Itaconix plc
Annual Report & Accounts 2018

Itaconix

Polymers for Better Living™

Itaconix plc is a leading innovator in bio-based functional ingredients for improving the safety and performance of homecare, personal care, and industrial products. Its proprietary polymer technology generates a growing range of new ingredients with unique functionality that meet consumer demands for value and sustainability.

# CHIEF EXECUTIVE OFFICER'S REPORT

## Overview

I am pleased to deliver my first Chief Executive Officer's Report to update shareholders on what was a critical year for transforming Itaconix plc into a recognised leader in bio-based functional ingredients. In June 2018, we began a restructuring to reduce our cost base and focus on growing revenues for our current products. In August 2018, we completed an equity placement with net proceeds of £3.3 million to fund commercial development and meet working capital needs as the Group moves toward profitability. Most importantly, we now have global partners in place to take our current products worldwide in our key markets of non-phosphate detergents, odour control, and hair styling. Commercial momentum continues to build in 2019.

## Strategy

Consumers in many countries around the world are seeking or are required by laws to purchase products that are more sustainable and safer for the environment and human use. The Group uses its proprietary technologies to create bio-based functional ingredients that meet particular consumer needs. We then use our direct selling efforts to acquire the first customers for a new ingredient, establish initial sales, and commercially validate its value in end-use products. Once we achieve first sales, we look to scale demand globally through collaboration with a market leader for ingredients in the particular application area. To date, we have executed this strategy with Croda in odour control and Nouryon (formerly AkzoNobel Specialty Chemicals) in hair styling and non-phosphate detergents.

## Operational and Commercial Progress

We made significant advances with our strategy in 2018. The Group now has revenue growth and worldwide partners for current products, a lower cost base, new cash resources, and a strong focus on continued revenue growth and reaching profitability.

Through our research activities at our UK and U.S. operations over the past several years, we have built a proprietary polymer technology platform with broad potential to meet evolving market needs. It became evident in early 2018 that the Group's generation of new chemistries outpaced the commercial progress of our existing products. Consequently, to rebalance the Group's efforts, the Board acted in June 2018 to focus on revenue growth and reduce the Group's cost base by consolidating research and administration activities into the U.S. operations. In addition, the Board installed a new management team in August 2018, and completed a restructuring of the Board by the middle of December 2018.

In July 2018, a new placement of ordinary shares raised net proceeds of £3.3 million from existing shareholders and new U.S. investors. In May 2019, the Group generated an additional £0.24 million in cash resources through the sale of its minority interest in Alkalon A/S, a Danish nicotine gum company.

The Group achieved important progress in 2018 at establishing the commercial value of its core products in their major application areas. Product revenues grew by 12.9% from £0.54m in 2017 to £0.61m in 2018. Although apparently small, I am encouraged by the breadth of early-stage product use behind this growth and the indications that our bio-based ingredients are delivering key functional advantages to customers' end-products in a wide range of applications.

**Odour control**

Based on our collaboration started in 2017, Croda continued to expand its promotion of our ZINADOR™ odour neutralizing polymer in homecare and industrial applications, with active development projects in North America, Europe, Asia, Africa, and South America and important successes for future growth with major brands in key consumer application areas.

**Non-phosphate detergents**

Nouryon completed successful product performance evaluations and notified Itaconix in May 2018 of its desire to market our detergent polymers. The parties completed and announced an exclusive worldwide supply agreement in January 2019, under which Nouryon will market Itaconix detergent polymers to its customers in household, institutional, and industrial detergent and cleaner applications.

In December 2018, the Group also succeeded in securing future detergent polymer demand by licensing a novel automatic dishwasher detergent formula to New Wave Global Services ("New Wave"), a leading Canadian supplier of innovative products to North American retailers. Based on Itaconix® CHT™, New Wave is using the formula to produce and supply a new triple-chamber detergent pod for the private label brands at a growing list of major North American retailers.

In May 2019, the Group achieved initial success for Itaconix® CHT™ in Europe with its first order from a major producer of non-phosphate automatic dishwashing detergents. We see this order as a significant milestone in a key market for future growth based on the demanding performance requirements in the European automatic dishwashing detergent market.

