

AORTECH INTERNATIONAL PLC

UNAUDITED INTERIM RESULTS 2016

For the six months ended 30 September 2016

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CHAIRMAN'S STATEMENT

I set out below a commentary on the key matters over the past six months.

Unaudited results for the six months to 30 September 2016

In the six months to 30 September 2016, revenue of \$240,000 was recognised, a fall from the \$380,000 achieved in the same period last year. A tight control over costs was continued and administrative expenses remained at a slightly reduced level at \$349,000 (\$365,000 in the prior year). The Company continued to incur exceptional administrative costs as a result of the litigation against a former Director and others which when taken with the amortisation of intangible assets resulted in a loss of \$310,000 for the period. A further charge of \$122,000 relating to exchange differences impacts on total comprehensive income and reflects the translation of Sterling denominated balance sheet items such as Share Capital and Intangible assets into the reporting currency of US\$.

Litigation

It is now three years since AorTech's former CEO, Frank Maguire, resigned on short notice. AorTech commenced litigation against Mr. Maguire in March 2014 and later extended it to include other parties. AorTech continues to pursue relief through the litigation process.

Considerable time and effort has been dedicated to the pursuit of this litigation and AorTech would like to keep shareholders fully informed on the merits and progress of the case. On the other hand, much of what has become known to AorTech remains subject to confidentiality and other disclosures remain available only to our attorneys. We recognise and share the frustration of shareholders who would like to know the full details of the case but need to balance disclosure with the problems associated with rehearsing our arguments and strategy in public. Shareholders can however monitor progress and activity in the dispute on public access websites. Not all documents filed in court are public but their subject matter is and these can be found on websites such as PacerMonitor. This website, which also has details of all the publicly available documentation, can be found at (https://www.pacermonitor.com/public/case/2943517/Aortech_International_v_Maguire#).

As can be seen from a review of the above web site, in an effort to resolve the dispute, AorTech petitioned the court to order a settlement conference or mediation. A court-ordered mediation process was undertaken last week, but no agreement was reached. AorTech is disappointed that the mediation process was not successful, as proceeding to trial will result in a period of continued uncertainty for all parties. AorTech intends to continue pursuit of the litigation but remains open to a negotiated resolution.

Board Changes

Mr Eddie McDaid retired as Chief Executive Officer and a Director at the end of October. Mr McDaid served the Company over two periods, initially as a founder of the business and in his second spell he started as a non executive Director then assumed the finance function and latterly the position of CEO. Your Board wishes to express its gratitude to Mr McDaid for his dedication and determination in resolving many of the issues the Company has faced over the last few years and his wise council will be truly missed. We all wish Eddie a long and happy retirement.

The vacancy on the Board created by Eddie's retirement was filled by the appointment of John McKenna as a non executive Director. John had served AorTech in the past in a sales and marketing role and he has over 30 years frontline experience in the medical device industry, particularly in cardio vascular devices including heart valve devices. John's medical and industry contacts will be of benefit to AorTech and we are already having discussions under confidentiality agreements with other businesses on how our materials can be incorporated into new device designs.

Business Development

Our manufacturing licensee continues to market the polymer family to medical device companies and there appears to be continuing interest in the polymer benefits. We are hopeful that new licensees will be signed in the near future.

AorTech remains interested in licensing its heart valve project, however the new business established to pursue this project has still not raised all of the required capital. A number of other medical devices requiring the same or similar blood contacting material properties have been identified and we are considering how to pursue these with AorTech retaining more than just a licensed interest in the projects.

Bill Brown, Chairman

20 December 2016

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

Six months ended 30 September 2016

		Unaudited	Unaudited	Audited
	Note	Six months to 30 Sept 2016 US\$000	Six months to 30 Sept 2015 US\$000	Twelve months to 31 March 2016 US\$000
Revenue		240	380	751
Other income		-	-	150
Administrative expenses		(349)	(365)	(1,084)
Exceptional administrative expenses	2	(49)	(45)	(80)
Other expenses - amortisation of intangible assets	6	(152)	(163)	(312)
Operating loss		(310)	(193)	(575)
Finance expense	3	-	(363)	(29)
Loss attributable to owners of the parent company		(310)	(556)	(604)
Taxation		-	-	-
Loss attributable to equity holders of the parent company		(310)	(556)	(604)
Loss per share (basic and diluted) – US cents		(5.58)	(11.50)	(12.00)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

