AORTECH INTERNATIONAL PLC

Unaudited Interim Results

For the six months ended 30 September 2012

CHAIRMAN'S STATEMENT

There is much to cover and discuss in this interim report, however it is worth first looking to the trading performance of the Group over the past six months to place the other topics for discussion into perspective. In the half year to the end of September 2012, AorTech achieved sales of $822,000, of which $724,000 was the sale of polymer to customers. This compares to much higher sales revenues of $2,638,000 last year, which, however, included a large receipt from the renegotiated licence deal with St Jude as we have previously reported. On the sales of polymer of $724,000, cost of sales was $806,000 which represents the costs of polymer manufacture. Once we take account of all other costs, including development expenditure, amortisation of intangible assets, administration costs and UK costs, AorTech incurred a loss of $1,510,000. We started the financial period with cash of $1,917,000 and as a result of the losses and currency movements between Sterling and US dollar the closing cash balance was $295,000, confirming the cautionary note in my statement with the last annual accounts that we would need to raise additional funds or complete a corporate deal by the end of October 2012.

It is clear from the above that the fundamental business model AorTech was operating was not sustainable, particularly since the Group was committed to a major loss making contract and any future royalty and licence income was not receivable in the immediate future.

Sale Process and Fund Raising

On 28 September 2012 we announced that we did not expect to receive an offer for the whole of the Group, but that there was an expressed interest from one party to acquire the polymer business. We stated that we were pursuing that opportunity and were considering funding options to enable us to complete the process of a sale of the polymer business. I must admit that, at that stage, the options open to the Group were fairly unattractive. The sale process was unsatisfactory due in the main to the difficult time frame that was imposed as a result of the dwindling cash position. I also believe that the interested parties in AorTech may have seen an opportunity to pick up the Intellectual Property and Patents from a potentially distressed business, hence the initial high level of interest not resulting in an offer other than the indicative offer for the polymer business. Funding was required to bridge the timescale anticipated to a sale of the polymer business and, given the continuing losses, we concluded that the issue of loan notes was the only option available in order to provide sufficient funds to the Company and also protect the interests of shareholders.

Dispute with St Jude Medical

On 9 October 2012, we announced that AorTech had served on St. Jude Medical ("St. Jude") a notice alleging breach of contract and providing St. Jude with a 30 day period to cure the breaches. If the breaches were not cured the Board of AorTech had elected to terminate the various agreements with St. Jude. At that point, given the uncertainties that this action had created, we elected to place the discussions on the sale of the polymer business on hold, with a view to revisiting the opportunity once we had clarity on the outcome of the dispute.
St. Jude expressly denied these alleged actions, including any breach of the contracts. On 16 October 2012, St. Jude filed papers in the US courts seeking a declaratory judgement that they were not in breach and seeking to prohibit AorTech from terminating and in November 2012 was granted a Temporary Restraining Order preventing AorTech from terminating the contract at issue.

Interim Funding

AorTech was continuing to supply materials to St Jude and the cash position was going to become critical by the end of October 2012. We were fortunate to secure the support of a number of investors, including existing shareholders in the Company, to the issue of secured loan notes totalling £1,250,000, so as to provide the capital that we anticipated being required to finance the Company, including the costs of the impending litigation. I would wish to record my thanks for the support shown by the group of loan note holders who, despite having security over the IP of AorTech, took on a significant risk due to the uncertainty over both the timescale and outcome of the litigation. The terms of the loan notes called for a repayment premium of 100% if repaid before 31 March 2013, together with a "carried interest" into 15% of additional value generated.

Dispute Resolution

As announced on 24 December 2012, we have reached a negotiated resolution to the dispute. Neither party has admitted liability and expressly denies any liability. The resolution is a commercial transaction restructuring certain contracts and accelerating the rights of St. Jude under a particular contract. I do not believe it would be constructive to discuss the details of the dispute and would prefer to focus on the implications for AorTech of having resolved the issues.