**Hair styling**

Interest in our polymers at Nouryon expanded from detergents into hair styling in 2018. From a small base of activity in 2017, our direct selling efforts and distributor network generated continued growth in revenues and active customer projects for our RevCare™ NE 100S hair styling polymer. In addition to generating 123% growth in 2018 revenues from 2017, customer recognition of the unique functionality of RevCare™ NE 100S created a global collaboration opportunity with Nouryon, a worldwide leader in hair styling polymers. The parties completed and announced an exclusive worldwide supply agreement in February 2019. Nouryon launched the polymer under its own Amaze™ SP brand in April 2019 at the world's largest annual personal care ingredient show and has now placed its first order with Itaconix. With this supply arrangement in place, Itaconix is withdrawing the RevCare™ NE 100S brand from the market, with accounts and projects being transitioned to Nouryon.

## Outlook

Presenting a new claim on end-product packaging often requires extensive testing to substantiate the claim, especially the first time a new ingredient is used. From automatic dishwashing detergents and carpet cleaners to hair shampoos and aluminum-free deodorants, our polymers have gained initial use or are under evaluation in a broad range of potential consumer products. Through our own work and the interest of our partners in the functional advantages of our polymer ingredients, we expect a steady stream of projects will advance to strong revenue growth for our current products. As noted above, for example, we reported the first use of our Itaconix® CHT™ polymer in a European automatic dishwashing detergent. I look forward to reporting on other new customers emerging from our project pipeline.

Beyond our key focus on higher revenues from current products, we do have an extensive portfolio of novel chemistries with potential for new products. We continue to assess these chemistries for functional advantages that can meet major consumer needs. For example, we have bio-based superabsorbents that may not necessarily compete directly on cost and performance against current petroleum-based superabsorbents, but may offer functional advantages for use in certain hygiene applications. We are also investigating functional additives that may improve the performance and expand the market opportunities for biodegradable plastics. I look forward to reporting on new products emerging from our development pipeline.

I believe the Group's polymer technology platform is set for generating stronger revenue growth in 2019 and beyond from our current customers, new customers gained through our worldwide partners, and new products emerging from our development pipeline.

## People

The restructuring of our operations in 2018 generated significant changes in our organisation, Executive Team, and Board of Directors.

In June 2018, we announced the downsizing of our research, development, marketing, and administrative operations in Deeside, Wales, to focus on revenue growth and profitability in our three core product areas. As of February 2019, the Group had no employees at the facility.

Details on the development of the Executive Team and Board of Directors in 2018 are outlined below in the Strategic Report.

The sum total of these changes leaves the Group with an experienced Executive Team and Board of Directors aligned on commercial efforts to grow revenues from its current customer pipeline and focused on reaching profitability with a lower cost base.

I wish to thank our former Chief Executive Kevin Matthews, our former Chief Financial Officer Robin Cridland, and our former Non-Executive Independent Director and Audit Chair Julian Heslop for their dedication and contributions to transforming the Group from a nicotine gum business into a leading innovator in sustainable specialty polymers over the last four years.

## Shareholder Engagement

The Notice of Annual General Meeting ("AGM") that accompanies the Annual Report sets out the business for our forthcoming AGM on 19 July 2019 and we encourage all our shareholders to attend and participate.

## Corporate Governance

With effect from 28 September 2018, all AIM companies are required to adopt a recognised corporate governance code and to make additional corporate governance related disclosures on their website. I am pleased to announce that the Company has adopted the Quoted Companies Alliance's Corporate Governance Code (the "QCA Code"). See www.itaconix.com for our governance disclosures.

## Summary

After raising new funds and significantly reducing our cost base in 2018, the pace of revenue growth from the uptake of our existing polymers into customer formulations remains our primary focus and the key dynamic to monitor for managing our costs and our cash to reach profitability. The Board firmly believes that the products, active customer projects, and global partnerships are in place to increase overall use of our polymers, gain larger accounts, and generate significant new revenue growth going forward.

John R. Shaw
Chief Executive Officer

26 June 2019

## Principal Activities

Itaconix plc is a leading innovator in bio-based functional ingredients for improving the safety and performance of homecare, personal care, and industrial products. Its proprietary polymer technology generates a growing range of new ingredients with unique functionalities that meet consumer demands for value and sustainability.

The principal activities of the Group are the research and production of proprietary specialty polymers that meet significant customer needs, with a strategy of direct selling efforts to establish initial use of new polymers, and partner development to scale global demand.

Most of the Group's activities are focused toward homecare and personal care applications where consumer interest and desires for safer and more sustainable products are particularly high.