		Unaudited	Unaudited	Audited
		Six months to 30 Sept 2016 US\$000	Six months to 30 Sept 2015 US\$000	Twelve months to 31 March 2016 US\$000
Loss for the period		(310)	(556)	(604)
Other comprehensive income:				
Exchange differences		(122)	26	(35)
Income tax relating to other comprehensive income		-	-	-
Other comprehensive income for the period, net of tax		(122)	26	(35)
Total comprehensive income for the period, attributable to equity holders of the parent company		(432)	(530)	(639)

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	Unaudited	Unaudited	Audited
	30 Sept 2016 US\$000	30 Sept 2015 US\$000	31 March 2016 US\$000
Assets			
Non current assets			
Intangible assets	<u>1,093</u>	<u>1,519</u>	<u>1,367</u>
Total non current assets	<u>1,093</u>	<u>1,519</u>	<u>1,367</u>
Current assets			
Trade and other receivables	<u>145</u>	<u>474</u>	<u>243</u>
Cash and cash equivalents	<u>216</u>	<u>459</u>	<u>314</u>
Total current assets	<u>361</u>	<u>933</u>	<u>557</u>
Total assets	<u>1,454</u>	<u>2,452</u>	<u>1,924</u>
Liabilities			
Current liabilities			
Trade and other payables	<u>(127)</u>	<u>(168)</u>	<u>(165)</u>
Change of control redemption premium	<u>-</u>	<u>(416)</u>	<u>-</u>
Total current liabilities	<u>(127)</u>	<u>(584)</u>	<u>(165)</u>
Net assets	<u>1,327</u>	<u>1,868</u>	<u>1,759</u>
Equity			
Issued capital	<u>15,769</u>	<u>18,260</u>	<u>17,426</u>
Share premium	<u>3,253</u>	<u>3,537</u>	<u>3,595</u>
Other reserve	<u>(2,607)</u>	<u>(3,028)</u>	<u>(2,881)</u>
Foreign exchange reserve	<u>8,230</u>	<u>5,770</u>	<u>6,627</u>
Profit and loss account	<u>(23,318)</u>	<u>(22,671)</u>	<u>(23,008)</u>
Total equity attributable to equity holders of the parent company	<u>1,327</u>	<u>1,868</u>	<u>1,759</u>

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

	Unaudited	Unaudited	Audited
	Six months to 30 Sept 2016 US\$000	Six months to 30 Sept 2015 US\$000	Twelve months to 31 March 2016 US\$000
Cash flows from operating activities			
Group loss after tax	(310)	(556)	(604)
Adjustments for:			
Amortisation of intangible assets	152	163	312
Finance expense / (income)	-	363	29
Decrease in trade and other receivables	98	263	494
Decrease in trade and other payables	(38)	(24)	(109)
Net cash flow from operating activities	<u>(98)</u>	<u>209</u>	<u>122</u>
Cash flows from investing activities			
Purchase of intangible assets	-	(110)	(168)
Net cash flow from investing activities	<u>-</u>	<u>(110)</u>	<u>(168)</u>
Net increase / (decrease) in cash and cash equivalents	(98)	99	(46)
Cash and cash equivalents at beginning of period	<u>314</u>	<u>360</u>	<u>360</u>
Cash and cash equivalents at end of period	<u><u>216</u></u>	<u><u>459</u></u>	<u><u>314</u></u>

