AORTECH INTERNATIONAL PLC

UNAUDITED INTERIM RESULTS 2019

For the six months ended 30 September 2019

Contents

CHAIRMAN'S STATEMENT

I am delighted to set out an overview of the key unaudited financial results of AorTech for the six months to 30 September 2019 together with an update on the progress being made in the three strands of the business.

Unaudited results for the six months to 30 September 2019

Our polymer business which derives its income from licensing the rights to the world leading bio-polymer Elast-Eon™ performed well in the period with revenues increasing by 27 per cent to £299,000 (2018: £236,000).

As AorTech transitions to become a medical device development company, it was anticipated that costs would start to increase as research and development activities were undertaken. These activities started half way through the first half of last year and, as a result, in the period to 30 September 2019, administration costs (which include all our research and development activities) were 29 per cent up on the same period last year at £451,000 (2018: £350,000)[1]. We continue to control expenditure and the costs incurred in the first half of the year were 7 per cent lower than those incurred during the second half of last year.

AorTech has not specifically disclosed the total amount spent during the period on research and development activities for commercial reasons, but I am pleased to highlight the tax credit recognised in these results which represents the value of a R&D Tax credit claim that has been submitted for last year and will result in a cash repayment of £81,000 (2018: £nil).

Amortisation of intangible assets amounted to £93,000 (2018: £109,000).

The net impact of the above resulted in a much reduced loss for the half year of £158,000 (2018: £225,000).

Cash management has remained a key focus and I am pleased that cash at 30 September 2019 amounted to £2,331,000 representing cash burn during the period of only £81,000. Interestingly, if the R&D tax credit had been received in the six months ended 30 September 2019, the cash position over the period would have been neutral, which would have been a major achievement for a developing business.

Elast-Eon™ - Polymer Business

Elast-Eon™ is without doubt the world's leading biostable polyurethane. It is a very high silicone content co-polymer of polyurethane and silicone macrodials which retains the physical and mechanical properties of conventional polyurethanes whilst demonstrating levels of biological stability that far surpasses rigid biostable polyurethanes.

A number of major medical device companies utilise Elast-Eon™ and are achieving outstanding clinical results with their products. As an example, Abbott has used Elast-Eon™ as an insulation material on cardiac rhythm leads since 2006, thus providing unique long term data on Elast-Eon™. This data shows that the presence of Elast-Eon™ dramatically reduces the probability of abrasion malfunction in tachycardia leads at 146 months by 83 per cent.

This business area has seen good growth over the past six months, but historically, AorTech has not enjoyed the success with Elast-Eon™ that Elast-Eon™ deserves, due to years of poor management. The outstanding benefits of Elast-Eon™ are now being increasingly recognised. I am pleased to report that, having been able to review and analyse this business opportunity in proper detail, we look forward to a much higher level of promotion and marketing of Elast-Eon™, particularly focused on having Elast-Eon™ "designed into" products that will become "Elast-Eon™ Enabled".

With this in mind, we are delighted to have recently signed a very important licence agreement with Medibrane Limited, experts in encapsulation technology for medical devices but stents in particular. This licence is all about Medibrane designing Elast-Eon™ into devices and promoting the benefits to device manufacturers.

[1] September 2018 comparatives as restated (see note 6)

Elast-Eon™Enabled Textile Devices

The value added by Elast-Eon™ to medical devices is significantly more than can be charged for through material supply and licensing. In order to capture more of the value added, AorTech has decided to develop medical devices which are "Enabled" by the key properties of Elast-Eon™.

The recent pace of development of the large bore grafts and resulting prototype devices has been outstanding. Major developments have been achieved in the textile construction, heat setting and crimping technology, together with the application of Elast-Eon™ coating and sealant. Bringing all of this together has resulted in the recent production of a 100 per cent sealed, superb handling Aortic Root graft that retains its shape and form without being pressurised.