## Proprietary Ingredients with Unique Functionality

The Group has completed many years of exploratory research and holds an extensive patent portfolio related to the production and use of polymers made from itaconic acid. The commercial potential for these ingredients stems from the unique functionalities available through the chemical structure of itaconic acid and its derived polymers, and from the bio-based production of itaconic acid through fermentation using renewable sugar sources.

Using the Group's process of identifying a market need and then developing a product to meet that need, initial products from its itaconate chemistry platform have gained commercial use in non-phosphate detergents, odour control, and hair styling. As these products generate more revenues, Itaconix expects to identify more opportunities for additional new products within its itaconate chemistry platform.

## Progress in 2018

The need in 2018 was to rebalance the Group's research and commercial activities to focus on revenue growth in its two core markets, homecare and personal care, with the goal of reducing cash use and reaching profitability sooner. Major rebalancing goals were achieved by consolidating our major activities into our U.S. operations and securing global partners to scale demand for our core products.

In conjunction with the consolidation and reduction in our cost base by over £1m per annum, the Group raised £3.3m in net proceeds from a placing completed in August 2018.

As detailed in the Chief Executive Officer's Statement, the Group entered 2019 with a strong cash position to grow revenues and improve profitability with a full complement of marketing partners for its core products.

## Board Changes

There were significant changes to the Executive Team and Board of Directors in 2018.

John R. Shaw, President of Itaconix Corporation, was also appointed as Chief Executive Officer and a Director of Itaconix plc.

James Barber moved from Independent Non-Executive Director to Non-Executive Chairman in December 2018.

John I. Snow III was appointed as an Independent Non-Executive Director and Chairman of the Audit Committee in October 2018.

Bryan Dobson moved from Non-Executive Chairman to Independent Non-Executive Director in August 2018.

Kevin Matthews moved from Chief Executive Officer to Executive Chairman in August 2018, and then stepped off the Board in December 2018.

Robin Cridland resigned as Chief Financial Officer in August 2018.

Julian Heslop stepped down as a Non-Executive Independent Director and Chairman of the Audit Committee in October 2018.

Michael Norris was appointed Interim Chief Financial Officer in August 2018.

Subsequent to 2018, Mike Townend stepped down as a Non-Executive Director in May 2019.

## Financial Review

**Results and Dividends**

The Group results are stated in the Consolidated Income Statement on page 30 and are reviewed below. The Directors do not recommend the payment of a dividend (2017: Nil).

**Financial Performance**

*Revenue*

Total revenues for the 12-month period ended 31 December 2018 were £0.66m, representing a 20.0% increase over 2017 revenues of £0.55m. Revenue from the sale of products grew 12.9% in 2018 to £0.61m from £0.54m in 2017, with the balance of revenue derived from collaborative agreements. Revenues grew primarily from increased demand for the Group's detergent and personal care products.

*Gross Profit and Loss after Tax*

The gross profit fell from £0.22m in 2017 to £0.11m in 2018 primarily as a result of the scaling of capacity at the New Hampshire, USA operations. A greater portion of overhead costs were classified as production expenses in 2018 rather than development expenses related to the construction of the new production line in 2017. Gross profit margins are expected to improve as these overhead costs are absorbed through increased capacity utilization from future anticipated business.

The Operating loss before exceptional items decreased from £5.2m 2017 to £4.1m for 2018, significantly assisted by administrative expenses declining from £5.5m in 2017 to £4.3m in 2018. This 22% decrease derived mainly from the consolidation of research and administrative activities into the New Hampshire, USA operations.

*Costs and Available Cash*

The Group had net cash outflow from operations of £4.85m, partially offset by net proceeds from an issue of shares of £3.3m, giving an overall net cash outflow of £1.5m. Net cash balances as at 31 December 2018 were £2.1m. Furthermore, while our restructuring programme has reduced operating costs by over £2m per annum, the Group continues to have net cash outflows from operations. Subsequent to the year end, the Group received a £0.3m R&D tax credit refund and £0.24m from the sale of its minority interest in Alkalon A/S.

**Revaluation of Deferred Consideration**

As a result of revaluing deferred consideration with respect to the acquisition of Itaconix Corporation in 2016, as per Note 20, there is an exceptional non-cash expense of £2.2m (excluding foreign exchange), which partially offsets the £2.5m exceptional income in 2017 reflecting a change in assumptions and terms of the deferred consideration.

