultra-potent agents with acceptable toxicity profiles. Duo-C is in the late discovery (lead) phase.

Chairman's Statement

A pivotal year for Incanthera



Welcome to Incanthera plc's first Annual Report. I am delighted to present our first set of results, following the successful admission of our company onto the AQSE Growth Market (formerly NEX) in February this year.

Tim McCarthy, Chairman

As we sit down to write this report, the world is facing challenging times and the focus, correctly, is on the health and safety of our loved ones, our colleagues, our nation and the global face of healthcare.

For those working within the many different settings and fields of healthcare across the world, we applaud the heroic efforts of those individuals who have always placed themselves within the frontline, for their chosen vocation to serve and protect others.

Our Business

The focus of our Company has always been the search for new, innovative groundbreaking medications and the ability to develop those technologies for onward delivery to patients.

The Company's reason for conception came ten years ago when our CEO co-founded the business to bring the innovative intellectual technology from the brilliant scientists at the **Institute of Cancer Therapeutics** at the University of Bradford into a vehicle from which they could be developed for onward commercialisation and delivery to patients. So was borne the name of our Company, Incanthera.

The idea was to serve as a conduit to bring exciting new technologies to the global fight against cancer.

Incanthera's impressive oncology portfolio has been developed with both technology from the Institute and also through acquisition, providing a pipeline of oncology opportunities at various stages of development, including a commercial deal for our original lead technology, that continues to be developed through our licensing partner.

That licensing partnership in 2017 was an important step for Incanthera, marking our first commercial deal and proving our abilities to not only identify, acquire and develop technologies, but also our commercialisation ambition, generating income and royalties to spearhead the next important growth phase of our Company.

Ongoing Progress

Since then we have continued the development of our oncology portfolio and have refined and grown with both our development and strategic goals. In 2018, we acquired the assets of a skincare technology, named Sol, which has formed the focus of our fundraising for our successful flotation this year. We are very excited at the prospects this game-changing technology has in the battle against skin cancer and pre-cancerous skin conditions, and the interest and support received at flotation reflected that.

Admission to AQSE Growth Market

The flotation this year, was something we had looked to achieve for a while, and is an enormous success for the Company, having faced many significant hurdles along the journey given the incredibly challenging market conditions that surrounded the Brexit fallout.

We feel very fortunate to have the loyal and long-term support of our existing shareholders but also new investors into the Company, both of whom we owe a great deal of gratitude. We aim to repay that trust and loyalty with results and exciting developments.

I am pleased to report, in the few short months since listing, that development of Sol's formulation technology has continued apace, as we continue on the road towards commercial partner strategy, as set out at flotation. We look forward to updating as we progress further.

Our Team

To evolve our technology, against the current backdrop, is something that we are grateful for and proud of. It is testimony to Incanthera's great team, who are experienced, loyal, diverse and dedicated to the success of this business and the wider picture of helping patients to receive life changing cancer therapeutics.

Outlook

We are excited at all the opportunities the recent flotation has provided for us. We now stand on a public stage, with access to wider audiences, investment opportunities, licensing and commercial partners and publicity to change the face of cancer treatment. As these first set of financial results show, we are also securely placed for the year ahead.

As I began, so I end, in addressing the challenge we all face, to unite against the current healthcare situation. When we emerge, the world will have changed, with many lessons learned for the good, and essentially a greater personal, united and global emphasis on health.

The need for quality, timely and forward-thinking medicines of the future, is something we are proud to be actively part of.

We wish all our colleagues, investors and families well.

Tim McCarthy
Chairman

12 June 2020

Investment case

- **Differential business model**
Acquire, Prepare, Commercialise
- **Near to market asset**
Sol being prepared for commercialisation opportunity
- **Strategic partners (first commercial deal signed)**
Proves business model to commercialise products at earliest stage
- **Multi-product portfolio**
Minimises risk of single product development
- **News flow**
Driving shareholder value

Chief Executive Officer's Review

Answering market demand



This has been a pivotal year for Incanthera and marks our transition from a development-focused private oncology specialist, to a vibrant public company intent on accelerating the provision of innovative new medicines through commercial partnerships.

Simon Ward, Chief Executive Officer

Strategic progress

Incanthera has come a long way since its incorporation in 2010. Originally conceived as a spin-out from the Institute of Cancer Therapeutics at the University of Bradford, we have grown from a private start-up into a specialist, publicly quoted oncology company, concerning ourselves with identifying novel scientific discoveries and technologies that have the potential to become new tools in the armoury of the practicing oncologist.

The move to AQSE Growth Market in February of this year (2020) was a great achievement for us. Not only did we have the usual challenges of a public listing and fundraise, but we faced a constantly changing landscape both nationally and internationally, including Brexit, political turmoil, volatile markets and just recently of course, the coronavirus outbreak. However, the discipline of continually evolving the Company, come what may, has given us the opportunity to focus our intentions on what we do best – the acquisition of promising opportunities, the strategic preparation of these to secure the earliest tangible value and their commercialisation.

Business performance

The main priority for Incanthera over this last year has been to finance, secure and develop our latest asset, Sol, into the optimal position for seeking a commercial partner. Sol is our groundbreaking opportunity to prevent the onset of skin cancers induced by exposure to the sun. Against the backdrop of such uncertain times, this has been a year where resilience has played a major factor in the Company's growth, and this steadfast determination is evident in the progress we have made with this programme.

Sol originated from the creativity of Limeway Pharma Design. Led by Professor Adrian Davis, a world-renowned expert in topical formulation design, and promoted by Dr Kevin Hammond, a respected expert of the Fast Moving Consumer Goods personal care and cosmeceutical industry, Limeway had developed a topical formulation able to take a known drug

across the skin barrier to the site of a potential skin cancer.

This is an exciting achievement as the complexity of the chemistry involved had previously precluded trans-dermal (across the skin) delivery of this particular molecule which is already known to be effective at preventing sun-induced skin cancer when taken orally, as demonstrated in a number of clinical Phase 3 trials. Oral delivery, however, is cumbersome and very patient-unfriendly. We saw great value in delivering an effective therapy in a topical formulation that would not be dissimilar in use from current sun creams.

Over the last 12 months, Incanthera has worked with Limeway to demonstrate the effectiveness of this approach. The pivotal discovery came in the Summer (2019), when a team at the London School of Pharmacy (UCL) studied the permeation of Sol into and across human skin. In these studies, they concluded that our formulation delivered the medicine to the target site at a rate exceeding that achieved from the oral dosing, as reported in the clinical trials. This satisfactorily addresses the consideration of bioequivalence, the relative effectiveness of two different routes of administration for a drug substance (oral versus topical) and provides confidence that Sol will be an effective weapon in the fight against sun cancers.

Understanding our markets

The sun care market is currently being driven by increased awareness of sun exposure. It has been reported that the rates of the deadliest form of skin cancer, melanoma, have soared by over 45% within the last ten years¹. Like most cancers, skin cancer is more common with increasing age, but malignant melanoma is disproportionately high in younger people. Strikingly, it is the most common cancer in young adults in the UK.

Over 80% of all skin cancers are potentially avoidable², caused by over-exposure to UV radiation from the sun and/or sunbeds. This has led to the growth of a significant sun care industry (forecast at US\$13.7 billion by 2024, excluding pharmaceutical products³), and an explosion in the sales of sun creams.

Sun creams (or sunscreens) protect the skin from burning. There is no evidence they protect the skin from basal cell carcinoma or melanoma. Paradoxically, these products are effective at protecting the skin against sunburn even when inappropriately applied

(when a person applies too small an amount, or infrequently).

This often results in people using sunscreens in order to stay in the sun for longer periods than they would otherwise, resulting in higher intermittent exposure to UV radiation. Intermittent exposure is the strongest solar risk factor for the development of melanoma.

Business model and Outlook

We continue to seek cutting edge technologies and prepare these, leveraging our industry expertise, for commercialisation. By doing so, we keep our R&D expenditure to a minimum, avoiding where possible the high costs of late-stage clinical trials and target early commercial deals or partnerships. In this way we can minimise our investment and maximise the potential for near-term revenues, a strategy which we believe clearly differentiates ourselves from other small, specialist biotechnology companies.

We are fortunate at the opportunities our portfolio provides us. With an exclusive pipeline deal with Bradford University for access to new IP, through our growing commercial experience and specifically the significant potential shown in our lead product, Sol, we are well placed for the ongoing development and progression of our business.

I would also like to take this opportunity to thank our excellent team, our advisers and the shareholders for the support and belief in our goals and ambitions for the exciting future ahead.

Simon Ward
Chief Executive Officer
12 June 2020

1. Siegel RL, et al. CA Cancer J Clin. 2019;2019:doi:10.3322/caac.21551

2. Cancer Research UK

3. Market size estimates from external commercial sector reports

Strategic Framework

Delivering shareholder value

Incanthera is a specialist oncology company focused on transforming cancer treatment through targeted and prodrug technologies to deliver treatments specifically to solid tumours and to provide potentially a greater level of patient care than is associated with the use of traditional chemotherapy and radiotherapy treatments.

The Company’s strategy is to acquire, prepare for and commercialise its portfolio candidates through commercial agreements with established third-party pharmaceutical or other commercial companies, thereby generating early revenue for the Company and ensuring continued development of the technologies, at the partner’s cost. This strategy has been proven to be effective, as evidenced by the Company’s commercial agreement for EP0015.

Key objectives and performance

Objective

To provide sufficient Proof of Concept for Sol to allow preparation for seeking a commercial partner to begin.

To list the Company onto a public market, raising sufficient funding to progress Sol to a commercial deal.



Key progress during the period

Independent Proof of Principle Studies conducted at the UCL London School of Pharmacy using human skin penetration models demonstrated that our advanced formulation technology exceeds the bioequivalence test and delivers a topical product for the prevention of actinic keratosis and skin cancer.

The Company was listed onto the AQSE Growth Market on 28 February 2020, raising £1.2 million.

Strategic Priorities



Progress to date

Acquire



- Incanthera's specialist oncology portfolio consists of novel technologies, acquired through our exclusive pipeline deal with the Institute of Cancer Therapeutics and commercial acquisition
- The acquisition of Sol, our skin cancer technology, in 2018, forms the current focus of the Company and our nearest to market asset

Prepare



- Our Pipeline consists of technologies at various stages of development
- EP0015, our platform technology, was successfully prepared for our first licensing deal in 2017
- Sol has proven its ability to deliver the active into and across the skin barrier in trials at the UCL London School of Pharmacy

Commercialise



- Incanthera began proving its commercial abilities through acquisition of technologies into the portfolio following inception in 2010
- Our successful licensing deal in 2017 for asset EP0015 validated the Company's technology, platform and commercialisation abilities, generating revenues and royalties for further investment into the Company
- The Company's ambition to turn novel technologies into commercial opportunities, delivering shareholder value, has proven performance and has provided a diverse current portfolio, and pipeline to new opportunities

Strategy in Action



Most Advanced Programme – Sol

In September 2018, the Company acquired the asset Sol, a potentially innovative, topically applied, product for treatment of solar keratosis and the prevention of melanoma.

Skin cancer is now the most common form of cancer in the developed world and deaths arising from invasive melanoma are on the increase. The global market for skin 'sun protection products' is projected to reach US\$13.7 billion by 2024 and this figure excludes pharmaceutical and treatment products. Whilst current sun protection products have reduced the incidence of sunburn, they have had limited, if any, impact on the incidence of skin cancer, including melanoma.

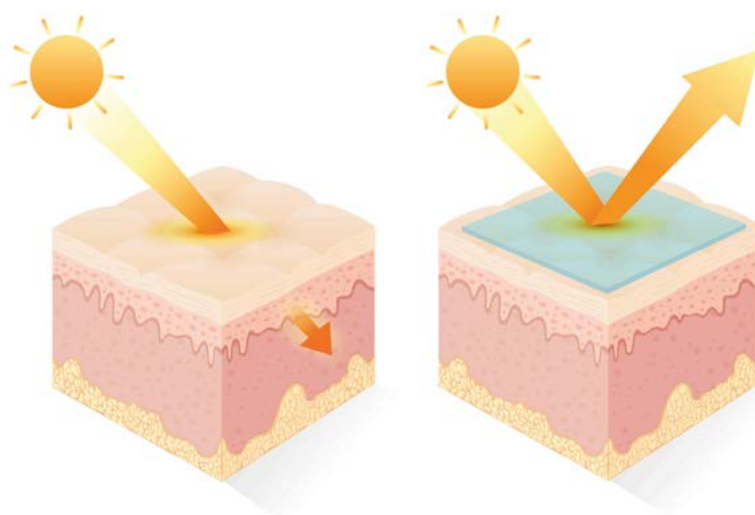


A number of clinical studies have highlighted the potential benefits of the active ingredient in Sol in preventing progression of common solar keratosis to the more life-threatening melanoma forms of skin cancer. Evidence also suggests such treatment acts to prevent recurrence of melanoma in previously treated subjects prone to skin cancer development. However, to date the treatments only exist in oral form. Oral dosing for targeting localised skin disease suffers a number of disadvantages to which the Company is responding by developing Sol as a topical product. The topical formulation offers a number of advantages over oral delivery including:

- the avoidance of possible side effects of oral dosing;
- circumvention of first-pass metabolism and limitations on bioavailability;
- ease of compliance (patient acceptability);
- the direct targeting of sun exposed tissues;
- the opportunity to introduce UV protection through inclusion of SPF agents (sun protection factors) or blocks; and
- the inclusion of effective cosmetic skin care ingredients.