We have kept the industry appraised of our developments and have received some very positive feedback on our product portfolio. We have little doubt that once we achieve regulatory approval for the grafts, there will be ready buyers for the devices, including significant OEM interest.

The development time frame anticipates all animal testing and ISO device testing being undertaken over the next year, allowing application for initial FDA approval.

Elast-Eon™ Enabled Heart Valve

A highly significant event over the past six months in the field of heart valve technology was the ''first in man'' of a polymer leaflet heart valve as part of an early stage study. Despite this having been achieved by a team which includes former employees of AorTech and with a valve that looks similar to the previous generation of AorTech's valve, we are delighted and encouraged by this development.

From a regulatory perspective, a furrow has now been ploughed and protocols for human testing of polymeric valves have clearly been agreed by the FDA. From a commercial perspective, the change in attitude and level of interest in alternative leaflet technology has been remarkable and we have recently had a number of very interesting discussions.

We hope the valve study is successful, primarily for the patients receiving this new technology, but it would also increase our confidence on the likely success of our own improved design. Furthermore, we would prefer to have to explain the superior benefits of our own valve over a successful competitor polymer valve, rather than needing to convince the market that our design will address any failures if the competitor product is unsuccessful.

We are continuing to make good progress on both valve design and design for manufacture and feedback from the process is currently driving further improvements. We hope to commit soon to the manufacture of early proof of concept prototypes. This should confirm the capabilities of the novel manufacturing technology we are looking to adopt before finalising the design. The objective being to have design freeze quality valves under testing next year.

Conclusion

Progress over the past six months has been very positive. The polymer business is performing well and an ambitious plan is in place to develop it further. The medical textiles development has been quite incredible and much credit must go to our partners, RUA Medical, who have surpassed our expectations. Progress on the heart valve is very positive with the timing of significantly improving past designs arising at a point when the industry has much more interest in alternative materials. We look forward to 2020 with both excitement and confidence.

Bill Brown, Chairman
28 November 2019

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

Six months ended 30 September 2019

	Note	Unaudited **Six months to 30 Sept 2019** **GB£000**	Unaudited (restated) **Six months to 30 Sept 2018** **GB£000**	Audited **Twelve months to 31 March 2019** **GB£000**
Revenue	3	299	236	463
Other income		6	-	7
Administrative expenses		(451)	(350)	(835)
Exceptional administrative (expenses) / income (net)	2	-	(2)	(6)
Other expenses – share-based payments		-	-	(42)
Other expenses – depreciation & amortisation		(93)	(109)	(218)
Operating loss		(239)	(225)	(631)
Finance income/(expense)		-	-	22
Loss attributable to owners of the parent company		(239)	(225)	(609)
Taxation		81	-	-
Loss attributable to equity holders of the parent company	6	**(158)**	**(225)**	**(609)**
Loss per share (basic and diluted) – GB Pence		(1.08)	(2.01)	(4.72)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 September 2019

	Unaudited **Six months to 30 Sept 2019** **GB£000**	Unaudited (restated) **Six months to 30 Sept 2018** **GB£000**	Audited **Twelve months to 31 March 2019** **GB£000**
Loss for the period	(158)	(225)	(609)
Total comprehensive income for the period, attributable to owners of the parent company	**(158)**	**(225)**	**(609)**

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

At 30 September 2019

		Unaudited	Unaudited (restated)	Audited
		30 Sept 2019	**30 Sept 2018**	**31 March 2019**
	Note	**GB£000**	**GB£000**	**GB£000**
Assets				
Non-current assets				
Intangible assets	4	355	557	448
Tangible assets	5	2	1	1
Total non-currents assets		**357**	**558**	**449**
Current assets				
Trade and other receivables		234	233	238
Cash and cash equivalents		2,331	2,593	2,412
Total current assets		**2,565**	**2,826**	**2,650**
Total assets		**2,922**	**3,384**	**3,099**
Liabilities				
Current liabilities				
Trade and other payables		(80)	(42)	(99)
Total current liabilities		**(80)**	**(42)**	**(99)**
Net assets		**2,842**	**3,342**	**3,000**
Equity				
Issued capital	7	12,574	12,574	12,574
Share premium	7	4,550	4,595	4,550
Other reserve		(1,916)	(2,003)	(1,916)
Profit and loss account	6	(12,366)	(11,824)	(12,208)
Total equity attributable to equity holders of the parent company		**2,842**	**3,342**	**3,000**