The total consideration to be received by AorTech under the agreements is $3.9 million, of which $3.4 million was paid upon signing and $0.5 million will be paid around the end of March 2013. The agreements accelerate certain existing transitional arrangements relating to the manufacture and supply of Elast-Eon™, reaffirm St. Jude's exclusive, perpetual, non-royalty bearing licence to use Elast-Eon™ for implantable leads for implantable cardiac rhythm management devices or monitoring systems, and set forth the purchase by St. Jude of certain AorTech assets for approximately $0.25 million. Among the transitional arrangements between the parties, the agreements also provide for the reimbursement by St. Jude to AorTech for the financial costs of running the Rogers facility for a period of time and contemplate the complete transfer of the Rogers facility to St. Jude by December 2013. These arrangements will ensure St. Jude's reliable supply of Elast-Eon™ and not interrupt supply of products for AorTech's other customers.

Financial Implications

The money received on signature of the agreements will provide sufficient cash to enable the repayment of the loan notes together with the repayment premium of 100%. It is anticipated that this repayment of £2.5 million will be made to loan note holders towards the end of January 2013.

With St Jude being responsible for the running costs in the US Rogers facility from 1 December 2012, the cash burn associated with the US operation has ceased. We will also be able to supply our other customers and, given the changes to the cost base, these sales should be at an attractive gross margin.

We currently have a much improved financial position placing AorTech on a more secure footing than it has been for some time, and we expect to be cash generative under the new arrangements. After the end of March 2013 we will have to resume responsibility for certain staff costs, although we believe our business will generate sufficient revenues and margins to support the ongoing costs.

Strategy - Polymer Business

At the start of this statement I highlighted that supply terms on a major contract together with insufficient volumes from other customer contracts made the business model of operating solely as a polymer manufacturing business extremely difficult. The valuable revenue lines are royalty fees and license fees, the problem however being that we have not been able to generate sufficient quantities of these revenues to support the losses from polymer manufacture. As part of the strategic review earlier in this year, we recognised that the size and financial instability of AorTech was not conducive to having larger medical device companies place a reliance on a critical material which only AorTech could supply. I believe that our sales may well have been limited to those areas where the material properties meant that the material was a must have despite the other issues. We also concluded that the individual parts of the business would be much more successful by being part of a larger business with a combination of resources, critical mass and additional sales and distribution skills required to both enhance the value of existing contracts and expand the use of our materials into other areas.

Clearly we have accommodated the supply requirements for our current customer base through the St Jude transition arrangements, however we need to address how the customers are fulfilled after the year has elapsed. I believe there are a number of options which include a sale of the polymer business to another materials business with the capacity and critical mass to develop the material and IP portfolio, a sub contract manufacturing arrangement with another polymer manufacturer, or restarting another manufacturing unit. We are now in a much better position to consider a sale of the polymer business as AorTech is no longer facing a financial crisis, thus eliminating the potential for interested parties to "wait and see", we have removed the ongoing liabilities from an uneconomic contract which could not have been beneficial to any valuation exercise, and we are now better placed to facilitate the transfer of IP and manufacturing know how to another polymer manufacturer.

We therefore intend to revisit the discussions we were having with parties that had or have subsequently expressed an interest in our polymer business. This will become one of our key priorities in the New Year now that we have resolved the issues with St Jude. It is our intention to pursue these opportunities vigorously, however there is no guarantee that we can consummate a transaction nor to the value that could be achieved but I certainly believe AorTech is in a better position to progress this than we were at the end of September 2012 when we were only a matter of weeks from a cash crisis.

Strategy – Heart Valve

I discussed in the annual report that we had retained the rights to our polymer heart valve technology and set out in a little detail where we saw the valve fitting into the market. I believe that this project could have a significant value for shareholders although we have not progressed this opportunity over the past few months as we have been focussed on other strategic matters. We intend to place much more emphasis on seeking to find a partner, joint venture, funder or some other form of transaction for this project over the coming months. I have however been learning more about this area over the past six months or so and believe the Transcatheter Aortic Valve Replacement (TAVR) sector could be a strategic fit for our Elast-Eon™ material. This is a relatively new area of replacing a heart valve through keyhole surgery. Recent market reports on this sector indicate it could become a $2.6 billion global market over the next five years. The market is more advanced in Europe than in North America but is hindered by a number of factors including the training requirements of surgeons, insurance and health service reimbursements for the procedure, but potentially the biggest problem is the cost compared to surgical valves. The charge for a TAVR valve is much higher than a surgical valve and we also believe that the actual manufacturing costs are significantly higher still due to relatively poor manufacturing yields when the animal tissue is attached to valve housing or stents. AorTech's polymer material would significantly reduce manufacturing costs of the valve. This is therefore an area in which we will concentrate time and effort to see how the opportunity can be progressed.