Sol seeks to tackle a key challenge with such a product in achieving sufficient serum and/or local tissue levels of the active comparable to those found with oral dosing via its patented topical delivery system, which is not only capable of highly effective trans-dermal drug delivery but also has aesthetic properties typically associated with high-end topical cosmetic products. This opens up the possibility of delivering an effective topical product for skin melanoma prevention in subjects suffering from solar keratosis and in preventing recurrence of melanoma in subjects who have previously been treated for such cancers. More broadly, a fully formulated product would be expected to provide benefits relating to abnormal skin pigmentation, skin ageing and general damage associated with sun exposure.

Since its acquisition, Incanthera have been developing Sol into a working prototype ready for clinical assessment. As part of this, independent Proof of Principle Studies commissioned by the Company in 2019 and conducted at the University College London School of Pharmacy using human skin penetration models, demonstrated that the Company's advanced formulation technology exceeds the bioequivalence test, which confirmed that the Company is able to deliver a topical product for the prevention of actinic keratosis and skin cancer.



Strategy in Action continued

Oncology Pipeline

University of Bradford Pipeline Agreement

Incanthera is a spin-out of the University of Bradford. The Company was established specifically to commercialise certain IP originating from the Institute of Cancer Therapeutics ('ICT'). Since its establishment, Incanthera has maintained a close working relationship with the ICT, as evidenced by the Pipeline Agreement in place since 2011 and the additional assignments of pipeline IP to the Company.

The ICT has a mission to research and develop new cancer treatments and is one of a handful of academic research facilities in the UK with the resources to enable all the elements of the drug discovery process from conception to clinical evaluation. Working closely with the oncologists and surgeons at The Bradford Royal Infirmary and St James's University Hospital, Leeds, the ICT has already made

major contributions to the clinical progression of many cancer medicines. Its focus is to research new cancer medicines to treat very challenging diseases including advanced lung, colon, breast and brain cancers, and the childhood condition, neuroblastoma.

The research encompasses new treatments that either harness the immune system to attack cancer, switch off cancer by blocking gene transcription, or prevent cancer from spreading to other sites. The ICT is also looking to target chemotherapeutic medicines more selectively to address the horrendous side effects of current treatments.

On 19 September 2018, the ICT and the Company put in place a new ten-year Pipeline Agreement that gives the Company the option to access further assignments of pipeline IP and product opportunities.

Platform Programme – ICT00 including EP0015, EP0015-Theranostics and EP0015-Taxane

Originating from the ICT at Bradford University, ICT00 is an example of a prodrug targeted delivery platform. This approach is used to deliver various efficacious 'warheads' to treat solid tumours and has derived from this platform a number of clinical candidates: EP0015; EP0015-Theranostics and EP0015-Taxane.

The ICT00 family of candidates works by targeting the elevated expression of a specific membrane-bound matrix metalloprotease ('MMP') that is over-expressed in solid tumours and delivers a cancer-chemotherapeutic agent ('warhead') or diagnostic.

Solid cancers, particularly aggressively growing ones, are supported by a network of blood vessels. VDAs were specifically designed to destroy the vascular network, depriving the growing tumour of essential nutrients and thereby killing it. However, their inherent cardiac toxicity is an obstacle to their effective use in the clinic. EP0015 seeks to address this by releasing the VDA only at the tumour site.

Competitive advantage

The ability of EP0015 to target solid tumours has many possible, yet currently unproven, benefits which will be assessed as part of clinical trials, including:

- greater efficacy – improved therapeutic index due to targeting and reduced toxicity;
- side effects – enhanced patient comfort;
- reduced frequency of treatment – potential cost savings; and
- improved life expectancy – desired outcome.

EP0015 is close to the First Time in Man ('FTIM' – a clinical phase 1 design in patients) stage and is the subject of a commercial agreement.

Equin and Duo-C

Equin

Equin is a quinone-based prodrug activated by the enzyme DT-diaphorase ('DTD') which itself is over-expressed in many solid tumours including breast, colon, liver, bladder, stomach, the central nervous system ('CNS'), lung tumours and in melanomas. The expression of DTD is increased up to 80-fold in primary non-small cell lung cancer ('NSCLC') relative to normal lung cells and up to 35-fold in NSCLC relative to small cell lung cancer ('SCLC') cell lines.

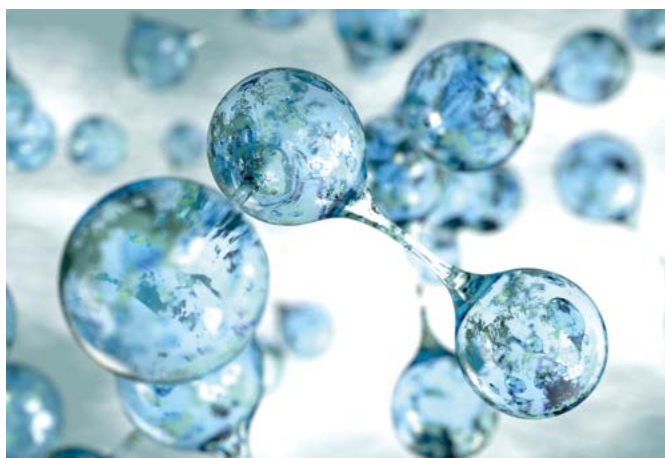
Equin has been designed to overcome limitations associated with previously proposed bio-reductive agents including, stability, solubility, poor efficacy and unsuitable clinical regimes. In preclinical development Equin has showed promising efficacy and an improved pharmacokinetic profile.

Equin is currently undergoing preclinical development and has shown promising efficacy and an improved pharmacokinetic profile.

Duo-C

Duo-C focuses upon targeting colorectal cancer using duocarmycins, which are recognised for their extreme cytotoxicity, converted to a prodrug and designed to overcome their intrinsic toxicity and make them manageable and potentially useful in the clinical set up. The prodrug is activated by CYP2W1, a catabolic enzyme over-expressed in colorectal cancer. Results to date show promising prospects for this new class of drug, demonstrating successful delivery of ultra-potent agents with acceptable toxicity profiles.

Duo-C is in the late discovery (lead) phase.



Financial Review

Meeting expectations



I am delighted to present our first full year results.

Our admission to AQSE Growth Market, raising £1.205m, brought valuable investment to our business, securing development costs for our lead asset and financial security for the year ahead.

Laura Brogden, Chief Financial Officer

The financial performance for the year ended 31 March 2020 was in line with expectations.

The Company acquired its 100% interest in Incanthera R&D Limited on 28 February 2020 by way of a share for share exchange. This is a business combination involving entities under common control the consolidated financial statements are issued in the name of the Group but are a continuation of those of Incanthera R&D Limited.

Losses

The total group loss for the year was £1,128k (31 March 2019: £1,988k) including a charge for share-based compensation of £293k (2019: £270k). Operating expenses excluding share-based compensation reduced substantially to £933k (2019: £1,636k).

Share-based compensation

Accounting standards require a charge to be made against the grant of share options and recognised in the Consolidated Statement of Comprehensive Income. This amounted to £293k (2019: £270k) and has no impact on cash flows.

Headcount

Average headcount of the Group for the year was 5 (2019: 5).

Taxation

The Group has elected to claim research and development tax credits under the small or medium enterprise research and development scheme of £98k (2019: £24k).

Share capital

An Initial Public Offering ('IPO') on the AQSE Growth Market (formerly NEX) was completed in February 2020 which raised £1.205m before expenses in difficult market conditions. Of the total funds raised, £855k was immediately received, with the additional £350k on call options with an expiry date of the 31 October 2020. This funding provides us with the means to further develop our lead programme, Sol.

As preparation for the listing the initial two £1 nominal shares were subdivided to 50 2p shares. As part of the transaction, 48,564,280 new 2p ordinary shares were issued in connection with the acquisition of Incanthera Research and Development Limited and 3,295,523 2p ordinary shares were issued at a price of 9.5p in connection with capitalisation of indebtedness of the Company. The placing comprised the issue of 9,000,007 ordinary shares of 2p were issued at a price of 9.5p per share.

Cash flows and financial position

The cash position at 31 March 2020 increased to £392k (31 March 2019: £176k). Expenditure on development of the Sol programme, and recurring general and administrative costs were offset by the IPO proceeds (£855k before expenses) and receipt of the 2019 tax credit (£27k).

Dividends

No dividend is recommended (2019: nil) due to the early stage of the development of the Group.

Loss Per Share

The basic and diluted loss per share was 2.27p (2019: 4.80p).

Key performance indicators

Key Performance Indicators include a range of financial and non-financial measures (such as clinical trial progress). Details about the progress of our development programmes (non-financial measures) are included elsewhere in this Strategic Report, and below are the other indicators (financial measures) considered pertinent to the business.

Year-end cash and short-term investments, and cash on deposit held:

The increase in year-end cash arises from our IPO and fundraise in February 2020 which raised £855k before expenses.

(£'000)

2020	392
2019	176
2018	142

Net cash inflow (including short-term investments):

(£'000)

2020	216
2019	34
2018	55

Operating loss:

The operating loss reflects progression of our lead programme, Sol, as well as costs associated with our listing on the AQSE Growth Market (formerly NEX).

(£'000)

2020	1,128
2019	1,988
2018	943

Laura Brodgen
Chief Financial Officer

12 June 2020

Principal Risks and Uncertainties

Incanthera operates within a complex business environment and an industry that is fundamentally driven by regulatory processes. A robust understanding of the risks and uncertainties involved in a pharmaceutical drug development business is fundamental to Incanthera's success. The Board regularly considers these principal

risks and uncertainties and reviews its strategies for minimising any adverse impact to the Company or its investors. The principal risks and uncertainties have been grouped into four categories: market, pharmaceutical environment, operational and financial.

Market Risks

Risk

Brexit

New regulations could add complexity and delays to operations.

Mitigating factors

Our senior management team keeps up to date on all changes. The current consensus is that Brexit will not have a material effect on the regulations that are relevant to our business.

Transitionary requirements and timeframes are monitored closely.

Risk

Covid-19

The recent escalation in the spread of Covid-19 in the UK poses a threat to the continuation of business operations.

Continuation of the pandemic for a sustained period of months may affect:

- Our ability to raise further finance as a consequence of a depressed funding environment
- Our ability to conduct and conclude partnering discussions
- Completion of the Sol development to agreed timelines

Mitigating factors

All government guidance has been monitored closely and followed immediately by advisory notices to all employees, and provision of the appropriate guidance.

Pharmaceutical Environment Risks

Risk

Research and Development

The Company is operating in the biopharmaceutical development sector and has a number of drug candidates in various stages of clinical development. In addition, the Company may continue to exploit other opportunities within the sector in order to expand its present development pipeline. The Company and its research partners will therefore continue to be involved in complex scientific research. Industry experience indicates that there may be a very high incidence of delay or failure to produce valuable scientific results. Further to this, the Company may not be successful in developing new products based on the scientific discoveries developed by the Company and its research partners. There is no guarantee that the Company will be able to identify specific market needs that can be addressed by its technology. The ability of the Company to develop new products relies on the recruitment of sufficiently qualified research and development partners with expertise in the biopharmaceutical sector. The Company may not be able to develop its relationships and recruit research partners of a sufficient calibre to satisfy its growth rate and develop future pipeline as planned.

Mitigating factors

Incanthera's management team have many years of experience in research and drug development and a robust understanding of the clinical trial design process. This experience should help ensure that such risks are minimised. In addition, key external advisors support the management team.

Risk

Intellectual Property

The field of pharmaceutical development is highly litigious. The Company's priorities are to protect its IP and seek to avoid infringing other companies' IP. However, no guarantee can be made that infringement proceedings will not be initiated against the Company. A patent is limited territorially to the country or economic area in which it was granted. There are countries in which the Company has not filed patent applications. Some territories have patent applications pending and not all patent applications filed by the Company have gone through the full patent prosecution process.

Mitigating factors

The Company engages reputable legal advisers to mitigate the risk of patent infringement and to assist with the protection of the Company's IP.