**Organizational Restructuring**

In 2018, there was an exceptional charge of £0.89m in relation to organizational restructuring for the consolidation of the Group's research and administration into its New Hampshire, USA operations.

**Financial Reporting**

In the financial year commencing 1 January 2018 the Group applied two new accounting standards.

*IFRS 9 "Financial Instruments"*

IFRS 9 has replaced IAS 39 Financial Instruments: Recognition and Measurement, and has had an effect on the Group in the following areas:

- The impairment provision on financial assets measured at amortised cost (such as trade and other receivables) has been calculated in accordance with IFRS 9's expected credit loss model, which differs from the incurred loss model previously required by IAS 39.

- Loans to subsidiaries measured at amortised cost have been calculated in accordance with IFRS 9's expected credit loss model. These loans were considered to be credit-impaired at the date of initial adoption of the new standard. The directors have considered cash flows that may be generated from the orderly sale of the underlying business in order to establish the assessment of lifetime expected credit losses at initial adoption and at year end.

- There were no material changes resulting from the adoption of IFRS 9.

*IFRS 15 "Revenue from Contracts with Customers"*

IFRS 15 has replaced IAS 18 Revenue and IAS 11 Construction Contracts as well as various Interpretations previously issued by the IFRS Interpretations Committee.

(a) Sale of goods

Purchase orders with customers in respect of the sale of polymers (£0.61m) continue to be recognised when goods are delivered to the customer, and as such control of the asset is transferred to the customer. IFRS 15 has therefore had no impact on this revenue stream.

(b) Collaborative research

Contracts with customers in which collaborative research (£0.05m) on development stage products are completed are recognized in agreement with milestones as identified in the contractual agreement. IFRS 15 has therefore had no impact on this revenue stream.

### Key Performance Indicators (KPI's)

The Group considers its' three key performance indicators to be:

- Revenue
- Profits before interest, tax, & non-cash expenses
- Cash

The Directors consider that revenue and profits are KPI's in measuring Group performance. The Group seeks to commercialise its existing and new technologies, and generate revenues from a growing number of commercial agreements with users of the products. The performance of the group is set out in the Chief Executive Officer's Report on pages 3 to 5.

The Directors believe that a further important performance measure is the Group's rate of cash expenditure and its effect on Group cash resources. Net cash outflows for the period to 31 December 2018 were £1.5m (2017: £5.2m). Further details of cash flows in 2018 (and 2017) are set out in the Group's Consolidated Cash Flow Statement on page 35.

## Going Concern

Analysis of Itaconix's going concern position is detailed in the Directors' Report on page 22.

## Shareholdings and Earnings per Share

Itaconix had 269,130,071 shares in issue as at 31 December 2018. The undiluted weighted average number of shares for the period to 31 December 2018 was 157,492,765. The difference in the two numbers is the result of the issuance of new shares in August 2018 (see note 23). The undiluted weighted average number of shares was used to calculate the earnings per share presented in Note 12.

## Principal Risks and Uncertainties

**Commercialisation Activities**

Ultimately, it is uncertain whether our range of Itaconix products will be purchased in sufficient quantity for the Group to be successful in the commercial market. Progress in 2018 has been made to address costs whilst looking to fill unused capacity through developing existing and new commercial partnerships.

Management of risk: The Group has sought to manage this risk by partnering with market leaders for the worldwide promotion of our leading products, the appointment of a new Chief Executive Officer, and the reorganization of its research and administrative activities.

**Dependence on Key Personnel**

The Group depends on its ability to attract and retain a limited number of highly qualified managerial and scientific personnel, the competition for whom is intense. While the Group has entered into conventional employment arrangements with key personnel aimed at securing their services for minimum terms, their retention cannot be guaranteed.

Management of risk: The Group has a share incentive agreement as disclosed in Note 25, and service contracts in place for John R. Shaw as Chief Executive Officer and Dr. Yvon Durant as Chief Technology Officer. In addition, the Group is seeking shareholder approval at the forthcoming AGM for an Equity Incentive Plan for potential share option grants to other key personnel at its New Hampshire, US operations.

**Customer Retention**

The ability to retain key customers is critical to maintaining revenue streams. The loss of key customers could adversely impact business results.

Management of risk: Acceptance of our products in our customers' end-product formulations is closely monitored and managed. Our customer service includes regular engagement on the performance of both our products and the end-products to ensure our ingredients are delivering the desired value to our customers and end-users.

