MATERIALS FOR LIFE™

Collagen Solutions plc

ANNUAL REPORT
AND ACCOUNTS 2019

COLLAGEN SOLUTIONS
MATERIALS FOR LIFE

Stock code: COS

Who are we and what do we do?

WE ARE A GLOBAL REGENERATIVE BIOMATERIALS COMPANY

We supply and develop biomaterials and medical devices to the high-growth regenerative medicine market to enhance and extend human life. Our products are used to restore structure and function of damaged tissues and organs in the cardiovascular, orthopaedic, wound, dental and research spaces.

- We make materials for regenerative cartilage products that help people walk and run again pain free
- Our tissue is used in advanced cardiovascular surgical procedures to save and extend human life
- Collagen-based skin grafts and scaffolds help to heal severe wounds and burns, potentially saving limbs and life
- Our biomaterials products for reconstructive dental surgery help to restore dignity and relieve pain
- We supply and collaborate with researchers worldwide, including on projects to find solutions for Parkinson's disease and incontinence

We provide Materials for Life™

INVESTMENT VALUE PROPOSITION

High-growth market for biomaterials products

- Growth driven by demographics and innovation
- Applications in many medical specialities

We are well positioned for growth

- Multiple growth initiatives on a foundation of existing revenue
- Customer projects and internal proprietary product nearing launch

Proven business model with blue chip customers

- Growing customer base; many with existing complementary products/channels
- Long-term contracts give revenue visibility, regulation creates sticky customers

Experienced management team

- Global med-tech experience
- Track record of growth and value creation

COLLAGEN SOLUTIONS
MATERIALS FOR LIFE

Read more about our value within the Marketplace on PAGES 14 to 17

FINANCIAL HIGHLIGHTS

Revenue & other income

£4,505,181

	Revenue & other income
2019	£4,505,181
2018	£3,707,860
2017	£4,090,549

LBITDA

before separately identifiable items

£(1,216,530)

	LBITDA
2019	£(1,216,530)
2018	£(1,708,952)
2017	£(1,259,361)

Cash & Cash Equivalents

*£1,678,079

	Cash & Cash Equivalents
2019	£1,678,079
2018	£5,022,314
2017	£8,978,150

Gross Profit Margin

73.2%

	Gross Profit Margin
2019	73.2%
2018	70.3%
2017	75.1%

RECENT PROGRESS

Streamlining production, moving up the value chain

New Zealand tissue business unit established

- Tissue product line extended (multiple tissues + porcine)
- Four new tissue customers secured

Manufacturing consolidation into Glasgow

- Transfer of NZ manufacturing to Glasgow
- Annualised cash savings of *c.*£200k

*2019 cash pre £5.96m fund raise completed 5th June

Expansion of development revenues

- Two blue chip development customers signed in FY 2019

New Chinese partnerships

- Former JV fully transitioned to Collagen Solutions
- Two new channel partners established; both commenced first sales

R&D Grant Support

- Non-dilutive £1.54 million R&D matching grant awarded by Scottish Enterprise

CONTENTS

Visit our website for research notes and presentations
www.collagensolutions.com

Business overview

We are a developer and manufacturer of biomaterials and regenerative medicines for the enhancement and extension of human life.

OUR MISSION

Improving patients' quality of life by:

- being a **trusted partner** with our customers;
- providing **innovative** biomaterial solutions; and
- providing **passionate delivery** from our global team.

OUR VISION

To be the industry's first choice for regenerative biomaterials.

OUR SPECIALITY AREAS

Orthopaedics

Regenerative cartilage products help people to walk and run again pain free, and advanced bone grafts enable surgeons to relieve severe back pain and correct deformities.

Cardiovascular

Our tissue is used in advanced cardiovascular surgical procedures to save and extend life itself.

Wound care

Collagen-based skin grafts and scaffolds can help to heal severe wounds and burns, potentially saving limbs and life.

Dental

Our biomaterials-based products for reconstructive dental surgery help to restore dignity and relieve pain.

Research

We supply to and collaborate with researchers worldwide, including projects for Parkinson's disease and incontinence.

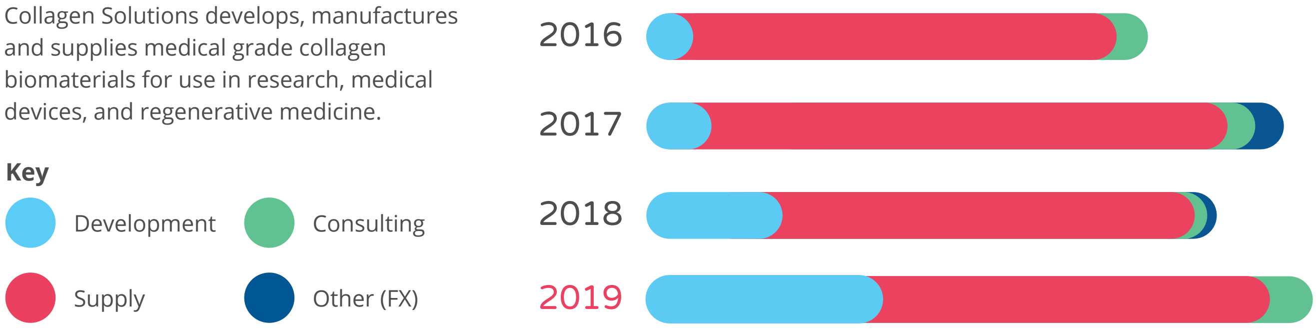
IMPROVING LIVES WITH REGENERATIVE MEDICINE

With our customers, we provide products and expertise in the regenerative biomaterials sector which can be used in the repair, replacement or regeneration of damaged organs or tissue in tissue engineering.

OUR OPERATIONS

Collagen Solutions develops, manufactures and supplies medical grade collagen biomaterials for use in research, medical devices, and regenerative medicine.

(This data relates to Revenue)



OUR CORE SERVICES

Our core services are focused on product development and contract manufacturing.

Product development

Collagen Solutions sources, develops and manufactures functional, medical grade collagen for use in medical devices, research and regenerative medicine.

Contract manufacturing

Collagen Solutions operates production facilities where we manufacture engineered collagen products for customers.

Read more about our value within the Marketplace on PAGES 16 and 17

Business overview
Continued

OUR MATERIALS

We engineer regenerative biomaterials and medical devices from natural collagen proteins, animal tissues and other biomaterials.

We utilise medical grade collagen and pericardium and other tissues in our operations of product development and contract manufacturing.

Medical grade collagen

- Collagen is a primary structural protein in tissues and provides a conducive environment for cells.
- **We offer standard and custom formulations in multiple form factors depending on the application.**
- Examples of uses: **tissue scaffolds, cell delivery carriers and research assays.**

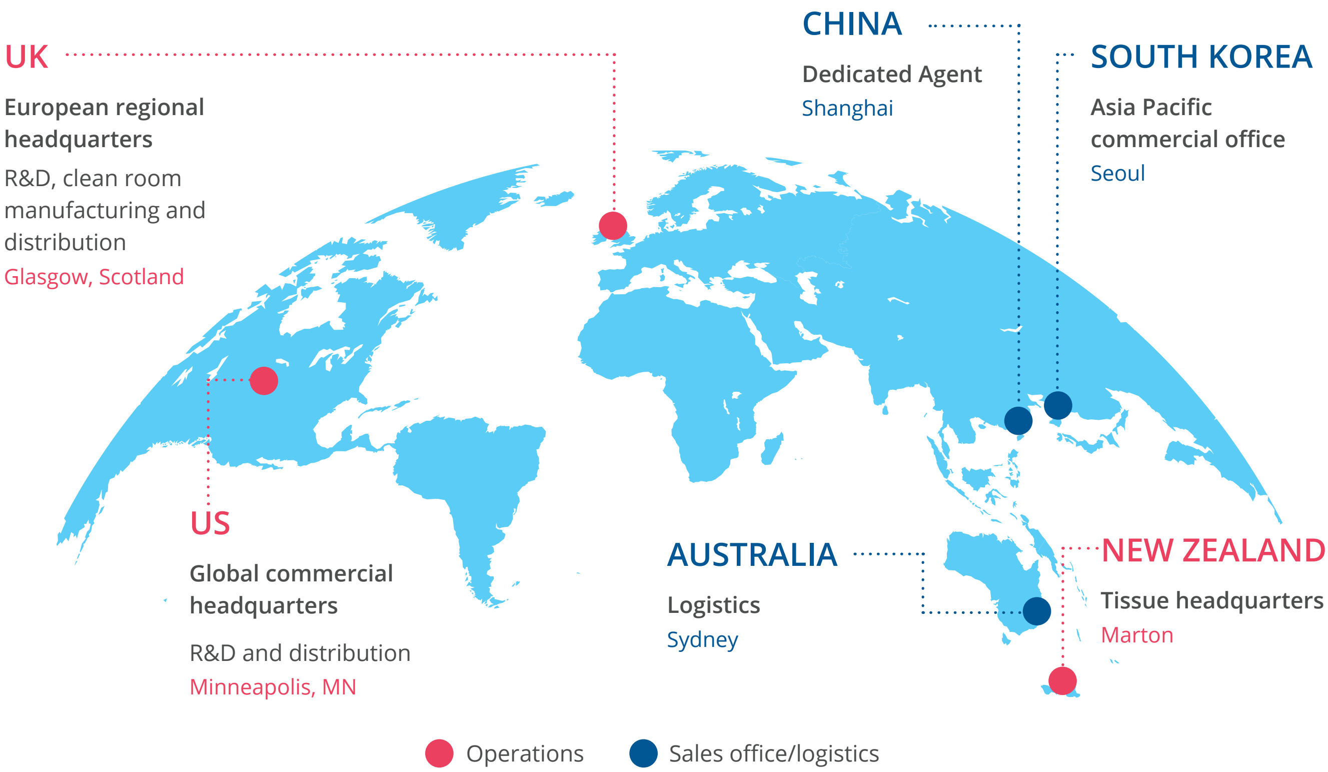
Medical grade tissues

- We offer multiple formulations, species and type
- Properly processed animal tissues have ideal physical and biological properties for medical devices.
- **We offer porcine and bovine tissues including pericardium, blood vessels, tendons, dermis and bone.**
- Examples of uses: **pericardium for heart valves and dental membranes.**

Read more about where our materials are used within the Marketplace on PAGES 16 and 17

OUR LOCATIONS

We are developing sales channels around the world, while investing in our manufacturing facilities to enable the Group to deliver sales growth.



Our progress at a glance

16 April Appointed Lou Ruggiero as Chief Business Officer.

April Established New Zealand tissue business unit, facilitating the extension of the tissue product line and the securing of four new tissue customers during the year.

1 August Signed distribution agreements with two new Chinese channel partners, Dakewe Biotech Co., Ltd and Shanghai Regenic Biomedical.

3 September Appointed Tom Hyland, Chief Operating Officer, and Lou Ruggiero, Chief Business Officer, to the Board.

Half-Year Trading Update Revenue and other income grew 13% in the half year, performance being buoyed by new development agreements closed in the first quarter of this financial year; new customer acquisition continued with nine new customer deals.

5 November Realignment of Bond Repayments to enable further growth to be achieved: signed a deed of variation to our Bond Subscription Agreement with Norgine Ventures providing for a six-month principal repayment holiday.

November Completed the consolidation of manufacturing into Glasgow delivering annualised savings of *c.*£200k.

7 January Non-dilutive £1.54million R&D matching grant awarded by Scottish Enterprise: The grant totals £1.54 million to support the Company's future investment of up to £3.96 million across its next generation proprietary product development pipeline.

ROSEN'S DIVERSIFIED CASE STUDY

Rosen's Diversified, America's fifth-largest beef processor, is investing £4.18 million into the Group as part of its plans to penetrate the animal tissue-related biomedical products space.

The money will allow the Group to expand its contract manufacturing activities, develop new products, and help with the commercialisation of ChondroMimetic® – its knee cartilage scaffold that is awaiting sign-off by European regulators.

"We are pleased to welcome Rosen's Diversified Inc. as our strategic partner and anchor investor in this round. This funding round will support continued growth of our core business, including our supply of collagen and tissue biomaterials as well as new product development contracts activity, providing the Company a solid foundation over the next several years. In addition, the funding will support our launch of ChondroMimetic® following review and approval of the data we previously submitted to our Notified Body.

Jamal Rushdy

Chief Executive Officer

£4.18 MILLION INVESTMENT INTO COLLAGEN SOLUTIONS

15 January New manufacturing agreement: entered into a new agreement with Olaregen Therapeutix, Inc. to manufacture and produce Excellagen®, an advanced FDA 510(k)-cleared wound healing product indicated for the treatment of hard to heal wounds such as diabetic foot ulcers.

31 January Distribution Agreement with Indonesian Partner: entered into a new licence and distribution agreement for ChondroMimetic® with an Indonesian partner, PT Rajawali Mutiara Sejahtera in Indonesia with the potential to expand to several other South East Asian countries.

20 February Sold our Strategic Investment in Jellagen for approximately £215,000 in a private transaction.

During 2019: Expansion of development revenues – two blue chip development customers signed.

Post Year End: On 20th May a Strategic Investment, Placing and Open Offer to raise up to £6.0 million was announced. The strategic investment by Rosen's Diversified Inc of £4.18 million is supplemented by a Placing and Open Offer with total funds raised up to £6.0 million. The Subscription, Placing and Open Offer were conducted at a price of 5.0p per share, a premium of 23.5% to Collagen's closing price on 17 May 2019.

Chairman's statement

"I am pleased with the Strategic Investment by Rosen's Diversified Inc ("RDI") that we completed on 5 June 2019.

Introduction

I am pleased to present Collagen Solutions' annual report and accounts for the year ended 31 March 2019.

I noted last year that I anticipated the 2019 financial year would be a significant year of growth and change, following a difficult 2018 financial year. I am pleased to report that business grew by 18% in the year and our financial performance improved both versus the prior year and market expectations.

Post year end a successful fund raise and strategic investment completed on 5 June 2019 which I believe has put us in a strong position to continue to grow.

Overview

Our Board and management team have continued to make positive progress delivering 29 new customers and 16 new customer agreements. Growth has been in spite of the expiration of a historical supply agreement to a South Korean customer that is working down high inventory levels, and a temporary withdrawal of one customer's tissue product. The latter customer has just recently had its revised product approved by the FDA. The growth despite this temporary setback has enabled us to de-risk the overall business and reduce our reliance on our top 10 customers.

We have continued to put in place the clear organisational structures and initiatives to drive our strategy, which is to build a leading global regenerative biomaterials business based on a core supply, development and manufacturing platform, enhanced by development of our own novel products such as ChondroMimetic® across a range of clinical indications.

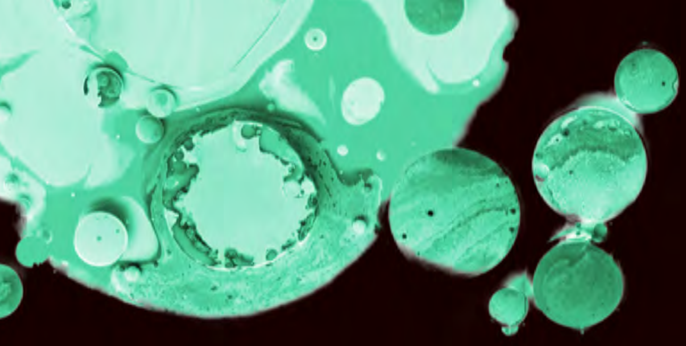
As a Board, we also understand that the success of the Company as a whole is only possible because of the dedication and hard work of our employees. This year we have asked more of them than ever before, and on behalf of the Board I would like to acknowledge the huge effort delivered by our colleagues.

We have also managed to increasingly attract new high calibre hires who all bring something new to the Company and will help us to build the solid platform required to build our value for the future.

Financially during the last quarter of the year the core business was profitable at EBITDA level; a significant milestone for us. We will continue to make losses and burn cash for a couple of years as we require continued investment in several of our growth initiatives including the commercialisation of ChondroMimetic® and to repay the Norgine Ventures debt. However, with this important inflection in our core business and the fund raise we can be more confident about the stability of our financial foundations.

Operationally we delivered the synergies from consolidating manufacturing from New Zealand into Glasgow. This allowed us to refocus the team in New Zealand on expanding our tissue offering and customer base, which they have executed well.

"As a Board, we also understand that the success of the company as a whole is only possible because of the dedication and hard work of our employees.



Strategy – Creating Value for the Future

The Company continues to make progress in our strategy to move up the value chain as evidenced by the transition of our business from raw materials supply towards development services leading to contract manufacturing, supporting customers as they launch new products based on our innovative biomaterials products and know-how.

18%
GROWTH

We believe our core business is poised for accelerated growth as a number of our existing customers start to approach the launches of their products. Currently most of our customers, but half of our revenue, comes from products that are pre-launch: the 14% by number of our customers that are post launch with their products contribute almost the same in revenue as the 86% of our customers that are pre-launch of their own products.

If these pre-launch products are successfully developed, obtain the requisite regulatory approvals and are launched we will be well-positioned to transition these development projects to contract manufacturing revenue or commercial levels of supply. As such we believe that these contracted customers represent an attractive embedded growth driver as revenues from these contracts as they move to a supply phase are expected to be larger than in the development phase and also repeatable as they are required to fulfil commercial sales.

We continued to pursue our own proprietary product portfolio during the year. In ChondroMimetic®, we see a near-term opportunity to establish and realise revenue. ChondroMimetic® is a collagen-based implant for the treatment of small osteochondral (cartilage and underlying bone) defects and has previously received CE-mark certification under its previous licensors for the treatment of small chondral and sub chondral lesions, with approximately 1,000 units previously supplied into European markets.

AWARD OF A
£1.54M
RESEARCH AND DEVELOPMENT GRANT

While we have not yet received the CE mark for which we submitted an application, we have received initial questions from our notified body and are preparing a response in due course and our plans remain subject to the external regulatory review process, the timing of which is outside our control.

Our other key projects are in wound healing and in bone graft substitutes. Both products have completed their in vitro pre-clinical testing and we are in early stage discussions with potential commercial partners regarding private label distribution and/or licensing for one of these products. These projects have been progressing positively but we plan to further advance the bone graft and wound products only via a commercial partnership.

Post Balance Sheet Fund Raise

I am pleased with the Strategic Investment by Rosen's Diversified Inc ("RDI") that we completed on 5 June 2019. This coupled with the Placing and Open Offer raised gross funds of £5.96million from RDI and new and existing shareholders. We expect the fund raise should improve our chance of reaching profitability with no need for another.

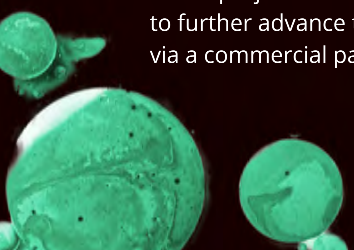
Rosen's Diversified Inc. are a multi-billion dollar, family owned business involved in food production, agrichemicals and distribution. RDI operate the 5th largest beef processing company in the US, the American Foods Group. The strategic investment in Collagen Solutions will provide accelerated access to one of their targeted growth sectors - animal tissue-related biomedical products. The Subscription with RDI is accompanied by a supply agreement with Scientific Life Solutions (a subsidiary of RDI) for the supply of tissue.

Funds will be used to further customer and our own proprietary product development, expand contract manufacturing activities and capabilities and for working capital including the repayment of the Norgine Ventures Bond Facility.

Grants

In January of 2019 we announced an award of a £1.54 million research and development grant across our qualifying projects in our product development pipeline. No grant claims have been made to date. Our ability to claim against this grant going forward will depend upon our R&D project prioritisation.

Our collaborations with various academic and industry partners continue and include our participation in two prestigious European Horizon 2020 consortiums to develop (i) a disease-modifying therapy for Parkinson's which could slow down the progression of the disease rather than offering symptomatic benefits, and (ii) cell-based tissue regeneration techniques.



Chairman's statement
Continued

Board and Management

During the year we delivered on the appointments mentioned in my report last year and Lou Ruggiero our Chief Business Officer and Tom Hyland our Chief Operating Officer both joined the Board on 3 September 2018.

On 6 June 2019, following the strategic investment made through RDI we welcomed Wade Rosen to the Board. Wade is part of the Rosen family and is a successful business leader, entrepreneur, and co-founder of two business-to-business technology companies. Wade currently serves as a Director of RDI, and as Executive Vice President at Scientific Life Solutions, a subsidiary of RDI amongst other directorships. Wade will bring a new dimension to the Board.

Focus for Financial Year 2020 and Beyond

This financial year is about delivering the growth and creating the structures that we need to be the business we aim to be in three years' time. We remain ambitious and the agenda for the coming year reflects both the opportunities that we have identified and the associated challenges.

Our key targets for the current year are as follows;

- **Financial Performance:** Further improvements on financial performance including solidifying core business profitability
- **ChondroMimetic®:** Completing ChondroMimetic® CE mark approval, subject to regulatory timings
- **Core Business Growth:** Unlocking the embedded value in our existing customers, delivering on existing opportunities and building a longer-term revenue stream
- **Infrastructure:** Building the infrastructure and capabilities that we will need to service the business we will be in three years' time
- **Product Portfolio:** Creating the right product portfolio for the business moving forward

Outlook

Going into the current year with the fundraise under our belt I believe we are in a strong position; the challenge for us being about continued delivery and unlocking the embedded value in the business to return our shareholders' investments for them.

I noted last year that we were still not quite at the critical mass of revenue that would enable us to weather the storm of the vicissitudes of our customers, and that I thought we were at least two years away from achieving that. This is still the case however with both funding in place and line of sight to some of the contractual arrangements that will drive growth in the medium to long term I believe we are in a much improved position.

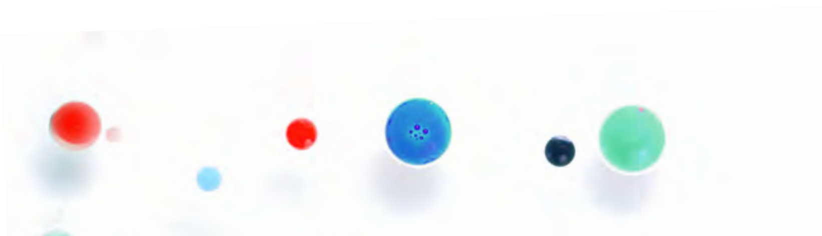
Finally, I have taken the decision to step-down as Chairman and from the Board as a result of the relentless progression of my muscle-wasting condition and an inevitable conclusion that I can no longer give 100% to the position and that is not in Shareholders' best interests. I will be succeeded by Chris Brinsmead, one of my fellow Non-executive directors who I am confident will, under his Chairmanship, take the Company to the next level of its development.

On behalf of the Board I would like to once again thank shareholders, staff and partners for their continued support.

David Evans

Non-executive Chairman

8 July 2019



CEO's statement

> *A positive year moving up the value chain.*

- Revenue Growth: +18%
- Contract Development, Manufacturing and Licensing: +79%
- New customer agreements: +16

Overview

I am pleased to report double-digit growth and a significant increase in product development revenue, as well as solid execution against our stated priorities for the year.

We made substantial progress towards our goal of creating value by moving up the value chain from a raw biomaterials supplier towards being a trusted full-service partner to our customers by developing and manufacturing innovative regenerative medicine products.

Our core business strengthened as new account acquisition continued to grow at record pace and development revenue substantially increased, representing significant embedded value for future OEM contract manufacturing while diversifying our customer base to mitigate the customer concentration risks we experienced last year.

We successfully executed on our initiatives for the year including our financial performance, product development programmes, commercial and operational initiatives, and improved investor communications.

Finally, we completed key new-hires this year and invested in our global team's development to strengthen the Company's talent base.

Performance

Revenue and other income for the year was £4.51 million, including £4.15 million in sales and £0.35 million in other income. This represents growth of 22% on prior year overall, with 18% sales growth, driven largely by increases in North America and product development revenue.

We added 16 new customer agreements during the year, consistent with the number of agreements in the prior year although at a higher average value. New customer agreements came from all our geographies with five in North America, five in EMEA, and six in Asia Pacific.

Our contract development and manufacturing category posted significant growth of 79% to £1.6 million, representing 39% of revenue overall made up of 33% contract product development revenue and 6% from other sources. We believe this significant amount of contract product development revenue is a positive indicator of future contract manufacturing business as these products move from development to launch phase over the next few years. Our supply business decreased by 2.7% to £2.53 million. This slight decline is mostly due to the expiration of a historical supply agreement to a South Korean customer that is working down high inventory levels and one other customer decline, which was offset by other supply business growth such that adjusted for these losses the supply business more than doubled. Included in this supply business are revenues from our newly established tissue business unit, which has diversified our offering from mostly Australian/New Zealand-sourced bovine pericardium to a wide range of additional tissue products from both porcine and bovine sources including U.S.-based suppliers.