Risk

Liability and Insurance

The nature of the Company's business means that the Company may be exposed to potentially substantial liability for damages in the event of product failure or side effects. Any such liability could have a materially adverse effect on the Company's business and financial condition. There can be no assurance that future insurance cover will be available to the Company at an acceptable cost, if at all, nor that in the event of any claim, the level of insurance carried by the Company now or in the future will be adequate or that a product liability or other claim would not materially and adversely affect the business of the Company.

Mitigating factors

The Company factors potential liability risks into decision making and maintains corporate and clinical trials insurance to mitigate this risk.

Principal Risks and Uncertainties continued

Operational Risks

Risk

Mitigating factors

Legal

Changes in Legislation

The Company is operating in the biopharmaceutical development sector. The field of pharmaceutical development is highly litigious. In order to protect the value of the company, predominantly valued by its IP, the Company must remain vigilant of current legislation and any changes that may affect the legality surrounding its process of assessing, valuing and protecting the IP.

Changes to industry legislation, if neglected, may impact the company's valuation and core assets, and/or its ability to commercialise or license technologies, the ability to negotiate new IP into the company and the MARS rules surrounding its public listing on the AQSE Growth Market.

Inadequate registration and monitoring of patents

The Company's portfolio is valued through its IP. Failure to register new patents or to remove patents no longer within the Company's IP, would breach regulation and Governance resulting in a considerable regulatory, reputational and Governance risk, resulting in potential devaluation of the business and/or failure of the Company to continue its business.

The company is monitored and advised by its Lawyers and Patent Attorney on all aspects of IP, corporate and industry law.

The Company complies with the strictest operation of patent registration, monitoring, protection and valuation. The Company is advised by its retained Patent Attorney.

Risk

Mitigating factors

Regulatory Approvals

The Company will need to obtain various regulatory approvals and comply with extensive regulations regarding safety, quality and efficacy standards in order to establish the trials, and ultimately market its products. These regulations vary from country to country and the time required for regulatory review can be lengthy, expensive and uncertain.

The Company's management team have extensive experience in the area of regulatory approvals and, in addition, takes advice and guidance from a range of external specialised regulatory advisers to ensure compliance with all regulatory requirements.

Operational Risks

Risk

Dependence on key personnel

The success of the Company, in common with other businesses of a similar size, will be highly dependent on the expertise and experience of the Directors and key senior management. However, the retention of such key personnel cannot be guaranteed. Should key personnel leave, the Company's business, prospects, financial condition or results of operations may be materially adversely affected.

Mitigating factors

The Directors and key senior management are all committed to the future success of the Company and have demonstrated this in their endeavours in first establishing the Company and then developing it and its product portfolio to achieve a successful public listing in 2020. Retention is further enhanced by the fact that each person is also a shareholder in the Company and also incentivised through participation in share options.

Risk

Dependence on third parties

The Company outsources certain functions, tests and services to contract research organisations, medical institutions and other specialist providers, and the Company relies on these third parties for clinical and regulatory expertise. There is no assurance that such individuals or organisations will be able to provide the services as agreed upon or in quality fashion and the Company could suffer significant delays in the development of its products.

Mitigating factors

The Company works with respected third party organisations and regularly monitors their performance.

Risk

Competition

The Company is developing drugs in the intensely competitive market of cancer therapeutics. Currently, as far as the Directors are aware, there is no competition from direct competitors developing drugs with identical mode of actions. However, outside of these areas there are many other assets in development with identical indications which, if successful, will compete with Incanthera's products from a commercial perspective.

Mitigating factors

The Company remains aware of the continually evolving competitive landscape of the therapeutic areas in which it operates. This awareness is factored into its decision making for its pipeline programmes.

Principal Risks and Uncertainties continued

Financial Risks

Risk

Future funding requirements

The Company may need to raise additional funding to undertake work beyond that being funded by the current cash resources. There is no certainty that this will be possible at all, or on acceptable terms. In addition, the terms of any such financing may be dilutive to, or otherwise adversely affect, shareholders.

Mitigating factors

The Company remains focused on delivering the objectives of its business plan in order to add value and to generate opportunities to earn revenue from commercial deals. The intention in the event of any future fundraising is to demonstrate value added progress such that funds may be raised at the most advantageous pricing and minimum dilution to shareholders.

Risk

Share price and liquidity

The trading price of the Ordinary Shares may be subject to wide fluctuations in response to a number of events and factors, such as:

- variations in operating results;
- announcements of innovations or new services by the Company or its competitors;
- changes in financial estimates and recommendations by securities analysts;
- the share price performance of other companies that investors may deem comparable to the Company;
- news reports relating to trends in the Company's markets;
- large purchases or sales of Ordinary Shares;
- liquidity (or absence of liquidity) in the Ordinary Shares;
- currency fluctuations;
- legislative or regulatory changes; and
- general economic conditions.

Mitigating factors

The Company recognises the potential for share price fluctuation and low liquidity trading in its shares.

To address this, it has a proactive programme of investor relations and is committed to a regular and transparent communications policy with its shareholders and the investment market generally.

Sustainability Statement

Overview

The sustainability of Incanthera is evident in its mission statement: Transformative cancer treatment.

The Company was conceived to identify, acquire and develop quality, groundbreaking medicines to improve the lives of patients undergoing cancer treatment.

Cancer is a global disease that requires a united effort to beat it. The technology within Incanthera's portfolio is dedicated to enhancing the outcomes of patients by changing the face of the treatment of cancer through the identity of more targeted, sophisticated medicines.

Some years ago, we established a PhD Doctorate Programme with the Institute of Cancer Therapeutics to fund research from new students into fighting the disease and producing more evidence to support new technological innovation in this essential cause.

It is a privilege to work within this field and it is the driver to our everyday work ethic.

There is a progression towards a partnership between proactive responsibility for our own health and the most innovative solutions to modern disease in the most effective and least problematic approach.

People

We believe that as a team who have built the Company together over the past years, working towards our flotation this year, we are strong, lean, and exhibit core standards and truths of an inclusive workplace that ensures everyone feels welcome, valued for their contribution and can perform at their best.

Each member of our team brings passion, expertise, devotion to the cause and a great sense of social strength to match the corporate outlook. A strong core of like-minded and committed people protects the current and future successes of our Company as we grow and develop our business in the years to come.

The Board comprises individuals who all have a background in the healthcare industry, and the senior management team shares the passion and commitment to drive progressive, novel cancer treatments, each bringing unique skills sets to produce a strong, combined team that covers all areas required to make this business a success.

We all stand by the beliefs of diversity, inclusion and well-being as well as a strong work ethic and a commitment to our shareholders to build on the trust and investment, to ensure the progression and success of this business.

In order to reward and thank the loyalty of our team, we have put in place the provision for effective reward and benefits' programmes that will, at an appropriate time, allow us to repay the self-sacrifice of the team but also in future to attract, motivate and retain the best talent in our field. Well-structured benefits' packages support colleagues to meet their current and future financial needs.

Colleague opinion and input is sought to support and inform our decision-making, increase engagement and drive innovation.

The safety and well-being of our colleagues is the Company's first priority. A workforce that is safe and physically and mentally healthy is the foundation of everything that Incanthera stands for.

Environmental Responsibility

Within the over-riding ambition of the Company, is the desire to look to the future of our planet.

Throughout the identification, development and progression of our technologies, is the consideration of the impact upon our climate and environment, and our aim is to mitigate those in any way we can.

The Company operates virtually, maintaining a registered address in Manchester, but is proud to promote a lean, skilled team, each working from home, unless group meetings are required, thus ensuring travel, fossil fuel emissions and carbon footprint is mindfully observed. We seek partners who can take our new medicines to market without the need for duplication of resources, manufacturing and other strains on our environment.

Shareholder Responsibility

As a newly public company, we will be ensuring, with the challenging backdrop that every business currently faces, that investment remains deployed within the business, sustaining, progressing and building on the successes so far.

The virtual and lean nature of our business ensures essential costs are minimised to retain value for shareholders.

A business should meet the needs of multiple stakeholders, not just shareholders. Colleague opinion and input is sought to support and inform our decision-making, increase engagement and drive innovation.

Summary

It is clear that companies who show responsibilities towards patients or clients, employees, their stakeholders and the economy, but also to the wider picture, considering our obligations of sustainability, ethical and social care of our planet, are those that have their eye and the will of their team and shareholders encompassed towards success for all.

Section 172 Statement

Incanthera plc is compliant with Section 172 of the Companies Act, understanding its duty to promote the success of the Company.

The Directors and the Senior Management Team have been fully briefed by our Nominated Adviser, in accordance of the Company's listing on the Aquis Growth Market and agree to act in the way we consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members, considering:

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

Board Responsibilities

The Board undertakes and agrees to take decisions and opportunities in the day to day management and leadership of the Company for the benefit of all members and the value for shareholders. The Board is briefed on responsibilities and will practice them in running the business. The Board will consider the welfare and benefits of its employees in all daily conduct and decisions.

Engaging with Stakeholders

Incanthera is proud to be a recently public listed company and understands that this is achieved through the support and belief of existing and newly invested shareholders.

The success of our business is dependent not only on the decisions and management of the Board and the team, but on the support of all our stakeholders. Building positive relationships with stakeholders that share our values is important to us, and working together towards defined goals assists us in delivering long-term success.

As a company, we intend to have an open and transparent communications policy, seeking opportunities to engage and communicate with our shareholders wherever possible.

We intend to seek opportunities to discuss our progress, ambitions and financial results, whilst always reporting timely announcement of corporate news, meeting our financial calendar obligations and with a clearly defined communications strategy and timetable to ensure compliance.

The Company's comprehensive communications planning, incorporates management, Board and advisory meetings, Chairman's communication with shareholders, regulatory announcements, and is proactively supported by an investor relations programme in conjunction with our brokers, to potentially attract new investment and opportunities for the Company.

We believe a policy that incorporates essential team contact, advisory input and engages and involves shareholders at each stage of our journey, encompasses the ambitions and culture set out on admission to the public market, ensuring inclusive involvement in the Company's evolution.

Corporate Relationships

We are proud of the strong relationships we have built since inception.

The collaborative working relationship with the Institute of Cancer Therapeutics, involves Professors, Directors and scientists, to encourage and promote successes in new and innovative research and progressive medicine. Through our exclusive pipeline deal with the Institute, we have access to future intellectual property, and we are proud of the two-way stream of information, development and promotion. We are committed to supporting this essential relationship.

We also have a long-standing relationship with our commercial partner, following the first deal struck for our pipeline technology product in 2017. We continue to work actively in the progression of this technology.

Community

The Directors and team have a background within the industry, and progressive and collegiate nature of relationships within that industry is paramount to the future of medicines and healthcare in this country. We are proud of our place in this industry and will ensure that all team members conduct their relationships within the community with dignity and respect, for the benefits of all.

Advisory Relationships

The path to becoming a public listed company, has required much guidance and advice from a team we have built long-standing and productive relationships with, and whom have shared the Company's journey to this stage.

We are indebted to their support and evolutionary thinking to help us realise our ambitions and we look forward to building on the successful good nature, guidance and respect we have built amongst the teams as we progress.

People

Incanthera is proud of every member of our team, and we congratulate and applaud the dedication, hard work and personal commitment required to be at this stage of the Company's development. We will continue to ensure the welfare and well-being of every member is considered across our operations, and to respect their ambitions, involvement and essential role as part of our Company.

Chair's Introduction

Incanthera's Board and management team possess a broad range of commercial, scientific and public company experience.

The Board comprises individuals who have all held long and distinguished position within the healthcare industry.

Our CEO, Dr Simon Ward's scientific and educational background, along with commercial experience provides the perfect platform to oversee his vision to transform the method and quality of technologies from laboratory to patient, that is the heart of Incanthera's business.

My own experience in over 35 years of healthcare and corporate roles combined, has provided the opportunity of Chairmanships and team building, alongside all aspects of commercial and industry activity, and I am delighted to be part of the team here at Incanthera.

We are fortunate to have had the long term support of Dr Alan Warrander, as Independent Non-Executive Director, whose large Pharma and cross-section of company experience, provides an invaluable sounding board of perception and wise counsel.

Our Key Senior Management team is diverse and skilled, providing every aspect we require to not only progress, but flourish. Their individual qualities have shown resilience, determination and the experience to fulfil our ambitions.

Pawel Zolnierczyk, our COO, provides exceptional management of our IP and commercial partnership activities and overseeing of our portfolio.

Laura Brogden, CFO, ensures our financial, compliance, shareholder information and company secretarial obligations are fulfilled and met with ample time and poise.

Suzanne Brocks, Head of Communications, oversees City, company and public facing communications, ensuring both internally, and to the public, that we are delivering our message and maximising our opportunities.