**Regulatory and Legislation**

Regulatory bans on the use of phosphates as ingredients in detergents have transformed the consumer detergent markets in Europe and North America over the last ten years. Phosphates are known to enter waterways through detergent effluent and act as a nutrient for algae growth that subsequently cuts oxygen levels in water and harms aquatic life. We believe that phosphates are likely to be phased out in other jurisdictions around the world over time. Itaconix polymers can act as effective replacements for phosphates in detergent formulations and are used in numerous detergent products in North America and Europe for this purpose.

Management of risk: The Group closely monitors regulatory developments in the use of ingredients in consumer and industrial products to assure compliance and find new revenue potential for Itaconix polymers. Further, the Group regularly assesses the relative performance and cost efficacy of Itaconix polymers to current and emerging phosphate replacements to identify revenue risks and opportunities.

**Competition and Technology**

The production and use of Itaconix polymers are subject to technological change over time. There can be no assurance that developments by others will not render the Group's product offerings and research activities obsolete or otherwise uncompetitive.

Management of risk: The Group employs experienced and highly-trained polymer chemists to develop and protect the Group's intellectual property. These efforts include continuous work on the performance and cost advantages of Itaconix polymers. In addition, the staff monitors technologies and patents through publications, scientific conferences, and collaborations with other organisations to identify new risks and opportunities.

**Liquidity Risk**

Itaconix seeks to manage financial risk by ensuring adequate liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Short-term flexibility is achieved by holding significant cash balances in Itaconix's main operational currencies, notably UK Sterling and US Dollars.

**Credit Risk**

The principal credit risk for Itaconix arises from its trade receivables. To manage credit risk, new customers are subject to credit review and all customer accounts are regularly reviewed for debt ageing and collection history. As at 31 December 2018, there were no credit risk balances.

**Foreign Exchange Risk**

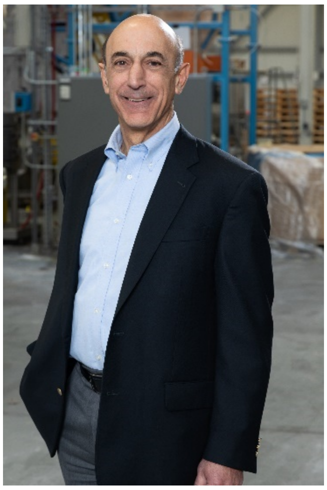
Itaconix has operations in the UK and US, and trades with customers internationally. Revenue and costs are exposed to variations in exchange rates and therefore reported losses. Although there is some natural hedging of transactional foreign exchange risk, Itaconix remains subject to translation exchange risk.

**Government Risk**

US trade tariffs with China have caused increases to certain raw material costs, and may continue to create volatility. These increases have not caused any major issues with profitability to date. Itaconix is assessing alternative supply channels, and is prepared to pass cost increases through to customers if needed. The resolution or lack of resolution of Brexit has potential risks for a macroeconomic downturn in the UK and contagion more widely to other global economies. Itaconix has its main operations in the US, generates a small percentage of revenues in the UK, and partners with global companies. As such we do not currently anticipate a material impact of Brexit on the business.

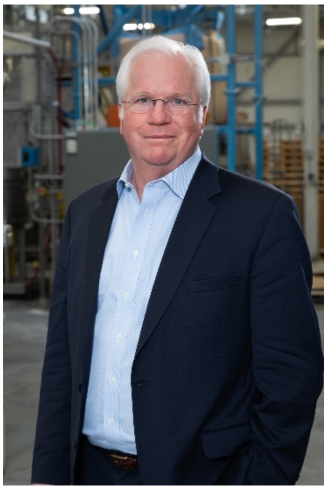
This report was approved by the Board of Directors on 26 June 2019 and signed on behalf of the Board of Directors by:

| | |
|---|---|
| James Barber<br>Chairman | John R. Shaw<br>Chief Executive Officer |



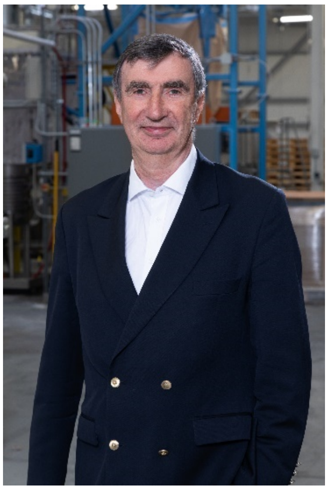
### *Dr. James ("Jim") Joseph Barber (aged 65) – Independent Non-Executive Chairman*