16
NEW CUSTOMER AGREEMENTS

Geographically, revenue from North America increased substantially to £2.63 million (72% growth) mostly driven by new contract product development revenue. Our EMEA region maintained at a similar level to last year at £0.59 million, while Asia Pacific declined by 33% to £0.93 million, entirely driven by the South Korean contract expiration. However, we remain in close contact with this customer and plan to support their growth in the future once their inventory adjusts to the level required for their business.

Growth Initiatives

In anticipation of receiving the CE mark for ChondroMimetic®, we have established distribution partners in selected geographic areas. In the course of the financial year, we secured new distribution partners in Southeast Asia and Europe as well as hired a focused commercial leader with cartilage therapy expertise in Europe. Once we receive CE mark approval this team will be well poised to begin initial human surgical cases with ChondroMimetic®. We are pleased to have just received notice that our Notified Body completed an initial review of the ChondroMimetic® CE mark application. Our team is diligently preparing responses and assessing, in collaboration with our notified body and advisors what, if any, additional information or data may be required as well as the related timing.

72%
NORTH AMERICAN GROWTH

We also advanced our other proprietary product technologies, completing the in vitro testing for our bone graft substitute targeted for spinal indications as well as our wound healing products. We believe with this additional data available we are better able to market these technologies and are currently seeking partners to complete the necessary tests and regulatory filings to commercialise these products.

Our commercial organisation delivered several achievements relative to our goals last year. Our aim was to achieve growth across all territories via improved global sales operations processes and leadership, which we achieved net of one outlier related to the expiration of the aforementioned South Korean contract.

We also set out to secure new distribution partners in China, which we accomplished and have realised our first sales from these new partners during the financial year.

Finally, we set a goal to grow and diversify our tissue business, which we did with four new customers as well as new offerings of tissue products and sourcing of porcine as well as equine tissues.

Operations and Infrastructure

Our major operational initiative in FY 2019 was to restructure our New Zealand operations to consolidate duplicative collagen production operations into our Glasgow, Scotland plant and re-focus the tissue sourcing team in New Zealand into a global tissue business unit.

I am pleased to say we successfully completed this goal with no impact to customer orders and also significantly increased our employee engagement scores in New Zealand while broadening our tissue offering with additional products including porcine and equine sourcing, as well as establishing new U.S.-based supply. We also delivered on our cost synergy goals with over £200k of annualised savings realised.

Finally, our operations team along with our global R&D team were focused on delivering on a number of customer product development and contract manufacturing milestones, which we delivered upon during the course of the year.

Our People

We are pleased that Lou Ruggiero joined us as Chief Business Officer earlier in April 2018, bringing valuable sales experience and strong leadership to the commercial organisation.

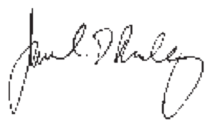
As we grow, our organisation is changing rapidly and we remain committed to providing development opportunities for our employees and work with them on individual employee development plans to deliver the required training to allow them to progress within the business.

We value feedback from our employees and carry out periodic surveys and other feedback opportunities to measure employee engagement in a number of areas. We plan to continue to invest in our people so we can fulfill our mission through passionate delivery from our global team.

Conclusion

The management team is excited about our momentum from last year and the opportunities before us. We are focused on delivering continued growth and financial performance for the current fiscal year, and importantly building value over the next several years by successfully delivering on our customer projects and their product launches, growing our more diversified tissue business, capitalising on our geographic expansion, gaining new customers in our core business, and gaining regulatory approval in anticipation of first cases for ChondroMimetic®.

Finally, it is with a feeling of tremendous gratitude that I wish David Evans well as he steps down as Chairman and thank him for his trust, support, guidance and commitment to me and the Company over the last several years.



Jamal Rushdy

Chief Executive Officer

8 July 2019

Our marketplace

We work in the field of regenerative medicine. Regenerative medicine is the branch of medicine that develops methods to regrow, repair or replace damaged or diseased cells, organs or tissues. Regenerative medicine includes the generation and use of therapeutic stem cells, tissue engineering and the production of artificial organs.

Regenerative medicine triggers a patient's own cells and facilitates the natural regeneration of the patient's own tissues. It reduces the need for synthetic replacements, the risk of rejection and potentially less time-consuming and more cost-effective treatments that can ultimately deliver a better patient experience and outcome. We provide biomaterials and will provide medical devices into this market.

MARKET

The part of the regenerative medicine market on which the group focuses is processed collagen and tissue to provide natural biomaterials for medical devices for the regenerative medicine space. The Company's emphasis is on cardiovascular, orthopaedics, dental, neurology and wound healing applications.

The Company's addressable market is a subset of the global biomaterials market as it sells its products (either as raw material or finished devices) and development services to intermediary customers who in turn sell to end users, focusing on tissue and collagen.

The tissue engineered collagen biomaterials market (at end user prices) was worth $2.3 billion in 2016 and is expected to grow at 10.4% CAGR between 2017 and 2025 to $5.4 billion.

(source: Transparency Market Research 2017)

Macro Drivers

Global population demographics are in part driving demand. According to a recent US Census Bureau report, by 2030, approximately one billion people will be older than 65, and this group is growing at five times the rate of the rest of the world's population.

To address the needs of this ageing population there has been significant innovation in biologic materials and therapies, which is another driver of the biomaterials market. Some of these innovations include novel treatments to regenerate cartilage for arthritis, synthetic bone grafting to improve spine surgery, advanced wound treatments for diabetic patients, minimally invasive heart valves and restorative dental procedures.

WHAT DOES IT MEAN FOR US?

We believe that the tissue market currently addressed by the Company, being various bovine and porcine tissues, provides additional potential upside to its addressable market. We believe that by seeking to move up the value chain, from supply of raw materials to development of higher added-value collagen formulations and customers' medical devices, to contract manufacturing and ultimately to the development of proprietary products, a larger addressable market can potentially be targeted.

"Regenerative medicine is a disruptive innovation

Bonda, G. Clinical Therapeutics 2018

OUR CUSTOMER GROWTH AND MIX

Our Customers

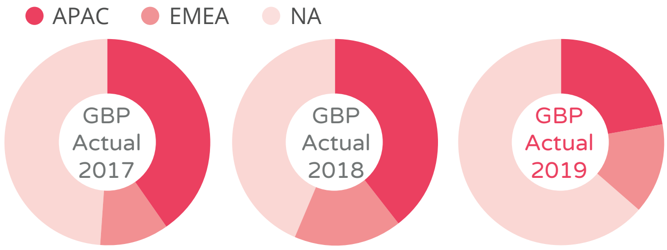
Our customers include some of the largest global players in the regenerative medicine market. They also include much smaller start-ups.

Our Global Reach

With offices across the world and customers in three continents we are well placed to address the growing global needs of this market, being driven by patient needs and demographics.

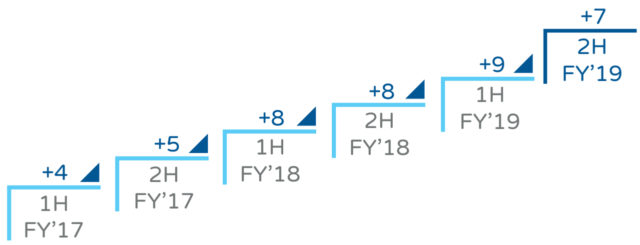
Global Reach

Collagen Solutions Group Revenue – Geographical Split



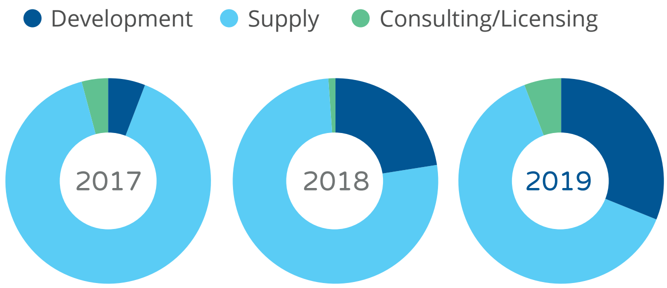
New Customers / Customer Agreements

Signing new customers has been a focus of ours for some time. A good measure of how we are doing is the quantity and quality of the new customer agreements that are being signed by Collagen Solutions over any particular time period. A new customer agreement is an agreement which constitutes a contract that has been signed during the time period in question and that is also expected to generate at least £10k of revenue in any one financial year.



Increasing Development Mix

Over the last couple of years business has changed dramatically and we are seeing a growing percentage of our overall revenue being delivered through development contracts with customers, rather than through traditional supply of collagen. Under these contracts we work with our customers over a period of time to develop their medical device with our product built in. Over time these development contracts will turn into contract manufacturing contracts, at a multiple of revenue. As a leading indicator of the potential value of Collagen Solutions, these are therefore very important.



Business Area	Pre Launch		Post Launch	
	% of Customers	% of Revenue	% of Customers	% of Revenue
Supply	86%	53%	14%	47%
Development	100%	100%	0%	0%

Our marketplace
Continued

OUR KEY END MARKETS

We apply our expertise across the value chain, including raw materials supply, product development, contract manufacturing, and our own proprietary products to address key markets and applications in regenerative medicine.

Key markets and applications

Orthopaedics
- Bone grafts
- Cartilage scaffolds
- Tendons and ligaments

Dental
- Membranes
- Bone grafts

Our roles in the value chain

Proprietary products in development
- ChondroMimetic® cartilage scaffold
- Collagen-ceramic bone graft substitute

Development and contract manufacturing
- Bone grafts for spine, trauma and extremities

Supply
- Collagen for bone grafts and cartilage
- Tissue and collagen for tendon reinforcement

Development and contract manufacturing
- Membranes and bone grafts

Supply
- Collagen and tissue for bone grafts and membranes

Key markets and applications

Wounds and burns

- Skin substitutes
- Dressings
- Flowable matrices

Our roles in the value chain

Proprietary product in development

- Flowable/film wound matrix

Development and contract manufacturing

- Engineered scaffold for cell seeding
- Flowable wound matrix

Supply

- Collagen wound dressings

Cardiovascular

- Heart valves
- Vascular grafts

Proprietary IP

- Thin pericardium for small diameter transcatheter heart valves

Development and contract manufacturing

- Processed pericardium tissue

Supply

- Collagen and tissues for vascular grafts
- Pericardium tissue for heart valves

OTHER MARKETS

Collagen and tissues supplied for various applications in neurosurgery, plastics and reconstruction, biosurgery, drug delivery and research.

Our business model

Core Business - B2B Sales

CRITICAL COMPONENT RAW MATERIALS SUPPLY

Description

Tissue
(e.g. pericardium for heart valves)

Collagen
(e.g. for dental, orthopaedics, wounds)

Value Proposition

- Technical support and quality systems
- Multiple formulations, species and types
- Australia/New Zealand premium tissue
- Long-term embedded supply relationships

Status

- 61% of sales in FY 2019
- Diversification of tissue types, species
- Recent expansion into China
- Focused on B2B sales force

DEVELOPMENT AND CONTRACT MANUFACTURING

Description

Developing and manufacturing products for customers in specific applications.

Cardiovascular

Orthopaedics

Dental

Wounds

Value Proposition

- Collaborative and flexible approach
- Deep industry experience and contacts
- Expandable and flexible UK manufacturing
- Local US and UK based R&D teams

Status

- 39% of sales in FY 2019
- Significant increase from 6% in FY 2017
- Growth driven by B2B sales force and new device-focused R&D team

Licensing & Distribution

PROPRIETARY PRODUCT DEVELOPMENT

ChondroMimetic® (orthopaedic cartilage)

Bone Void Filler (orthopaedic spine and extremities)

Fibrillar (wound)

- ChondroMimetic®: long-term data, cost-effective
- Bone Void Filler: handling, non-shedding, higher ceramic content (for bone formation)
- Wound: flowable, ease-of-use

- ChondroMimetic® pending CE mark
- Initial ChondroMimetic® distributors signed
- Bone and wound projects progressing; seeking partners prior to further development

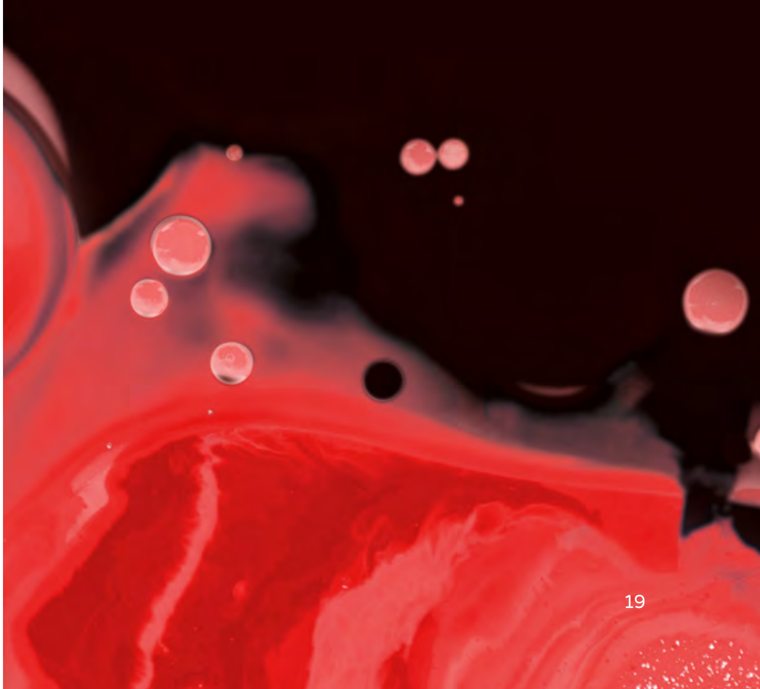
SPOTLIGHT ON OUR TISSUE BUSINESS

“

In line with the strategy implemented following the 2018 restructure of the New Zealand business, the Tissue Products team successfully increased the range of tissues sourced on behalf of clients and also the number of species from which these tissues were harvested (bovine, porcine and equine). Tissue was supplied to 10 potential new customers during the financial year, geographically spread across Europe, East and South East Asia, the United States of America, and Australia. Of particular note was a significant uplift in demand for bovine tendon. Revenue from tissue sales exceeded plan by 3.4%.

Kevin Darling

Vice President Tissue Products
& Managing Director New Zealand

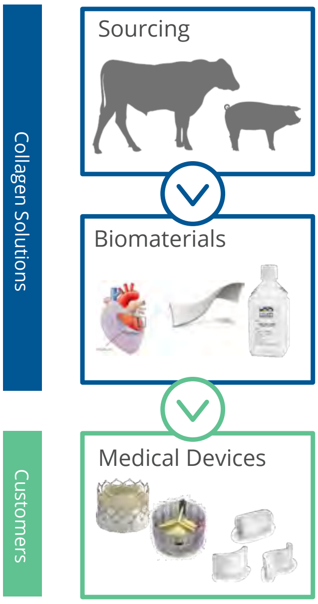


Our business model

Continued

SUPPLY BUSINESS

Providing medical device companies critical raw materials



Biomaterials Products

- Collagen and tissue from bovine (cow) and porcine (pig) sources
- Sold to companies that produce finished medical devices
- Quality systems and technical support are critical

Progress

- Supply was 61% of sales in FY19; top ten current customers under contract
- Currently 1/3 of Supply is tissue, 2/3 collagen
- Tissue business recently diversified; customer base growing
- 47% of current revenue from launched products
- Initial customers nearing launch

DEVELOPMENT AND CONTRACT MANUFACTURING

Moving up the value chain

Products and Services

- Develop products for customers using our materials and know-how
- Partner with medical device companies as their outsourced R&D
- Development transitions to contract manufacturing agreements after regulatory approval and scale-up

Progress

- Development was 33% of sales in FY19, 6% other revenues
- Up from 6% in FY17, reflecting success in moving up the value chain
- Customers include ‘blue chip’ companies with established sales channels to support product launches

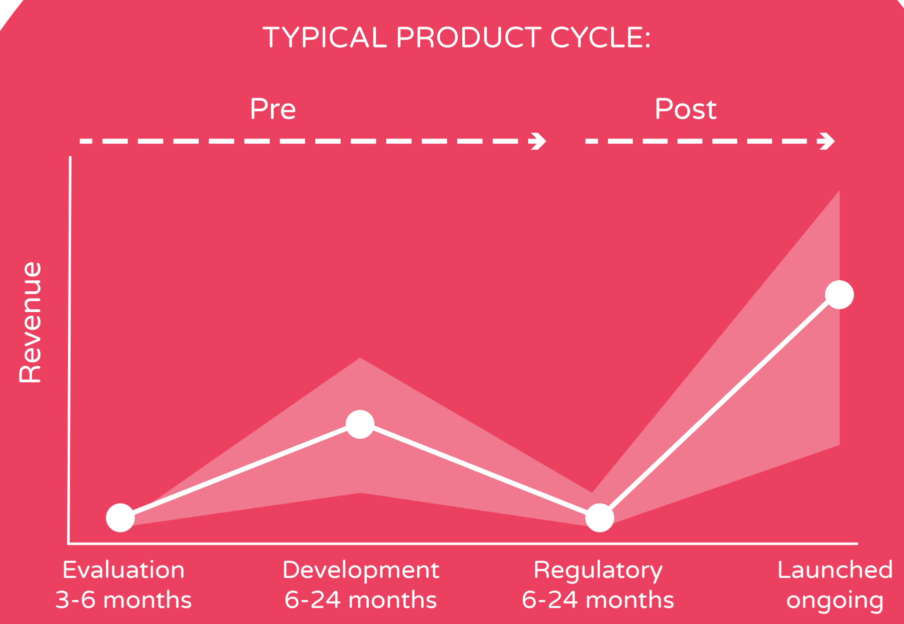
CORE BUSINESS VALUE PROPOSITION

Growth from upcoming customer product launches.

Both Supply and Development/Manufacturing provide an offering to customers on the journey over the typical product cycle.

Size and quality of the business changes dramatically over the product cycle:
- Pre launch: Higher number of customers, lower level of revenue
- Post launch: Fewer customers, higher, more predictable and sticky revenue

As the core business matures embedded value of customers moving to launch:
- Supply customers: Growth realised as these customers launch their products and supply volumes increase
- Development customers: Scalability as these customers move to become contract manufacturing clients



Our strategy

Proprietary Products

FY 2018/19 Progressing our Proprietary Products / FY 2019/20 Working on our Product Portfolio and Launching ChondroMimetic®

FY 2018/19 Priorities

- We aim to have ChondroMimetic® CE Mark approval and be performing the first in man surgeries by the end of the financial year with commercial partners secured to support.
- Targets for bone graft are to complete the animal studies and complete the wound animal pilot.

Performance

Full submission was made to our notified body early this calendar year.

Post year end our notified body have completed their initial review of the submission and submitted its first round of questions.

Focus and Goals for FY 2019/20

Working on our Product Portfolio and Launching ChondroMimetic®

To work on our overall portfolio of products and ensure we are backing/investing in the right ones and also ensure firstly the delivery of the CE mark on ChondroMimetic® but also a successful market launch using and building on the distribution network already set up.

Solidifying our Financial Performance

FY 2018/19 Solidifying our Financial Performance / FY2019/20 Becoming a Profitable Business

FY 2018/19 Priorities

We aim to hit breakeven EBITDA run rates by the end of the financial year and be self-funding excluding debt by the same point.

Performance

Our core business was profitable in Q4 at EBITDA and we are anticipating that this trend should continue although it will continue to be impacted by the lumpiness of our development revenue. We will continue to invest in our proprietary products, however, which will continue to bring down the overall profitability of the business. As such, we will continue, to be loss-making overall for a couple of years.

Focus and Goals for FY 2019/20

Becoming a Profitable Business
Ensuring the base business is profitable at EBITDA, continuing to pay down the Norgine debt and establishing the platform for the business to grow and succeed in the future.

Executing Commercially

FY 2018/19 Executing Commercially / FY 2019/20 Delivering Core Business Growth

FY 2018/19 Priorities

Achieving revenue growth across all our key territories; delivering on our strategy to address a specific risk with a Korean customer on potential reduced quantities at contract renewal which will impact 18/19 but be offset by growth in other areas; commercialising our export licences in China; and refocusing our resources and using the capacity that we have built to build on our presence in the growing tissue market from our base in New Zealand.

Performance

We grew our top line for the year by 18%. Crucially this performance was after the temporary loss of two of our top ten customers who are expected to return late this or next financial year. Adjusting for the temporary loss of these two customers who had provided revenues of £1.4 million last financial year growth was +86%. Growth is coming from a mix of new development customers and increased supply to existing and new collagen and tissue customers. It is particularly pleasing to note the growth of our tissue business in New Zealand.

Focus and Goals for FY 2019/20

Delivering Core Business Growth
Continue to build on our momentum and secure bigger and higher value contracts.

Executing Operationally

FY 2018/19 Executing Operationally / FY 2019/20 Building our Infrastructure

FY 2018/19 Priorities

Completing our New Zealand restructure and ensuring that we realise the financial benefits both in cost savings but more so from the simplification of our global manufacturing and deliver on the key development projects with our customers that will in FY 2018/2019 account for almost half of our revenue.

Performance

Our New Zealand restructure was completed and the manufacturing of collagen products moved from New Zealand to Scotland. Milestones with development customers were delivered as agreed with customers although overall the percentage of our revenue that was development in the year was slightly lower than the anticipated almost half. This was due to better than anticipated performance in the core business and the timing of milestone payments for one particular contract.

Focus and Goals for FY 2019/20

Building our Infrastructure

As we grow we need to invest ahead of the demand curve to ensure we have the manufacturing and systems infrastructure in place to support and manage a business that is substantially larger than ours is today.

Improving the way that we tell our story

FY 2018/19 Improving the way that we tell our story / FY 2019/20 Building the understanding of the value in our business

FY 2018/19 Priorities

The growth in our development business is hugely exciting for us but has been masked by temporary customer issues. In FY 2018/19 we will get better at communicating to the marketplace what we are achieving using clearer communication and better leading metrics around commercial performance, business segmentation and financial outlook.

Performance

We have introduced a number of metrics to measure performance in the core business and also to help show the embedded value / act as leading indicators of potential future business.

Focus and Goals for FY 2019/20

Building the understanding of the value in our business

We will continue to publish these metrics and start to build trends that can be used as an indicator of future performance or to understand the embedded future value in our business

Read more about our Financial KPI's on PAGE 24

Read more about our Commercial KPI's on PAGE 25

Our key performance indicators

FINANCIAL KPIs

The directors consider the principal financial performance indicators to be:

Revenue

2019	£4,150,736
2018	£3,504,624
2017	£3,945,787
2016	£3,129,862

Performance

Up 18% on prior year, and adjusted for temporary loss of two customers, doubled.

Gross profit

2019	£3,039,337
2018	£2,465,223
2017	£2,962,155
2016	£2,318,535

Performance

Improved on 2018/19 due to the positive mix trend in the business and consolidation and refocus of our global manufacturing resources.

Gross profit margin

2019	73.2%
2018	70.3%
2017	75.1%
2016	74.1%

Performance

Improved on 2018/19 by due to the positive mix trend in the business and consolidation and refocus of our global manufacturing resources.

EBITDA (before sii)

2019	£(1,216,530)
2018	£(1,708,952)
2017	£(1,259,361)
2016	£(410,016)

Performance

Improved on 2018/19 as business performance improves

EPS

2019	(0.51)p
2018	(0.79)p
2017	(0.95)p
2016	(0.57)p

Performance

Positive movement and reflective of our journey of improved financial performance.

Cash and cash equivalents

2019	£1,678,079
2018	£5,022,314
2017	£8,978,150
2016	£2,493,146

Performance

Cash position at the end of the year was better than anticipated; funds raised since totalled £5.96 million gross.

OPERATIONAL KPIs

The directors consider the principal non-financial performance indicators to be:

- Development of collagen product portfolio;
- Development of distribution partners and channels to market;
- Collaboration with strategic partners to develop embedded value products and IP;
- Maintaining GMP processes and building capability and capacity; and
- Enhancing customer and employee engagement survey scores.

COMMERCIAL KPIs

The Group's revenue is lumpy by nature. It can be impacted by our customers' stocking issues, by our customers' product issues and most significantly by where our customers are in their own product life cycle and their own product successes.

Hence the directors monitor the following metrics as good leading indicators of our business health:

Growth: New customers

29

2018: 16

Definition

Number of customers that are new to the business ie that we have not previously sold product to whether they have a contract or not AND have purchased over £2.5k of product ytd AND are expected to be over £10k pa.

Performance

Up 18% on prior year, and adjusted for temporary loss of two customers business has doubled.

Growth: New customer agreements signed

16

2018: 14

Definition

Number of contracts signed with a new customer AND new contracts signed with an existing customer.

Performance

Up on prior year in both volume and also value.