These full spectrum qualities, ensure industry and commercial ambitions are met and opportunities and evolution are at the forefront of our strategic drive year after year and I can say with confidence that the team at Incanthera is the right one to deliver our own growth and commercialisation goals into future rewards to shareholders.

Advisers to the Company:

For the lead development programme, Sol, the Company is working closely with two key individuals:

Professor Adrian Davis

Professor Davis is a physical pharmaceutical chemist, who joined Glaxo Smith Kline (GSK) as a skincare formulation specialist in 1971, retiring in 2004 as Director of Dermatological New Product Research. He provides expert advice on skincare product formulation. He is an adviser to many of the world's leading Pharma companies. Professor Davis is the author of over 20 patents, the majority of which are in the area of dermatological drug delivery, his specialist area for the last twenty years. He has published both original research and review chapters in the area of dermatological drug delivery and is a reviewer for several international journals. His particular interest is in rational drug dosage and drug delivery to optimise therapeutic potential. Professor Davis lectures internationally and is an honorary Professor at the UCL School of Pharmacy, London. He is a founder member and past Chairman of Skin Forum, a multidisciplinary group whose aim is to promote dermatological research and improve patient therapy.

Dr Kevin Hammond

Dr Hammond has over 30 years' experience working with some of the world's leading Pharmaceutical, FMCG and Healthcare companies, where he has held responsibilities in directing new product innovation, partnering, licensing, and technology acquisition, for companies such as Reckitt Benckiser, Unilever, PZ Cussons, CB Fleet (US) and GSK. His experience includes operations in Europe, Latin America, North America, South East and Central Asia.

In 2010, Dr Hammond set up his own consultancy aimed at advising and working with SMEs and University spin-out companies seeking to commercialise their technologies in the Pharmaceutical, Healthcare and FMCG markets. Since this time, he has secured significant returns for clients through facilitating 'entry' into potential customer companies, partnering contracts, technology sales, and licensing and royalty agreements, including deals with companies such as P&G, GSK and Coty.

Board of Directors



Tim McCarthy
Executive Chairman

Tim has more than 35 years' international senior level business experience in the Healthcare, Biotech and Technology sectors.

He is also the Non-Executive Chairman of ImmuPharma plc, an AIM-quoted specialist drug discovery and development company, and a Supervisory Board member of 4basebio AG, an international molecular biology products company listed on the Prime Standard segment of the Frankfurt Stock Exchange.

Tim is a former CEO and Finance Director of a number of public and private companies, including Alizyme plc and Peptide Therapeutics Group plc. He has also co-founded a number of healthcare and biotechnology companies. A Fellow of the Association of Chartered Certified Accountants, he also has an MBA from Cranfield School of Management.



Dr Simon Ward
Chief Executive Officer

Simon is a co-founder of Incanthera and has more than 30 years' senior experience in academia and business.

He was a founder and CEO of Molecular SkinCare Limited, a pioneer and developer of novel dermatology products for the prevention and management of skin diseases. As CSO of York Pharma plc, he was responsible for bringing innovative dermatology product through to market. Simon also served as chairman of South Yorkshire Bioscience Enterprise Network (SYBEN) and deputy chairman of Medipex, a healthcare innovation hub for NHS organisations across industry and academia internationally.

Simon graduated from the University of London's School of Pharmacy (UK) with a Joint Honours Degree in Pharmacology and Toxicology and was awarded a DPhil in the Department of Human Anatomy, Oxford University under a Glaxo Group Research Studentship.



Dr Alan Warrander
Independent Non-Executive Director

Alan is an expert in partnering and licensing with significant experience of global pharma drug discovery and drug development processes having more than 30 years' experience in the Pharmaceutical Industry, including 21 years with AstraZeneca, holding many positions including Director of Global Licensing.

He has a BSc in Chemistry and Biochemistry and a PhD in Biochemistry.

Key Senior Management



Pawel Zolnierczyk
Chief Operating Officer

Pawel has over ten years' experience in research commercialisation in the life sciences sector successfully managing IP exploitation projects toward licences and spin-offs.

He was the founder and Managing Director of Onco-NX (acquired by Incanthera in 2014); CEO of iTech Innovations Ltd. Formerly as IP Manager for the University of Salford, Pawel successfully negotiated deals with corporate partners including Reckitt Benckiser plc and Novartis AG.

Pawel is a graduate of Gdansk University of Technology.



Laura Brogden
Chief Financial Officer

Laura Brogden has over 14 years' experience heading up the finance function for SMEs across a diverse range of industries.

She is also a Partner in Fact3 which provides accounting, HR and IT support for SMEs.

Laura is an Associate of the Chartered Institute of Management Accountants.



Suzanne Brocks
Head of Communications

Suzanne has over 30 years' City experience.

She was a Senior Director in Financial and Corporate Communications with Buchanan Communications, advising on IPOs and mergers and acquisitions, in addition to general financial public relations consultancy and strategic direction for a wide range of public companies. Previously Suzanne was a Relationship Manager in private banking with Hill Samuel advising clients in London and the Far East.

Corporate Governance Report

The Directors recognise the importance of sound corporate governance. The Company has adopted the QCA code and appropriate disclosures are made on the Company's website and within this Annual Report and Accounts as specified by the QCA code.

Board of Directors

The Board comprises of three Directors, of which two are executive and one is independent and non-executive, reflecting a blend of different experiences and backgrounds.

Performance Evaluation

The Directors are responsible for formulating, reviewing and approving the Company's strategy, budget and major items of capital expenditure. The Board meets on a monthly basis to review, formulate and approve the Company's strategy, budgets and corporate actions and oversee the Company's progress towards its goals.

Risk Management and Internal Communications

The Board is also responsible for monitoring the Company's risks as well as for implementing other systems of control which are deemed necessary.

Board Committees

The Directors have established an Audit Committee and a Remuneration Committee, each with formally delegated rules and responsibilities. These Committees meet at least twice yearly.

Audit Committee Report

The Audit Committee determines and examines matters relating to the financial affairs of the Company, including the terms of engagement of the Company's auditors and, in consultation with the auditors, the scope of the audit. It receives and reviews reports from management and the Company's auditors relating to the half-yearly and annual accounts and systems of accounting and internal control in use throughout the Company.

Remuneration Committee

The Remuneration Committee reviews and makes recommendations in respect of the Directors' remuneration and benefits packages and that of senior employees, including share options and the terms of their appointment. The Remuneration Committee also makes recommendations to the Board concerning the allocation of share options to employees.

Share Dealing Code

Incanthera plc has adopted and operates a share dealing code governing the share dealings of the directors of the Company and applicable employees with a view to ensuring compliance with the AQSE Growth Market Rules.

Investor Relations

The Company adopts an open and transparent communications policy, seeking opportunities to engage and update Shareholders. Following the Company's listing on the AQSE Growth Market this year, the Annual General Meeting will form the principal forum for dialogue with shareholders. Updates on the progress of the business are regularly published on the Group's website. The Company also has a dedicated electronic communication line via its website at www.incanthera.com specifically for shareholders' enquiries.

Corporate and Social Responsibility

The Company understands that its impact reaches beyond that of its core business and into the environment and society in which it operates. With integrity at the heart of our corporate social goals our aim is to make a lasting positive contribution to all our stakeholders.

The Company seeks to protect the interests of stakeholders in the Company through its policies, combined with ethical and transparent business operations.

Environment

Incanthera plc is sensitive to the environment in which it operates and seeks to ensure environmental standards are complied with.

Human Rights

Incanthera plc is committed to social and morally responsible research, development and manufacturing processes for the benefit of all stakeholders. The activities of the Company are in line with applicable laws on human rights.

Tax Evasion

Incanthera plc adopts a policy of ensuring that all associated persons, including employees and those acting on the Company's behalf, do not facilitate tax evasion.

Employees

Our employees are key to achieving the business objectives of the Company. The Company has established policies for recruitment, diversity and equal opportunities, training and development.

Our priority is to provide a working environment in which our employees can develop to achieve their full potential and have opportunities for both professional and personal development. We aim to invest time and resource to support, engage and motivate our employees to feel valued, to be able to develop rewarding careers and want to stay with us. The Company embraces employee participation in issue raising and resolution through regular update sessions that value contributions from all levels regardless of position in the business.

Shareholders

The Board of Directors actively encourage communication with shareholders and they seek to protect the interest of shareholders at all times. The Company updates shareholders regularly through regulatory news and financial reports. The Company will also engage directly with shareholders at our Annual General Meeting.

Health and Safety

Company activities are carried out in accordance with its Health and Safety Policy which adheres to all applicable laws.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with Company law. Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law the Directors have elected to prepare the Group consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and elected to prepare the parent company financial statements under United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws including FRS 101 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 of the profit or loss of the Group and the parent company for that period.

In preparing each of the Group and parent company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether they have been prepared in accordance with IFRSs as adopted by the EU or UK Accounting Standards have been followed, subject to any material departures disclosed and explained; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also generally responsible for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Information published on the website is accessible in many countries and legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. Each of the directors confirms that, to the best of their knowledge.

The Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and the Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

Laura Brogden
Chief Financial Officer and Company Secretary
12 June 2020

Directors' Remuneration Report

The Remuneration Committee reviews and makes recommendations in respect of the Directors' remuneration and benefits packages and that of senior employees, including share options and the terms of their appointment. The Remuneration Committee also makes recommendations to the Board concerning the allocation of share options to employees.

Remuneration Committee Report

The sole member of the Remuneration Committee is Alan Warrander as the single independent Non-Executive Director.

The responsibilities of the Committee include the following:

- Determining and agreeing with the Board the remuneration policy for all Directors and the senior management team.
- Within the terms of the agreed policy, determining the total individual remuneration package for Executive Directors and the senior management team.
- Overseeing the evaluation of Executive Officers.

Our aim is to deliver a remuneration programme that rewards both achievement of short-term goals and fulfilment of our longer-term objectives in realising the potential of our portfolio.

The remuneration policy is the responsibility of the Remuneration Committee, a sub-committee of the Board. Details of the remit of the Committee is provided in the Corporate Governance section. The Executive Directors attend meetings by invitation but no Director is involved in discussions relating to their own remuneration.

We recognise the need to retain and motivate our Executive Directors and senior management team and the need to avoid making remuneration decisions solely based on shorter-term volatility whilst making good use of the Group's resources. Accordingly, we include two performance-based elements in our remuneration programme; a shorter-term annual bonus programme, with payment amounts based on the previous year's achievement against preset personal and corporate goals for that year; and a longer-term equity-based programme of share options, vesting over three years and directed towards the achievement of substantial, longer-term strategic objectives.

Remuneration Policy for Executive Directors

The Remuneration Committee sets a remuneration policy that aims to align Executive Directors' remuneration with shareholders' interests, and attract and retain the best talent for the benefit of the Group. The Company seeks to strike an appropriate balance between fixed and performance related reward, forming a clear link between pay and performance.

Since its IPO Incanthera has yet to introduce any share option plans.

The remuneration of the Executive Directors during the year ended 31 March 2020 is set out below:

Basic salary

Basic salaries are reviewed annually. The purpose of the base salary is to:

- reflect market rates to support the recruitment and retention of key individuals;
- reflect the individual's experience, role and contribution with the Company; and
- ensure that the Executive Directors are fairly rewarded for carrying out their duties.

It is recognised that the above criteria is not currently being met whilst resources are limited.

Bonuses

Executive Directors and the senior management team participate in a bonus plan under which they are entitled to an annual bonus up to 50% of annual salary. Annual bonus entitlements are based on the achievement of preset Group corporate, financial and personal performance targets as well as considering the availability of funds.

There are currently no performance targets set in relation to bonuses since it is not anticipated that any bonuses will be paid due to limited resources. This will be reviewed by the Remuneration Committee as and when funding allows.

Benefits

Benefits in the form of private medical insurance and death in service insurance are provided to Executive Directors and the senior management team.

Pension

The Group pays pension contributions for Executive Directors and employees into personal pension schemes.

Executive Directors' service contracts and termination provisions

The service contracts of Executive Directors are approved by the Board. The service contracts may be terminated by either party giving 12 months' notice to the other. The details of the Directors' service contracts are summarised below:

	Date of Contract	Notice period	Annual salary
Timothy McCarthy	1 April 2014	12 months	£40,000
Simon Ward	1 October 2012	12 months	£40,000

Non-Executive Directors

The Non-Executive Director has entered into a letter of appointment with the Company, with the Board determining the fees paid, with regard to market comparatives and similar businesses. The appointment is terminable on six months' notice by either party.

The Non-Executive Director does not receive any pension, bonus, benefits or share options from the Company. The contractual terms of the Non-Executive Director is reviewed by the Board annually. His current contract is set out below:

	Date of Contract
Alan Warrander	30 December 2019

Non-Executive Directors are typically expected to serve two three-year terms but may be invited by the Board to serve for an additional period.