Jim joined the Board on 12 September 2016 and became Chairman on 21 December 2018. Since 2007 he has run his own business consultancy practice Barber Advisors LLC. Prior to this, Jim served as President and CEO of Metabolix, Inc. from January 2000 to May 2007, leading the transformation of Metabolix from a research boutique to a world renowned, highly regarded leader in "clean tech" and industrial biotechnology, with a market cap of over $500m. Prior to joining Metabolix Inc., he had senior commercial roles at the Organometallics and Catalysts business of Albemarle Corporation, Ethyl Corporation, and a number of other chemicals businesses. Jim is a non-executive director of Graham Corporation. He has a BS degree in Chemistry from Rensselaer Polytechnic Institute and a PhD in Organic Chemistry from the Massachusetts Institute of Technology.



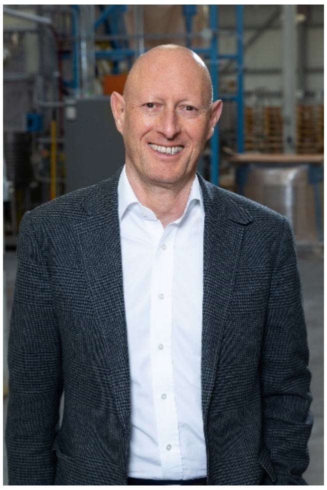
### *John Roger Shaw (aged 59) – Chief Executive Officer*

John joined the Board on 12 July 2018, when he assumed the role of Chief Executive Officer. As a founder, John has driven the direction and growth of Itaconix Corporation since 2008. He has over 25 years of experience in senior management roles in the pharmaceutical, biomedical and specialty chemical sectors and brings significant marketing, strategy and business management expertise, along with a broad technical understanding, to Itaconix's management team. John began his career holding a number of increasingly senior roles at SmithKline Beecham, Westaim, and Mitek Systems, Inc. He has a BA in Economics from Pomona College and an MBA from Harvard Business School.



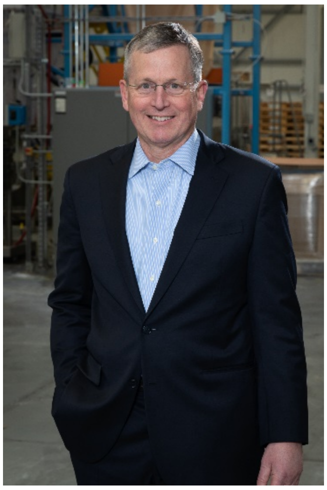
### *Dr Bryan Crawford Dobson (aged 66) – Independent Non-Executive Director*

Bryan joined the Board on 13 September 2012, and became Chairman on 18 September 2015. He has more than 30 years' experience in the chemicals industry; 28 years with ICI and 5 years with the Croda group, and was most recently President Global Operations for Croda International. He was a member of the executive management teams in Croda and in a number of large specialty chemicals businesses in ICI, and has extensive management experience running regional and global business units in the UK, US, Belgium and The Netherlands. He also has expertise in developing new business in the specialty chemicals sectors; extensive functional experience in R&D and operations, and significant M&A experience. He is also currently non-executive chairman of Applied Graphene Materials Plc.



### *Michael (Mike) Charles Nettleton Townend (aged 56) – Non-Executive Director to May 2019*

Mike joined the Board on 2 July 2012 and is the representative of IP2IPO Services Limited, which had been the corporate director of the business that is now Itaconix (U.K.) Limited since February 2006. He has over 20 years' experience in all aspects of equity capital markets and investment processes. He is currently Chief Investment Officer of IP Group plc, having previously served as Head of Capital Markets for four years. Mike joined IP Group plc from Lehman Brothers where he was Managing Director of European Equities and Head of Equity Sales to Hedge Funds. Mike was also a key member of the senior relationship management programme. Prior to this, he was an executive director at Donaldson, Lufkin and Jenrette with responsibility for building the Bank's business with hedge funds and alternatives. Mike has sourced, co-led or led numerous private and public transactions. Mike is the IP Group plc representative on the Boards of Modern Water plc and Applied Graphene Materials plc and also a non-executive director of Green Urban Transport Ltd.