Stability: % of business under customer agreement

93%

2018: 93%

Definition

Percentage of business by value supplied to a customer under a contract or otherwise binding agreement.

Performance

Static at a high proportion of our business.

Future business: Number of development contracts not yet in supply

26

2018: 22

Definition

Currently contracted customers who we are either supplying or working on development contracts with, who are pre-launch in market.

Performance

Improved on prior year as we grow our customer base. Number includes only customers who generated revenue in the year, there are a further 8 who did not generate revenue in the year as they are going through regulatory.

Business concentration: Top ten customers accounting for % of revenue

64%

2018: 73%

Definition

The proportion of our overall revenue accounted for by our top ten customers by value.

Performance

Improved significantly on prior year as we increase the number of customers that we deal with and broaden the business, derisking the overall business as we reduce reliance on our top 10 customers.

Number of customers lost

0

2018: 1

Definition

Number of customers that have left us on a permanent basis (rather than because of the stage of their regulatory process).

Performance

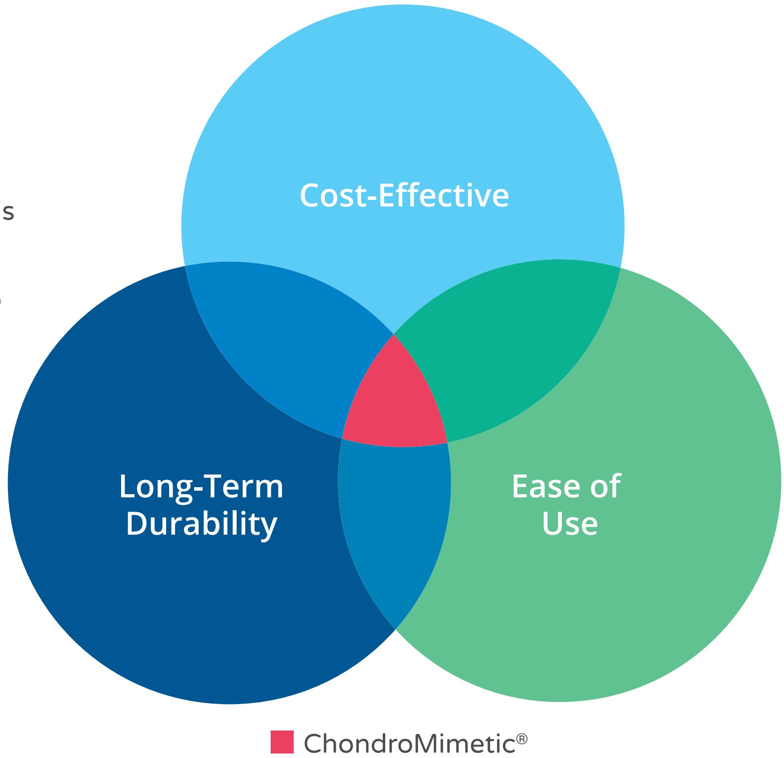
Customer retention remains a key focus.

ChondroMimetic®

CHONDROMIMETIC® OPPORTUNITY

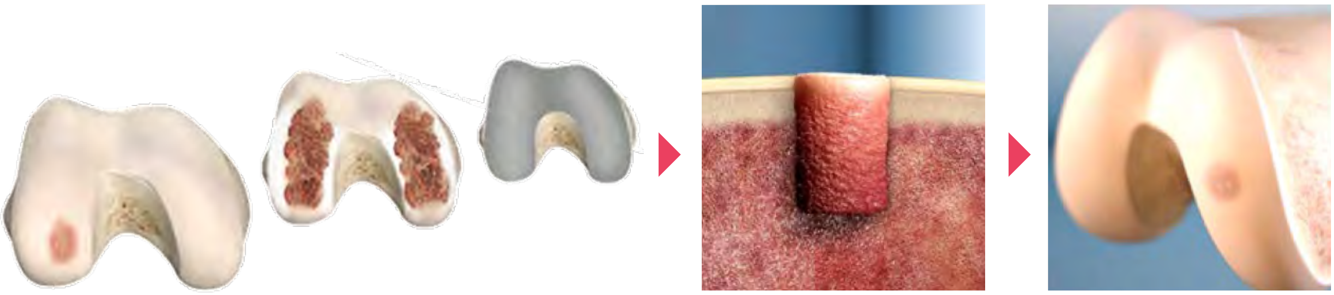
Addressing unmet needs in treating arthritis

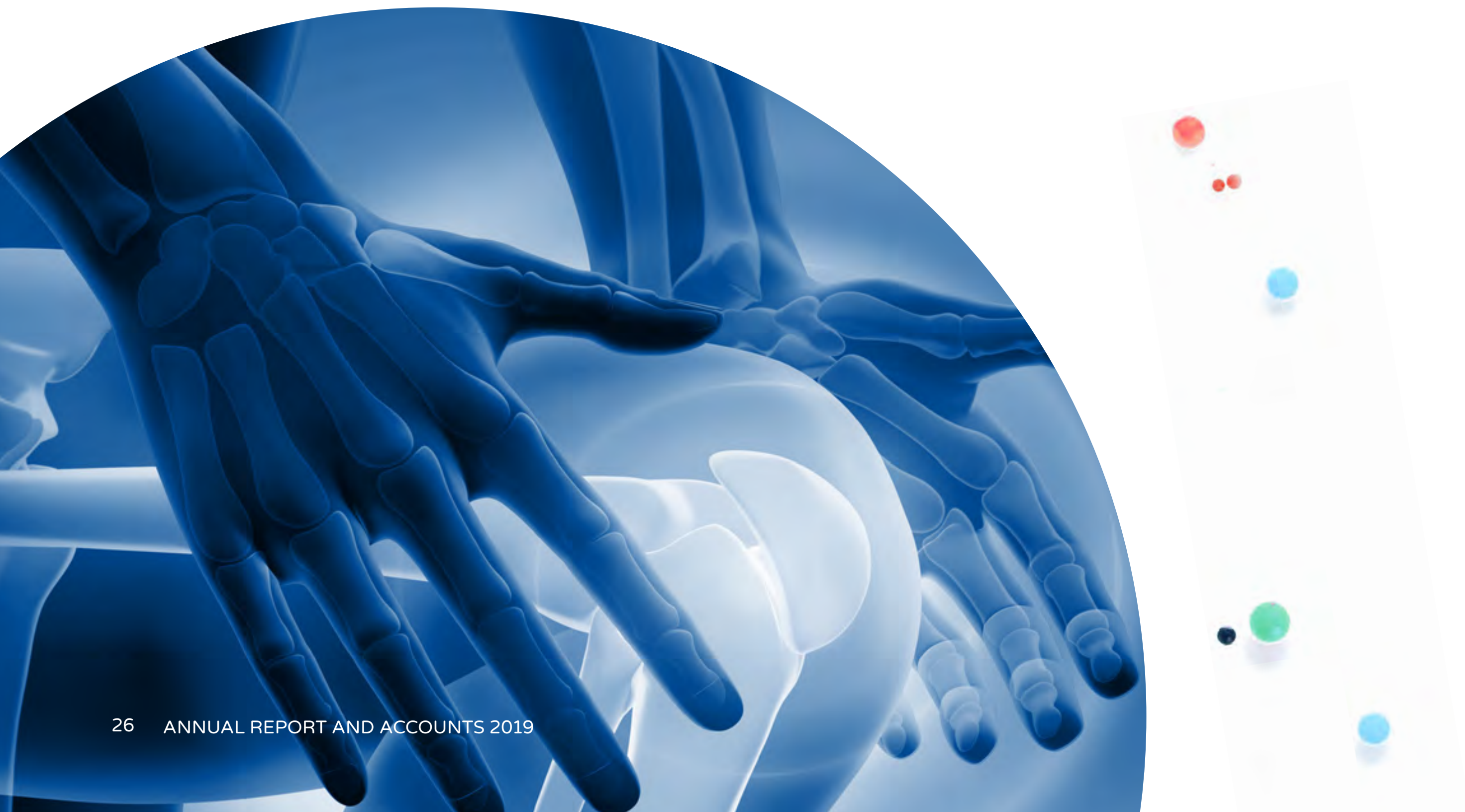
- 1 million+ knee cartilage procedures worldwide
- ChondroMimetic® potentially addresses 30%-40%
- Cost-effective compared to 2-stage cell therapies
- 8-year clinical data
- 1-stage surgery; existing techniques



CHONDROMIMETIC® CARTILAGE SCAFFOLD

Arthroscopic, single-surgery, cost-effective solution, backed by 8 years of clinical evidence

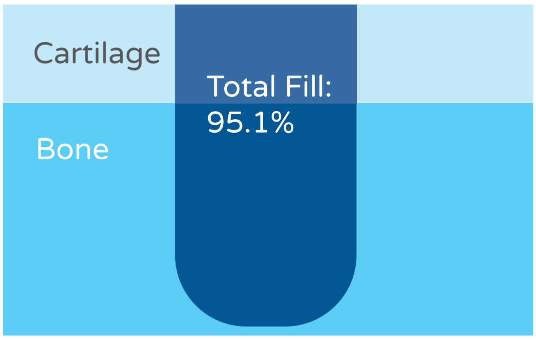


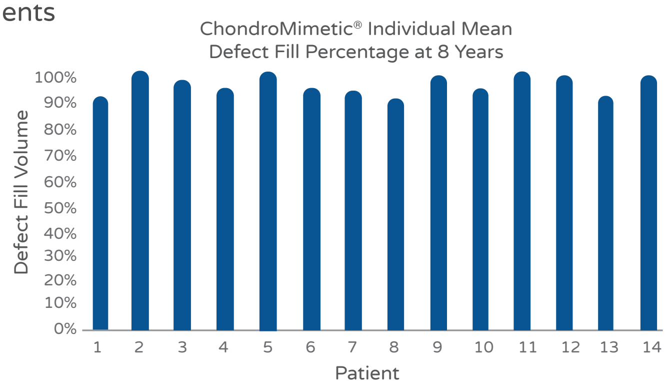


8-YEAR CLINICAL STUDY RESULTS

Cartilage Fill

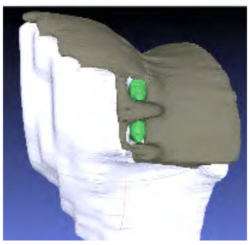
Near complete filling of defect across all patients



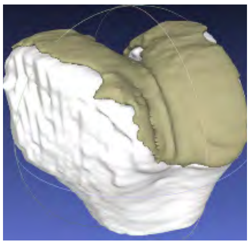


Cartilage Quality

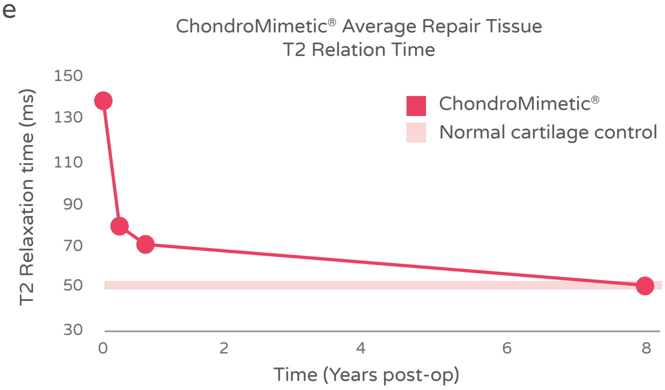
Nearly indistinguishable from native cartilage



10 Days Post-op

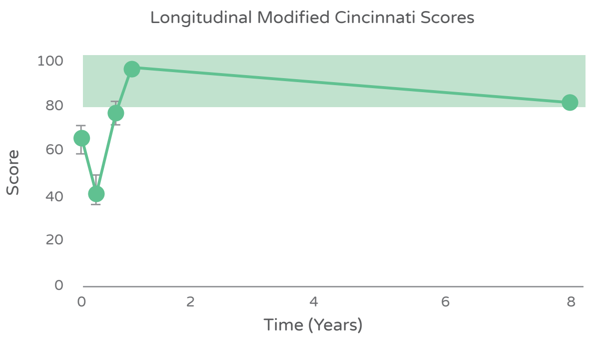


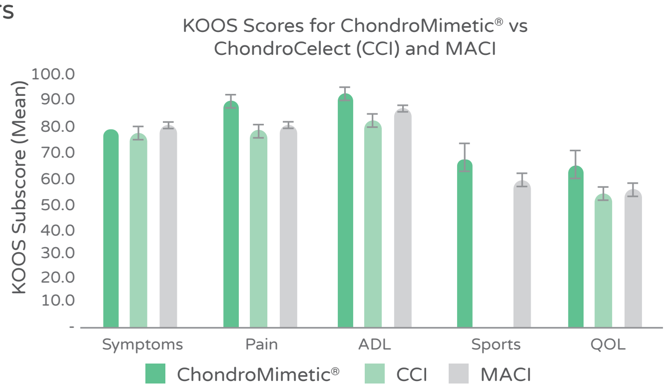
8 Years Post-op



Clinical Scores

Sustained positive functional results over 8 years





ChondroMimetic®

Continued

CHONDROMIMETIC® STATUS

Final stages of CE Mark approval process

- [x] 8-year clinical study results announced last year
- [x] Product manufacturing validations and supply chain established
- [x] Regulatory submission completed to Notified Body for CE Mark
- [x] Regulatory audit successfully completed
- [x] Initial distributors signed in Europe and Asia
- [ ] Addressing CE Mark submission questions

8-Year Data

- Near complete filling of defect across all patients **(95.1%)**
- Regenerated cartilage nearly **indistinguishable from native**
- Sustained positive functional results over **8 years**

> ***"These results confirm sustainability of cartilage regeneration and patient outcome***
>
> Professor László Hangody
> MD, PhD, DSc

CHONDROMIMETIC® NEXT STEPS

Launch Preparation

EUROPE

- Awaiting CE Mark approval
- Early distributors signed
- Proposed "limited user release" planned with Key Opinion Leaders
- Controlled launch and training programme in initial countries

ASIA

- South Korean regulatory submission being prepared
- Distribution signed for Malaysia, Indonesia and other SE Asia
- Timing linked to CE Mark (to support local submissions)

EXPANSION

- Additional EMEA/Asia distribution agreements expected after CE Mark
- USA requires partnering for clinical trial and regulatory (Pre-Marketing Approval from FDA)

Case studies

SCOTTISH ENTERPRISE GRANT

Collagen Solutions have been awarded a research and development (R&D) grant from Scottish Enterprise, the national economic development agency of the Scottish Government which aims to deliver a significant, lasting effect on the Scottish economy.

The grant totals £1.54 million to support the Company's future investment of up to £3.96 million across its next generation proprietary product development pipeline.

> *"We are delighted that the Scottish Government, via its enterprise agency Scottish Enterprise, recognises that Collagen Solutions can help its vision of driving life sciences to an £8 billion sector by 2025 and to this end is committing to invest significant funds into the Company. We are tremendously excited to have this support for the next generation of proprietary products in order to deliver value for the Scottish life sciences economy and our shareholders, as well as to support our mission to improve patients' quality of life worldwide.*

Jamal Rushdy

Chief Executive Officer

CHONDROMIMETIC® DISTRIBUTION

Collagen Solutions has entered into a new license and distribution agreement for ChondroMimetic® with an Indonesian partner, PT Rajawali Mutiara Sejahtera ('Rajawali Medika').

Rajawali Medika will collaborate with Collagen Solutions to obtain regulatory approval and launch ChondroMimetic® in Indonesia with the potential to expand to several other South East Asian countries.

Financial review

"We made good progress this financial year towards building a business that can be profitable.

Group Results

Group revenue and other income increased to £4.51 million (2018: £3.70 million) for the year ended 31 March 2019. Revenue growth and performance ahead of market were welcome.

Encouragingly, building on the momentum of last year, our development business continues to grow as an overall proportion of our revenue and our commercial KPI's continue to trend to the good.

Margins have increased from 70.3% to 73.2% year on year. This is partly due to the mix impact of our increasing development business, partly due to the growth of our tissue business (at marginally lower gross margin) and partly due to the consolidation of the NZ manufacturing into the Glasgow operation.

LBITDA before credit for separately identifiable items of £0.25 million (2018: charge of £0.12 million) for the year was £1.22 million (2018: £1.£1.71 million) and the loss before tax (before separately identifiable items) was £2.10 mlilion (2018: £2.62 million).

Items of Note

There are a number of items that should be called out in the financial accounts in terms of understanding:

1. Jellagen share sale which realised £0.21 million of cash and profit for the Group when sold in a private transaction in February.
2. Freeze dryer sales following the closure of our New Zealand collagen manufacturing facility for £0.07 million disclosed in note 4 to the accounts.
3. A move of research and development tax credits from other income to taxation. Historically this income received from the government has been included in other income and therefore within LBITDA. For the year ended 2019 advice has been that these are included as a credit within the tax line in the profit and loss account. As such to be consistent the prior year numbers have been restated. The impact on prior year is to move £0.12 million from other income to the tax line in the profit and loss account. The current year includes tax credits of £0.15 million as disclosed in note 6 to the accounts.

Contingent Consideration

As at the end of March 2018 the Group carried two provisions for contingent considerations totalling £0.56 million, one for the purchase of Southern Lights Biomaterials (£1.70 million in December 2014) and the other for the acquisition of the Collbio Group (£2.41 m in the year ended 31 March 2014). Settlement of earn-out payments due in relation to these acquisitions had been made in the year ended 31 March 2017 and 2018, with the final amounts due in this last financial year end 31 March 2019. Both of these contingent considerations are now fully settled.

We also took the opportunity during the year to repay the Alberta Loan of £0.04 million outstanding at 31 March 2018. The loan was secured over equipment with a fixed interest rate of 8.2% per annum and a repayment term of five years. The loan and the securities are now fully discharged.

Restructuring

In order to focus on the global tissue opportunity and to optimise resource utilisation we restructured our New Zealand operations in the first half of this financial year to focus on a growing tissue opportunity. At the same time we consolidated collagen manufacturing into one centre of excellence in the UK. This consolidation contributed c£0.30 million in increased operating profit for 2019 FY as well as resulting in annualised cash savings of c£0.20 million. More importantly however :

- the refocused tissue business in New Zealand is at the point of being a profitable business unit in its own right; and
- collagen manufacturing margins have improved by a number of points, although the consolidation of the manufacturing processes took slightly longer and cost slightly more than we originally anticipated.

Post Balance Sheet Events

In June 2019, the Group successfully raise £4.18 million in gross funds through a strategic investment by Rosen's Diversified Inc ("RDI") of £4.18 million. In addition to this investment the Company undertook a Placing and Open Offer which between them raised £1.78 million from existing and new institutional shareholders and private investors.

The funds raised from this new strategic partner and new and existing shareholders totalled £5.96 million gross. The Subscription, Placing and Open Offer were conducted at a price of 5.0p per share.

Funds are to be used for three purposes: 1. to fund our own and customers' product development work and commercialise ChondroMimetic ®; 2. to scale up and improve our manufacturing capabilities and efficiencies; and 3. for working capital and debt repayments.

As ChondroMimetic® nears commercialisation research and development investment has tailed off to a great extent. As anticipated this slowing in spend together with settlement of the full and final earn outs on the acquisitions in US and NZ and early settlement of the Alberta loan meant that cash burn improved significantly towards the back end of the year. As a consequence we anticipate these new funds should improve our chance of reaching profitability without any need for any further funding.

The Group has no current plans to take on any further debt or equity in the foreseeable future.

Cash and Borrowings

As at 31st March 2019, the Group had cash balances of £1.68 million (2018: £5.02 million) and financial liabilities in relation to the contingent consideration and other borrowings of £2.51 million (2018: £3.49 million). The Statement of Cash Flows shows the movements in funds during the year. Bond repayments were realigned during the year when we signed a deed of variation to our Bond Subscription Agreement with Norgine Ventures and the six month repayment holiday that resulted helped our year end cash position. I am pleased that overall borrowings have reduced by almost £1 million and the only remaining debt we have relates to our bond with Norgine Ventures which will be fully settled in January 2021.

Segmental Profitability

As noted last year we had detailed financial and operational plans in place to ensure that the business becomes cash generative by the end of the year. We are in the early stages of splitting our business into its core parts – Supply, Development and Proprietary Products. However our segmental analysis of the last quarter of the financial year showed a profit in our core supply and development businesses at EBITDA. This represents a quite significant inflection point for the business, although the overall business will remain loss making for a couple of years as we continue to invest in our proprietary products. However we would anticipate the trend in the core business continuing.

Operating Costs

The Group has continued to invest in both its sales and marketing and R&D resources during the year in order to support the growth in global demand for its products and services. R&D expenditure reduced to £0.68 (2018: £0.82 million) and selling and marketing costs increased to £1.02 million (2018: £0.90 million).

Capital Expenditure

During the year the Group invested in capital expenditure of £0.45 million (2018: £0.42 million) in its manufacturing and research facilities to increase capabilities for expected future demand.

Key Performance Indicators (KPIs)

The Group monitors the following KPIs to ensure the business performs in line with expectations and that issues are identified promptly and efficiency measures can be quantified:

- revenue and revenue growth;
- gross profit
- gross profit margin %;
- LBITDA
- EPS; and
- cash and cash equivalents.

Financial review
Continued

Commercial KPIs

The Group's revenue has historically been lumpy by nature. This can make revenue an unreliable measure as a leading indicator of future business potential or underlying health. To aid understanding and building on previous communications to market management developed for last financial year a number of KPI's to act as leading indicators of business performance. In the year to 31st March we made some good progress on these and in particular in derisking the overall business reliance on a few key customers.

These are outlined elsewhere in the strategic report. We will use these measures consistently moving forwards as guides to the underlying health of the business and add to them as appropriate.

Operational

The Group's most important assets are its employees, its customers and the development of know-how and intellectual property rights (IPR):

- Employees are recruited carefully to address the needs of the business.
- Appropriate training is provided to support the development of employees.
- The needs of the Group's customers are addressed to ensure that they are appropriately met.
- The Group has controls in place to safeguard the IPR that it develops.
- The Group also has established procedures to maintain its appropriate accreditations.
- The Group recognises the importance of its IT infrastructure and back office systems to deliver its services.
- The Group has the appropriate controls in place to secure its data and maximise the operational efficiency of its systems.

Read more about our KPI's on
PAGES 24 and 25

Controls exist to ensure information is made available to enable management to monitor the performance of the Group. The controls address the performance of the Group based on monthly management accounts, which include details of sales, gross margin and costs.

Treasury policies and financial risk

The Group maintains a treasury function which operates under policies and guidelines approved by the Board. These cover funding, management of foreign currency exchange exposure and interest rate risk. The purpose is to manage the financial risks of the business effectively and to secure the most cost-effective funding.

Brexit

Management have considered the implications on the business if and when Brexit happens and have put in place actions to mitigate any consequential impact on the supply chain and to ensure we are complying and will remain in compliance with appropriate legislation. Overall management considers the associated risk to be low.

Overall

We made good progress this financial year towards building a business that can be profitable. We believe our core business is now profitable, but additional funding required to continue investment in CAPEX, research and development work and ChondroMimetic® commercialisation will mean that we will continue to be loss making for a couple of years. However now that funding is completed and we have a strategic investor on board in RDI we are well placed to reach overall profitability on current resources.

Hilary Spence

Chief Financial Officer

8 July 2019

"The core business was profitable at EBITDA in Q4

Principal risks and uncertainties

1 The Board and executive identify strategic initiatives to deliver our business goals.

2 The associated key business risks are then identified as part of the Group's annual strategic planning process.

3 The Board carries out a robust assessment of these key risks and their potential impact.

4 Risk mitigation strategies are designed to reduce the net impact of the risks to an acceptable level. Key risks and their mitigations are recorded in the Group's risk register.

5 The executive team is responsible for implementing these risk mitigating strategies and reporting on their progress through the Audit and Risk Committee to the Board.