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

Six months ended 30 September 2019

	Unaudited	Unaudited	Audited
	Six months to 30 Sept 2019	**Six months to 30 Sept 2018**	**Twelve months to 31 March 2019**
	GB£000	**GB£000**	**GB£000**
Cash flows from operating activities			
Group loss after tax	(158)	(225)	(609)
Adjustments for:			
Depreciation of tangible assets and amortisation of intangible assets	93	109	218
Share-based payments	-	-	42
(Increase) / decrease in trade and other receivables	4	(100)	(104)
Increase / (Decrease) in trade and other payables	(19)	(26)	31
Net cash flow from operating activities	**(80)**	**(242)**	**(422)**
Cash flows from investing activites			
Purchase of equipment	(1)	(1)	(1)
Acquisition of subsidiary, net of cash acquired	-	(139)	(139)
Purchase of intangible assets	-	-	-
Net cash flow from investing activities	**(1)**	**(140)**	**(140)**
Cash flows from financing activities			
Proceeds of issue of share capital, net of issue costs	-	2,553	2,552
Net cash flow from financing activities	**-**	**2,553**	**2,552**
Net increase / (decrease) in cash and cash equivalents	(81)	2,171	1,990
Cash and cash equivalents at beginning of period	2,412	422	422
Cash and cash equivalents at end of period	**2,331**	**2,593**	**2,412**

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Other reserve	Profit and loss account	Total Equity
	GB£000	GB£000	GB£000	GB£000	GB£000
Balance at 01 April 2018	**12,118**	**2,500**	**(2,003)**	**(11,599)**	**1,016**
Issue of equity share capital (net of issue costs)	456	2,095	-	-	2,551
Loss for the period	-	-	-	(225)	(225)
Total comprehensive income for the period	-	-	-	**(225)**	(225)
Balance at 30 September 2018	**12,574**	**4,595**	**(2,003)**	**(11,824)**	**3,342**
Share-based payments			42		42
Share warrants		-45	45		-
Transactions with owners	**-**	**-45**	**87**	**-**	**42**
Loss for the period	-	-	-	(384)	(384)
Total comprehensive income for the period	-	-	-	**(384)**	**(384)**
Balance at 31 March 2019	**12,574**	**4,550**	**(1,916)**	**(12,208)**	**3,000**
Transactions with owners	-	-	-	-	-
Loss for the period	-	-	-	(158)	(158)
Total comprehensive income for the period	**-**	**-**	**-**	**(158)**	**(158)**
Balance at 30 September 2019	**12,574**	**4,550**	**(1,916)**	**(12,366)**	**2,842**

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 2019 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 2019.

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 2019. They were approved for issue by the Board of Directors on 28 November 2019.

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 interim financial statements, the Directors have formed a judgement at the time of approving the interim 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 condensed consolidated interim financial statements is appropriate.

The financial information for the six months ended 30 September 2019 and the comparative figures for the six months ended 30 September 2018 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 2019.

These extracts do not constitute statutory accounts under section 434 of the Companies Act 2006. The financial statements for the year ended 31 March 2019, prepared under IFRS, received an unqualified audit report, 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.

The functional and presentational currency of AorTech International Plc is GB£ as this is where all sales arise and from where the majority of costs now emanate. Previously, to reflect the substance of transactions, the Directors chose to use US$ as the Company's presentational currency. Exchange differences therefore arose in each prior period representing the retranslation of reserves from a functional currency of GB£ to their presentational currency at the time of US$. The exchange differences have been eliminated by this change in presentational currency.