Loan Notes

I mentioned above that the loan note holders will be repaid together with the 100% repayment premium. In addition, the holders of the loan notes are entitled to 15% of further returns from either the licence renegotiation, sale proceeds from the polymer business or a sale of the Company. I believe it would be in the interests of the loan note holders, the shareholders and the Company as a whole to coincide the interests of all parties by issuing shares in the Company to the loan note holders to the extent of 15% of the Company; this would require the consent of both shareholders and loan note holders but would make future transactions simpler. I intend to consult with the loan note holders to see if this is an acceptable consolidation of interests and would then require a shareholder meeting to issue the additional shares. Although the returns on the loan notes are attractive, the capital the loan providers introduced to the Company enabled AorTech to continue trading and allowed us to reach a negotiated settlement of our contractual dispute. From a shareholders' perspective, to have the finances of the Company stabilised and to have extracted the Company from an onerous contract for 15% dilution is I think a pretty good result.

Retirement from the Board

After serving on the Board of the Company for nine years, during most of which he was Chairman, Jon Pither, having concluded his handover and now that the Company has been stabilised, has decided to step down from the Board with effect from 1 January 2013. The Board recognises the contribution made to the business by Jon through difficult times, and wishes him well in the future.

Conclusion

When I agreed to become Chairman of the Company, I knew things were difficult, but could not imagine the various turns of events we have witnessed over the past six months. The old contract with St Jude was onerous and proved not just unattractive to AorTech but I think to potential purchasers as well. I cannot blame St Jude for the contract as it takes two parties to sign a contract but it is a relief to have come through the other side. The sale process indicated interest in the polymer technology but also that we had a few other issues to address. During the period we came close to running out of money and ultimately failing. As a result, the role has been much more difficult than I would ever have imagined, and we would not have got through the mess without the hard work and sensible counsel of Eddie McDaid, whom I would like to thank publicly.
We have succeeded in stabilising the Company, we have a decent cash position and our customer contracts together with our IP are now valuable. We will now seek to take the Company forward with a view to creating value for shareholders. This is likely to result in a double strategy of seeking a sale of the polymer business and a deal on the heart valve technology.

Bill Brown
Chairman

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

Six months ended 30 September 2012

(Unaudited)	**Six months to 30 Sept 2012 US$000**	Six months to 30 Sept 2011 US$000	Twelve months to 31 March 2012 US$000
Revenue	**822**	2,638	5,038
Other income - grants received	**-**	641	638
Cost of sales	**(806)**	(232)	(701)
Administrative expenses	**(1,332)**	(1,454)	(3,130)
Other expenses - development expenditure	**(72)**	(818)	(798)
Other expenses - amortisation of intangible assets	**(122)**	(149)	(248)
Operating (loss) / profit before exceptional item	**(1,510)**	626	799
Exceptional item:			
Cost of transfer of operations to USA	**-**	(464)	(761)
Operating (loss) / profit after exceptional item	**(1,510)**	162	38
Finance income	**1**	122	19
(Loss) / profit before taxation	**(1,509)**	284	57
Taxation	**-**	-	-
(Loss) / profit attributable to equity holders of the parent company	**(1,509)**	284	57
(Loss) / earnings per share (basic and diluted) – US cents	**(31.23)**	5.88	1.18

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Six months to 30 Sept 2012 US$000	Six months to 30 Sept 2011 US$000	Twelve months to 31 March 2012 US$000
(Loss) / profit for the period	**(1,509)**	284	57
Other comprehensive income:			
Exchange differences on translating foreign operations	**45**	(234)	26
Income tax relating to other comprehensive income	**-**	-	-
Other comprehensive income for the period, net of tax	**45**	(234)	26
Total comprehensive income for the period, attributable to equity holders of the parent company	**(1,464)**	50	83