6 Key risks are overseen by the Board and monitored by the Audit and Risk Committee.

KEY RISKS AND UNCERTAINTIES

The long-term success of the Group depends on the continual review, assessment and mitigation of the key business risks it faces. The principal risks and uncertainties that could have an adverse impact on the performance of the Group are described below:

Risk and Impact	Mitigating Controls	Mitigated Risk Change	Likelihood
Failure to maintain current business or generate new business sufficient for growth.	The Group continues to focus on building and diversifying the customer pipeline and has strategies in place to continue to: – acquire more and more valuable customers; – develop long-term collaborative and development partnerships with our customers, resulting in our products becoming embedded in their end devices and therapies; – ensure appropriate ownership and resource within our commercial organisation to support our customer acquisition and retention processes. The activities above have resulted in 29 new customers in the financial year and with the increasing volume and value of customer acquisition our customer concentration has improved significantly from 73% of our revenue being generated from our top ten customers to 64% in financial year 2019.	Decreased Risk	Likely

Principal risks and uncertainties
Continued

Risk and Impact	Mitigating Controls	Mitigated Risk Change	Likelihood
Treasury policy and financial risk There are two primary financial risks facing the business: 1. Funding risk – Due to the early stage nature of the business liquidity (funding) risk is inherently high. 2. Foreign currency risk – The Group's geographic footprint means that foreign currency risk is inherently high. Both revenue and costs are across multiple currencies and are not always matched.	The policy for managing these risks is outlined below: 1. Funding risk – The Group maintains pro-active relationships with its banks and investors and its working capital requirements are anticipated via the forecasting and budgetary process. Plans are in place to ensure the prudent fiscal management of costs and adequate cash flows from operations to ensure funding risk is mitigated. Detailed plans are in place to ensure that cash balances are maintained at an acceptable level throughout the foreseeable future. The Board is actively involved in monitoring cash flow against plans on a monthly basis. Where action is required to ensure cash flows remain on track these are implemented quickly. Post balance sheet a fund raise of £5.96 million gross was completed ensuring that the Group have enough sufficient financial resources to see them well into the future. 2. Foreign currency risk – The functional currency of the Company is sterling and wherever possible the Group seeks to use natural hedging to reduce currency risk: revenues in US dollars are utilised in funding US operations. The Group seeks to negotiate contracts in the functional currency where possible. In the coming financial year we will assess instruments for a more sophisticated approach to currency management.	Static –	Unlikely

Risk and Impact	Mitigating Controls	Mitigated Risk Change	Likelihood
Suppliers The Group has a limited number of validated suppliers for some of its raw materials. Because these materials are used in validated processes substitution of alternative materials can take time and may negatively impact revenue as the new material is worked through appropriate validation and approval. The Group's materials are sourced from TSE-free territories, with suppliers who have the necessary quality systems, certifications and export health attestations in place to ensure reduced risk. Any change to the TSE-free status of our suppliers could impact our supply chain and ultimately revenues.	The Group has in place several risk mitigation strategies: We have extended the capacity of supply in key materials including tissue. We have substantially completed the transfer in-house of manufacturing from one supplier to ensure we can continue to meet customers' expectations. We maintain and operate quality standards in line with ISO 13485 and ISO 22442 to ensure that we are constantly monitoring the quality of the product coming from our suppliers. We have secured supply of material from Australia in addition to NZ. This geographic diversification greatly mitigates this TSE risk. Post balance sheet we have entered into a supply agreement in the US with Rosen's Diversified Inc for the supply of tissue into the United States.	Decreasing	Likely
Regulatory Market movements away from bovine in Europe or in other regions of the world could impact our revenues in the long term.	During the year we extended our tissue offering from bovine into porcine and after balance sheet close into equine. Collagen manufacturing is still predominantly bovine focused. We are in prototype stage for use of other materials.	Decreasing	Likely
Competition Many of the Group's competitors have access to greater funds; however, the directors believe that the Group can compete strongly and that there are sufficient barriers to entry to other competitors entering the same markets.	The Group's investment in collagen expertise and quality solutions ensures that we have controls in place to mitigate this risk. Post balance sheet the fund raise has substantially improved our ability to compete with more liquid players.	Decreasing	Unlikely
Execution The Group's success relies on its ability to design, manufacture and deliver solutions to customers' problems according to tight timescales.	Our relationships with our customers are critical and wherever possible we ensure that we are working closely with them to develop and deliver the products that they need according to agreed specifications to ensure appropriate resources are allocated to ensure project success. Projects and quality are closely monitored and managed to ensure we deliver according to timescales and expectations.	Static	Likely

Principal risks and uncertainties
Continued

Risk and Impact	Mitigating Controls	Mitigated Risk Change	Likelihood
Inability to Manufacture If there were to be a disruption of or damage to the continuous production and delivery of the Group's collagen products this would have an adverse impact on revenue streams. Potential capacity restriction risk and demand exceeding capacity in the short to longer term.	1. The Group has insured against loss of revenue in the event of disruption to the facilities. 2. We aim to maintain a buffer inventory stock of three months to deal with any unforeseen disruption and further access to off-site processing has been arranged for certain key manufacturing processes. 3. Additional short-term capacity is being secured via management of current facility and space available. In the medium term a programme is under way to secure additional manufacturing capacity.	Increasing	Likely
Product Liability Risk While our products are not yet directly implanted into human bodies, our products are engineered into medical devices that are, and as we move up the value chain we will manufacture our own medical devices that will be implanted directly. Therefore, the quality of our products (with regard to patient safety) is crucial. Defects in design of manufacturing of products supplied to, and sold by, the Group could lead to product recalls or products removal or result in loss of life or major injury. There is a clear and significant reputational risk that is associated with failure with regard to any of the above.	The quality of our products and continuing regulatory compliance is critical to us. Where our products are being used by our customers in their medical devices, we ensure maintenance and operation to quality standards from design through to customer supply, we pay close attention to intellectual property considerations and we standardise monitoring and compliance with quality management practices through our global quality organisation. These processes include recall protocols.	Increasing	Likely

On behalf of the Board

Hilary Spence

Chief Financial Officer

8 July 2019

Board of directors

The Board appreciates the value of good corporate governance and is responsible to shareholders for the proper management of the Group.

David Evans
Non-executive Chairman

R N

Skills and experience
David has extensive board experience in the diagnostics and life science industry spanning 25 years, of which the last 18 have been primarily in a role as Chairman. Over that period he has enabled 12 companies to go public (directly and indirectly) and has overseen four successful exits. In the words of others he is tenacious, empathetic, prescient and occasionally curmudgeonly.

Qualifications
David is a Chartered Accountant, member of ICAS and has a BCom and an MBA.

External appointments
David holds directorships at Omega Diagnostics Group plc, Lochglen Whisky Limited, Fine Art of Golf Limited, Integrated Magnetics Scotland Limited, Novel Technology Holdings Limited and MIPDx Limited.

Jamal Rushdy
Chief Executive Officer

Skills and experience
Jamal has over 20 years' experience in the medical device arena, specifically within two mid-size high-growth public companies and three successful start-ups. He has a track record of building businesses with successful exits and transforming organisations through integration and performance improvement, adding value through business development and leadership.

Prior to Collagen Solutions, Jamal was a Vice President at Tornier, Inc., a Minneapolis orthopaedics and biologics company, since 2007, where he served in various leadership roles in US sales operations, global sports medicine and biologics marketing, and business and corporate development. Jamal also played a key role in Tornier's successful 2011 initial public offering.

Qualifications
Jamal holds an MBA in Finance and Marketing from the Paul Merage School of Business at the University of California and also has a Bachelor of Science degree in Mechanical Engineering from the University of California.

External appointments
Jamal is currently a director at Arcuro Medical Limited and FocusStart LLC.

Hilary Spence
Chief Financial Officer

Skills and experience
Hilary has over 30 years' commercial experience in finance across a number of multi-sector businesses. Over her career Hilary has been involved in a number of successful business transformations where her diverse skills have been used to create, financially evaluate and implement growth strategies. Hilary has worked with a broad range of companies from large corporates including Heineken, Vodafone, Motorola and Premier Foods and smaller more entrepreneurial businesses. Most recently Hilary was Interim CFO at the private equity funded Powerleague, where she was integral to the restructuring and transformation of the finance systems.

Qualifications
Hilary is a Chartered Accountant, member of ICAS and has a BA in Business Economics and an MBA from Strathclyde University.

External appointments
None.

R Remuneration Committee N Nomination Committee A Audit Committee

Geoff Bennett
Non-executive director

R N A

Skills and experience
Geoff co-founded Southern Lights Biomaterials in 2003 and, as CEO, was responsible for guiding the company to a dominant position in biomaterials and regenerative medicine. He has financial and operational experience, including previously holding the chief financial role at three publicly traded Canadian companies (Pelorus Navigation Systems Inc., Circle Energy Inc. and Solid State Geophysical Inc.), as well as experience of early stage enterprises specialising in technology commercialisation, such as InnerVision Medical Technologies Inc., where he was the COO and Corporate Director.

Qualifications
Geoff holds a Bachelor of Commerce degree from the University of Alberta and is a member of the Chartered Professional Accountants of Canada and the Institute of Directors of New Zealand.

External appointments
None.

Malcolm Gillies
Non-executive director

R N A

Skills and experience
Malcolm is a director of several private companies involved in the medical and technology sectors, including Antoxis Limited, Plasmox Limited, Recircle Limited and Ohmedics Limited. Malcolm was a director of Aircraft Medical until November 2015, when it was sold to Medtronic for $110 million. He has previously held positions as a non-executive director in public companies and was Company Secretary at Axis-Shield Plc.

Qualifications
He has a background as a corporate finance lawyer, having been a senior corporate partner with Shepherd and Wedderburn.

External appointments
Malcolm holds directorships at Antoxis Limited, Ohmedics Limited, Plasmox Limited and Recircle Limited.

Chris Brinsmead CBE
Non-executive director

R N A

Skills and experience
Chris has worked in the pharmaceutical industry for over 30 years, holding executive leadership roles within ICI and AstraZeneca. He was President of the ABPI from 2008 to 2010. Chris is a Member of Council at Imperial College and an adviser and champion on life sciences for the UK Government. He was appointed a CBE in January 2015.

Qualifications
Chris holds a BSc in Civil Engineering from Nottingham University and an MSc in Business Science from Manchester Business School.

External appointments
Chris is currently on the board of UDG Healthcare plc and the Wesleyan Assurance Society and holds directorships at Datapharm Communications Limited and CDB Meadowside Limited.

Board of directors
Continued

R Remuneration Committee N Nomination Committee A Audit Committee

Tom Hyland
Chief Operating Officer

Skills and experience
Tom has a wealth of experience in the field of collagen chemistry and the development, manufacturing, validation and engineering requirements of collagen-based medical devices. He is a recognised expert in the field, has a Six Sigma Black Belt, and has played a major role in bringing a number of highly successful collagen-based products to market and in driving the success of our development business. Tom has worked with an impressive list of global life science companies, including Johnson and Johnson Wound, Microsulis, Intercell, Alere and Invitrogen.

Qualifications
BSC Hons, MBA, NEBOSH, 6-SIGMA

External appointments
Director of HEH Ltd (Consultancy & Property Development).

Lou Ruggiero
Chief Business Officer

Skills and experience
Lou Ruggiero is a transformational executive leader with proven global success in the technology services and medical device industries.
Through experiences with best in class organizations like General Electric Healthcare and DJO Global he has developed and executed robust strategies to promote innovative products and services, thereby enabling sustainable customer success. A passionate collaborator with skills in cross-functional organisational leadership, performance management and turnaround large-scale complex transactions, Dr. Ruggiero has served as a Corporate Officer of publicly-held companies and as a Director of privately-held companies successfully leading diverse global commercial organizations.

Qualifications
Dr. Ruggiero earned a Doctoral degree in organizational leadership from Creighton University, a Masters of Business Administration from Northwestern University's Kellogg Graduate School of Management, and a Bachelors of Arts degree from St. John's University. He also received his Director Certification from the University of California John E. Anderson Graduate School of Management and completed his Six Sigma Certification while employed by General Electric.

External appointments
None.

Wade Rosen
Non-Executive Director
Appointed 6 June 2019

R N A

Skills and experience
Mr Rosen is a successful business leader, entrepreneur, and co-founder of two business-to-business technology companies, ThrivePass Inc. ('ThrivePass') and Wishlist Rewards LLC ('Wishlist').

Qualifications
Mr. Rosen holds a Bachelor of Business Administration (BBA) in Information Technology & E-Commerce from The University of Denver, and a Masters of Business Administration (MBA) from the Instituto de Empresa in Spain.

External appointments
Mr Rosen currently serves as a Director of RDI, and as Executive Vice President at Scientific Life Solutions, a subsidiary of RDI. He also serves as a Director for Wishlist and Flagship Biosciences, Inc. and as Chairman of the Board at ThrivePass.

Senior management team

The Senior Management Team are responsible for the day-to-day operations of the Group. Our greatest desire is that the products and services we provide directly and positively impact on people's lives.

Chris Wattengel

Vice President Research and Development

Experience

Chris brings over 15 years' experience in the medical device industry with a background in the field of regenerative medicine product development. Prior to Collagen Solutions, Chris held R&D leadership positions with Kensey Nash and DSM Biomedical developing materials and products for the orthopaedic, biosurgery, and general surgery markets. Chris is a graduate of the University of Rochester where he studied Biomedical Engineering.

Brad Selman

Vice President Global Sales and Marketing

Experience

Brad brings an extensive background in commercial management to Collagen Solutions, with over 16 years' experience in various commercial roles within the med tech industry. Most recently, Brad was Vice President of Sales and Business Development, Wound Care for Noble Biomaterials, a global manufacturer of silver-based antimicrobials. Prior to Noble Biomaterials, he was Director of Business Development for Molnycke Healthcare in their Advanced Wound Care Division. Before that, Brad spent eight years leading sales, marketing and business integration teams at Coloplast A/S. Brad has an MBA from the University of Tennessee and a Bachelor of Science in Geology from Juanita College in Pennsylvania.

Kevin Darling

Vice President Tissue Products & Managing Director New Zealand

Experience

Kevin brings extensive experience in operational management to Collagen Solutions, having previously held the General Manager (NZ) and Group General Manager (Australia and NZ) positions for Gribbles Veterinary Pathology Ltd, the leading veterinary pathology service provider in New Zealand. Kevin holds a Bachelor of Science in Zoology with a focus on Medical and Veterinary Entomology from the University of Aberdeen. Kevin also brings extensive global sales and marketing experience from his tenures at 3M, Mars Confectionery and the BOC Group.

Gill Black

Company Secretary and Legal

Experience

Gill brings commercial financial experience to the Group having been Financial Director and Company Secretary of A&E Russell Ltd through its acquisition by Bunzl in 2008. She was Head of Finance and Company Secretary of GVA James Barr Ltd, which merged with top-five UK independent GVA Grimley. Previously, Gill was a Senior Manager at KPMG, Glasgow, where she led a team advising high growth businesses. She holds an MA in Accountancy and Economics and is a Chartered Accountant and member of ICAS.

Corporate governance

PRINCIPLES OF CORPORATE GOVERNANCE

The Board appreciates the value of good corporate governance not only in the areas of accountability and risk management but also as a positive contribution to business prosperity. It believes that corporate governance involves more than a simple 'box ticking' approach to establish whether a company has met the requirements of a number of specific rules and regulations. Rather, the issue is one of applying corporate governance principles (including those set out in the Corporate Governance Code for Small and Mid-Size Quoted Companies published by the Quoted Companies Alliance) in a sensible and pragmatic fashion having regard to the individual circumstances of a particular company's business. The key objective is to enhance and protect shareholder value.

Board structure

The Board is responsible to shareholders for the proper management of the Group. A statement of directors' responsibilities in respect of the financial statements is set out on pages 46 to 47.

The Non-executive directors have a particular responsibility to ensure that the strategies proposed by the executive directors are fully considered. All Non-executive directors receive a fixed fee for their services.

To enable the Board to discharge its duties, all directors have full and timely access to all relevant information and there is a procedure for all directors, in furtherance of their duties, to take independent professional advice, if necessary, at the expense of the Group. The Board is responsible for overall Group strategy, approval of major capital expenditure projects and consideration of significant financing matters.

The following Committees, which have written terms of reference, deal with specific aspects of the Group's affairs.

Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board on the Group and the Company's framework of executive remuneration and its cost. The Committee determines the contract terms, remuneration and other benefits for each of the executive directors, including performance-related bonus schemes, pension rights and compensation payments. The Board itself determines the remuneration of the Non-executive directors. The Committee comprises all four Non-executive directors (David Evans, Malcolm Gillies, Chris Brinsmead and Geoff Bennett). It is chaired by Malcolm Gillies.

Audit and Risk Committee

The Audit and Risk Committee comprises three non-executive directors (Geoff Bennett Chris Brinsmead and Malcolm Gillies) and is chaired by Geoff Bennett.

Its prime tasks are to review the scope of the external audit, to receive regular reports from RSM UK Audit LLP, and to review the half yearly and annual accounts before they are presented to the Board, focusing in particular on accounting policies and areas of management judgement and estimation.

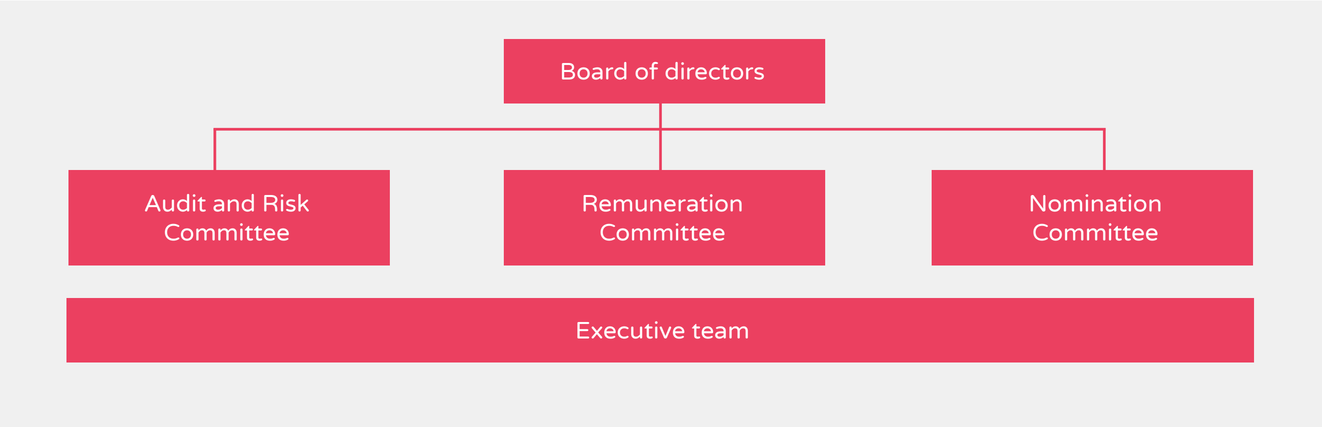
The Committee is responsible for monitoring the controls which are in force to ensure the integrity of the information reported to shareholders.

The Committee acts as a forum for discussion of internal control issues and contributes to the Board's review of the effectiveness of the Group's internal control and risk management systems and processes. It advises the Board on the appointment of external auditors and on their remuneration for both audit and non-audit work, and discusses the nature and scope of the audit with the external auditors. It reviews and monitors the independence of the auditors, especially with regard to non-audit work.

The Audit and Risk Committee met to consider the reports of the auditors prior to the submission of the annual financial statements to the Board.

Nomination Committee

The Nomination Committee comprises all four Non-executive directors (David Evans, Malcolm Gillies, Chris Brinsmead and Geoff Bennett) and is chaired by Malcolm Gillies.



Its duties include the review of the structure, size and composition of the Board, including skills, knowledge, experience and diversity, succession planning, review of leadership needs and identification, evaluation and nomination of candidates to fill Board vacancies, as necessary.

Post his appointment to the Board on 6th June 2019 Wade Rosen joined the Remuneration, Audit and Nomination Committees.

Internal control

The directors are responsible for the Group's system of internal control and reviewing its effectiveness. The Board has designed the Group's system of internal control in order to provide the directors with reasonable assurance that its assets are safeguarded, that transactions are authorised and properly recorded and that material errors and irregularities are either prevented or would be detected within a timely period.

However, no system of internal control can eliminate the risk of failure to achieve business objectives or provide absolute assurance against material misstatement or loss.

The key elements of the control system in operation are:

- the Board meets regularly with a formal schedule of matters for decision and has put in place an organisational structure with clear lines of responsibility defined and with appropriate delegation of authority;
- the subsidiaries' boards also meet regularly with a formal schedule of matters for decision; and
- there are procedures for planning, approval and monitoring of capital expenditure and information systems for monitoring the Group's financial performance against approved budgets and forecasts.

The Audit and Risk Committee receives reports from the external auditors and from executive directors of the Group. The Board receives periodic reports from all Committees.

There are no significant issues disclosed in the report and financial statements for the year ended 31 March 2019 and up to the date of approval of the report and financial statements that have required the Board to deal with any related material internal control issues.

The Board has considered whether the Group's internal control processes would be significantly enhanced by an internal audit function and has taken the view that, at the Group's current stage of development, this is not a necessity. The Board will continue to review this matter.

The Group is compliant with industry standard quality assurance measures and undergoes regular external audits to ensure that accreditation is maintained.

Relations with shareholders

The Group values its dialogue with both institutional and private investors. Effective two-way communication with the investment community is actively pursued and this encompasses issues such as performance, policy and strategy. The directors have had meetings with actual and potential investors and they will continue to do so on a regular basis. The Group maintains an informative website containing information likely to be of interest to existing and new investors. In addition, the Group retains the services of financial PR consultants, providing an additional contact point for investors.

There is also an opportunity, at the Company's Annual General Meeting, for individual shareholders to raise general business matters with the full Board, and notice of the Company's Annual General Meeting is circulated to all shareholders before such meeting.

Going concern

The directors believe that the use of the going concern basis of accounting is appropriate because they consider that the Group has considerable financial resources, together with a robust sales pipeline and commitments from a number of customers. As such, the directors believe that the Group is well placed to manage its business risks successfully. The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

SHAREHOLDER ENGAGEMENT CALENDAR

A typical timetable for investor relations is as follows:

VARIOUS	PROACTIVE INVESTORS (videos / audio interviews) through the year	Presentations
JULY	Results and investor presentation – London Annual report published	Conferences Publications
AUGUST	Annual general meeting	Meetings
OCTOBER	Trading update	Publications
DECEMBER	Half year results presentation	Presentations

Key:

- Conferences
- Fundraising
- Meetings
- Presentations
- Publications

Directors' remuneration report

Remuneration Committee

The Company has a Remuneration Committee. The Committee comprises all four Non-executive directors (Malcolm Gillies, David Evans, Chris Brinsmead and Geoff Bennett). It is chaired by Malcolm Gillies. After his appointment on 6 June Wade Rosen joined.

Remuneration policy

The policy of the Committee is to reward executive directors in line with the current remuneration of directors in comparable businesses in order to recruit, motivate and retain high quality executives within a competitive marketplace, thereby enhancing shareholder value.

Directors' remuneration

The table below summarises all directors' emoluments and pension contributions.

	2019		2018	
	Salary, bonus and fees £	Pension £	Salary, bonus and fees £	Pension £
D E Evans	—	—	—	—
M J Gillies	9,750	—	9,750	—
B G Bennett	9,750	—	9,750	—
J D Rushdy	235,625	7,876	226,026	6,780
Dr S White (resigned 30 June 2017)	—	—	25,500	1,677
H G Spence (appointed 3 January 2018)	120,000	3,600	28,303	849
C D Brinsmead (appointed 1 January 2018)	9,750	—	2,437	—
L T Ruggiero (appointed 3 September 2018)	128,996	4,386	—	—
G N Black (resigned 3 January 2018)	—	—	69,750	2,093
T P Hyland (appointed 3 September 2018)	70,000	2,100	—	—
	583,871	17,962	371,516	11,399

As per previous years, D E Evans waived his right to his salary of £9,750. Note 19 Related party transactions discloses payments made to directors for consultancy services.

Fees for compensation for loss of office for Dr S White were paid of £30,404 during the year ended 31 March 2018.

Pension payments of £17,962 were made on behalf of the directors to the Group's various money purchase schemes in the year ended 31 March 2019 (2018: £11,399).

Directors' share options

At 31 March 2019, the following directors held options over the shares of the Company:

	At 31 March 2019	At 31 March 2018	Date exercisable	Expiry date
D E Evans (granted March 2013)	4,050,000	4,050,000	29 March 2013	28 March 2023
T P Hyland (granted April 2015)	500,000	500,000	1 April 2018	31 March 2025
J D Rushdy (granted December 2015)	3,300,000	3,300,000	15 December 2018	14 December 2025
J D Rushdy (granted July 2016)	2,700,000	2,700,000	14 July 2016	13 July 2026
J D Rushdy (granted July 2017)	1,700,000	1,700,000	12 July 2020	12 July 2027
L T Ruggiero (granted March 2018)	100,000	100,000	20 March 2018	19 March 2021
H G Spence (granted April 2018)	666,666	—	3 January 2019	4 April 2028
H G Spence (granted April 2018)	666,667	—	3 January 2020	4 April 2028
H G Spence (granted April 2018)	666,667	—	3 January 2021	4 April 2028
L T Ruggiero (granted May 2018)	666,666	—	16 April 2019	2 May 2028
L T Ruggiero (granted May 2018)	666,667	—	16 April 2020	2 May 2028
L T Ruggiero (granted May 2018)	666,667	—	16 April 2021	2 May 2028
T P Hyland (granted September 2018)	1,500,000	---	19 September 2021	18 September 2028
H G Spence (granted January 2019)	333,333	—	3 January 2019	15 January 2029
H G Spence (granted January 2019)	333,333	—	3 January 2020	15 January 2029
H G Spence (granted January 2019)	333,334	—	3 January 2021	15 January 2029

Directors' report

The directors submit their report and consolidated financial statements of Collagen Solutions plc for the year ended 31 March 2019.