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 2015	17,937	3,474	(2,974)	6,076	(22,115)	2,398
Transactions with owners	-	-	-	-	-	-
Loss for the period	-	-	-	-	(556)	(556)
Other comprehensive income						
Exchange difference	323	63	(54)	(306)	-	26
Income tax relating to components of other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the period	323	63	(54)	(306)	(556)	(530)
Balance at 30 September 2015	18,260	3,537	(3,028)	5,770	(22,671)	1,868
Issue of equity share capital	54	235	-	-	(289)	-
Transactions with owners	54	235	-	-	(289)	-
Loss for the period	-	-	-	-	(48)	(48)
Other comprehensive income						
Exchange difference	(888)	(177)	147	857	-	(61)
Income tax relating to components of other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the period	(888)	(177)	147	857	(48)	(109)
Balance at 31 March 2016	17,426	3,595	(2,881)	6,627	(23,008)	1,759
Transactions with owners	-	-	-	-	-	-
Loss for the period	-	-	-	-	(310)	(310)
Other comprehensive income						
Exchange difference	(1,657)	(342)	274	1,603	-	(122)
Income tax relating to components of other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the period	(1,657)	(342)	274	1,603	(310)	(432)
Balance at 30 September 2016	15,769	3,253	(2,607)	8,230	(23,318)	1,327

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 2016, 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 2016.

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 2016. They were approved for issue by the Board of Directors on 20 December 2016.

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 2016 and the comparative figures for the six months ended 30 September 2015 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 2016.

These extracts do not constitute statutory accounts under section 434 of the Companies Act 2006. The financial statements for the year ended 31 March 2016, 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 currency of AorTech International plc is GB£ as this is where all sales arise. However, to reflect the substance of transactions Directors have chosen to use US\$ as their presentational currency. Exchange differences therefore arise in each period representing the retranslation of reserves from a functional currency of GB£ to their presentational currency of US\$.

Loss 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 5,557,695. 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 2015 and 5,032,823 for the year ended 31 March 2016.

2. EXCEPTIONAL ADMINISTRATIVE EXPENSES

This comprises the exceptional administrative expense represented by the ongoing 10% cost of litigation against the Company's former CEO.

3. FINANCE INCOME / (EXPENSE)

The change of control redemption premium in prior periods represents the decrease / (increase) in the premium payable to the former loan note holders in the event of a change of control of the Company. The amount payable was based upon the market capitalisation of the Company at the balance sheet date. The finance cost recognised in the period related to the change of control redemption premium inherent in loan notes previously issued (and since settled) by the Company. Shareholders previously approved the Company's intention to approach loan note holders to convert their right to a further redemption premium into ordinary shares. In the year to 31 March 2016, ordinary shares were issued in full and final settlement of any future liability. As such, no liability remained at 31 March 2016 leading to no finance expense in the interim period to 30 September 2016.

4. 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.

	Unaudited	Unaudited	Audited
	Six months to 30 Sept 2016 US\$000	Six months to 30 Sept 2015 US\$000	Twelve months to 31 March 2016 US\$000
Analysis of revenue by products and services			
Licence fees - services	52	49	139
Royalty revenue	<u>188</u>	<u>331</u>	<u>612</u>
	<u>240</u>	<u>380</u>	<u>751</u>

5. FINANCE (EXPENSE) / INCOME

	Unaudited	Unaudited	Audited
	Six months to 30 Sept 2016 US\$000	Six months to 30 Sept 2015 US\$000	Twelve months to 31 March 2016 US\$000
Change of control redemption premium	<u>-</u>	<u>(363)</u>	<u>(29)</u>
	<u>-</u>	<u>(363)</u>	<u>(29)</u>

6. INTANGIBLE ASSETS

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

	Intellectual property	Development costs	Total
	US\$000	US\$000	US\$000
At 1 April 2015	1,323	223	1,546
Additions during period	-	110	110
Exchange rate adjustment	25	1	26
Amortisation	<u>(122)</u>	<u>(41)</u>	<u>(163)</u>
At 30 September 2015	1,226	293	1,519
Additions during period	-	58	58
Exchange rate adjustment	(57)	(4)	(61)
Amortisation	<u>(117)</u>	<u>(32)</u>	<u>(149)</u>
At 1 April 2016	1,052	315	1,367
Exchange rate adjustment	(94)	(28)	(122)
Amortisation	<u>(109)</u>	<u>(43)</u>	<u>(152)</u>
At 30 September 2016	<u>849</u>	<u>244</u>	<u>1,093</u>

7. INTERIM ANNOUNCEMENT

The interim results announcement was released on 20 December 2016. A copy of this Interim Report is also available on the Company's website www.aortech.net.

Corporate information and advisers

Directors

Bill Brown non-Executive Chairman and Finance Director

John McKenna non-Executive Director

Gordon Wright non-Executive Director

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