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

(Unaudited)	**30 Sept 2012 US$000**	30 Sept 2011 US$000	31 March 2012 US$000
Assets			
Non current assets			
Intangible assets	**1,994**	1,920	2,012
Property, plant and equipment	**567**	500	621
Total non current assets	**2,561**	2,420	2,633
Current assets			
Inventories	**178**	262	203
Trade and other receivables	**1,171**	889	956
Cash and cash equivalents	**295**	2,258	1,917
Total current assets	**1,644**	3,409	3,076
Total assets	**4,205**	5,829	5,709
Liabilities			
Current liabilities			
Trade and other payables	**(422)**	(774)	(439)
Total current liabilities	**(422)**	(774)	(439)
Non current liabilities			
Trade and other payables	**(159)**	-	(182)
Total liabilities	**(581)**	(774)	(621)
Net assets	**3,624**	5,055	5,088
Equity			
Issued capital	**19,529**	18,825	19,319
Share premium	**3,782**	3,646	3,742
Other reserve	**(3,238)**	(3,121)	(3,203)
Foreign exchange reserve	**4,649**	5,067	4,819
Profit and loss account	**(21,098)**	(19,362)	(19,589)
Total equity attributable to equity holders of the parent company	**3,624**	5,055	5,088

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

(Unaudited)	**Six months to 30 Sept 2012 US$000**	Six months to 30 Sept 2011 US$000	Twelve months to 31 March 2012 US$000
Cash flows from operating activities			
Group (loss) / profit after tax	**(1,509)**	284	57
Adjustments for:			
Depreciation of property, plant and equipment	**11**	40	53
Loss on disposal of property, plant and equipment	**-**	24	23
Amortisation of intangible assets	**122**	149	248
Interest income	**(1)**	(122)	(19)
(Increase)/decrease in trade and other receivables	**(67)**	192	125
Decrease/(increase) in inventories	**25**	(28)	31
Decrease in trade payables	**(20)**	(284)	(437)
Net cash flow from operating activities	**(1,439)**	255	81
Cash flows from investing activities			
Purchase of property, plant and equipment	**-**	(500)	(671)
Proceeds from disposal of property, plant and equipment	**-**	309	320
Purchases of intangible assets	**(55)**	-	(49)
Interest received	**1**	122	19
Net cash flow from investing activities	**(54)**	(69)	(381)
Net cash flow from financing activities	**-**	-	-
Net (decrease)/increase in cash and cash equivalents	**(1,493)**	186	(300)
Foreign exchange movements	**(129)**	(142)	3
Cash and cash equivalents at beginning of period	**1,917**	2,214	2,214
Cash and cash equivalents at end of period	**295**	2,258	1,917

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

(Unaudited)	Share capital US$000	Share premium account US$000	Other reserve US$000	Foreign exchange reserve US$000	Profit and loss account US$000	Total equity US$000
Balance at 1 April 2011	**19,370**	**3,751**	**(3,211)**	**4,741**	**(19,646)**	**5,005**
Transactions with owners	-	-	-	-	-	-
Profit for the period	-	-	-	-	284	284
Other comprehensive income						
Exchange difference on translating foreign operations	(545)	(105)	90	326	-	(234)
Total comprehensive income for the period	(545)	(105)	90	326	284	50
Balance at 30 September 2011	**18,825**	**3,646**	**(3,121)**	**5,067**	**(19,362)**	**5,055**
Transactions with owners	-	-	-	-	-	-
Loss for the period	-	-	-	-	(227)	(227)
Other comprehensive income						
Exchange difference on translating foreign operations	494	96	(82)	(248)	-	260
Total comprehensive income for the period	494	96	(82)	(248)	(227)	33
Balance at 31 March 2012	**19,319**	**3,742**	**(3,203)**	**4,819**	**(19,589)**	**5,088**
Transactions with owners	-	-	-	-	-	-
Loss for the period	-	-	-	-	(1,509)	(1,509)
Other comprehensive income						
Exchange difference on translating foreign operations	210	40	(35)	(170)	-	45
Total comprehensive income for the period	210	40	(35)	(170)	(1,509)	(1,464)
Balance at 30 September 2012	**19,529**	**3,782**	**(3,238)**	**4,649**	**(21,098)**	**3,624**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

These condensed consolidated interim financial statements are for the six months ended 30 September 2012, and have been prepared with regard to the requirements of IAS 34 on "Interim Financial Reporting". They do not include all of the information required for full financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 March 2012.

These condensed consolidated interim financial statements have been prepared in accordance with the accounting policies set out below which are based on the recognition and measurement principles of IFRS in issue as adopted by the European Union (EU) and effective at 31 March 2012. They were approved for issue by the Board of Directors on 24 December 2012.