Principal activities

The principal activity of the Company is as a holding company. The principal activity of the Group is the supply, development and manufacture of medical grade collagen components and biomaterials for use in regenerative medicine, medical devices and in vitro diagnostics.

Review of the business

The Group's results are set out in the Consolidated Statement of Comprehensive Income on page 51 and are explained within the Financial Review on pages 30 to 32. A full review of the Group's activities and future developments is incorporated into the Chairman's and the Chief Executive's Statements.

Results and dividends

The trading results for the year and the Group's financial position at the end of the year are shown in the attached financial statements. The directors do not recommend the payment of a dividend.

At the beginning of the financial year the Group was holding a provision of £0.56 million for the earn-out on the acquisitions of Collagen Solutions LLC and Collagen Solutions NZ Limited. Final settlement of the earn-outs was made in April and August 2018 respectively at a total value of £0.57 million.

Directors

The directors of the Company during the year are listed below:

- David Evans;
- Malcolm Gillies;
- Geoff Bennett;
- Jamal Rushdy;
- Chris Brinsmead;
- Hilary Spence;
- Lou Ruggiero (appointed 3 September 2018)
- Tom Hyland (appointed 3 September 2018)

Directors' and officers' insurance cover is provided by the Company.

At 31 March 2019, the directors had beneficial interests in the Company's shares as listed below:

	Class of share	At 31 March 2019 Number	At 31 March 2018 Number
D E Evans	Ordinary shares of 1p each	43,187,411	39,394,554
B G Bennett	Ordinary shares of 1p each	6,325,988	6,325,988
J D Rushdy	Ordinary shares of 1p each	1,000,000	1,000,000
M J Gillies	Ordinary shares of 1p each	4,153,000	4,153,000
C D Brinsmead	Ordinary shares of 1p each	1,731,250	1,731,250
H G Spence	Ordinary shares of 1p each	250,817	30,817
T P Hyland	Ordinary shares of 1p each	273,847	100,000

There are 500,000 deferred shares of 9p in issue at 31 March 2019 and directors' interests are held as follows: David Evans – 125,000 and Malcolm Gillies – 250,000. The deferred shares do not confer any voting rights.

Substantial shareholdings

As at 28 June 2019, other than the directors' beneficial interests, there were the following substantial shareholdings:

	Class of share	Number
Rosen's Diversified, Inc	Ordinary shares of 1p each	83,600,000
Seneca Partners	Ordinary shares of 1p each	42.955,000
Calculus Capital	Ordinary shares of 1p each	30,714,000
Brett Gordon	Ordinary shares of 1p each	23,130,000
Gresham House	Ordinary shares of 1p each	20,040,000
Rathbone Investment Management	Ordinary shares of 1p each	15,430,750

Directors' report
Continued

Share capital
The total number of issued ordinary shares at 31 March 2019 and 31 March 2018 was 324,516,552. The total number of deferred shares at 31 March 2019 and 31 March 2018 was 500,000.

Research and development
The Group invests in research and development in the UK and the USA and collaborates with partners and academia. In the opinion of the directors, continuity of investment in this area is essential for the maintenance of the Group's market position and for future growth.

Supplier payment policy
It is Group policy to agree and clearly communicate the terms of payment as part of the commercial arrangements negotiated with suppliers and then to pay according to those terms based upon the timely receipt of an accurate invoice. At 31 March 2019 average creditor days were 29 days (2018: 29 days).

Charitable and political contributions
No charitable donations or political contributions were made by the Group in the year ended 31 March 2019.

Corporate social responsibility
The Group embraces working in a way that delivers financial, socially responsible and environmentally sustainable business performance, ensures adherence to the law and conducts its affairs to the highest ethical standards. We expect our customers and suppliers to embrace these same principles. The Group values teamwork, taking personal responsibility, positive attitudes and working hard to deliver positive outcomes for all our stakeholders.

Employee involvement
We have a talented global team and we aim to involve our employees and foster a culture of responsiveness and customer engagement. A share option scheme is operated within the Enterprise Management Incentive Scheme. We conduct annual Employee Satisfaction Surveys and monitor the changes in scores to ensure we keep positive momentum. In 2018 we invested in implementing individual development plans for employees.

The Group's employment policies, including the commitment to equal opportunity, are designed to attract, retain and motivate employees regardless of sex, race, religion or disability. Equality of treatment includes full and fair assessment of applications and extends to training and continuing career development.

The Group is committed to ensuring and communicating the requirements for a safe and healthy working environment for all employees, consistent with health and safety legislation and, wherever practicable, gives full consideration to applications for employment from disabled persons.

Statement as to disclosure of information to auditor
The directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditor is unaware. Each of the directors has confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

Directors' responsibilities in the preparation of the financial statements
The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Company financial statements for each financial year. The directors are required by the AIM Rules of the London Stock Exchange to prepare Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and have elected under company law to prepare the Company financial statements in accordance with IFRSs as adopted by the EU.

The financial statements are required by law and IFRSs adopted by the EU to present fairly the financial position of the Group and the Company and the financial performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 of the Group and the Company and of the profit or loss of the Group for that period.

Details of financial risk management objectives and policies, including exposure to price risk, credit risk, liquidity risk and cash flow risk, are shown in the Strategic Report on pages 32 and 34.

In preparing the Group and Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Collagen Solutions plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Annual General Meeting

The notice convening the Annual General Meeting to be held at 11am on 28 August 2019 at 3 Robroyston Oval, Nova Business Park, Glasgow, G33 1AP can be found on the Company's website.

Auditor

A resolution to reappoint RSM UK Audit LLP as auditor will be proposed at the Annual General Meeting.

On behalf of the Board

Hilary Spence

Chief Financial Officer

8 July 2019

Independent auditor's report to the members of Collagen Solutions PLC

Opinion

We have audited the financial statements of Collagen Solutions PLC (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2019 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Company Statement of Financial Position, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, 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 their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies 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 2019 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 and as applied in accordance with 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 group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to SME 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 group and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Group Key Audit Matters

Group revenue recognition

Risk

The Group derives revenue from a number of distinct activities, primarily sourcing, production and sale of high grade medical materials, contracts for the development of techniques to manufacture medical materials and the manufacture, licencing and sale of proprietary and third party materials (Referred to as Supply, Development and Licencing revenues in note 1). The disclosure of policies adopted for recognition of each stream of income are disclosed in the accounting policy disclosures and the relative amounts of revenue recognised are disclosed in note 1. In the current year, the group adopted IFRS 15, Revenue from contracts with customers, for the first time and management have had to consider the impact on existing and new contracts. The variety of performance obligations and terms within the various contracts make revenue recognition heighten the risk of an error arising.

Our response

We reviewed all revenue streams separately, gaining an understanding of contractual terms associated with each through detailed review of third party contracts and the appropriate recognition policy to be adopted associated with each. We agreed amounts recognised to pricing agreed within those contracts and for development contracts, to customer certification of stages of completion reached on a sample basis. For the sale of product, we also confirmed that control had passed in line with contractual terms by the reporting date. For licencing income, we confirmed that the Group had fulfilled their distinct performance obligations by the reporting date. We also reviewed the disclosure in the financial statements of the revenue recognition policies and disaggregation in respect of revenue recognition.

Group and Company Key Audit Matters

Carrying value of parent company investments and receivables due from group undertakings and group goodwill and other intangibles

Risk

The group was formed and has grown through acquisition and investment in intellectual property and manufacturing capability. Within the parent Company Statement of Financial Position, investments in subsidiaries are carried at a value of £12.9m, receivables due from group undertakings are £7.9m and in the consolidated financial statements goodwill and other intangibles are carried at £14.9m. The group has been loss making for a number of years as it continues to invest in the development of production techniques and proprietary technologies that will drive future revenues. The judgement required around the group's ability to return sufficient profit from future operations and significant assumptions which include timing, volume and profitability of manufacturing contracts in future years, heightens the risk surrounding the recoverability of these balances (See notes 8 and 10).

Our response

Management have prepared forecast models which calculate the net present value of anticipated future cash flows. We have reviewed the forecast models and have challenged the assumptions within these models, primarily the revenue and margin figures being projected, the discount rate being applied and the future rate of growth in the current range of projects being undertaken. We have stress tested the forecast models for what we consider to be a range of possible future outcomes. We have assessed additional corroborative evidence around the value inherent within the business, primarily with respect to the most recent issuance of equity and the current market capitalisation of the group.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements.

During planning materiality for the group financial statements as a whole was calculated as £197,000 which was not significantly changed during the course of our audit. Materiality for the parent company financial statements as a whole was calculated as £184,000, which was not significantly changed during the course of our audit. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £10,000 as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our group audit scope included the full scope audit of all components requiring a statutory audit and any other financially significant components being those with revenue individually in excess of 10% of group revenues. These were performed at a materiality level determined by reference to the scale of the business concerned. In aggregate components not subject to full scope audit contributed to less than 1% of group revenues. Analytical procedures at group level were performed for these non-significant components.

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.

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.

Independent auditor's report to the members of Collagen Solutions PLC

Continued

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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 pages 46 to 47, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: http://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Alan Aitchison
Senior Statutory Auditor

For and on behalf of RSM UK Audit LLP, Statutory Auditor

Chartered Accountants
Third Floor
Centenary House
69 Wellington Street
Glasgow
G2 6HG

Consolidated statement of comprehensive income

for the year ended 31 March 2019

	Notes	Before separately identifiable items £	Separately identifiable items (Note 4) £	Total 2019 £	Restated (Note 6) Before separately identifiable items £	Restated (Note 6) Separately identifiable items (Note 4) £	Restated (Note 6) Total 2018 £
Revenue		4,150,736	—	**4,150,736**	3,504,624	—	3,504,624
Cost of sales		(1,111,399)	—	**(1,111,399)**	(1,039,401)	—	(1,039,401)
Gross profit		3,039,337	—	**3,039,337**	2,465,223	—	2,465,223
Share-based compensation		(85,900)	—	**(85,900)**	(68,011)	—	(68,011)
Administrative expenses		(3,499,544)	248,775	**(3,250,769)**	(3,412,092)	(81,402)	(3,493,494)
Selling and marketing costs		(1,024,868)	—	**(1,024,868)**	(897,308)	(41,046)	(938,354)
Other income		354,445	—	**354,445**	203,236	—	203,236
Operating loss before interest, tax, depreciation and amortisation		(1,216,530)	248,775	**(967,755)**	(1,708,952)	(122,448)	(1,831,400)
Amortisation and depreciation		(562,355)	—	**(562,355)**	(526,946)	—	(526,946)
Finance income	5	15,254	—	**15,254**	18,244	—	18,244
Finance expense	5	(332,213)	—	**(332,213)**	(402,814)	—	(402,814)
Loss before taxation	2	(2,095,844)	248,775	**(1,847,069)**	(2,620,468)	(122,448)	(2,742,916)
Taxation	6	180,800	—	**180,800**	151,353	—	151,353
Loss for the year		(1,915,044)	248,775	**(1,666,269)**	(2,469,115)	(122,448)	(2,591,563)
Attributable to:							
Owners of the parent		(1,915,044)	248,775	**(1,666,269)**	(2,447,026)	(122,448)	(2,569,474)
Non-controlling interest		—	—	**—**	(22,089)	—	(22,089)
		(1,915,044)	248,775	**(1,666,269)**	(2,469,115)	(122,448)	(2,591,563)
Currency translation difference		129,488	—	**129,488**	(876,014)	—	(876,014)
Other comprehensive income / (loss)		129,488	—	**129,488**	(876,014)	—	(876,014)
Total comprehensive loss for the year		(1,785,556)	248,775	**(1,536,781)**	(3,345,129)	(122,448)	(3,467,577)
Attributable to:							
Owners of the parent		(1,785,556)	248,775	**(1,536,781)**	(3,319,761)	(122,448)	(3,442,209)
Non-controlling interest		—	—	**—**	(25,368)	—	(25,368)
		(1,785,556)	248,775	**(1,536,781)**	(3,345,129)	(122,448)	(3,467,577)
Basic and diluted loss per share	7			**(0.51p)**			(0.79p)

Consolidated statement of financial position
as at 31 March 2019

	Notes	2019 £	2018 £
ASSETS			
Non-current assets			
Intangible assets	8	14,944,687	14,332,892
Property, plant and equipment	9	1,101,959	1,228,530
		16,046,646	15,561,422
Current assets			
Inventories	11	338,068	324,904
Trade and other receivables	12	1,137,758	1,085,783
Cash and cash equivalents	13	1,678,079	5,022,314
		3,153,905	6,433,001
Total assets		19,200,551	21,994,423
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent company			
Share capital	20	3,290,166	3,290,166
Share premium		14,869,909	14,869,909
Share-based payment reserve		291,720	205,820
Shares to be issued reserve		106,581	106,581
Merger reserve		4,531,798	4,531,798
Translation reserve		805,387	675,899
Retained deficit		(8,464,231)	(6,797,962)
Total equity		15,431,330	16,882,211
Non-current liabilities			
Deferred tax	16	162,094	192,509
Provision for other liabilities and charges	14	121,744	151,753
Borrowings	14/19	1,294,079	1,914,114
		1,577,917	2,258,376
Current liabilities			
Trade and other payables	14	938,556	802,394
Provision for other liabilities and charges	14	38,538	1,041,520
Borrowings	14/19	1,214,210	1,009,922
		2,191,304	2,853,836
Total liabilities		3,769,221	5,112,212
Total liabilities and equity		19,200,551	21,994,423

These financial statements were approved by the Board of directors and authorised for issue on 8 July 2019 and are signed on its behalf by:

Hilary Spence

Chief Financial Officer

David Evans

Chairman

Company number: 8446337

Company statement of financial position
as at 31 March 2019

	Notes	2019 £	2018 £
ASSETS			
Non-current assets			
Financial asset investments	10	12,884,905	12,884,905
Intangible assets	8	192,281	138,499
Property, plant and equipment	9	13,365	30,921
		13,090,551	13,054,325
Current assets			
Trade and other receivables	12	7,993,657	6,626,033
Cash and cash equivalents	13	525,279	4,181,379
		8,518,936	10,807,412
Total assets		21,609,487	23,861,737
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent company			
Share capital	20	3,290,166	3,290,166
Share premium		14,869,909	14,869,909
Share-based payment reserve		291,720	205,820
Shares to be issued reserve		106,581	106,581
Merger reserve		4,531,798	4,531,798
Retained deficit		(4,141,264)	(2,951,954)
Total equity		18,948,910	20,052,320
Non-current liabilities			
Borrowings	14	1,294,079	1,897,612
		1,294,079	1,897,612
Current liabilities			
Trade and other payables	14	152,288	446,617
Provision for other liabilities and charges	14	-	481,786
Borrowings	14	1,214,210	983,402
		1,366,498	1,911,805
Total liabilities		2,660,577	3,809,417
Total liabilities and equity		21,609,487	23,861,737

The Company's loss for the year was £1,189,310 (2018: £637,461).

These financial statements were approved by the Board of directors and authorised for issue on 8 July 2019 and are signed on its behalf by:

Hilary Spence

Chief Financial Officer

David Evans

Chairman

Company number: 8446337

Consolidated statement of changes in equity
for the year ended 31 March 2019

	Share capital £	Share premium £	Share-based payment reserve £	Shares to be issued reserve £	Merger reserve £	Translation reserve £	Retained deficit £	Total £	Non-controlling interest £	Total equity £
At 1 April 2017	3,287,991	14,851,092	137,809	131,934	4,531,798	1,539,676	(4,291,319)	20,188,981	97,157	20,286,138
Issue of shares on acquisition of assets	2,175	23,178	—	(25,353)	—	—	—	—	—	—
Share issue costs	—	(4,361)	—	—	—	—	—	(4,361)	—	(4,361)
Total transactions with owners in their capacity as owners	2,175	18,817	—	(25,353)	—	—	—	(4,361)	—	(4,361)
Share-based compensation	—	—	68,011	—	—	—	—	68,011	—	68,011
Non-controlling interest transfer of shares to Company	—	—	—	—	—	8,958	62,831	71,789	(71,789)	—
Loss for the year	—	—	—	—	—	—	(2,569,474)	(2,569,474)	(22,089)	(2,591,563)
Currency translation difference	—	—	—	—	—	(872,735)	—	(872,735)	(3,279)	(876,014)
Loss and total comprehensive loss for the year	—	—	—	—	—	(872,735)	(2,569,474)	(3,442,209)	(25,368)	(3,467,577)
At 1 April 2018	3,290,166	14,869,909	205,820	106,581	4,531,798	675,899	(6,797,962)	16,882,211	—	16,882,211
Share-based compensation	—	—	85,900	—	—	—	—	85,900	—	85,900
Loss for the year	—	—	—	—	—	—	(1,666,269)	(1,666,269)	—	(1,666,269)
Currency translation difference	—	—	—	—	—	129,488	—	129,488	—	129,488
Loss and total comprehensive loss for the year	—	—	—	—	—	129,488	(1,666,269)	(1,536,781)	—	(1,536,781)
At 31 March 2019	**3,290,166**	**14,869,909**	**291,720**	**106,581**	**4,531,798**	**805,387**	**(8,464,231)**	**15,431,330**	**—**	**15,431,330**

Company statement of changes in equity

for the year ended 31 March 2019

	Share capital £	Share premium £	Share-based payment reserve £	Shares to be issued reserve £	Merger reserve £	Retained deficit £	Total £
At 1 April 2017	3,287,991	14,851,092	137,809	131,934	4,531,798	(2,314,493)	20,626,131
Issue of shares on acquisition of assets	2,175	23,178	—	(25,353)	—	—	—
Share issue costs	—	(4,361)	—	—	—	—	(4,361)
Total transactions with owners in their capacity as owners	2,175	18,817	—	(25,353)	—	—	(4,361)
Share-based compensation	—	—	68,011	—	—	—	68,011
Loss and total comprehensive loss for the year	—	—	—	—	—	(637,461)	(637,461)
At 1 April 2018	3,290,166	14,869,909	205,820	106,581	4,531,798	(2,951,954)	20,052,320
Share-based compensation	—	—	85,900	—	—	—	85,900
Loss and total comprehensive loss for the year	—	—	—	—	—	(1,189,310)	(1,189,310)
At 31 March 2018	**3,290,166**	**14,869,909**	**291,720**	**106,581**	**4,531,798**	**(4,141,264)**	**18,948,910**

Consolidated statement of cash flows

for the year ended 31 March 2019

	2019 £	Restated (note 6) 2018 £
Cash flow from operating activities		
Loss before taxation	(1,847,069)	(2,742,916)
Share-based compensation	85,900	68,011
Depreciation	334,461	290,242
Amortisation	227,894	236,704
Increase/(decrease) in contingent consideration	4,744	(793,285)
Finance expense	332,213	402,814
Finance income	(15,254)	(18,244)
(Gain)/loss on sale of property, plant and equipment	(67,591)	2,360
Gain on sale of investment	(214,965)	—
Increase in inventories	(12,418)	(19,213)
Decrease/(increase) in trade and other receivables	53,442	(218,592)
Increase /(decrease) in trade and other payables	112,635	(168,747)
(Decrease)/increase in provisions	(202,736)	631,066
Cash used in operations	(1,208,744)	(2,329,800)
Interest paid	(273,327)	(272,606)
Taxation received/(paid)	53,245	(42,837)
Net cash used in operations	(1,428,826)	(2,645,243)
Investing activities		
Proceeds from the sale of investment	214,965	—
Proceeds from sale of property, plant and equipment	67,591	—
Payments to acquire property, plant and equipment	(454,215)	(422,397)
Payments to acquire licensed IP and patents, and development costs	(740,045)	(796,420)
Settlement of contingent and deferred consideration	(566,951)	(1,049,901)
Interest received	15,254	18,244
Net cash used in investing activities	(1,463,401)	(2,250,474)
Financing activities		
Net proceeds on issue of ordinary shares	—	(4,361)
Net proceeds from Bond issue	—	1,000,000
Repayment of Bonds	(420,325)	—
Repayment of related party loan	(43,022)	(29,862)
Net cash (used)/generated from financing activities	(463,347)	965,777
Net decrease in cash and cash equivalents	(3,355,574)	(3,929,940)
Effect of foreign exchange rate changes on the balance of cash held in foreign currencies	11,339	(25,896)
Net decrease in cash and cash equivalents	(3,344,235)	(3,955,836)
Cash and cash equivalents at the beginning of the financial year	5,022,314	8,978,150
Cash and cash equivalents at the end of the financial year	1,678,079	5,022,314

Company statement of cash flows

for the year ended 31 March 2019

	2019 £	2018 £
Cash flow from operating activities		
Loss before taxation	(1,187,075)	(637,461)
Share-based compensation	85,900	68,011
Depreciation	31,364	22,720
Amortisation	32,061	17,732
Finance expense	331,144	365,304
Finance income	(12,874)	(18,225)
(Increase)/decrease in trade and other receivables	(9,293)	18,616
(Decrease)/increase in trade and other payables	(16,402)	36,825
Movement in contingent consideration	4,744	(528,959)
Cash used in operations	(740,431)	(655,437)
Interest paid	(272,258)	(267,472)
Taxation paid	(2,235)	—
Net cash used in operations	(1,014,924)	(922,909)
Investing activities		
Payments to acquire property, plant and equipment	(13,808)	(5,812)
Payments to acquire intangibles	(85,843)	(38,442)
Interest received	12,874	18,225
Settlement of contingent and deferred consideration	(486,530)	(875,098)
Movement in Group borrowings	(1,647,544)	(2,766,303)
Net cash used in investing activities	(2,220,851)	(3,667,430)
Financing activities		
Repayment of Bonds	(420,325)	—
Net proceeds on issue of ordinary shares	—	(4,361)
Net proceeds from Bond issue	—	1,000,000
Net cash used in financing activities	(420,325)	(995,639)
Net decrease in cash and cash equivalents	(3,656,100)	(3,594,700)
Cash and cash equivalents at the beginning of the financial year	4,181,379	7,776,079
Cash and cash equivalents at the end of the financial year	525,279	4,181,379

Notes to the financial statements

General information

Collagen Solutions plc is a publicly listed company on the AIM market of the London Stock Exchange which is incorporated and domiciled in the United Kingdom. The locations and principal activities of the subsidiaries are set out in note 10. The registered office is c/o Shepherd and Wedderburn LLP, Condor House, 10 St. Paul's Churchyard, London EC4M 8AL.

The financial statements of Collagen Solutions plc and its subsidiaries (the "Group") for the year ended 31 March 2019 were authorised for issue by the Board of Directors on 8 July 2019.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs), including IFRS Interpretations Committee (IFRICs) interpretations as endorsed by the European Union (EU), and in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs.

The Group has adopted IFRS9 Financial Instruments and IFRS15 Revenue from Contracts with Customers during the year. The adoption of these standards change the presentation and disclosures required in certain areas. More detail is included on page 64.

The financial statements have been prepared on the historical cost basis except for certain financial liabilities incorporated at fair value. The consolidated financial statements are presented in sterling, which is also the functional currency of the Company. The principal accounting policies adopted are set out below.

Going concern

As part of its going concern review the Board has followed the guidelines published by the Financial Reporting Council entitled 'Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks (2016)'. In determining the appropriate basis of preparing the financial statements, the directors are required to consider whether the Company and Group can continue in operational existence for the foreseeable future, being a period of not less than 12 months from the date of the approval of the financial statements. As at 31 March 2019 the Group had cash and cash equivalents of £1.68 million and net current assets of £0.96 million.

Management prepares detailed working capital forecasts which are reviewed by the Board on a regular basis. Cash flow forecasts and projections have been prepared through to 31 March 2022 and take into account sensitivities on revenues and costs. Having made relevant and appropriate enquiries, including consideration of the Company's and the Group's current cash resources and the working capital forecasts, and in particular in view of the post balance sheet fund raise completed on 5 June 2019, the directors have a reasonable expectation that the Company and the Group will have adequate cash resources to continue to meet the requirements of the business for at least the next 12 months from the date of approval of the financial statements. Accordingly, the Board continues to adopt the going concern basis in preparing the financial statements.

Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Comprehensive Income from the date of their acquisition until their date of disposal.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired are recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the Consolidated Statement of Comprehensive Income.

Intra-group balance transactions and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Company Statement of Comprehensive Income

As permitted by section 408 of the Companies Act 2006, the Company has not presented its own Statement of Comprehensive Income as it prepares Group accounts and the Company's individual Statement of Financial Position shows the Company's profit or loss for the financial year.