Directors' remuneration during the year ended 31 March 2020

The Directors received the following remuneration during the year:

	Salaries and fees £	Taxable benefits £	Bonuses £	Pension £	Total year to 31 March 2020 £	Total year to 31 March 2019 £
Executive						
Timothy McCarthy	18,333	3,372	nil	333	22,038	304,479
Simon Ward	18,333	1,581	nil	333	20,247	249,568
Non-Executive						
Alan Warrander	nil	n/a	n/a	n/a	nil	26,771
	36,666	4,953	nil	666	42,285	580,818

Alan Warrander became a Director of Incanthera plc on 26 February 2020.

There were no Long Term Incentive Plans gains during the year (2019: £nil).

Directors' shareholdings

The Directors who served during the year, together with their beneficial interest in the shares of the Company are as follows:

	At 31 March 2020	At 31 March 2019
Ordinary shares of 2p each		
Executive		
Timothy McCarthy	3,566,474 ¹	1,377,000 ²
Simon Ward	2,168,397 ³	1,979,800 ²
Non-Executive		
Alan Warrander	83,267	

1 Of the total shares attributable to Timothy McCarthy, 1,714,474 are held by Unnamed Ltd, a company owned and controlled by Timothy McCarthy, and 475,000 are held in SIPP belonging to Timothy McCarthy.

2 Post share exchange equivalent.

3 Of the total shares attributable to Simon Ward, 105,264 are held in a SIPP belonging to Simon Ward.

Directors' Remuneration Report continued

Bonus

No bonuses were payable for the year to 31 March 2020.

Benefits/Pensions

Details of payments in respect of benefits and pensions arrangements for the Executive Directors are set out in the table above.

Directors' Share Options

There are currently no share options in issue to any of the Directors or the senior management team. The previous scheme in place within the limited company lapsed on IPO. It is anticipated a new scheme will be set in place around the time of the AGM.

Alan Warrander

Remuneration Committee Chair

12 June 2020

Directors' Report

For the year ended 31 March 2020

Financial Statements

The Directors of Incanthera PLC (registered in England and Wales: 11026926) present their report together with the audited consolidated financial statements and the Company financial statements for the year ended 31 March 2020.

Directors

The Directors of the Company who served during the year and up to the date of this report, unless otherwise indicated, are as follows:

	Capacity	
Tim McCarthy	Chairman	Appointed 23 October 2017
Simon Ward	Chief Executive Officer	Appointed 23 October 2017
Alan Warrander	Non-Executive and Senior Independent Director	Appointed 26 February 2020

Biographical details of Incanthera Directors are shown on page 24.

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

Principal activities of the Group

Details of current and future trading as well as the principal risks and uncertainties are included in the Strategic Report.

Business Review and Key Performance Indicators

The review of the business, future trading and key performance indicators are covered in the Strategic and Financial Reports.

Financial results and dividends

The Group's results for the year ended 31 March 2020 are presented on page 37. The Group's net loss after tax for the year was £1,128k (2019: £1,988k).

Directors' interests in share options

Details of Directors' interests in shares, share options and service contracts are shown in the Directors' Remuneration Report.

Research and Development

The Group is continuing to research products in its chosen area.

Employee involvement

Employee involvement in the overall performance of the Group is encouraged through both formal and informal meetings which deal with a range of matters including the Group's financial performance, development progress and health and safety. Copies of the Annual Report and Interim Report are made available to all employees.

Financial Risk Management

Details of financial risk management are provided in Note 2 to the accounts.

Political and charitable donations

The Group made no political donations in the current or prior year.

Substantial shareholdings

At 4 June 2020, the Company had received notification from the following financial institutions of their and their clients' interest in the following disclosable holdings, which represent 3% or more of the voting rights of the issued share capital of the Company:

Shareholders having a major interest	Number of shares held	% of issued share capital
North West Funds (Biomedical) LP	16,164,540	26.6%
University of Bradford	7,492,040	12.3%
ImmuPharma plc	7,272,740	11.9%
Timothy McCarthy	3,566,474	5.9%
JIM Nominees Limited	3,430,405	5.6%
Gateley plc	2,239,295	3.7%
Simon Ward	2,168,397	3.6%

Directors' Report continued

Going concern

At 31 March 2020, the Group had cash and cash equivalents, including short-term investments and cash on deposit, of £392k (2019: £176k). Not included in the above figure, are £350k of outstanding subscriptions in the form of Call Options. As part of the IPO and fundraising completed in February 2020, of the total £1.205m raised, £350k was not immediately receivable and remains outstanding in the form of Call Options. These Call Options have an expiry date of the 31st October 2020, but can be fully paid up at any point before that date.

The Directors have prepared detailed financial forecasts and cash flows looking beyond 12 months from the date of the approval of these financial statements. In developing these forecasts, the Directors have made assumptions based upon their view of the current and future economic conditions that will prevail over the forecast period.

The Directors estimate that the cash held by the Group together with known receivables will be sufficient to support the current level of activities.

Strategic Report

The information required by schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 has been included in the separate Strategic Report in accordance with section 414C (11) of the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

Disclosure of information to auditor

In the case of each of the persons who are Directors of the Company at the date when this report is approved:

- so far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditor are unaware; and
- each of the Directors 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 Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Independent Auditors

Jeffreys Henry have expressed their willingness to continue in office as auditors for the year. A resolution to reappoint them will be presented at the forthcoming AGM.

Annual General Meeting

The notice convening and giving details of the 2020 AGM of the Company to be held at Jubilee Hall, Wellow Road, Ollerton, Newark, NG22 9AP on 15 July 2020 has been sent to shareholders. The Covid-19 pandemic will affect the format of our AGM, and our priority is to ensure the health and wellbeing of all stakeholders.

Current government guidance prohibits all non-essential travel and the gathering of people from different households (the Stay at Home Measures). We fully support the Stay at Home Measures, and therefore shareholders must not attend the AGM in person this year, given the current restrictions surrounding the social distancing measures of Covid-19.

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

Tim McCarthy
Chairman

12 June 2020

Incanthera plc
76 King Street
Manchester
M2 4NH

Company registration number: 11026926

Independent Auditor's Report to the Members of Incanthera plc

For the year ended 31 March 2020

Independent auditor's report to the members of Incanthera PLC

Opinion

We have audited the financial statements of Incanthera PLC (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2020 which comprise the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, company statement of changes in equity, company statement of financial position, consolidated statement of cash flows, company statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, as applied in accordance with the provision of the Companies House Act 2006.

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 March 2020 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; 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 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 have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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) we identified, including those which 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. This is not a complete list of all risks identified by our audit.

- Going concern
- Carrying value of intangible assets
- Impairment of parent company investments in subsidiary and recoverability of intercompany loan

Independent Auditor's Report to the Members of Incanthera plc continued

For the year ended 31 March 2020

These are explained in more detail below:

Key audit matter	How our audit addressed the key audit matter
<p>Going concern</p> <p>Management judgement is required in assessing whether the Group is a going concern.</p> <p>Key assumptions that impact the conclusions are the ability to control operating costs, and the ability to fundraise.</p> <p>There are therefore inherent risks that the forecasts may understate future costs, and that the Company will not be able to operate within its cash resources and continue to operate as a going concern.</p>	<p>We have performed the following audit procedures:</p> <ul style="list-style-type: none"> • Obtained management's forecast and cash flow analysis, and their going concern assessment; • Assessed the reliability of forecasts to date by agreeing historical actuals to budget, agreeing actual and contracted costs. • Tested the clerical accuracy of management's forecast; • Challenged management's forecast assumptions, including reviewing the forecast costs and corroborated the assumptions. Reviewed the various stress test's performed by management by varying the key assumptions such as costs and fundraising; and • Considered the appropriateness of the Group's disclosures in relation to going concern in the financial statements. <p>We note that there are inherent risks over the Group's forecasts. The Group is in its early life cycle of their business strategies, and given the research and development activity the business is set to expand its market base.</p>
<p>Carrying value of intangible assets – Group financial statements.</p> <p>The Group intangibles balance amounted to £787,000 at the year ended 31 March 2020 (31 March 2019: £921,000).</p> <p>The Directors are required to assess whether any intangibles have become impaired and make appropriate provisions in the financial statements.</p>	<p>We have performed the following audit procedures:</p> <ul style="list-style-type: none"> • Obtained management's forecast for future value in use of the intangible assets; • Assessed the reliability of forecasts by agreeing to historical inputs; • Reviewed management and challenged management on their judgements of the forecasted sales and estimates useful life of the intangible assets; • Assessed the ongoing projects viability and ensured they met the criteria defined in the accounting standards for intangibles; and • Tested the clerical accuracy of management's forecast. <p>We are satisfied that although there are uncertainties associated with the useful life of the intangibles, the revenue pipeline and forecasts support the carrying value.</p>
<p>Impairment of parent company investment in subsidiary and recoverability of intercompany loan – parent company financial statements only.</p> <p>The Company had investment of £4,613,616 at the year ended 31 March 2020.</p> <p>The Directors have ensured all investments, including additions were correctly calculated and being held at share issue price.</p> <p>The amounts due from subsidiary amounts to £685,250 at the year ended 31 March 2020.</p>	<p>We have performed the following audit procedures:</p> <ul style="list-style-type: none"> • Reviewed management's assessment of future operating cashflows and indicators of impairment; • Assessed the methodology used by management to estimate the future profitability of Incanthera Research and Development Limited and recoverable value of the investment, in conjunction with any intra-group balances, to ensure that the method used is appropriate; • Assessed the reasonableness of the key assumptions used in management's estimates of recoverable value, in line with economic and industry statistics relevant to the business; • Challenged cash inflows from revenue generating activities and the key assumptions applied in arriving at these, including the royalty rates, licensing revenue, and fixed costs. Assessed the reasonability of cash outflows, included contracted spend and research and capital spend; • Assessed the appropriateness and applicability of discount rate applied to the current business performance; • Confirmed that any adverse change in key assumptions would not create an impairment loss; and • Ensured that disclosures of the key judgements and assumptions was appropriately disclosed. <p>Based on the audit work performed, we are satisfied that management have performed the impairment review appropriately and in accordance with accounting standards.</p>

Our application of materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgment, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£46,000 (31 March 2020)	£45,000 (31 March 2020)
How we determined it	Based on 5% of net loss.	Based on 1% of gross assets.
Rationale for benchmark applied	We believe that net loss is a primary measure used by shareholders in assessing the performance of the Group.	We believe that gross assets are a primary measure used by shareholders in assessing the performance of the Company.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components is ranged from £30,000 and £45,000.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £2,300 (Group audit) and £2,250 (Company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

An overview of the scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgments, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group financial statements are a consolidation of 4 reporting units, comprising the Group's operating businesses and holding companies.

We performed audits of the complete financial information of Incanthera Plc and Incanthera Research and Development Limited reporting units, which were individually financially significant and accounted for 100% of the Group's revenue and 100% of the Group's absolute profit before tax (i.e. the sum of the numerical values without regard to whether they were profits or losses for the relevant reporting units). We also performed specified audit procedures over goodwill and other intangible assets, as well as certain account balances and transaction classes that we regarded as material to the Group at the 4 reporting units.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report to the Members of Incanthera plc continued

For the year ended 31 March 2020

Opinions on other matters prescribed by the Companies Act 2006

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.

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 27, 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 parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent Company and we remain independent of the group and the parent company in conducting our audit.

Use of this report

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Sanjay Parmar

Partner and Senior Statutory Auditor

For and on behalf of
Jeffreys Henry LLP (Statutory Auditors)
Finsgate 5-7 Cranwood Street
London EC1V 9EE
12 June 2020

Consolidated Statement of Comprehensive Income

for the year ended 31 March 2020

	Notes	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Direct Costs		–	(106)
Operating expenses			
Operating expenses	3	(933)	(1,636)
Share based compensation	15	(293)	(270)
Total operating expenses	3	(1,226)	(2,012)
Operating loss	3	(1,226)	(2,012)
Loss on ordinary activities before taxation		(1,226)	(2,012)
Taxation	6	98	24
Loss and total comprehensive expense attributable to equity holders of the parent for the year		(1,128)	(1,988)
Loss per share attributable to equity holders of the parent (pence)	7		
Basic loss per share (pence)		(2.27)	(4.80)
Diluted loss per share (pence)		(2.27)	(4.80)

Consolidated and Company Statements of Financial Position

as at 31 March 2020

	Notes	Group		Company	
		As at 31 March 2020 £'000	As at 31 March 2019 £'000	As at 31 March 2020 £'000	As at 31 March 2019 £'000
Assets					
Non-current assets					
Property, plant and equipment	8	3	5	–	–
Intangible assets	9	787	921	–	–
Intercompany Loan				685	–
Investments in subsidiary undertaking	10	–	–	4,614	–
Total non-current assets		790	926	5,299	–
Current assets					
Trade and other receivables	11	114	101	–	–
Current tax receivable		95	24	–	–
Cash and cash equivalents	12	392	176	346	–
Total current assets		601	301	346	–
Total assets		1,391	1,227	5,645	–
Liabilities and equity					
Current liabilities					
Trade and other payables	13	177	223	4	–
Total current liabilities		177	223	4	–
Equity					
Ordinary shares	14	1,217	25	1,217	–
Share premium	14	4,443	7,305	4,443	–
Reorganisation reserve	14	2,715	–	–	–
Share based compensation	14	586	401	–	–
Retained (deficit)/profit	14	(7,747)	(6,727)	(19)	–
Total equity attributable to equity holders of the parent		1,214	1,004	5,641	–
Total liabilities and equity		1,391	1,227	5,645	–

No Statement of Comprehensive Income is presented in these financial statements for the Parent Company as provided by Section 408 of the Companies Act 2006. The loss for the financial year dealt with in the financial statements of the Parent Company was £19k (2019: nil).