After considering the period end cash position, making appropriate enquiries and reviewing budgets and profit and cash flow forecasts for a period of at least twelve months from the date of signing these financial statements, the Directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Group has sufficient resources to continue in operational existence for the foreseeable future. For this reason the Directors consider the adoption of the going concern basis in preparing the Group financial statements is appropriate.

The financial information for the six months ended 30 September 2012 and the comparative figures for the six months ended 30 September 2011 are unaudited and have been prepared on the basis of the accounting policies set out in the consolidated financial statements of the Group for the year ended 31 March 2012.

These extracts do not constitute statutory accounts under section 434 of the Companies Act 2006. The financial statements for the year ended 31 March 2012, prepared under IFRS, received an unqualified audit report with an emphasis of matter paragraph in respect of going concern, did not contain statements under sections 498(2) and 498(3) of the Companies Act 2006 and have been delivered to the Registrar of Companies.

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these condensed consolidated interim financial statements.

(Loss) / earnings per share has been calculated on the basis of the result for the period after tax, divided by the weighted average number of ordinary shares in issue in the period of 4,832,778. The comparatives are calculated by reference to the weighted average number of ordinary shares in issue which were 4,832,778 for the period to 30 September 2011 and 4,832,778 for the year ended 31 March 2012.

2. SEGMENTAL REPORTING

The principal activity of the AorTech International Plc Group currently is the development and exploitation of a range of innovative biomaterials.

All revenue during the first six months of financial year 2012/13 originated in USA.
(Unaudited)

	Six months to 30 Sept 2012 US$000	Six months to 30 Sept 2011 US$000	Twelve months to 31 March 2012 US$000
Analysis of revenue by destination			
Geographical segments			
United Kingdom	**9**	6	5
Australia	**-**	-	-
United States of America	**813**	2,632	5,033
	822	2,638	5,038

Analysis of result - operating (loss) / profit

Geographical segments			
United Kingdom	**(461)**	(448)	(551)
Australia	**(71)**	1,713	4,042
United States of America	**(977)**	(639)	(2,692)
Operating (loss) / profit before exceptional item	**(1,509)**	626	799
Exceptional item:			
Cost of transfer of operations to USA	**-**	(464)	(761)
Operating (loss) / profit after exceptional item	**(1,509)**	162	38

3. INTANGIBLE ASSETS

The following table shows the impact of exchange rate adjustments and amortisation on intangible assets.

(unaudited)	**Intellectual property**
	US$000
At 1 April 2011	2,188
Exchange rate adjustment	(119)
Amortisation	(149)
At 30 September 2011	1,920
Additions during period	49
Exchange rate adjustment	142
Amortisation	(99)
At 1 April 2012	2,012
Additions during period	55
Exchange rate adjustment	49
Amortisation	(122)
At 30 September 2012	1,994

4. EVENTS SUBSEQUENT TO THE PERIOD END

On 26 October 2012 AorTech created £1,250,000 of Secured Loan Notes ("the Notes") and issued £1,100,000 of the Notes to existing investors including certain Directors (or members of their families). The Notes are repayable on or before 1 October 2013. The Notes do not bear any interest but are subject to a redemption premium of 100 percent of the nominal value of the Notes if redemption is made prior to 31 March 2013 and 150 percent. thereafter. The Notes attract an additional redemption premium of 15 percent. of the equity value on a change of control of AorTech, 15 percent. of the value of a sale of any of its intellectual property rights, and 15 percent. of the value of any settlement of the current dispute with St. Jude Medical or restructuring of the Licence and Supply Agreement with St. Jude Medical. The Notes are secured by a floating charge over all of AorTech’s assets.

The subscriptions by Bill Brown, Eddie McDaid and Frank Maguire (or members of their families) and Active Capital Trust PLC which amount to, in aggregate, £270,000, are deemed related party transactions for the purposes of Rule 13 of the AIM Rules. The Directors of AorTech (excluding Bill Brown, Eddie McDaid and Frank Maguire) consider, having consulted with finnCap Limited, that the terms of the transaction are fair and reasonable so far as shareholders are concerned.

Corporate information and advisors

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Frank Maguire Chief Executive
Eddie McDaid Finance Director
Jon Pither non-Executive Director
Gordon Wright non-Executive Director

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Interim results will be circulated to Shareholders and copies of the announcement will be made available from the Company's registered office. Dealings permitted on Alternative Investment Market (AIM) of the London Stock Exchange.