Revenue

Revenue is measured as the fair value of the consideration received or receivable in the normal course of business, net of discounts, VAT and other sales related taxes and is recognised in line with IFRS15 when the control of economic benefits has been transferred to the customer.

In practical terms for our supply business this generally means when ownership of the goods transfers to the customer. This is normally when the goods are accepted by the customer under agreed shipping terms.

For our development business, we assess the point at which we transfer value to our customers and revenue is then recognised either when the predetermined contract milestones are met, and as such the performance obligations are satisfied or where contractual milestones are not considered to have led to a transfer of value, on the basis of percentage of completion of the contract under the input methodology.

Where we grant licences over Intellectual Property or other rights to our products for consideration, this revenue is recognised when we have fulfilled our obligations, allowing the licensee to realise value from the licence. Where licence fees are part of a broader commercial agreement, we consider whether the granting of the license is distinct from all other commitments to the licensee or part of the revenue streams to be recognised over time as our obligations are met.

Government grants

The Group receives government grants in relation to research and development, business development and employment costs. Government grants receivable for the reimbursement of costs charged to the income statement are credited to the income statement within other income in the year in which the costs are incurred.

Segmental reporting

The Group's Chief Operating Decision Maker, the Chief Executive Officer, is responsible for resource allocation and the assessment of performance. In the performance of this role, the Chief Executive Officer reviews the Group's activities, in aggregate. The Group has therefore determined that it has only one reportable segment under IFRS 8 Operating Segments, which is biomaterials.

Goodwill

Goodwill arising on consolidation represents the excess of the consideration transferred and the fair value of the identifiable assets and liabilities of the acquiree at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is not amortised but is tested annually for impairment and is carried at cost less accumulated impairment losses. See Note 8 for detailed assumptions and methodology. Impairment losses are not subsequently reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which the goodwill is allocated shall represent the lowest level within the entity at which goodwill is monitored for internal management purposes and not be larger than an operating segment.

Notes to the financial statements

Continued

Contingent consideration is measured at its acquisition-date fair value and is included as part of the consideration transferred. Changes in the fair value of the contingent consideration that qualify as measurement adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates with the corresponding gain or loss being recognised in profit or loss for the relevant financial period.

Purchased goodwill arising on the acquisition of a business and its net assets represents the excess of the consideration and the fair value of the identifiable assets and liabilities of that business at the date of acquisition. It is included within intangible assets and subject to annual impairment reviews noted above.

Intangible assets

Intangible assets acquired as part of a business combination are recognised outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably.

Intangible assets are stated at cost, net of any amortisation and any provision for impairment. Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Customer contracts and relationships – over two to ten years, depending on terms of contract, on a straight-line basis

Licensed IP and patents – over estimated useful lives of ten to twenty-five years

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred. Expenditure arising from the Group's development is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as new processes or products);
- it is probable that the asset created will generate future economic benefits;
- the development cost of the asset can be measured reliably;
- the Group has the intention to complete the asset and the ability and intention to use or sell it;
- the product or process is technically and commercially feasible; and
- sufficient resources are available to complete the development and to either sell or use the asset.

Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Cost comprises purchase price and other directly attributable costs. Depreciation is charged so as to write off the cost or valuation of assets to their residual values over their estimated useful lives, using the straight-line method, or diminishing value over the following estimated useful lives:

Leasehold property improvements – over life of lease

Plant, equipment and machinery – 8%–60%

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Impairment

At each reporting date, in addition to performing an annual value in use calculation of goodwill, the Group reviews the carrying amounts of its property, plant and equipment and other intangibles 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). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Other than for goodwill, where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised as income immediately.

Detailed assumptions with regard to discount, growth and inflation rates are set out in Note 8 to the accounts.

Investments

Investments are initially recorded at cost. The subsequent measurement of contingent consideration is recognised through the income statement. The fair value of the contingent consideration is recognised by discounting the estimated sums payable by the discount rate of equity financing. Unwinding of the discount is charged to finance expense over the relevant period. The fair value of the share price at date of acquisition for shares issued as part of the consideration is reflected in the cost of the investment. Investments are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Inventories

Inventories are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow-moving items. Inventories comprise completed products, raw materials and work in progress. The cost of inventories is calculated on a weighted average cost method. The cost included within inventories comprises direct materials and, where applicable, direct labour costs and an attributable portion of production overheads in bringing them to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Financial instruments

Classification and measurement of IFRS9 has changed to a more principle-based approach to classify financial assets as either held at amortised cost, fair value through other comprehensive income (FVOCI) of fair value through profit or loss, dependent on the business model and cash flow characteristics of the financial asset.

Financial assets

The Group classifies its financial assets as subsequently measured at amortised cost under IFRS9 if it meets both of the following criteria:

- Hold to collect business model test – the asset is held within a business model whose objective is to hold the financial asset in order to collect contractual cash flows and;
- Solely payments of principal and interest (SPPI) contractual cash flows characteristics test – the Contractual terms of the financial asset give rise to cash flows that are SPPI on the principal amount outstanding on a specified date

Financial assets include:

- Trade receivables
- Cash and cash equivalents.

Trade receivables

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

IFRS9 introduces a new impairment model. Under IAS39 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.

IFRS9 introduces a new expected credit loss ('ECL') model which broadens the information that an entity is required to consider when determining its expectations of impairment. Under this new model expectations of future events must be taken into account, potentially resulting in earlier recognition of larger impairments.

Notes to the financial statements
Continued

Financial liabilities

The classification and measurement of financial liabilities in accordance with IFRS9 Financial Instruments remains largely unchanged from IAS39 Financial Instruments: Recognition and Measurement. Financial liabilities are classified as either:

- Financial liabilities at amortised cost; or
- Financial liabilities as at fair value through profit or loss (FVPTL).

All financial liabilities are measured at amortised cost and include:

- Trade and other payables
- Borrowings

Trade and other payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate.

Borrowings
Borrowings are recognised initially at the fair value of the proceeds received net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are expensed in the consolidated Group income statement under the heading “finance expense”. Arrangement and facility fees together with bank charges are charged to the income statement under the heading “administrative expenses”.

Contingent consideration
Contingent consideration amounts arising from acquisitions are recorded at fair value having regard to the relevant discount rate of equity capital. The finance costs arising from unwinding the instrument over the period are charged through the Consolidated Statement of Comprehensive Income. Amounts are reviewed annually against criteria for payment set out within the relevant sale and purchase agreements.

Leasing commitments
Rentals payable under operating leases, where substantially all the benefits and risks remain with the lessor, are charged to income on a straight-line basis over the term of the relevant lease.

Foreign currencies
Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in sterling, which is the Company’s functional and the Group’s presentation currency.

Transactions in overseas currencies are translated at the exchange rate ruling at the date of the transaction. 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.

The results and financial position of subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

a. assets and liabilities for each reporting date are translated at the closing rate at that date; and

b. income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions).

All resulting exchange differences are recognised in other comprehensive income in the translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Taxation

Current tax is the expected corporation tax payable or receivable in respect of the taxable profit/loss for the financial period using tax rates enacted or substantively enacted at the reporting date, less any adjustments to tax payable or receivable in respect of previous periods.

Deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities included in the financial statements and the amounts used for tax purposes that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

- No provision is made relating to the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than those acquired as part of a business combination.
- Provision is made for deferred tax that would arise on all taxable temporary differences associated with investments except where the Group can control the reversal of the temporary differences.
- Deferred tax assets are recognised only to the extent that the directors consider that it is probable that there will be suitable taxable profits from which the future reversal of the underlying temporary differences and unused tax losses and credits can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the reporting date.

Provisions

Provisions are recognised if the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are discounted to present value where the effect is material. The Group recognises a provision for deferred consideration. Where this is contingent on future performance or a future event, judgement is exercised in establishing the fair value. The Group recognises a provision for onerous lease contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract. The provision is based on the present value of future payments for surplus leased properties under non-cancellable operating leases, net of estimated sub-leasing income.

Share-based payment transactions

The Group has applied the requirements of IFRS 2 Share-based Payment.

The Group issues equity-settled share-based payment transactions to certain employees, directors and suppliers. Equity settled share-based payment transactions are measured at fair value at the date of grant. The fair value determined at the grant date of equity-settled share-based payment transactions takes into account any non-vesting conditions and is expensed on a straight-line basis over the vesting period, based on the Group's estimate of share options that will eventually vest, and a corresponding amount is credited to the share-based payment reserve.

Non-vesting conditions which are not satisfied during the vesting period are treated as cancellations and any remaining expense is accelerated in the period of failure.

Share-based payments associated with share options granted to employees of subsidiaries of the parent company are treated as an expense of the subsidiary company to be settled by equity of the parent company. The share-based payment expense increases the value of the parent company's investment in the subsidiaries and is credited to the share-based payment reserve.

The proceeds received on exercise of share options are credited to share capital (for the nominal value) and the share premium account (for the excess over nominal value).

Fair value is measured by use of the Trinomial Barrier Option and Black-Scholes models. The expected life used in the models has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions and behavioural considerations.

Notes to the financial statements
Continued

New standards and amendments to standards adopted in the year by the Group
The following standards have been adopted by the Group for the financial year beginning on or after 1 April 2018:

IFRS 15 Revenue from contracts with customers

IFRS 15 is effective for periods beginning on or after 1st January 2018. IFRS 15 introduces a five step approach to the timing of revenue recognition based on performance obligations in customer contracts. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer loyalty Programmes.

On 1 April 2018, the Group adopted IFRS 15 Revenue from contracts with customers using the modified retrospective method for contracts which were not completed as of that date. The Group applied the practical expedients in relation to contracts with variable consideration and contracts that were completed at the beginning of the earliest period presented and/or modified before the beginning of the earliest period presented.

Under IFRS 15, revenue is recognised as the performance obligations to deliver products or services are satisfied and revenue is recorded based on the amount of consideration expected to be received in exchange for satisfying the performance obligations. The Group undertook a detailed impact assessment applying IFRS 15 to all the existing ways in which the Group delivers products or services to customers to identify divergence with previous accounting practice governed by IAS 18 Revenue and concluded that IFRS 15 does not have a significant impact on the timing and recognition of revenue. Accordingly, there was no adjustment required on transition to IFRS 15.

IFRS 9 Financial instruments

IFRS 9 'Financial instruments' replaces IAS 39 'Financial instruments: Recognition and Measurement'. The standard is effective for accounting periods beginning on or after 1 January 2018. The standard covers three elements:

- Classification and measurement: Changes to a more principle based approach to classify financial assets as either held at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss, dependent on the business model and cash flow characteristics of the financial asset;
- Impairment: Moves to an impairment model based on expected credit losses based on a three-stage approach; and
- Hedge accounting: The IFRS 9 hedge accounting requirements are designed to allow hedge accounting to be more closely aligned with the Group's underlying risk management.

The Group does not hold complex financial instruments and therefore the majority of changes to the standard do not change the existing accounting for assets or liabilities held. All financial assets and liabilities will continue to be measured at amortised cost with the exception of contingent consideration which is held at fair value. The Group has applied the simplified method of the expected credit loss model when calculating impairment losses on trade receivables. This resulted in greater judgement due to the need to factor in forward looking information when estimating the appropriate amount of provisions.

In applying IFRS 9 the Group considered the probability of a default occurring over the contractual life of its trade receivables balances on initial recognition of those assets.

The Group has chosen not to restate comparatives on adoption of IFRS 9 given the immaterial nature of the transitional impacts and, therefore, these changes have been processed in the current year.

The Company has amounts due from group undertakings which have been reviewed for risk of impairment. The risk of impairment is considered very low and the impact of any adjustment is considered immaterial, and as such this balance has not been adjusted on adoption of IFRS 9.

The adoption of these new pronouncements from 1 April 2018 does not have a material impact on the Group or Company financial statements. Additional disclosure has been given where relevant.

New standards to be adopted in future years
New accounting standards and interpretations have been published that are not mandatory for the year ended 31 March 2019. The Group has elected not to early adopt these new standards and interpretations. The Group's assessment of the impact of these new standards is set out below.

IFRS 16 Leases

IFRS 16 introduces a single lease accounting model. This standard requires lessees to account for all leases under a single on balance sheet model. Under the new standard, a lessee is required to recognise all lease assets and liabilities on the balance sheet; recognise amortisation of leased assets and interest on lease liabilities over the lease term; and separately present the principal amount of cash paid and interest in the cash flow statement. The requirements of IFRS 16 extend to certain service contracts, leased property and leased vehicles which may impact the Group. Accordingly, management has initiated an impact assessment in respect of IFRS 16 and while it is expected that on adoption the impact will be immaterial, further work is required before this can be quantified.

Critical accounting estimates and judgements

The preparation of the financial information in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are both readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. These accounting estimates and judgements Include but are not limited to the following areas, shown separately under the headings of accounting estimates and judgements.

Management consider the key areas of accounting estimate are as follows:

Impairment of goodwill

Goodwill is tested annually for impairment. The test considers future cash flow projections of cash-generating units that give rise to the goodwill. Where the discounted cash flows are less than the carrying value of goodwill, an impairment charge is recognised for the difference. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to revenue and direct costs during the period. These are detailed in note 8.

Management consider the key areas of judgement are as follows:

Impairment of goodwill

Management have a detailed 3 Year Plan tying back to commercial contracts and negotiations but judgement Is required to assess the likely trajectory of these contracts and negotiations and the ability to commercialise proprietary products to generate revenue.

Deferred tax

Management judgement is required to determine the amount of tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of future tax planning strategies.

Research and development

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 commercialisation is likely to be achieved. Judgements are based on the information available at each reporting date, which includes progress with testing and data and commercial feasibility. Activities in relation to research and development are continuously monitored by the directors.

Classification and carrying value of parent company Investment loan

Judgement Is also required to assess the carrying value of the Intercompany loans In the Company accounts. Financing arrangements between entities within the same group can take various forms. In our case judgement Is required as to the nature of the loan between the Company and a subsidiary classified under financial asset investments in note 10. In this Instance management consider that the advance Is Intended to be or Is akin to a capital contribution and Is not within the scope of IFRS9.

Notes to the financial statements

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1 Segmental reporting

	2019 £	2018 £
Revenue information by geographical location		
Europe, Middle East and Africa	589,111	595,201
North America	2,630,157	1,525,913
Asia	931,468	1,383,510
	4,150,736	3,504,624

Major customers

One customer individually represented more than 10% of Group revenue at 14% in North America (2018: two customers – 27% in Asia and 14% in North America). These revenues arise from the only operating segment, which is biomaterials.

The Group does not manage its business by reference to separate geographical locations and revenue streams are interdependent. Consequently, an analysis of net assets and operating profit by location or business segment is not yet monitored and is therefore not provided.

	2019 £	2018 £
Revenue information by business segment		
Supply	2,532,261	2,602,929
Development	1,390,049	790,671
Licensing	228,426	111,024
	4,150,736	3,504,624

2 Loss from operations

Loss from operations is stated after charging:

	2019 £	2018 £
Amortisation	227,894	236,704
Depreciation of property, plant and equipment	334,461	290,242
Loss on sale of fixed assets	—	2,360
Auditors' remuneration:		
– as auditors	37,925	45,264
– other services	29,697	29,615
Operating lease costs:		
– land and buildings; property, plant and equipment	155,256	216,916
Foreign exchange (gains)/losses	(20,027)	30,828
Research and development	681,979	825,854
Amounts payable to RSM UK Audit LLP and their associates in respect of both audit and non-audit services:		
Audit services:		
– audit of Company	15,490	18,422
– audit of subsidiary undertakings	22,435	26,842
	37,925	45,264
Non-audit services:		
Fees payable to the Company's auditors and their associates for other services:		
– tax advisory services	14,735	7,612
– tax compliance services	14,962	22,003
	29,697	29,615

3 Particulars of employees

The average number of staff employed, including directors, during the financial year amounted to:

	Group 2019 Number	Company 2019 Number	Group 2018 Number	Company 2018 Number
Operations	28	—	27	—
Administration	11	—	15	—
Management	9	5	6	5
	48	5	48	5

The aggregate payroll costs, including directors' emoluments, of the above were:

	Group 2019 £	Company 2019 £	Group 2018 £	Company 2018 £
Wages and salaries	2,673,930	443,862	2,522,616	406,787
Social security costs	225,309	31,223	213,476	27,958
Pension costs	70,653	8,357	76,707	11,545
Share-based compensation	85,900	85,900	68,011	59,347
	3,055,792	569,342	2,880,810	505,637

Payroll costs of £196,653 have been capitalised as part of development costs within intangible assets during the year ended 31 March 2019 (2018: £403,493) (Note 8).

Directors' emoluments

The directors' aggregate emoluments in respect of qualifying services were:

	2019 £	2018 £
Emoluments receivable	583,871	371,516
Fees paid for compensation for loss of office	—	30,404
Pension costs	17,962	11,399
	601,833	413,319

There were four directors accruing retirement benefits with money purchase schemes during the year (2018: four).

The emoluments of the highest paid director were:

	2019 £	2018 £
Emoluments	235,625	226,026
Contributions to defined contribution pension scheme	7,876	6,780
Total emoluments	243,501	232,806

There were no share options exercised at 31 March 2019.

Notes to the financial statements

Continued

4 Separately identifiable items

	2019 £	2018 £
Included within administrative expenses:		
Gain on sale of Jellagen Pty Limited investment	214,965	—
Release of contingent consideration provision[1]	—	738,466
Restructuring gains /(costs)[2]	33,810	(819,868)
Comprising:		
Gain on sale of assets previously written off	67,591	—
Additional costs – transfer of processes	(43,000)	—
Release of provision	9,219	—
Employee costs	—	(231,909)
Onerous lease costs of property	—	(140,125)
Onerous lease dilapidations	—	(62,774)
Fixed asset write-offs	—	(266,414)
General and administrative costs	—	(118,646)
	248,775	(81,402)

1. The release of the contingent consideration provision in the year ended 31 March 2018 relates to the reassessment of the earn-outs payable for the acquisitions of Collagen Solutions LLC and Collagen Solutions NZ Limited.
2. The restructuring costs during the year ended 31 March 2018 relate to the reorganisation of the New Zealand operations as announced in March 2018 and the planned transfer of most production processes to the Glasgow site and also the reorganisation of R&D operations including the relocation of the US facility from San Jose to Minnesota in late 2017. Additional costs and gains relating to the same restructuring in the year ended 31 March 2019 have been included in separately identifiable items.

	2019 £	2018 £
Included within selling and marketing costs:		
Restructuring costs[1]	—	(41,046)
Comprising:		
Employee costs	—	(41,046)
	—	(41,046)

1. The restructuring costs during the year ended 31 March 2018 relate to the reorganisation of commercial operations including the relocation of the US facility from San Jose to Minnesota in late 2017.

5 Finance expense/(income)

	2019 £	2018 £
Bond interest	283,544	267,472
Amortisation and fair value of Bond costs	47,600	47,595
Unwinding of discount – contingent consideration	—	82,613
Interest charged on related party loan (Note 19)	853	4,840
Other interest expense	216	294
	332,213	402,814
Interest income on cash deposits	(15,254)	(18,244)
	316,959	384,570

6 Taxation

Current tax	2019 £	Restated 2018 £
Current tax on profit arising in overseas subsidiary/branch	2,236	2,928
R&D Tax credits	(152,732)	(123,977)
Total current tax credit	(150,496)	(121,049)
Deferred tax (Note 16)		
Deferred tax credit associated with amortisation of fair value intangibles	(30,304)	(30,304)
Total tax credit	(180,800)	(151,353)

A disclosure restatement has been made to the 2018 prior year figures. This restatement reduces Other income by £123,977 relating to R&D tax credits from the UK SME Scheme and includes these as a credit within Taxation. This correction has the effect of reducing Other income from £327,213 to £203,236 and increasing the tax credit from £27,376 to £151,353 for the year ended 31 March 2018. The Loss before taxation increased from £2,618,939 to £2,742,916 as a result of this restatement, while the Loss for the year was unchanged.

In the current year the R&D tax credits from the UK SME Scheme have been correctly classified within Taxation.

The credit for the year can be reconciled to the loss per the Consolidated Statement of Comprehensive Income as follows:

	2019 £	Restated 2018 £
Loss before tax	(1,847,069)	(2,742,916)
Tax at the UK corporation tax rate of 19% (2018: 19%)	(350,943)	(521,154)
Impact of different tax rates in other jurisdictions	59,798	(65,463)
Expenses not deductible for tax purposes	25,763	40,716
Non-trade loan	62,917	59,863
Amortisation of goodwill deductible for tax purposes – US	(33,361)	(34,003)
Prior period adjustments	—	42,959
Income not assessed for tax purposes	(4,482)	(144,570)
R&D Tax credits received	(152,732)	(123,977)
Tax losses not recognised as a deferred tax asset	212,240	594,276
Tax credit for the year	(180,800)	(151,353)
Unrecognised deferred tax asset	212,240	594,276

The unrecognised deferred tax asset relates to losses. While the directors consider that there is a significant stream of income in the pipeline that may come to fruition, they consider that there is sufficient uncertainty surrounding the timing of those cash flows to warrant not recognising a deferred tax asset.

During the years ended 31 March 2019 and 31 March 2018, UK Group companies created and surrendered tax losses under research and development expenditure claims. A claim under the SME Scheme of £152,732 in relation to the year ended 31 March 2018 was made during the year ended 31 March 2019 (2018: £123,977) and has been included within taxation.

7 Loss per share

The calculation of basic loss attributable to the equity holders of the parent is based on losses of £1,666,269 (2018: £2,569,474) and 324,516,552 (2018: 324,419,433) ordinary shares, being the weighted average number of shares in issue during the year.

The loss for the year and the weighted average number of ordinary shares for calculating the diluted loss per share for the year ended 31 March 2019 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 IAS 33.

Notes to the financial statements

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8 Intangible assets

Group	Goodwill on acquisition £	Purchased goodwill £	Customer contracts and relationships £	Patents and licensed IP £	Development costs £	Total £
Cost						
At 1 April 2017	8,673,382	3,870,044	1,572,951	719,669	277,905	15,113,951
Transfers	—	—	—	—	(25,043)	(25,043)
Additions	—	—	—	21,190	775,230	796,420
Currency translation	(341,228)	(343,764)	(114,452)	(29,120)	(6,565)	(835,129)
At 31 March 2018	8,332,154	3,526,280	1,458,499	711,739	1,021,527	15,050,199
Amortisation						
At 1 April 2017	—	—	(416,967)	(78,748)	(36,343)	(532,058)
Transfers	—	—	—	—	17,979	17,979
Charge for the year	—	—	(152,912)	(66,061)	(17,731)	(236,704)
Currency translation	—	—	31,878	1,598	—	33,476
At 31 March 2018	—	—	(538,001)	(143,211)	(36,095)	(717,307)
Net book value						
At 31 March 2018	8,332,154	3,526,280	920,498	568,528	985,432	14,332,892

Group	Goodwill on acquisition £	Purchased goodwill £	Customer contracts and relationships £	Patents and licensed IP £	Development costs £	Total £
Cost						
At 1 April 2018	8,332,154	3,526,280	1,458,499	711,739	1,021,527	15,050,199
Additions	—	—	—	29,142	710,903	740,045
Disposals	—	—	—	(61,538)	—	(61,538)
Currency translation	(74,672)	192,904	(25,051)	(3,705)	1,288	90,764
At 31 March 2019	8,257,482	3,719,184	1,433,448	675,638	1,733,718	15,819,470
Amortisation						
At 1 April 2018	—	—	(538,001)	(143,211)	(36,095)	(717,307)
Charge for the year	—	—	(152,912)	(46,366)	(28,616)	(227,894)
Disposals	—	—	—	42,139	21,252	63,391
Currency translation	—	—	6,980	47	—	7,027
At 31 March 2019	—	—	(683,933)	(147,391)	(43,459)	(874,783)
Net book value						
At 31 March 2019	8,257,482	3,719,184	749,515	528,247	1,690,259	14,944,687

Impairment review

Total goodwill of £11,976,666 comprises goodwill arising on acquisition of subsidiary undertakings of £8,257,482 and goodwill arising on the purchase of a business of £3,719,184. Goodwill relates to the acquisition of Collagen Solutions (UK) Limited, the purchase of the assets of Collagen Solutions LLC in January 2014, the acquisition of Southern Lights Ventures 2002 Limited in December 2014 and the investment in Collagen Solutions HK Limited (formerly Cre8ive Collagen Limited) in July 2016. This goodwill has been allocated to the combined Group as a single CGU for the purposes of the impairment review, since this is the lowest level within the entity at which management monitors goodwill for internal purposes. The whole Group is expected to benefit from the synergies of the business combinations through cross-selling opportunities, market reputation, cost savings and surety of supply. Synergies are represented by those unrecognised assets of the acquired entities that are effectively transferred to the CGU, rather than by the recognised assets.