Loss per share has been calculated on the basis of the result for the period after tax, divided by the number of ordinary shares in issue in the period of 14,686,608. The comparatives are calculated by reference to the weighted average number of ordinary shares in issue which were 12,910,847 for the year ended 31 March 2019.

2. EXCEPTIONAL ADMINISTRATIVE EXPENSES

This comprises the exceptional administrative expense of sundry disbursement costs associated with the now resolved litigation against the Company's former CEO.

3. SEGMENTAL REPORTING

The Company is an Intellectual Property (IP) holding company whose principal activity is exploiting the value of its IP and know-how.

All revenue and operating result originated in the United Kingdom.

Analysis of revenue by income stream

	Unaudited	Unaudited	Audited
	Six months to 30 Sept 2019	**Six months to 30 Sept 2018**	**Twelve months to 31 March 2019**
	GB£000	**GB£000**	**GB£000**
License fees – services	40	38	76
Royalty revenue	259	198	387
Total	**299**	**236**	**463**

Analysis of revenue by geographical location

	Unaudited	Unaudited	Audited
	Six months to 30 Sept 2019	**Six months to 30 Sept 2018**	**Twelve months to 31 March 2019**
	GB£000	**GB£000**	**GB£000**
Europe	103	97	178
USA	174	121	251
RoW	22	18	34
Total	**299**	**236**	**463**

4. INTANGIBLE ASSETS

	Intellectual property	**Development costs**	**Total**
	GB£000	**GB£000**	**GB£000**
At 01 April 2018	**413**	**114**	**527**
Additions	139		139
Amortisation	(79)	(30)	(109)
At 30 September 2018	**473**	**84**	**557**
Additions	-	-	-
Amortisation	(80)	(29)	(109)
At 01 April 2019	**393**	**55**	**448**
Additions	-	-	-
Amortisation	(80)	(13)	(93)
At 30 September 2019	**313**	**42**	**355**

Additions to Intellectual property arise on consolidation of Cortech Medical Limited which was acquired during the period ended 30 September 2018. As previously disclosed to shareholders in the fund-raising circular, Cortech was acquired from William Brown, a director of the Company, and therefore represents a related party transaction.

5. TANGIBLE ASSETS

	GB£000
Cost	
At 01 April 2019	1
Additions	1
At 30 September 2019	**2**
Depreciation	
At 01 April 2019	**-**
Charge for the period	**-**
At 30 September 2019	**-**
Net book value	
At 01 April 2019	**1**
At 30 September 2019	**2**

6. RESTATEMENT OF SEPTEMBER 2018 RESULTS

The unaudited interim results for the six months ended 30 September 2018 have been restated to take account of a small audit adjustment that was made at year-end, which reclassifed c£6k of costs as administrative expenses, this expense had previously been deducted from the share premium account.

7. ISSUED SHARE CAPITAL

During the 6 month period to 30 September 2018, the Company undertook a fund-raising which included the issue of 9,128,913 new ordinary shares of 5 pence each, thereby increasing Issued share capital by £456,000 and the share premium account by £2,095,000, net of costs.

8. INTERIM ANNOUNCEMENT

The interim results announcement was released on 29 November 2019. A copy of this Interim Report is also available on the Company's website www.aortech.net.

Board of Directors and Advisors

Directors
W Brown Executive Chairman
J McKenna Director of Clinical Marketing
G Wright Non-executive Director
G Berg Non-executive Director
J Ely Non-executive Director
D Richmond Non-executive Director

Company Secretary
K M Full FCCA

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Financial statements will be available to Shareholders from the Company Website, along with copies of the announcement. Dealings permitted on Alternative Investment Market (AIM) of the London Stock Exchange.