The financial statements on pages 37 to 57 were approved by the Board of Directors and authorised for issue on 12 June 2020 and were signed on its behalf by:

Dr Simon Ward
Chief Executive Officer

12 June 2020

Incanthera plc

Registered number: 11026926

Consolidated Statement of Changes in Equity

for the year ended 31 March 2020

	Ordinary shares £'000	Share premium £'000	Reorganisation reserve £'000	Share based compensation £'000	Retained deficit £'000	Total £'000
Balance at 31 March 2018	19	4,825	–	131	(4,739)	236
Total comprehensive expense for the period	–	–	–	–	(1,988)	(1,988)
Transactions with owners						
Share issue – cash	6	2,480	–	–	–	2,486
Share based compensation – share options	–	–	–	270	–	270
Total transactions with owners	6	2,480	–	270	–	2,756
Balance at 31 March 2019	25	7,305	–	401	(6,727)	1,004
Total comprehensive expense for the period	–	–	–	–	(1,128)	(1,020)
Transactions with owners						
Share issue – acquisition of Incanthera R&D Limited	946	(3,663)	2,715	–	–	–
Share issue – cash	180	554	–	–	–	734
Share issue – creditor swap	66	247	–	–	–	313
Share based compensation – share options	–	–	–	293	–	185
Share based compensation – lapsed options	–	–	–	(108)	108	–
Total transactions with owners	1,192	(2,862)	2,715	185	108	1,231
Balance at 31 March 2020	1,217	4,443	2,715	586	(7,747)	1,214

Company Statement of Changes in Equity

for the year ended 31 March 2020

	Attributable to equity holders of the parent				
	Ordinary shares £'000	Share premium £'000	Share based compensation £'000	Retained deficit £'000	Total £'000
Balance at 31 March 2018	–	–	–	–	–
Total comprehensive expense for the period	–	–	–	–	–
Total transactions with owners	–	–	–	–	–
Balance at 31 March 2019	–	–	–	–	–
Total comprehensive expense for the period	–	–	–	(19)	(19)
Transactions with owners					
Share issue – acquisition of Incanthera R&D Limited	971	3,642	–	–	4,613
Share issue – cash	180	554	–	–	734
Share issue – creditor swap	66	247	–	–	313
Share based compensation – share options	–	–	–	–	–
Total transactions with owners	1,217	4,443	–	–	5,660
Balance at 31 March 2020	1,217	4,443	–	(19)	5,641

Consolidated and Company Statements of Cash Flows

for the year ended 31 March 2020

	Group		Company	
	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Cash flows from operating activities				
Loss before taxation	(1,226)	(2,012)	(19)	—
Depreciation and amortisation	135	133	—	—
Share based compensation	293	270	—	—
	(798)	(1,609)	(19)	—
Changes in working capital				
(Increase)/decrease in trade and other receivables	(14)	140	(686)	—
Increase/(decrease) in trade and other payables	(46)	(924)	4	—
Creditor swap	313	—	313	—
Cash used in operations	253	(784)	(369)	—
Taxation received	27	41	—	—
Net cash used in operating activities	(518)	(2,352)	(388)	—
Cash flows (used in)/generated from investing activities				
Acquisition of tangible fixed assets	—	—	—	—
Net cash (used in)/generated from investing activities	—	—	—	—
Cash flows from financing activities				
Proceeds from issue of shares	855	2,398	855	—
Issue costs	(121)	(12)	(121)	—
Net cash generated from financing activities	734	2,386	734	—
Movements in cash and cash equivalents in the period	216	34	346	—
Cash and cash equivalents at start of period	176	143	—	—
Cash and cash equivalents at end of period	392	176	346	—

Notes to the Financial Statements

1. General Information

Incanthera plc ('the Company') is a public limited company incorporated in England and Wales and was admitted to trading on the AQSE Growth Market of the AQSE Growth Market (formerly NEX), under the symbol INC on the 28 February 2020. The address of its registered office is 76 King Street, Manchester, England, M24NH and the registered company number is 11026926. The principal activity of the Company is clinical stage drug development.

2. Significant Accounting Policies and Basis of Preparation

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union, IFRIC interpretations and the Companies Act 2006 applicable to companies operating under IFRS.

The consolidated financial statements have been prepared under the historical cost convention modified by the revaluation of certain financial instruments.

The consolidated financial statements are presented in Sterling (£) and rounded to the nearest £000. This is the predominant functional currency of the Group, and is the currency of the primary economic environment in which it operates. Foreign transactions are accounted in accordance with the policies set out below.

Basis of consolidation

The financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved when the Company has the 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 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 intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

Going concern

As part of their going concern review the Directors have followed the guidelines published by the Financial Reporting Council entitled "Guidance on Risk Management and Internal Control and Related Financial and Business Reporting". The Directors have prepared detailed financial forecasts and cash flows looking beyond 12 months from the date of the approval of these financial statements. In developing these forecasts, the Directors have made assumptions based upon their view of the current and future economic conditions that will prevail over the forecast period. These assumptions include additional subscriptions to be received from Call Options in place. These Call Options were issued as part of the IPO completed in February 2020, of the total £1.205m raised, £350k was not immediately receivable and remains outstanding in the form of Call Options. These Call Options have an expiry date of 31 October 2020, but can be fully paid up at any point before that date.

Any future fundraising will be undertaken to support the expansion of the activities either through its product offering or global expansion.

Whilst the impact of Covid-19 has been substantially globally, the impact of the Group is not considered to be substantial since the forecasts were not dependent on significant revenues but focused on controlled, considered spend to meet its development and commercial objectives.

The forecast contains certain assumptions about the performance of the business including the growth model and the cost model.

The directors are aware of the risks and uncertainties facing the business but the assumptions used are the Directors' best estimate of the future development of the business.

After considering the forecasts and risks, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the annual financial statements. The financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

At 31 March 2020, the Group had cash and cash equivalents, including short-term investments and cash on deposit, of £392k.

2. Significant Accounting Policies and Basis of Preparation *continued*

The Directors estimate that the cash held by the Group together with known receivables will be sufficient to support the current level of activities.

Currencies

Functional and presentational currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or at an average rate for a period if the rates do not fluctuate significantly. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Statement of Comprehensive Income. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Intangible assets

Intangible assets with finite useful lives that are acquired externally are carried at cost less accumulated amortisation and impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives as below. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Licences – 10–20 years

An impairment review is performed annually.

Intangible assets acquired either as part of a business combination or from contractual or other legal rights are recognised separately from goodwill provided they are separable and their fair value can be measured reliably. This includes the costs associated with acquiring and registering patents in respect of intellectual property rights.

Where intangible assets recognised have finite lives, after initial recognition their carrying value is amortised on a straight line basis over those lives. The nature of those intangibles recognised and their estimated useful lives are as follows:

Patents – straight line over remaining useful life, up to 20 years

IP assets – straight line over remaining useful life, up to 20 years

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Office equipment – 33% straight line

Furniture, fixtures and fittings – 33% straight line

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Consolidated Statement of Comprehensive Income.

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Research and development expenditure

Careful judgement by the Directors is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain until such time as technical viability has been proven and commercial supply agreements are likely to be achieved. Judgements are based on the information available at each reporting date which includes the progress with testing and certification and progress on, for example, establishment of commercial arrangements with third parties. In addition, all internal activities related to research and development of new products are continuously monitored by the Directors.

Income tax

The tax expense or credit represents the sum of the tax currently payable or recoverable and the movement in deferred tax assets and liabilities.

(a) Current income tax

Current tax, including R&D tax credits, is based on taxable income for the period and any adjustment to tax from previous periods. Taxable income differs from net income in the Consolidated Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other periods or that are never taxable or deductible. The calculation uses the latest tax rates for the period that have been enacted or substantively enacted by the dates of the Consolidated Statement of Financial Position.

Notes to the Financial Statements continued

2. Significant Accounting Policies and Basis of Preparation continued

(b) Deferred tax

Deferred tax is calculated at the latest tax rates that have been substantially enacted by the reporting date that are expected to apply when settled. It is charged or credited in the Consolidated Statement of Comprehensive Income, except when it relates to items credited or charged directly to equity, in which case it is also dealt with in equity.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income, and is accounted for using the liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable income will be available against which the asset can be utilised. Such assets are reduced to the extent that it is no longer probable that the asset can be utilised.

Deferred tax assets and liabilities are offset when there is a legal right to offset current tax assets and 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.

Deferred tax assets are not recognised due to uncertainty concerning crystallisation.

Payroll expense and related contributions

Wages, salaries, payroll tax, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the period in which the associated services are rendered.

Pension costs

The Group makes contributions to the private pension schemes of Directors and employees.

Share-based compensation

The Group issues share based payments to certain employees and Directors and warrants have been issued to certain suppliers. Equity-settled share-based payments are measured at fair value at the date of grant and expensed on a straight-line basis over the vesting period, along with a corresponding increase in equity.

At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. The impact of any revision is recognised in the Consolidated Statement of Comprehensive Income, with a corresponding adjustment to equity reserves.

The fair value of share options and warrants are determined using a Black-Scholes model, taking into consideration the best estimate of the expected life of the option or warrant and the estimated number of shares that will eventually vest.

Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of operating segments.

The Directors consider that there are no identifiable business segments that are subject to risks and returns different to the core business. The information reported to the Directors, for the purposes of resource allocation and assessment of performance is based wholly on the overall activities of the Group. The Group has therefore determined that it has only one reportable segment under IFRS 8.

The results and assets for this segment can be determined by reference to the Consolidated Statement of Comprehensive Income and Consolidated Statement of Financial Position.

Group reorganisation accounting

The Company acquired its 100% interest in Incanthera Research and Development Limited ('Incanthera') by way of a share for share exchange. This is a business combination involving entities under common control and the consolidated financial statements are issued in the name of the Group but they are a continuance of those of Incanthera. Therefore the assets and liabilities of Incanthera have been recognised and measured in these consolidated financial statements at their pre combination carrying values. The retained earnings and other equity balances recognised in these consolidated financial statements are the retained earnings and other equity balances of the Company and Incanthera. The equity structure appearing in these consolidated financial statements (the number and the type of equity instruments issued) reflect the equity structure of the Company including equity instruments issued by the Company to effect the consolidation.

2. Significant Accounting Policies and Basis of Preparation *continued*

The difference between consideration given and net assets of Incanthera at the date of acquisition is included in a group reorganisation reserve. The comparatives included are for Incanthera prior to the group reorganisation.

Investment in subsidiaries

Investment in subsidiaries are shown in the Company balance sheet at cost and are reviewed annually for impairment.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's Consolidated Statement of Financial Position when the Group becomes party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Trade and other receivables

Trade and other receivables that do not contain a significant financing component are initially recognised at fair value and subsequently held at amortised cost less provision for impairment.

IFRS 9 introduces an impairment model. Under IAS 39, an entity only considers those impairments that arise as a result of incurred loss events. The effects of possible future loss events cannot be considered, even when they are expected. IFRS 9 introduces an expected credit loss model which broadens the information that an entity is required to consider when determining its expectations of impairment. Under this model, expectations of future events must be taken into account and this could result in the earlier recognition of impairments.

Cash, cash equivalents and short-term investments

Cash and cash equivalents consist of cash on hand, demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Trade and other payables

Trade and other payables are not interest-bearing and are stated at nominal value.

Classification as debt or equity

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Equity instruments issued by the Group are recognised as the proceeds received, net of direct issue costs.

Financial risk management

Financial risk factors

The Group's activities expose it to certain financial risks: market risk, credit risk and liquidity risk. The overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the Directors, who identify and evaluate financial risks in close co-operation with key staff.