The impairment review involves a value in use calculation which is based on the present value of expected future cash flows of the CGU to be generated. The key assumptions underlying the cash flow projections within the impairment review are revenue growth, margins and the level of operating expenditure. The cash flow projections are based on formally approved management cash flow projections for a three-year period and extrapolated for a further two years using the estimated growth rates stated below. A terminal value is calculated based on estimated real growth rate in perpetuity of 3.7% (2018: 3.9%) and rate of inflation in perpetuity of 2.4% (2018: 2.4%), together with a pre-tax discount rate of 11% (2018: 11.0%).

Key assumptions used in the forecasts for financial years ended 2020 to 2024 are:

- Gross margins – between 64% and 74%
- Annual revenue growth – between 3.6% and 80%
- Decrease/increase in operating costs – between 8.2% and 10%
- Discount rate applied – 11%

The recoverable amount of the CGU exceeds the carrying amount of the CGU by 202%. The directors consider the revenues to be the most sensitive assumption used in the impairment reviews. A reduction in revenues in excess of 11% would result in the recoverable amount of the CGU being equal to its carrying amount.

Company	Patents and licensed IP £	Development costs £	Total £
Cost			
At 1 April 2017	81,140	55,014	136,154
Additions	—	38,442	38,442
At 31 March 2018	81,140	93,456	174,596
Amortisation			
At 1 April 2017	—	(18,365)	(18,365)
Charge for the year	—	(17,732)	(17,732)
At 31 March 2018	—	(36,097)	(36,097)
Net book value			
At 31 March 2018	81,140	57,359	138,499

Company	Patents and licensed IP £	Development costs £	Total £
Cost			
At 1 April 2018	81,140	93,456	174,596
Additions	3,501	82,342	85,843
At 31 March 2019	84,641	175,798	260,439
Amortisation			
At 1 April 2018	—	(36,097)	(36,097)
Charge for the year	(7,987)	(24,074)	(32,061)
At 31 March 2019	(7,987)	(60,171)	(68,158)
Net book value			
At 31 March 2019	76,654	115,627	192,281

Notes to the financial statements

Continued

9 Property, plant and equipment

Group	Leasehold improvements £	Plant, equipment and machinery £	Total £
Cost			
At 1 April 2017	555,053	1,080,713	1,635,766
Transfers	—	25,043	25,043
Additions	59,532	362,865	422,397
Disposals	—	(19,034)	(19,034)
Currency translation	(22,818)	(22,547)	(45,365)
At 31 March 2018	591,767	1,427,040	2,018,807
Depreciation			
At 1 April 2017	(139,338)	(353,687)	(493,025)
Transfers	—	(17,979)	(17,979)
Charge for the year	(74,272)	(215,970)	(290,242)
Disposals	—	16,674	16,674
Currency translation	(5,705)	—	(5,705)
At 31 March 2018	(219,315)	(570,962)	(790,277)
Net book value			
At 31 March 2018	372,452	856,078	1,228,530
Cost			
At 1 April 2018	591,767	1,427,040	2,018,807
Additions	—	454,215	454,215
Disposals	(136,260)	(344,822)	(481,082)
Currency translation	8,825	865	9,690
At 31 March 2019	**464,332**	**1,537,298**	**2,001,630**
Depreciation			
At 1 April 2018	(219,315)	(570,962)	(790,277)
Charge for the year	(65,058)	(269,403)	(334,461)
Disposals	50,722	175,823	226,545
Currency translation	(1,478)	—	(1,478)
At 31 March 2019	**(235,129)**	**(664,542)**	**(899,671)**
Net book value			
At 31 March 2019	**229,203**	**872,756**	**1,101,959**

Company	Leasehold improvements £	Plant, equipment and machinery £	Total £
Cost			
At 1 April 2017	40,169	44,327	84,496
Additions	—	5,812	5,812
At 31 March 2018	40,169	50,139	90,308
Depreciation			
At 1 April 2017	(18,019)	(18,648)	(36,667)
Charge for the year	(13,389)	(9,331)	(22,720)
At 31 March 2018	(31,408)	(27,979)	(59,387)
Net book value			
At 31 March 2018	8,761	22,160	30,921
Cost			
At 1 April 2018	40,169	50,139	90,308
Additions	—	13,808	13,808
At 31 March 2019	**40,169**	**63,947**	**104,116**
Depreciation			
At 1 April 2018	(31,408)	(27,979)	(59,387)
Charge for the year	(7,922)	(23,442)	(31,364)
At 31 March 2019	**(39,330)**	**(51,421)**	**(90,751)**
Net book value			
At 31 March 2019	**839**	**12,526**	**13,365**

10 Financial asset investments

Company	2019 £	2018 £
Investments in subsidiaries:		
– Collagen Solutions NZ Limited	**6,121,427**	6,121,427
– ChondroMimetics Limited	**100**	100
– Collagen Solutions (UK) Limited	**4,102,122**	4,102,122
– Collagen Solutions HK Limited (formerly Cre8ive Collagen Limited)	**200,000**	200,000
	10,423,649	10,423,649
Loans to subsidiary undertakings	**2,461,256**	2,461,256
	12,884,905	12,884,905

Details of subsidiaries, included in the consolidated financial statements, are as follows:

	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
Collagen Solutions (UK) Limited	England	Ordinary shares	100%	Collagen manufacture
Collagen Solutions (US) Inc. (held indirectly)	USA	Ordinary shares	100%	Collagen manufacture and R&D
ChondroMimetics Limited	England	Ordinary shares	100%	Medical device development and manufacture
Collagen Solutions HK Limited (formerly Cre8ive Collagen Limited)	Hong Kong	Ordinary shares	90%	Marketing and sale of collagen products
Beijing Collagen BioTech Limited (held indirectly)	People's Republic of China	Ordinary shares	100%	Marketing and sale of collagen products
Collagen Solutions NZ Limited	New Zealand	Ordinary shares	100%	Collagen manufacture and supply

Notes to the financial statements

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10 Financial asset investments continued

Impairment review

The recoverable amount of investments is determined from value in use calculations when there is an indication of impairment. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and future expected changes to revenue and direct costs in relation to the particular investment and are set out in Note 8.

Management estimates that there has been no impairment.

The Group prepares forecasts derived from the most recent financial budget model for period to 31 March 2022. Changes in revenue and direct costs are based on management's plans to cross-sell the Group's expanded range of current and pipeline products into existing customers and markets, and also to exploit opportunities with new customers, including extending into new market territories. These are approved by management and cash flows are extrapolated thereafter in perpetuity. Based on the assumptions and estimates discussed above, and in Note 8, management believes that no impairment is required.

As regards the carrying value of the intercompany loan in this instance management consider that the loan is intended to be or is akin to a capital contribution and is not within the scope of IFRS9.

11 Inventories

Group	2019 £	2018 £
Raw materials	193,910	86,184
Work in progress	93,545	16,228
Consumables and finished goods for resale	50,613	222,492
	338,068	324,904

The amounts presented in the Consolidated Statement of Financial Position are net of Impairment allowances. Inventories consumed in cost of sales amounted to £614,948 (2018: £812,061).

12 Trade and other receivables

	Group 2019 £	Company 2019 £	Group 2018 £	Company 2018 £
Trade receivables,net of loss allowance	801,533	—	793,274	—
Other receivables	262,922	15,614	132,232	17,532
Amounts owed by Group undertakings (note 19)	—	7,923,801	—	6,565,470
Prepayments and accrued income	73,303	54,242	160,277	43,031
	1,137,758	7,993,657	1,085,783	6,626,033

Included within Group trade receivables is £624,295 (2018: £577,466) denominated in US dollars, £98,977 (2018: £213,996) is denominated in GBP sterling, £78,261 (2018: nil) is denominated in NZD and nil (2018: £1,812) denominated in euros. All amounts owed by Group undertakings are denominated in GBP sterling.

Loss allowance	Group 2019 £	Group 2018 £
At 1 April	—	—
Implementation of IFRS 9	42,000	—
At 1 April adjusted	42,000	—
Charge for the year	81,895	—
At 31 March	123,895	—

The ageing profile of trade receivables is shown below.

Group	2019 £	2018 £
Current	643,322	606,168
31–60 days old	117,041	148,194
60–90 days old	40,596	—
Over 90 days	574	38,912
	801,533	793,274

The Group's management considers that all of the above financial assets (other than those separately Identified as impaired below) are of good quality. The ageing profile above Is the ageing profile that Is used by management. In reviewing the ledger however It Is the expected credit loss model which Is used to calculate the provision at 31 March 2019.

The Group applies the IFRS9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. The Group's credit losses have historically been low. To measure expected credit losses inherent in the balances at the end of the financial year management has considered the history of credit losses and projected a historic loss rate based on that experienced over the one-year period prior to the period end 31 March 2019. This rate has been applied across all trade receivables. The historical loss rates are then adjusted for current and forward-looking Information on macroeconomic factors affecting the Group's customers.

A reconciliation of the movement In the Impairment allowance for receivables under the expected credit loss model Is shown below.

As at 31 March 2019	£
Provision for bad and doubtful debts at 31 March 2018 (under IAS39)	—
Amounts provided under IFRS9 simplified approach	42,000
Amounts specifically identified as requiring provision	81,895
Provision for expected credit losses at 31 March 2019	123,895

13 Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Group as noted. The carrying amount of the asset approximates the fair value. Group balances are held in the following currencies:

	2019 £	2018 £
GBP sterling	546,633	4,128,685
Euro	129,487	229,235
US dollar	937,970	435,359
NZ dollar	35,891	213,654
South Korean won	28,098	14,676
Australian dollar	—	626
Hong Kong dollar	—	79
	1,678,079	5,022,314

Cash and cash equivalents held by the Company were £525,279 (2018: £4,181,379). Balances were held in GBP sterling of £496,014 (2018: £4,165,630), US dollar £1,167 (2018: £1,073) and South Korean won £28,098 (2018: £14,676).

Notes to the financial statements

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14 Liabilities

Current liabilities

	Group 2019 £	Company 2019 £	Group 2018 £	Company 2018 £
Trade and other payables				
Trade payables	297,519	40,749	296,948	74,752
Amounts owed to Group undertakings (Note 19)	—	—	—	289,213
Social security and other taxes	41,929	—	26,702	—
Accruals and deferred income	599,108	111,539	478,744	82,652
	938,556	152,288	802,394	446,617

The carrying amount of trade and other payables approximates to their fair values.

	Group 2019 £	Company 2019 £	Group 2018 £	Company 2018 £
Provision for other liabilities and charges				
Contingent consideration	—	—	562,207	481,786
Restructuring provision	38,538	—	479,313	—
	38,538	—	1,041,520	481,786

Non-current liabilities

	Group 2019 £	Group 2018 £
Provision for other liabilities and charges		
Restructuring provision	121,744	151,753
	121,744	151,753

The movements in the contingent consideration provision for the year are as follows:

	Group £	Company £
At 1 April 2017	2,324,488	1,835,606
Release of contingent consideration provision – Collagen Solutions LLC	(264,709)	—
Release of contingent consideration provision – Collagen Solutions NZ Limited	(473,757)	(473,757)
Settlements – tranche 1	(1,024,548)	(875,098)
Unwinding of discount	82,613	50,237
Translation movement (gain)	(81,880)	(55,202)
At 31 March 2018	562,207	481,786
Settlements - tranche 2	(566,951)	(486,530)
Charges	435	435
Translation movement loss	4,309	4,309
At 31 March 2019	—	—

Contingent consideration recognised as of the date of relevant acquisitions were Collagen Solutions LLC - £627,113 and Collagen Solutions NZ Limited (formerly Southern Lights Ventures 2002 Limited) – £1,704,693.

Elements of the contingent consideration became payable if certain sales targets were reached over the course of the period to 31 March 2018. There were two separate sets of earn-out conditions relating to the acquisitions of Collagen Solutions LLC and Collagen Solutions NZ Limited (formerly Southern Lights Ventures 2002 Limited). During the year ended 31 March 2018 management reviewed the probability that relevant targets would be achieved. Based on information at that time it was considered that the full Collagen Solutions LLC and Southern Lights Ventures 2002 Limited contingent consideration payments which fell due to be paid during the year ended 31 March 2019 would not become due and a reversal of £738,466 in relation to this provision was included in the Consolidated Statement of Comprehensive Income for the year ended 31 March 2018.

In April 2018 and August 2018 respectively, the full and final settlements were made relating to the acquisitions of Collagen Solutions LLC and Collagen Solutions NZ Limited totalling £566,951. All liabilities relating to these acquisitions are now fully discharged.

The movements in the restructuring provision for the year are as follows:

	Group £
At 1 April 2017	—
Charged to the income statement	639,682
Utilised	(8,616)
At 31 March 2018	631,066
Utilised	(465,903)
Released to the income statement	(9,219)
Translation movement loss	4,338
At 31 March 2019	160,282
Current portion	38,538
Non-current portion	121,744

Borrowings

Current liabilities

	Group 2019 £	Company 2019 £	Group 2018 £	Company 2018 £
Alberta loan (Note 19)	—	—	26,520	—
Bond	1,214,210	1,214,210	983,402	983,402
	1,214,210	1,214,210	1,009,922	983,402

Non-current liabilities

	Group 2019 £	Company 2019 £	Group 2018 £	Company 2018 £
Alberta loan (Note 19)	—	—	16,502	—
Bond	1,294,079	1,294,079	1,897,612	1,897,612
	1,294,079	1,294,079	1,914,114	1,897,612

Borrowings – Bond

On 14 February 2017, the Company entered into a Bond Subscription Agreement with Norgine Ventures Fund I SCA SICAR for up to £4,000,000 in private senior secured Bonds. Subject to the satisfaction of certain conditions these can be drawn down in three tranches.

Tranche A of £2,000,000 of the Bond Subscription Agreement was drawn down on 31 March 2017 and is carried net of issue costs. The term of this tranche of the Bond is 42 months with principal payments commencing in April 2018 in monthly instalments. On 31 October 2018 a deed of variation was agreed with Norgine Ventures Fund I SCA SICAR related to Tranche A. The variation gave a principal repayment holiday of six months from 31 October 2018 to 31 March 2019 with the principal repayments being instead made via a balloon payment at the redemption of the Bonds on 30 September 2020.

The interest rate is 10% and the Group is not exposed to interest rate changes or contractual repricing dates at the end of the reporting period as the borrowings are fixed in nature.

Tranche B of £1,000,000 of the Bond Subscription Agreement was drawn down on 31 July 2017. The term of this tranche of the Bond is 42 months with principal payments commencing in August 2018 in monthly instalments. On 31 October 2018 a deed of variation was agreed with Norgine Ventures Fund I SCA SICAR in relation to Tranche B of the Company's Bond borrowings. The variation gave a principal repayment holiday of six months from 31 October 2018 to 31 March 2019 with the principal repayments being instead made via a balloon payment at 31 January 2021.

The interest rate is 10.1% and the Group is not exposed to interest rate changes or contractual repricing dates at the end of the reporting period as the borrowings are fixed in nature.

Notes to the financial statements

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14 Liabilities continued

The fair value of these borrowings equals their carrying amount as the impact of discounting is not significant.

The Bonds are secured against certain assets of the Group. Collagen Solutions plc, Collagen Solutions (UK) Limited and ChondroMimetics Limited have granted first fixed and floating charges over all their property and assets to Norgine Ventures Fund I SCA SICAR. Collagen Solutions NZ Limited has granted security to Norgine Ventures Fund I SCA SICAR over all its assets.

The maturity profile of these Bond borrowings is as follows:

	Group 2019 £	Company 2019 £	Group 2018 £	Company 2018 £
Amounts falling due				
Within 1 year	1,214,210	1,214,210	983,402	983,402
Between 1 and 2 years	1,294,079	1,294,079	1,214,174	1,214,174
Between 2 and 5 years	—	—	683,438	683,438
	2,508,289	2,508,289	2,881,014	2,881,014

The movement in borrowings above year on year relates £420,325 to capital repayments made during the year offset by £47,600 related to the amortisation of fees and warrants netted off against the loan at time of draw down,

15 Financial liabilities and assets

The Group's treasury policy and management of financial instruments, which form part of these financial statements, are set out in the Financial Review.

	Group 2019			Group 2018		
	Cash and cash equivalents £	Financial Assets at Amortised Cost £	Financial Liabilities at Amortised Cost £	Cash and cash equivalents £	Loans and receivables £	Other liabilities £
Provision for other liabilities and charges	—	—	160,282	—	—	811,543
Trade receivables	—	801,533	—	—	793,274	—
Cash and cash equivalents	1,678,079	—	—	5,022,314	—	—
Borrowings – related party loan	—	—	—	—	—	43,022
Borrowings – Bond	—	—	2,508,289	—	—	2,881,014
Trade and other payables	—	—	896, 627	—	—	775,692
Total	1,678,079	801,533	3,565,198	5,022,314	793,274	4,511,271

	Company 2019			Company 2018		
	Cash and cash equivalents £	Financial Assets at Amortised Cost £	Financial Liabilities at Amortised Cost £	Cash and cash equivalents £	Loans and receivables £	Other liabilities £
Provision for other liabilities and charges	—	—	—	—	—	481,786
Amounts due from group undertakings and other receivables	—	7,923,801	—	—	6,565,470	—
Cash and cash equivalents	525,279	—	—	4,181,379	—	—
Borrowings – Bond	—	—	2,508,289	—	—	2,881,014
Trade and other payables	—	—	152,288	—	—	446,617
Total	525,279	7,923,801	2,660,577	4,181,379	6,565,470	3,809,417

Currency derivatives

The Group and the Company have not utilised forward contracts to hedge future purchase transactions and cash flows in the financial year.

Credit risk

The Group and the Company's credit risk is primarily attributable to trade receivables and cash and cash equivalents, although all cash is held on deposit with highly reputable financial institutions.

Credit risk with respect to trade receivables is limited as the Group and Company trade with a limited number of companies which are generally large listed or blue-chip medical device companies. The Group and the Company do not expect in the normal course of events that these debts are at significant risk. Where there is perceived to be a greater risk, a standby letter of credit or similar is sought. The Group's and the Company's maximum exposure to credit risk is reflected in the carrying amounts of their financial assets as set out in the table above. As noted in Note 12 the Group have provided under IFRS 9 at the end of the financial year a prudent amount reflecting the limited history of bad debts.

The Group and the Company have no significant concentration of credit risk in respect of their trade receivables as the exposure is spread over a number of customers.

Interest rate risk

The Group's and the Company's interest rate exposure is limited to their cash and cash equivalents. Cash and cash equivalents are held on short-term deposit-attracting variable rates of interest.

Liquidity risk

The Group and Company manage liquidity risk to ensure that they will have sufficient liquidity to meet their liabilities as they fall due. All trade and other payables contracted at the reporting date have a settlement date of less than 12 months.

Interest rate risk profile of financial assets

The Group's and the Company's financial assets at 31 March 2019 comprised cash, trade receivables and for the Company, loans to subsidiaries.. The cash balances of £1,678,079 (2018: £5,022,314) (Group) and £525,279 (2018: £4,181,379) (Company) are floating rate financial assets. Trade and other receivables are non-interest bearing. Intercompany balances are non-interest bearing except for amounts due to Collagen Solutions NZ Limited. Details of interest rates are disclosed at Note 19.

Fair values of financial liabilities and financial assets

The fair values based upon the market value or discounted cash flows of financial liabilities and financial assets held in the Group and the Company were not materially different from their book values.

Finance and interest rate risk

Where appropriate, the Group and the Company manage their exposure to interest rate fluctuations on their borrowings to reduce the impact of adverse variations in the market rates on the Group's profit and cash flow.

Currency risk

The Group and the Company's activities expose it primarily to currency risk as overseas revenues are primarily in US dollars. This risk is mitigated by the requirement to settle the costs, including salary and fixed overheads of operations in the US in US dollars. The Group is required to settle salary costs and cover overheads of the NZ facility in NZ dollars, which presents a currency risk as revenues are primarily denominated in US dollars. Management monitors these risks on an ongoing basis and would use foreign exchange forward contracts if required to hedge this exposure. There were no forward exchange rate contracts at the balance sheet date. The Group does not use derivative financial instruments for speculative purposes. The use of financial derivatives is governed by the Group's policies, approved by the Board of directors, which provide written principles for the use of financial derivatives.

Notes to the financial statements

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16 Deferred tax liabilities

	Group £
At 1 April 2017	221,847
Translation movement	966
Accelerated capital allowances	35,045
Utilisation of tax losses	(35,045)
Credited to income statement	(30,304)
At 31 March 2018	192,509
Translation movement	(111)
Accelerated capital allowances	26,234
Utilisation of tax losses	(26,234)
Credited to income statement	(30,304)
At 31 March 2019	**162,094**

At the reporting date, the Group has unused tax losses of £8,582,024 (2018: £7,324,917) available for offset against profits. A cumulative deferred tax asset of £1,630,585 (2018: £1,391,734) has not been recognised in respect of such losses.

17 Commitments under operating leases

At 31 March 2019 the Group and the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Group 2019 £	Company 2019 £	Group 2018 £	Company 2018 £
Land and buildings				
Within one year	68,716	26,150	154,145	104,600
Between one and five years	92,292	—	203,157	25,792
	161,008	26,150	357,302	130,392
Equipment				
Within one year	329	329	658	658
Between one and five years	—	—	329	329
	329	329	987	987

Operating lease charges for the year amounted to £155,256 (2018: £216,916) (Group) and £104,600 (2018: £102,754) (Company). The remaining lease term for property is between one and four years.

18 Share-based payment transactions

The Company has granted equity-settled share options to 11 employees, five of whom are directors. The Company has also granted warrants to its Bond provider, Norgine Ventures Fund I SCA SICAR, and share options to a consultant.

David Evans' options

On 29 March 2013 4,050,000 share options were granted. The exercise price is the market value of the shares at the date of grant of 10p. The vesting period is up to ten years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. The first vesting criterion has been achieved and the second criterion is for the share price to reach 20p.

Jamal Rushdy's options

On 15 December 2015 options were granted where the exercise price is the market value of the shares at the date of grant of 8.89p. The vesting period is up to ten years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. The vesting criteria is for the share price to reach 10p and if sustainable positive cash flows are achieved.

On 14 July 2016 options were granted where the exercise price is the market value of the shares at the date of grant of 8.125p. The vesting period is up to ten years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. The vesting criteria is for the share price to reach 10p and if sustainable positive cash flows are achieved.

On 12 July 2017, 1.7 million share options were granted. The exercise price is the market value of the shares at the date of grant of 5.25p. The vesting period is up to ten years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. The vesting criteria is for the share price to reach 10p and if sustainable positive cash flows are achieved.

Hilary Spence's options

On 5 April 2018, 2,000,000 options were granted where the exercise price is the market value of the shares at the date of grant of 2.70p. The vesting period is over three years. The options were granted with certain performance conditions to be satisfied before they may be exercised. The share price must reach 10p and sustainable positive cash flows are to be achieved. If the options remain unexercised after a period of ten years from the date of grant, the options expire.

On 16 January 2019, 1,000,000 options were granted where the exercise price is the market value of the shares at the date of grant of 3.85p. The vesting period is over three years. The options were granted with certain performance conditions to be satisfied before they may be exercised. The share price must reach 10p and sustainable positive cash flows are to be achieved. If the options remain unexercised after a period of ten years from the date of grant, the options expire.

Lou Ruggiero's options

On 20 March 2018 100,000 options were granted where the exercise price is the market value of the shares at the date of grant of 3.63p. If the options remain unexercised after a period of three years from the date of grant, the options expire. The vesting criterion is on the conclusion of an initial six-month consulting term.

On 3 May 2018, 2,000,000 options were granted where the exercise price is the market value of the shares at the date of grant of 3.65p. The vesting period is over three years. The options were granted with certain performance conditions to be satisfied before they may be exercised. The share price must reach 10p and sustainable positive cash flows are to be achieved. If the options remain unexercised after a period of ten years from the date of grant, the options expire.

Tom Hyland's options

On 1 April 2015, 500,000 options were granted where the exercise price is the market value of the shares at the date of grant of 9.63p. The vesting period is up to ten years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. The vesting criteria are for the share price to reach 10p and if sustainable positive cash flows are achieved.

On 19 September 2018, 1,500,000 options were granted where the exercise price is the market value of the shares at the date of grant of 3.70p. The vesting period is over three years. The options were granted with certain performance conditions to be satisfied before they may be exercised. The share price must reach 10p and sustainable positive cash flows are to be achieved. If the options remain unexercised after a period of ten years from the date of grant, the options expire.