### *John Ingalls Snow III (aged 58) – Independent Non-Executive Director*

John joined the Board and became Audit Committee Chair on 2 October 2018. He has 30 years' experience in the private equity market. He is currently a Managing Director at Quabbin Capital, Inc., a Boston based alternative investment firm. John is a non-executive director of Upper Crust Holdings, LLC, Winchester Savings Bank, Advanced Duplication Services, UC Management, Inc., YMCA Camp Belknap, Endowment for Health, and Mary Snow Designs, Incorporated. He has a BA in Economics from Amherst College and an MS in Accounting from New York University. John is a Chartered Financial Analyst and a non-practicing Certified Public Accountant.

# CORPORATE GOVERNANCE REPORT

The Board is committed to ensuring that the Group has the people, strategy, and structure to deliver value to customers and shareholders in the near and long term. We recognise that effective corporate governance is essential to meeting this commitment and fundamental to the success of the Group.

Solid corporate governance starts with the calibre and talents of the Directors. Biographies of the Directors are presented earlier in this Annual Report, and reveal a range of relevant experience that brings a high level of independent judgement to Itaconix's business.

Following changes to AIM Rule 26 in 2018, AIM-quoted companies are required to adopt and give details of the corporate governance code which they have adopted and to show how they are following it. Of the recognised codes generally adhered to by AIM companies, the Quoted Companies Alliance's (QCA) Corporate Governance Code for small and mid-size quoted companies (the "QCA Code") was drafted with smaller businesses using a pragmatic and principles-based approach. The Board deemed the QCA Code as the most suitable for the Group and adopted it with effect from 28 September 2018.

As Chair, I am responsible for leading the overall effectiveness of the Board, for ensuring that the Board maintains effective corporate governance processes, and for promoting open communication and debate within the Board and across the Group to foster a positive governance culture. I welcome the adoption of the QCA Code and the Company's approach to complying with the QCA Code.

## Compliance with the Quoted Companies Alliance Corporate Governance Code

The QCA Code, as revised in April 2018 to meet the new AIM requirements, identifies ten principles that focus on the pursuit of medium- to long-term value for shareholders without stifling entrepreneurial spirit. Itaconix's adoption of the QCA principles is summarised in the table below. Further details are available on our website.

1. **Establish a strategy and business model which promote long-term value for shareholders**

   Over the last ten years, Itaconix developed an enabling chemistry technology platform for producing specialty polymers from renewable resources. The Group uses its novel chemistries to create new ingredients with unique functionality that create value and meet customer needs in homecare, personal care, and industrial products. We utilise direct sales efforts to acquire initial customers and confirm the value for a new product, then scale globally with appropriate marketing partners. The long term revenue and profit potential of each new product relative to its near-term development cost can generate many years of attractive returns and shareholder value. Our near-term strategy is to balance aggressive sustained product innovation from our polymer technology platform with a focus of profitability to reach positive cash flow and long-term financial stability. Additional information on our strategy and business model is presented in the Strategic Report on pages 6 to 10.

2. **Seek to understand and meet shareholder needs and expectations**

   The Board is committed to communicating and having constructive dialogues with current and potential shareholders on a regular basis. Shareholders are encouraged to attend the Company's Annual General Meeting and any other General Meetings that may be held during the year. Information on significant Group milestones and developments is readily available in news releases, interim reports, and annual reports issued directly, broadcast widely, and posted to the Group's website. Our CEO is the primary contact for current and potential investors, and works closely with our Nominated Advisor and others to interact with the broader investment community on a regular basis.

3. **Take into account wider stakeholder and social responsibilities and their implications for long-term success**

   The Board is committed to the Group developing and maintaining open communications and dialogues with employees, customers, suppliers, regulators, investors, and partners. In addition to the investor activities described above, key practical elements of this commitment include a flat organization with ready employee access to management and the Board, regular direct contact with customers, quality assessments and reviews with vendors, and leadership roles in industry and scientific associations.

4. **Embed effective risk management, considering both opportunities and threats, throughout the organization**

   The Board constantly monitors major business risks faced by the Group and ensures appropriate courses of action to manage those risks. In 2018 the Board and management adopted a framework for the effective identification, assessment and management of risks to the achievement of corporate objectives. The risk management process is embedded in monthly reporting and quarterly meetings. The risks that the Board considers to be most significant to the Group's business are set out on pages 9 to 10.