(a) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as competitor pricing, interest rates, foreign exchange rates (see Note 17).

(b) Credit risk

Credit risk is the financial loss to the Group if a customer or counterparty to financial instruments fails to meet its contractual obligation. Credit risk arises from the Group's cash and cash equivalents, and receivables balances.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. This risk relates to the Group's prudent liquidity risk management and implies maintaining sufficient cash. The Directors monitor rolling forecasts of the Group's liquidity, and cash and cash equivalents based on expected cash flow.

Notes to the Financial Statements continued

2. Significant Accounting Policies and Basis of Preparation continued

Capital risk management

The Group has been funded by equity. The components of shareholders' equity are:

- (a) The share capital and share premium account arising on the issue of shares.
- (b) Merger reserve, which was created as a result of the acquisition by the Company of the entire issued share capital of Incanthera Research and Development Limited on 26 February 2020. This reserve is not considered to be distributable.
- (c) The share based compensation reserve results from the Group's grant of equity-settled share options to selected employees and Directors.
- (d) The retained deficit reflecting comprehensive loss to date.

The Group's objective when managing capital is to maintain adequate financial flexibility to preserve its ability to meet financial obligations, both current and long term. The capital structure of the Group is managed and adjusted to reflect changes in economic conditions. The Group funds its expenditures on commitments from existing cash and cash equivalent balances, primarily received from issuances of shareholders' equity. There are no externally imposed capital requirements. Financing decisions are made based on forecasts of the expected timing and level of capital and operating expenditure required to meet the Group's commitments and development plans.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values because of the short term nature of such assets and the effect of discounting liabilities is negligible.

Significant management judgement in applying accounting policies and estimation uncertainty

When preparing the financial statements, the Directors make estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

Estimation uncertainty

Receivables from the subsidiary represents interest free amounts advanced to Group companies with no fixed repayment dates, being amounts due from Incanthera plc advanced to support the Group's research expenditure. In accordance with IFRS 9 'Financial Instruments', where the counterparty would not be able to repay the loan if demanded at the reporting date, the Company has made an assessment of expected credit losses.

Intangible Assets

The assessment of the future economic benefits generated by these separately identifiable intangible assets and the determination of its amortisation profile involve a significant degree of judgement based on management estimation of future potential revenue and profit and the useful life of the assets. Reviews are performed regularly to ensure the recoverability of these intangible assets.

Taxation

In recognising income tax assets and liabilities, management makes estimates of the likely outcome of decisions by tax authorities on transactions and events whose treatment for tax purposes is uncertain. Where the final outcome of such matters is different, or expected to be different, from previous assessments made by management, a change to the carrying value of income tax assets and liabilities will be recorded in the period in which such a determination is made. The carrying values of current tax are disclosed separately in the statement of financial position

Share based payment charge

Historically the Group issued a number of share options to certain employees. A Black-Scholes model was used to calculate the appropriate charge for these periods. The use of this model to calculate a charge involves using a number of estimates and judgements to establish the appropriate inputs to be entered into the model, covering areas such as the use of an appropriate interest rate and dividend rate, exercise restrictions and behavioural considerations. A significant element of judgement is therefore involved in the calculation of the charge. The total charge recognised in the year to 31 March 2020 was £293k (year to 31 March 2019: £270k).

2. Significant Accounting Policies and Basis of Preparation continued

Accounting developments

New standards, amendments and interpretations

The following new standards have been adopted and where required the prior year's figures have been restated.

- IFRS 16 Leases (effective date 1 January 2019)

IFRS 16 'Leases'; effective for periods beginning on or after January 1, 2019. Under IFRS 16, a contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The new standard eliminates the classification of leases by lessees as either finance leases or operating leases and instead introduces an integrated lessee accounting model. Applying this model, lessees are required to recognise a lease liability reflecting the obligation to make future lease payments and a 'right-of-use' asset for virtually all lease contracts. IFRS 16 includes an optional exemption for certain short-term leases and leases of low-value assets. The Group has assessed the impact of the new standard which is not material to the Group's operations.

Standards in issue not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the group has decided not to adopt early. The most significant of these are as follows, which are all effective for the period beginning 1 January 2020:

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Definition of Material)
- IFRS 3 Business Combinations (Amendment – Definition of Business)
- Revised Conceptual Framework for Financial Reporting

Amendments to IAS 1 and IAS 8 Definition of material

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency. The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted. Amendments to References to the Conceptual Framework in IFRS Standards.

Together with the revised Conceptual Framework, which became effective upon publication on 29 March 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASB Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020, with early application permitted.

3. Operating Loss

An analysis of the Group's operating loss has been arrived at after charging/(crediting):

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Research and development expenses:		
Other research and development	280	226
Staff costs (including share based compensation) – Note 5	26	73
Establishment and general:		
Staff costs (including share based compensation) – Note 5	54	949
Depreciation of property, plant and equipment	3	9
Amortisation of Intangible Assets	132	128
Operating lease cost – land and buildings	12	16
Other administrative expenses	719	341
Total operating expenses	1,226	1,742

The Group has one reportable segment, namely the development of pharmaceutical products all within the United Kingdom.

Notes to the Financial Statements continued

4. Auditor's Remuneration

The analysis of the auditor's remuneration is as follows:

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Fees payable to the Group's auditors for the audit of: the consolidated and Company annual accounts the subsidiary's annual accounts	11 —	— —
Total audit fees	11	—
Audit related services	—	—
Total audit related fees	—	—
Other services	37	—
Total non-audit fees	37	—

5. Employees and Directors

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

	Group		Company	
	Year ended 31 March 2020 Number	Year ended 31 March 2019 Number	Year ended 31 March 2020 Number	Year ended 31 March 2019 Number
Directors	2	4	—	—
Management Team	3	1	—	—
Non-Executive	—	—	—	—
Average total persons employed	5	5	—	—

As at 31 March 2020 the Group had 6 employees (31 March 2019: 5).

Staff costs in respect of these employees were:

	Group		Company	
	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Wages and salaries	71	823	14	—
Employer's National Insurance	7	109	—	—
Employers pension costs	2	13	—	—
Share-based payments	—	4	—	—
Total employee costs	80	949	14	—

The Group makes contributions to the private pension schemes of Directors and employees.

The total remuneration of the highest paid Director excluding grants of share options was £23,377 (31 March 2019: £339,161).

The Directors have the authority and responsibility for planning, directing and controlling, directly or indirectly, the activities of the Group and they therefore comprise key management personnel as defined by IAS 24.

5. Employees and Directors continued

Aggregate emoluments of Directors of Incanthera Plc (3):

	Group and Company	
	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Salaries and other short-term employee benefits	36	544
Employer's National Insurance	3	72
Pension contributions	1	10
Options vesting under share option schemes	–	2
Total remuneration including vesting of share options	41	628
Aggregate emoluments of Directors within the group (5):		
Salaries and other short-term employee benefits	57	829
Employer's National Insurance	5	109
Pension contributions	1	13
Options vesting under share option schemes	–	4
Total remuneration including vesting of share options	63	955

Directors emoluments include amounts payable to third parties as described in Note 18.

6. Taxation

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Current tax		
Current period – UK corporation tax	–	–
R&D tax credit	98	24
Adjustments in respect of prior periods	(3)	
Net tax credit	95	24

The tax charge for each period can be reconciled to the loss per Consolidated Statement of Comprehensive Income as follows:

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Loss on ordinary activities before taxation	(1,226)	(1,954)
Loss before tax at the effective rate of corporation tax in the United Kingdom of 19% (2019: 19%)	(233)	(371)
Effects of:		
Losses not recognised	136	68
R&D tax credit	(98)	(24)
Tax credit for the year	(98)	(24)

The Incanthera Group also has a deferred tax liability being accelerated capital allowances, for which the tax, measured at a standard rate of 18% in all periods is 31 March 2020 £62,000 (2019: £61,000).

The Incanthera Group has a deferred tax asset for share-based payments, for which the tax, measured at a standard rate of 18% in all periods is 31 March 2020 £124,000 (2019: £71,000).

The net deferred tax asset of £62,000 (2019: £10,000) has not been recognised as it is covered by accumulated tax losses in all periods.

7. Loss per Share

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

For diluted loss per share, the loss for the year attributable to equity holders and the weighted average number of ordinary shares outstanding during the year is adjusted to assume conversion of all dilutive potential ordinary shares.

As at 31 March 2020, the Group had 13,268,628 (2019: 11,599,940) share options, warrants and subscriptions outstanding which are potentially dilutive.

Notes to the Financial Statements continued

7. Loss per Share continued

The calculation of the Group's basic and diluted loss per share is based on the following data:

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Loss for the year attributable to equity holders for basic loss and adjusted for the effects of dilution	(1,128)	(1,988)

	Year ended 31 March 2020 Number	Year ended 31 March 2019 Number
Weighted average number of ordinary shares for basic loss per share	49,642,344	41,431,920
Effects of dilution:		
Share options	–	–
Weighted average number of ordinary shares adjusted for the effects of dilution	49,642,344	41,431,920

	Year ended 31 March 2020 Pence	Year ended 31 March 2019 Pence
Loss per share – basic and diluted	(2.27)	(4.80)

The loss and the weighted average number of ordinary shares for the years ended 31 March 2019 and 2020 used for calculating the diluted loss per share are identical to those for the basic loss per share. This is because the outstanding share options would have the effect of reducing the loss per ordinary share and would therefore not be dilutive under the terms of International Accounting Standard ('IAS') No 33.

8. Property, Plant and Equipment

Group	Office Equipment, fixtures and fittings £'000
Cost	
At 31 March 2018, 31 March 2019 and 31 March 2020	47
Accumulated Depreciation	
At 31 March 2018	37
Charge for the period	5
At 31 March 2019	42
Charge for the period	3
At 31 March 2020	45
Net Book Value	
At 31 March 2018	10
At 31 March 2019	6
At 31 March 2020	3

Depreciation is charged to operating expenses.

9. Intangible Assets

Group	Patents £'000	IP Assets £'000	Total £'000
Cost			
At 31 March 2018	888	475	1,363
Additions	100	–	100
At 31 March 2019 and 31 March 2020	988	475	1,463
Amortisation			
At 31 March 2018	226	189	416
Charge for the period	73	55	128
At 31 March 2019	299	245	544
Charge for the period	76	55	132
At 31 March 2020	375	300	676
Net Book Value			
At 31 March 2018	662	285	947
At 31 March 2019	689	230	919
At 31 March 2020	613	174	787

Patents are amortised on a straight-line basis over twenty years. Amortisation provided during the period is recognised in administrative expenses. The Incanthera Group does not believe that any of its patents in isolation is material to the business.

New IP assets are amortised on a straight-line basis over the estimated economic life of the underlying assets, based on the life span of applicable patents. Amortisation provided during the period is recognised in administrative expenses. The time remaining life ranges from 2 to 19 years.

The Group reviewed the amortisation period and the amortisation method for the intangible assets at the end of the reporting period and considered them appropriate.

The Group continually monitors events and changes in circumstances that could indicate that the intangible assets may be impaired. As at 31 March 2020, the Company had no intangible assets (31 March 2019: £nil).

10. Investments in Subsidiary Undertakings

The consolidated financial statements of the Group as at 31 March 2020 include:

Name of subsidiary	Class of share	Place of incorporation	Principle activities	Proportion of ownership interest	Proportion of voting rights held
Incanthera Research and Development Limited	Ordinary	United Kingdom	Research and development	100%	100%
Incanthera Oncology Limited*	Ordinary	United Kingdom	Research and development	100%	100%
Incanthera Therapeutics Limited*	Ordinary	United Kingdom	Research and development	100%	100%

* now dormant.

Notes to the Financial Statements continued

10. Investments in Subsidiary Undertakings continued

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Cost at 1 April	–	–	–	–
Acquisition during the year	–	–	4,614	–
Cost at 31 March	–	–	4,614	–
Carrying Value as at 31 March	–	–	4,614	–

Break down of carrying value of investment:

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Incanthera Research and Development Limited	–	–	4,614	–

Investments are tested for impairment at the balance sheet date. The recoverable amount of the investment in Incanthera Research and Development Limited at 31 March 2020 was assessed on the basis of Net Present Value (NPV). As this exceeded carrying value no impairment loss was recognised.

The key assumptions in the calculation to assess NPV are the future revenues and the ability to generate future cash flows. The future predictions have focused on the lead and most advanced programme, Sol. Due to the nature of the development of Sol, and the time between development expenditure and future incomes, the management have looked ahead to the next 6 years and beyond. The projected results were discounted at a rate which is a prudent evaluation of the pre tax rate that reflects current market assessments at the time value of money and the risks specific to the cash generating unit.