Employee options granted 31 July 2014

The 388,349 share options granted in 2014 were terminated and replaced by a new option agreement on 23 January 2018 as part of an employee's settlement agreement. The options vest in full on the grant date of 23 January 2018 and lapse two years and 188 days after this date. The exercise price is the market value of the shares at the date of grant of the terminated option agreement of 7.88p. If the options remain unexercised after a period two years and 188 days after the date of grant, the options expire.

Employee options granted 24 November 2014

The exercise price is the market value of the shares at the date of grant of 7.75p. The vesting period is up to ten years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. The vesting criteria is for the share price to reach 10p and if sustainable positive cash flows are achieved.

Employee options granted 15 February 2017

The exercise price is the market value of the shares at the date of grant of 5.625p. The vesting period is up to ten years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. The vesting criteria is for the share price to reach 10p and if sustainable positive cash flows are achieved.

Notes to the financial statements

Continued

18 Share-based payment transactions continued

Employee options granted 3 March 2017

The exercise price is the market value of the shares at the date of grant of 5.75p. The vesting period is up to ten years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. The vesting criteria is for the share price to reach 10p and if sustainable positive cash flows are achieved.

Employee options granted 12 July 2017

The exercise price is the market value of the shares at the date of grant of 5.25p. The vesting period is up to ten years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. The vesting criteria is for the share price to reach 10p and if sustainable positive cash flows are achieved.

Employee options granted 19 September 2018

The exercise price is the market value of the shares at the date of grant of 3.7p. The vesting period is up to ten years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. The vesting criteria is for the share price to reach 10p and if sustainable positive cash flows are achieved.

Employee options granted 8 January 2019

The exercise price is the market value of the shares at the date of grant of 3.15p. The vesting period is up to ten years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. The vesting criteria is for the share price to reach 10p and if sustainable positive cash flows are achieved.

Consultant options granted 5 March 2018

The exercise price is 3.34p. The options vested on date of grant when consultant provided services under contract. If the options remain unexercised after a period of ten years from the date of grant, the options expire.

Norgine Ventures warrants granted 31 March 2017

As a condition of the issue of the Bonds, the Company has agreed to issue Norgine Ventures Fund I SCA SICAR ten-year warrants to purchase ordinary shares, comprising warrants for 5,075,283 shares granted on the subscription date of tranche A (31 March 2017) exercisable at 5.911p per ordinary share over the ten years from drawdown or, if earlier, on sale of the whole share capital of the Company, after which they shall lapse.

A reconciliation of option and warrant movements over the year to 31 March 2019 is shown below:

	2019		2018	
	Number of share options and warrants	Weighted average exercise price (in p)	Number of share options and warrants	Weighted average exercise price (in p)
Outstanding at the beginning of the year	22,613,632	7.34	18,013,632	8.21
Granted during the year	6,750,000	3.41	4,988,349	5.20
Terminated during the year	(400,000)	3.34	(388,349)	7.88
Outstanding at the end of the year	28,963,632	6.48	22,613,632	7.34
Exercisable at 31 March 2018	—	—	—	—

The Group recognised the following expense in relation to share-based payment transactions:

	2019 £	2018 £
Charged to Consolidated Statement of Comprehensive Income	85,900	68,011

The options and warrants outstanding at 31 March 2019 had a weighted average exercise price of 6.48p and a weighted average remaining contractual life of eight years. The range of exercise prices of outstanding options and warrants at 31 March 2019 was 2.70p to 10p (2018: 3.38p to 10p).

The fair value of options granted under the scheme and the warrants granted is measured by use of the Trinomial Barrier Option and Black-Scholes models. The inputs into the models for options and warrants granted during the year are as follows:

	Director options	Director options	Director options	Employee options	Employee options	Director Options
Grant date	5/04/2018	3/05/2018	19/09/2018	19/09/2018	8/01/2019	16/01/2019
Share price at grant date	2.70p	3.65p	3.7p	3.7p	3.15p	3.85p
Exercise price	2.70p	3.65p	3.7p	3.34p	3.15p	3.85p
Number of employees/consultants	1	1	1	1	1	1
Share options/warrants granted	2,000,000	2,000,000	1,500,000	50,000	200,000	1,000,000
Vesting period (years)	1–3	1–3	1–3	1–3	1-3	1-3
Expected volatility	45%	45%	45%	45%	45%	45%
Option/warrant life (years)	10	10	10	10	10	10
Expected life (years)	1–10	1–10	1–10	1–10	1-10	1-10
Risk free rate	1.63%	1.63%	1.63%	1.63%	1.63%	1.63%
Expected dividends expressed as a dividend yield	0%	0%	0%	0%	0%	0%
Fair value per option/warrant	0.94p	2.14p	1.55p	1.55p	1.82p	1.66p

Expected volatility was based upon the historical volatility over the expected life of the schemes. The expected life is based upon historical data and has been adjusted based on management's best estimates for the effects of non-transferability, exercise restrictions and behavioural considerations.

19 Related party transactions

Transactions with key management

Key management personnel compensation comprised:

	2019 £	2018 £
Equity-settled share options	**63,725**	59,347
Short-term benefits (including NIC)	**619,607**	427,851
Pension costs	**17,962**	11,399
Total remuneration	**701,294**	498,597

At 31 March 2019, five of the directors participated in a share option arrangement, as noted in the Directors' Report and Note 18.

	Group 2019	Group 2018
Related party loan – Alberta	**£**	£
Borrowings – current	**—**	26,520
Borrowings – non-current	**—**	16,502
	—	43,022

1615915 Alberta Limited is a minority shareholder of Collagen Solutions plc. The Alberta loan was secured over equipment with a fixed interest rate of 8.2% per annum and a repayment term of five years. The total amount outstanding was repaid early during the year ended 31 March 2019. All liabilities under this arrangement are now fully discharged.

Transactions with Directors

The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel-related entities on an arm's length basis.

Notes to the financial statements

Continued

19 Related party transactions continued

Transactions between Group companies

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. The transactions during the year were management charges of £489,863 (2018: £941,520) from the Company to its subsidiaries. In addition, the Company provided net funding of £1,647,544 (2018: £1,826,636).

The outstanding balance due to the Company from its subsidiaries as at 31 March 2019 was £7,923,801 (2018: £6,565,470). These amounts receivable have no fixed repayment terms and are non-interest bearing. The outstanding balance due from the Company to its subsidiaries at 31 March 2019 was £nil (2018: £289,213). These amounts payable have no fixed repayment terms and are interest bearing at an interest rate of 4.51% (2018: 4.51%).

Included in the Company's financial asset investments is a loan to its indirect subsidiary undertaking Collagen Solutions (US) Inc. of £2,461,256 (2018: £2,461,256). This is considered a permanent investment and has no fixed repayment date and is not interest bearing.

Call option

A call option has been granted to Norgine Ventures Fund I SCA SICAR by the Company's Chairman, David Evans, exercisable at an aggregate cost of £1, over a maximum number of 20,000,000 of his ordinary shares. The call option is only exercisable following any further fundraising having raised over £2,000,000 during the term of the Bonds at a price per share lower than 5.911p, with the number of options capable of exercise increasing the greater the difference between the price per ordinary share at which the further funding is conducted and 5.911p.

Non-executive director consultancy fees

Non-executive directors charged the Company the following consultancy fees during the year ended 31 March 2019: David Evans (through his business MBA Consultancy) £30,000 (2018: £30,000), Malcolm Gillies £10,250 (2018: £10,250), Geoff Bennett £30,250 (2018: £30,250) and Christopher Brinsmead £20,250 (2018: £7,562).

20 Share capital

	2019 Number	2019 £	2018 Number	2018 £
Issued and fully paid				
Issued ordinary shares of 1p	324,516,552	3,245,166	324,516,552	3,245,166
Issued deferred shares of 9p	500,000	45,000	500,000	45,000
Balance at the end of the year	325,016,552	3,290,166	325,016,552	3,290,166

Ordinary shares

The total number of issued shares at 31 March 2019 was 324,516,522 (2018: 324,516,552). 119,166,429 ordinary shares were issued after the balance sheet date, details of which are disclosed in Note 22, Post year end events.

Deferred shares

The total number of deferred shares at 31 March 2019 was 500,000 (2018: 500,000). The deferred shares do not confer any voting rights.

Options and warrants

At 31 March 2019 the Company had 28,963,632 (2018: 22,613,632) unissued ordinary shares of 1p each under the Company's share option and warrant schemes, details of which are as follows:

Grant date	Number	Option price (in p)	Date from which exercisable	Expiry date
29 March 2013	4,050,000	10	29 March 2013	28 March 2023
24 November 2014	1,000,000	7.75	1 January 2017	23 November 2024
1 April 2015	500,000	9.63	1 April 2018	31 March 2025
15 December 2015	3,300,000	8.89	15 December 2018	14 December 2025
14 July 2016	2,700,000	8.13	14 July 2016	13 July 2026
15 February 2017	500,000	5.63	26 October 2019	14 February 2027
7 March 2017	500,000	5.75	7 March 2020	6 March 2027
31 March 2017	5,075,283	5.91	31 March 2017	30 March 2027
12 July 2017	3,900,000	5.25	12 July 2020	11 July 2027
23 January 2018	388,349	7.88	23 January 2018	30 July 2020
5 March 2018	200,000	3.38	15 November 2017	4 March 2028
20 March 2018	100,000	3.63	20 March 2018	19 March 2021
5 April 2018	666,666	2.7	3 January 2019	4 April 2028
5 April 2018	666,667	2.7	3 January 2020	4 April 2028
5 April 2018	666,667	2.7	3 January 2021	4 April 2028
3 May 2018	666,666	3.65	16 April 2019	2 May 2028
3 May 2018	666,667	3.65	16 April 2020	2 May 2028
3 May 2018	666,667	3.65	16 April 2021	2 May 2028
19 September 2018	1,500,000	3.7	19 September 2021	18 September 2028
19 September 2018	50,000	3.7	19 September 2018	18 September 2028
8 January 2019	200,000	3.15	8 January 2019	7 January 2029
16 January 2019	333,333	3.85	3 January 2019	15 January 2029
16 January 2019	333,333	3.85	3 January 2020	15 January 2029
16 January 2019	333,334	3.85	3 January 2021	15 January 2029

Details of share options and warrants are disclosed in Note 18 to the financial statements.

Capital management

The Group's 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 maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Both share capital and the share premium account arise on the issue of shares. The retained deficit reflects losses incurred to date.

Share-based payment reserve

This reserve is the result of the Company's grant of equity-settled share options to selected employees and consultants and is measured in accordance with IFRS 2 Share-based Payment.

Shares to be issued reserve

The fair value of the warrants granted to Norgine Ventures to be issued in connection with the Bond facility has been accounted for in this reserve.

Translation reserve

The translation reserve arises from the retranslation of the foreign subsidiaries to the presentational currency of the Group on consolidation.

Notes to the financial statements

Continued

20 Share capital continued

Merger reserve

This reserve arises from the premium on the difference between the fair value share price of Collagen Solutions plc shares issued as consideration shares on 2 January 2014 and 10 December 2014 and the nominal value of those shares. Consideration shares were issued to satisfy part of the consideration in the acquisition of Collagen Solutions (UK) Limited, the acquisition of the business and assets of Collagen Solutions LLC, and the acquisition of Collagen Solutions NZ Limited (formerly Southern Lights Ventures 2002 Limited).

Non-controlling interest reserve

This reserve represented 40% of the net assets of Collagen Solutions HK Limited (formerly Cre8ive Collagen Limited) and Cre8ive Collagen Bio-Tech (Beijing) Co Limited not held by the Group. During the year ended 31 March 2018 this non-controlling interest was transferred to the Company and subsequently the reserve was transferred to equity shareholders of the Group. On 15 March 2019, 10% of the ordinary share capital of Collagen Solutions HK Limited was acquired by a third party working with the Group to penetrate the market in China.

21 Contingent liabilities and capital commitments

Group and Company

At 31 March 2019, there were no known contingent liabilities (2018: £nil).

22 Post year end events

On 5 June 2019 the Company completed a fund raise of £5.96 million gross of costs made up as follows:

- a strategic investment by Rosen's Diversified Inc of £4.18 million;
- a placing with existing and new investors of £1.25 million; and
- an open offer totalling £0.53 million.

Under this raise an additional 119,166,429 shares were issued at 5p. Following Admission, the Company had 443,682,981 Ordinary Shares in issue admitted to trading on AIM.

Rosen's Diversified Inc. are a multi-billion dollar, family owned business involved in food production, agrichemicals and distribution. RDI operate the 5th largest beef processing company in the US, the American Foods Group. The strategic investment in Collagen Solutions will provide accelerated access to one of their targeted growth sectors – animal tissue-related biomedical products. The Subscription with RDI is accompanied by a supply agreement with Scientific Life Solutions (a subsidiary of RDI) for the supply of tissue.

The net proceeds of the Subscription, Placing and Open Offer will go towards expansion of contract manufacturing activities, product development, commercialisation of ChondroMimetic®, repayment of the existing Norgine debt and to fund working capital. Notice is hereby given that an Annual General Meeting of Collagen Solutions plc (the 'Company') will be held at 3 Robroyston Oval, Nova Business Park, Glasgow, G33 1AP at 11.00am on 28 August 2019 for the following purposes:

Notice of Annual General Meeting

Collagen Solutions plc (registered number: 8446337)

To consider and, if thought fit, pass the following as ordinary resolutions:

1. To receive and adopt the Company's accounts for the financial year ended 31 March 2019, together with the Directors' Report and the Auditor's Report on those accounts.
2. To re-elect Tom Hyland as a director of the Company.
3. To re-elect Lou Ruggiero as a director of the Company.
4. To re-elect Wade Rosen as a director of the Company.
5. To re-elect Jamal Rushdy, who retires by rotation, as a director of the Company.
6. To reappoint RSM UK Audit LLP as auditors of the Company.
7. To authorise the directors to fix the auditor's remuneration.
8. That:

(A) the directors be generally and unconditionally authorised to allot shares in the Company, or to grant rights to subscribe for or to convert any security into shares in the Company, up to a maximum nominal amount of £1,478,943;

(B) in addition to the authority contained in sub-paragraph (A) of this resolution, the directors be authorised to allot shares in the Company, or to grant rights to subscribe for or to convert any security into shares in the Company, comprising equity securities (within the meaning of section 560(1) of the Companies Act 2006 (the 'Act') up to a maximum nominal amount of £1,478,943 in connection with a Pre-Emptive Offer undertaken by means of a rights issue;

(C) the authorities given in this resolution:

(1) are given pursuant to section 551 of the Act and shall be in substitution for all pre-existing authorities under that section; and

(2) unless renewed, revoked or varied in accordance with the Act, shall expire on 30 September 2020, or, if earlier, at the end of the next Annual General Meeting of the Company to be held in 2020, save that the Company may before such expiry make an offer or agreement which would or might require the allotment of shares in the Company, or the grant of rights to subscribe for or to convert any security into shares in the Company, after such expiry; and

(D) for the purpose of this resolution, 'Pre-Emptive Offer' means an offer of equity securities to:

(1) holders of ordinary shares (other than the Company) on a fixed record date in proportion to their respective holdings of such shares; and

(2) other persons entitled to participate in such offer by virtue of, and in accordance with, the rights attaching to any other equity securities held by them,

in each case subject to such exclusions or other arrangements as the directors may deem necessary or appropriate in relation to fractional entitlements or legal, regulatory or practical problems under the laws or the requirements of any regulatory body or stock exchange of any territory or otherwise.

Notice of Annual General Meeting

Collagen Solutions plc (registered number: 8446337)

Continued

To consider and, if thought fit, pass the following as a special resolution:

9. That:

(A) subject to the passing of resolution 8 set out in the Notice of Annual General Meeting dated 23 July 2019 (the 'Allotment Authority'), the directors be given power pursuant to section 570 of the Companies Act 2006 (the "Act") to allot equity securities (within the meaning of section 560(1) of the Act) for cash, pursuant to the Allotment Authority as if section 561(1) of the Act did not apply to any such allotment, provided that such power shall be limited to the allotment of equity securities:

(1) in the case of paragraph (A) of the Allotment Authority:

(a) in connection with a Pre-Emptive Offer (as defined in the Allotment Authority); or

(b) otherwise than in connection with a Pre-Emptive Offer, up to a maximum nominal amount of £443,683; and

(2) in the case of paragraph (B) of the Allotment Authority, in connection with a Pre-Emptive Offer undertaken by means of a rights issue; and

(B) the power given in this resolution:

(1) shall be in substitution for all pre-existing powers under section 570 of the Act; and

(2) unless renewed in accordance with the Act, shall expire at the same time as the Allotment Authority, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry.

By order of the Board

Gill Black
Company Secretary
23 July 2019

Registered office
c/o Shepherd and Wedderburn LLP
Condor House
10 St. Paul's Churchyard
London
EC4M 8AL
England

Notes

1. To be entitled to attend and vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), shareholders must be registered in the Register of Members of the Company at close of trading on 26 August 2019. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the Meeting.
2. Shareholders, or their proxies, intending to attend the Meeting in person are requested, if possible, to arrive at the Meeting venue at least 20 minutes prior to the commencement of the Meeting at 11.00am (UK time) on 28 August 2019 so that their shareholding may be checked against the Company's Register of Members and attendances recorded.
3. Shareholders are entitled to appoint another person as a proxy to exercise all or part of their rights to attend and to speak and vote on their behalf at the Meeting. A shareholder may appoint more than one proxy in relation to the Meeting provided that each proxy is appointed to exercise the rights attached to a different ordinary share or ordinary shares held by that shareholder. A proxy need not be a shareholder of the Company.
4. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's Register of Members in respect of the joint holding (the first named being the most senior).
5. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.
6. You can vote either:
   - by logging on to www.signalshares.com and following the instructions;
   - You may request a hard copy form of proxy directly from the registrars, Link Asset Services (previously called Capita), on Tel: 0371 664 0300. Calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 – 17:30, Monday to Friday excluding public holidays in England and Wales.
   - in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below.

   In order for a proxy appointment to be valid a form of proxy must be completed. In each case the form of proxy must be received by Link Asset Services at 34 Beckenham Road, Beckenham, Kent, BR3 4ZF by 11.00am on 26 August 2019.
7. If you return more than one proxy appointment, either by paper or electronic communication, the appointment received last by the Registrar before the latest time for the receipt of proxies will take precedence. You are advised to read the terms and conditions of use carefully. Electronic communication facilities are open to all shareholders and those who use them will not be disadvantaged.
8. The return of a completed form of proxy, electronic filing or any CREST Proxy Instruction (as described in note 11 below) will not prevent a shareholder from attending the Meeting and voting in person if he/she wishes to do so.
9. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Meeting (and any adjournment of the Meeting) by using the procedures described in the CREST Manual (available from www.euroclear.com/site/public/EUI). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
10. In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID RA10) by 11.00am on 26 August 2019. For this purpose, the time of receipt will be taken to mean the time (as determined by the timestamp applied to the message by the CREST application host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

Notice of Annual General Meeting

Collagen Solutions plc (registered number: 8446337)

Continued

11. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
12. Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a shareholder provided that no more than one corporate representative exercises powers in relation to the same shares.
13. As at 23 July 2019 (being the latest practicable business day prior to the publication of this Notice), the Company's ordinary issued share capital consists of 443,682,981 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 23 July 2019 are 443,682,981.
14. Under Section 527 of the Companies Act 2006, shareholders meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's financial statements (including the Auditor's Report and the conduct of the audit) that are to be laid before the Meeting; or (ii) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual financial statements and reports were laid in accordance with Section 437 of the Companies Act 2006 (in each case) that the shareholders propose to raise at the relevant meeting. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under Section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Meeting for the relevant financial year includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on a website.
15. Any shareholder attending the Meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the Meeting but no such answer need be given if: (a) to do so would interfere unduly with the preparation for the Meeting or involve the disclosure of confidential information; (b) the answer has already been given on a website in the form of an answer to a question; or (c) it is undesirable in the interests of the Company or the good order of the Meeting that the question be answered.
16. The following documents are available for inspection during normal business hours at the registered office of the Company on any business day from the date of this Notice until the time of the Meeting and may also be inspected at the Meeting venue, as specified in this Notice, from 10.30am on the day of the Meeting until the conclusion of the Meeting:
    - copies of the Directors' letters of appointment or service contracts.
17. You may not use any electronic address (within the meaning of Section 333(4) of the Companies Act 2006) provided in either this Notice or any related documents (including the form of proxy) to communicate with the Company for any purposes other than those expressly stated.

A copy of this Notice, and other information required by Section 311A of the Companies Act 2006, can be found on the Company's website at www.collagensolutions.com

Explanatory notes to the Notice of Annual General Meeting

These notes give an explanation of the proposed resolutions. Resolutions 1 to 8 are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution. Resolution 9 is proposed as a special resolution. This means that for resolution 9 to be passed, at least three-quarters of the votes cast must be in favour of the resolution.

Resolution 1 – Annual report and accounts

The directors must lay the Company's accounts, the Directors' Report and the Auditor's Report before the shareholders in a general meeting. This is a legal requirement after the directors have approved the accounts and the Directors' Report, and the auditors has prepared their report.

Resolutions 2 to 5 – Re-election of directors

The Company's Articles of Association require that at the Annual General Meeting of the Company any directors who have been appointed since the last Annual General Meeting, or any who were not appointed or reappointed at one of the preceding two Annual General Meetings, must retire from office. Accordingly, Tom Hyland, Lou Ruggiero, Wade Rosen and Jamal Rushdy will offer themselves for re-election at the Annual General Meeting.

Biographical details of the directors are set out on pages 38 to 40 of the annual report and accounts.

Resolutions 6 and 7 – Reappointment and remuneration of auditor

The Company is required to appoint an auditor for each financial year of the Company. Resolution 6 proposes the reappointment of RSM UK Audit LLP as the Company's auditors for the current financial year of the Company ending on 31 March 2020. Resolution 7 seeks authority for the directors to decide the auditor's remuneration.

Resolution 8 – Renewal of authority to allot shares

The purpose of this resolution is to renew the directors' power to allot shares. Section 551 of the Companies Act 2006 (the 'Act') provides that the directors may not allot new shares (other than for employee share schemes) without shareholder approval. This resolution proposes that authority be granted in substitution of the existing authority to allot securities up to a maximum amount of £1,478,943. This amount represents approximately one-third of the Company's total issued ordinary share capital as at 23 July 2019, being the latest practicable date prior to publication of this document.

In addition, following guidance issued by the ABI in December 2008 and updated in November 2009, the Company is seeking additional authority to allot securities in connection with a fully pre-emptive rights issue up to a maximum amount of £1,478,943 representing approximately one-third of the Company's total issued ordinary share capital as at 23 July 2019, being the latest practicable date prior to publication of this document. The benefit to the Company of obtaining such authority on an annual basis is that it would allow the Company to implement a rights issue of an amount equal to two-thirds of the issued ordinary share capital without the need to call an additional general meeting. This would shorten the implementation timetable of such a rights issue.

The directors consider that the authorities sought pursuant to resolution 8 are desirable to allow the Company to retain flexibility although they have no present intention of exercising these authorities. The authorities will expire at the end of the 2020 Annual General Meeting or, if earlier, on 30 September 2020, unless previously cancelled or varied by the Company in general meeting.

Resolution 9 – Disapplication of pre-emption rights

Section 561(1) of the Act provides that if the directors wish to allot any equity securities, or sell any treasury shares (if it holds any), for cash, it must first offer them to existing shareholders in proportion to their existing shareholdings. Section 561 does not apply in connection with an employee share scheme. The purpose of this resolution is to allow the directors to allot equity securities for cash as if section 561(1) of the Act did not apply, in connection with rights issues, open offers and other pre-emption offers pursuant to the authority granted by resolution 7, and otherwise up to a total amount of £443,683, representing approximately 10% of the Company's total issued ordinary share capital as at 23 July 2019, being the latest practicable date prior to publication of this document. This power is being sought in order to give the Company the flexibility to raise funds in the future should it choose to do so.

The authority will expire at the end of the 2020 Annual General Meeting or, if earlier, on 30 September 2020, unless previously cancelled or varied by the Company in general meeting.

Officers and professional advisers

Directors

David Evans – Non-executive Chairman
Malcolm Gillies – Non-executive director
Geoff Bennett – Non-executive director
Chris Brinsmead – Non-executive director
Wade Rosen – Non-executive director
Jamal Rushdy – Chief Executive Officer
Hilary Spence – Chief Financial Officer
Tom Hyland - Chief Operating Officer
Lou Ruggiero - Chief Business Officer

Company Secretary

Gill Black

Registered office

c/o Shepherd and Wedderburn LLP
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London
EC4M 8AL

Nominated adviser and broker

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London
EC2R 7AS

Auditor

RSM UK Audit LLP
Chartered Accountants
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69 Wellington Street
Glasgow
G2 6HG

Registrars

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Beckenham
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PR

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