The key assumptions used for the NPV calculation in 2020 were as follows:

	%
Discount rate	13.8

The Directors have made significant estimates on the future revenues based around a typical partnering with a large FMCG or Pharma partner. Assumptions have been made based upon on the size of the potential market for Sol as well as the expected royalty % across the lifetime of the patent.

The Directors have performed a sensitivity analysis to assess the impact of downside risk of the key assumptions underpinning the projected results of the Group. The projection used is sensitive to the projected royalty assumptions that have been applied.

11. Trade and Other Receivables

	Group		Company	
	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Amounts receivable within one year				
Other receivables	4	1	–	–
Other taxation and social security	20	1	–	–
Prepayments	90	99	–	–
Amounts due from subsidiary undertakings	–	–	–	–
Trade and other receivables	114	101	–	–

The Directors believe that the carrying value of trade and other receivables represents their fair value. In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the receivable from the date credit was granted up to the reporting date. In addition, an expected credit losses model is used which broadens the information that an entity is required to consider when determining its expectations of impairment. Under this model, expectations from future events are taken into account which could result in the earlier recognition of impairments. Details on the Group's credit risk management policies are shown in Note 17. The Group does not hold any collateral as security for its trade and other receivables.

12. Cash, Cash Equivalents and Short-Term Investments

	Group		Company	
	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Cash at bank and in hand	392	176	346	–

At 31 March 2020 the Group and Company had no deposits with original maturity of twelve months or less (2019: £nil).

13. Trade and Other Payables

	Group		Company	
	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Amounts falling due within one year				
Trade payables	47	178	–	–
Other taxation and social security	(4)	–	2	–
Accrued expenses	139	44	2	–
Other payables	(5)	1	–	–
Trade and other payables	177	223	4	–

Trade and other payables principally consist of amounts outstanding for trade purchases and ongoing costs. They are non-interest bearing and are normally settled on 30 to 45 day terms. The Directors consider that the carrying value of trade and other payables approximates to their fair value. All trade and other payables are denominated in Sterling. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe and no interest has been charged by any suppliers as a result of late payment of invoices during the period.

The fair value of trade and other payables approximates to their current book values.

14. Issued Capital and Reserves

Ordinary shares

	Company	
	Number	Share Capital £'000
Ordinary shares of £1/2p each:		
At 31 March 2019	2	–
Sub-division of £1 shares to 2p shares	98	–
Issue on Incanthera R&D Limited acquisition	48,564,280	971
Issue on settlement of creditors	3,295,523	66
Issued on placing	9,000,007	180
At 31 March 2020	60,859,910	1,217

On 26 February 2020 each of the £1 ordinary shares in issue were sub-divided to 50 2p shares.

On 26 February 2020 48,564,280 new 2p ordinary shares were issued in connection with the acquisition of Incanthera R&D Limited.

On 28 February 2020 3,295,523 2p ordinary shares were issued at a price of 9.5p in connection with settlement of creditors of the Company.

On 28 February 2020 9,000,007 ordinary shares of 2p were issued at a price of 9.5p per share, generating proceeds of £855,000. Costs of £121,130 were incurred and these have been deducted from the share premium.

The ordinary shares rank pari passu in all respects in relation to dividends and repayment of capital, and have equal voting rights with one vote per share. There are no restrictions on the transferability of the shares.

Other reserves

The share premium reserve represents the difference between the net proceeds of equity issues and the nominal share capital of the shares issued.

The Group reorganisation reserves at 31 March 2020 arose from the acquisition of Incanthera Research and Development Limited on 26 February 2020, which is accounted for using the merger method of accounting.

The share based compensation reserve reflects the aggregate fair value of equity-settled share based payment transactions.

Notes to the Financial Statements continued

14. Issued Capital and Reserves continued

Reserves classified as retained deficit represent accumulated losses. None of the reserves are distributable.

Not included in the above figure, are £350k of outstanding subscriptions in the form of Call Options. As part of the IPO and fundraise completed in February 2020, of the total £1.205m raised, £350k was not immediately receivable and remains outstanding in the form of Call Options. These options are over 3,684,211 ordinary 2p shares at a price of 9.5p each, the same as the IPO price. These Call Options have an expiry date of the 31st October 2020, but can be fully paid up at any point before that date.

15. Share-based Payments

There are currently no new option schemes in place following listing on the AQSE growth market (NEX). Previously issued options which were in place at the 31 March 2019 have either lapsed or been exchanged for warrants in Incanthera Plc. Those being exchanged doing so at the equivalent rate of 20:1 and being subject to the same original terms and conditions.

At 31 March 2020 the Company was yet to issue any share options and so had nil (2019: 579,997) unissued ordinary shares of 2p (2019: £1) under the Company's share option schemes.

Movements on share options during the year were as follows:

Exercise price	At 1 April 2019	Granted	Lapsed/ Cancelled	Exchanged	At 31 March 2020	Date from which exercisable	Expiry date
4.25	3,589	–	(3,589)	–	–	1 May 2012	1 February 2022
5.50	455	–	(455)	–	–	12 December 2014	12 September 2024
4.25	1,177	–	(1,177)	–	–	24 October 2012	24 July 2022
4.25	2,399	–	(2,399)	–	–	25 October 2012	25 July 2022
5.50	2,942	–	(2,942)	–	–	12 December 2014	12 September 2024
5.50	1,409	–	(1,409)	–	–	30 June 2016	30 March 2026
5.50	725	–	(725)	–	–	24 March 2017	24 December 2026
5.50	392	–	(392)	–	–	28 April 2017	28 January 2027
5.50	1,728	–	(1,728)	–	–	7 March 2018	7 December 2027
4.25	23,529	–	(23,529)	–	–	25 October 2012	25 July 2022
0.85	7,500	–	(7,500)	–	–	26 October 2015	26 July 2025
0.85	7,500	–	(7,500)	–	–	26 October 2015	26 July 2025
1.15	63,395	–	(63,395)	–	–	12 December 2017	12 September 2027
1.15	45,282	–	(45,282)	–	–	12 December 2017	12 September 2027
1.15	54,339	–	(54,339)	–	–	12 December 2017	12 September 2027
5.50	363,636	–	(363,636) ¹	–	–	13 November 2018	13 November 2020
0.275	–	–	–	7,272,740	7,272,740	13 November 2018	13 November 2020
	579,997	–	(579,997)	7,272,740	7,272,740		

¹ Being exchanged for warrants in Incanthera plc

As at the year end, the reconciliation of share option scheme movements is as follows:

	As at 31 March 2020		As at 31 March 2019	
	Number	Weighted average exercise price Pence	Number	Weighted average exercise price Pence
Outstanding at start of the year	579,997	409.10	362,312	143.12
Lapsed/cancelled	(579,997)	409.10	–	–
Exchanged	7,272,740	27.50	–	–
Outstanding at end of year	7,272,740	27.50	579,997	409.10
Exercisable at end of year	7,272,740	27.50	579,997	409.10

All previously outstanding options which were not exercised or exchanged on listing have lapsed.

Warrants

On 26 February 2020 the Company issued warrants to subscribe for a total of 7,272,740 Ordinary Shares at a price of 9.5p per Ordinary Shares to ImmuPharma pursuant to the ImmuPharma Warrant.

On placing, 28 February 2020, the Company issued warrants to subscribe for a total of 2,311,677 new Ordinary Shares at the placing price of 9.5p pursuant to the Cairn Warrant, the Pharmhall Warrant and the Broker Warrant.

16. Operating Lease Arrangements

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Minimum lease payments under operating leases recognised as an expense in the period	12	17

As at the year end, the Group has future aggregate minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Group		Company	
	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Within one year	1	17	–	–

Operating lease payments represent rentals payable by the Group for its serviced office space.

17. Financial Risk Management

The main risks arising from the Group's financial instruments are cash flow and liquidity and credit risk. The Group's financial instruments comprise cash and various items such as trade receivables and trade payables, which arise directly from its operations.

Cash flow and liquidity risk

Management monitors the level of cash on a regular basis to ensure that the Group has sufficient funds to meet its commitments where due. The table below analyses the Group and Company's financial assets and liabilities by category:

	Group		Company	
	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
	Financial assets at amortised cost £'000	Financial assets at amortised cost £'000	Financial assets at amortised cost £'000	Financial assets at amortised cost £'000
Assets as per statement of financial position				
Other receivables	114	71	–	–
Cash and cash equivalents	392	88	346	–
	506	159	346	–

	Group		Company	
	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
	Financial liabilities at amortised cost £'000	Financial liabilities at amortised cost £'000	Financial liabilities at amortised cost £'000	Financial liabilities at amortised cost £'000
Liabilities as per statement of financial position				
Trade payables	47	178	–	–
Other creditors and accruals	130	45	4	–
	177	223	4	–

Notes to the Financial Statements continued

17. Financial Risk Management continued

Credit risk

The Group gives careful consideration to which organisations it uses for banking in order to minimise credit risk. The Group holds cash with two large banks in the UK. The amounts of cash held with this bank at the reporting date can be seen in the financial assets table above. All of the cash and equivalents were denominated in UK Sterling.

There was no significant concentration of credit risk at the reporting date.

The carrying amount of financial assets recorded in the Consolidated Statement of Financial Position, net of any allowances for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

No allowance has been made for impairment losses. In the Directors' opinion, there has been no impairment of financial assets during the period.

An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The Directors consider the above measures to be sufficient to control the credit risk exposure. No collateral is held by the Group as security in relation to its financial assets.

Foreign currency risk

The Group's exposure to the risk of changes in foreign exchange rates relates solely to the Group's use of suppliers operating overseas, primarily denominated in Euros and US Dollars. The Group's use of foreign suppliers is minimal and as such exposure to foreign currency changes is not material.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the year end were nil (2019: nil).

At present the Group does not make use of financial instruments to minimise any foreign exchange gains or losses so any fluctuations in foreign exchange movements may have a material adverse impact on the results from operating activities.

Fair value of financial assets and liabilities

There is no material difference between the fair value and the carrying values of the financial instruments because of the short maturity period of these financial instruments and their intrinsic size and risk.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's financial assets are cash and cash equivalents and trade and other receivables. The carrying value of these assets represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's policy is to minimise the risks associated with cash and cash equivalents by placing these deposits with institutions with a recognised high credit rating.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment. An allowance for impairment is made where there is an identified loss event, which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The Group continually reviews customer credit limits based on market conditions and historical experience.

Capital risk management

The Group considers capital to be shareholders' equity as shown in the consolidated statement of financial position, as the Group is primarily funded by equity finance. The Group is not yet in a position to pay a dividend.

The objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and for other stakeholders. In order to maintain or adjust the capital structure the Group may return capital to shareholders and issue new shares.

18. Related Party Transactions

Group

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Key management compensation is disclosed in Note 5 of the consolidated financial statements. Directors' emoluments are disclosed in the Remuneration Committee Report.

During the year ended 31 March 2020, the Group reimbursed expenses totalling £13,100 (year ended 31 March 2019: £12,684) to Timothy McCarthy via his service company, Unnamed Limited. The amount owed to Unnamed Limited at 31 March 2020 was £2,035 (31 March 2019: £191). At the 31 March 2020 1,052,632 call options at a value of £100k, were outstanding in relation to Tim McCarthy's subscription on IPO.

During the year ended 31 March 2020, the Group purchased accountancy and HR services totalling £35,360 (year ended 31 March 2019: £35,339) from summ.it assist LLP t/as Fact3 a company which Laura Brogden is a member. The amount owed to summ.it assist LLP t/as Fact3 at 31 March 2020 was £35,174 (31 March 2019: £10,602).

During the year ended 31 March 2020, the Group was charged monitoring fees totalling £35,000 relating to Marc d'Abbadie's services (year ended 31 March 2019: £10,675) by SPARK Impact Limited, manager of North West Fund for Biomedical, a shareholder. The amount owed to SPARK Impact, manager of North West Fund for Biomedical at 31 March 2020 was £nil (31 March 2019: £3,410).

At the 31 March 2020 2,631,759 call options at a value of £250k, were outstanding in relation to ImmuPharma Plc's (a significant shareholder) subscription on IPO.

Company

The Company is responsible for financing and setting Group strategy. The Company's subsidiary carried out the Group's development strategy and managed the Group's intellectual property. The Company provides interest free and unsecured funding to its subsidiary with no fixed date of repayment. Details of intercompany balances can be found in Note 11.

19. Contingent Liabilities

The Group has no contingent liabilities at 31 March 2020 (31 March 2019: nil).

20. Lease and Capital commitments

The Group has no lease or capital commitments at 31 March 2020 (31 March 2019: nil).

21. Events after the Reporting Date

There have been no reportable events after the reporting date.

22. Ultimate Controlling Party

There is no ultimate controlling party of the Group.

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