5. **Maintain the Board as a well-functioning, balanced team led by the Chairman**

   The QCA Code requires that Boards have an appropriate balance between Executive and Non-Executive Directors and that each Board should have at least two Independent Directors. The Board is made up of one Executive Director and three Independent Non-Executive Directors. The three Independent Non-Executive Directors are experienced and independent persons who have each succeeded in their own businesses and are not dependent upon income from the Group. They have a strong and detailed understanding of the business, and are prepared and able to intervene and challenge the Executive Director and management.

6. **Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities**

   All members of the Board bring relevant experience to the Board's responsibilities and duties. The Board believes its blend of experience, skills, and personal capabilities are well-suited for governing the success of the Group. Details of the background and experience of the Directors are set out in their biographies. These demonstrate that the Board collectively has extensive specialty chemical industry knowledge and relevant experience on the challenges of technology-based growth businesses and publicly-traded companies.

7. **Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement**

   The Board reviewed its structure and needs in conjunction with its decision to restructure the Group's operations and the results of the new financing in July 2018. By the end of 2018, the review process led to a rotation in the Chairman position, a new Non-Executive Independent Director with responsibility as Audit Chair, a new CEO as an Executive Director, and the former CEO, the former CFO, and the former Audit Chair stepping down from the Board. The Board will continue to review its needs and assess opportunities for continuous improvement as the Group's commercial activities develop.

8. **Promote a corporate culture that is based on ethical values and behaviours**

   Itaconix's core values are embedded in its quality system, which commits the Group to consistently deliver customer value, satisfaction and service through continual improvement and employee development. Key pillars of the culture are curiosity to use new approaches and technology to meet a need, accuracy of scientific analyses, the safety of our products and our processes, data-driven product claims that compel customers to reformulate, reliable order fulfilment with quality product, compliance with all laws and regulations, and respect for the livelihoods of all stakeholders. These values and pillars are introduced and reinforced through daily routines and periodic activities that instil ethical and rewarding behaviour into each employee's work practices and experience.

9. **Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board**

   Formal Board meetings are held at least quarterly to review strategy, management, and performance of the Group, with additional meetings between those dates convened as necessary. We have three Board committees, the Audit Committee, the Remuneration Committee, and the Nominations Committee. The terms of reference of these committees of the Board are available on our website.

10. **Communicate how Itaconix is governed and is performing by maintaining a dialog with shareholders and other relevant stakeholders**

    The Company's approach to investor and shareholder engagement is described under Principle 2 above. Annual reports, Annual General Meeting notices, regulatory announcements, trading updates and other governance related materials since the year 2009 are available on our website.

## The Board of Directors

The Board of Directors is responsible for the proper management of the Group by formulating, reviewing and approving the Group's strategy, budgets, and corporate actions. In order to achieve its objectives, the Board has adopted the ten principles of the QCA Code. Through successfully implementing these principles, the Board aims to deliver long-term growth for shareholders and maintain a flexible, efficient and effective management framework within an entrepreneurial environment.

It is important that the Board itself contains the right mix of skills and experience in order to deliver the strategy of the Group. As such, the Board is comprised of:

- An Independent Non-Executive Chair, whose primary responsibility is the delivery of the Group's corporate governance model. The Chair has a clear separation from the day-to-day business of the Group which allows him to make independent decisions;
- One Executive Director;
- Two Independent Non-Executive Directors.

The Board has not appointed a Senior Independent Director after taking into account the Group's size and development stage.

Additionally, the Company has appointed Michael Norris as Interim CFO and Group Secretary to assist the Chairman in preparing for and running effective board meetings, including the timely dissemination of appropriate information. He provides advice and guidance to the extent required by the Board on the legal and regulatory environment.

Each Director serves on the Board subject to re-election at the Annual General Meeting and the Board generally meets at least four times a year.

## Corporate Governance

In compliance with UK best practice, the Board has established the following committees to help the Board discharge its responsibilities with formally delegated duties and responsibilities.

### 1. Audit Committee

The purpose of the Audit Committee is to monitor the integrity of the financial statements of the Group and to assist the Board in its oversight of risk and risk management processes.

Some of the Audit Committee's duties include:

- Reviewing the Group's accounting policies and reports produced by internal and external audit functions;
- Considering whether the Group has followed appropriate accounting standards and made appropriate estimates and judgments, taking into account the views of the external auditor;
- Reporting its views to the Board of Directors if it is not satisfied with any aspect of the proposed financial reporting by the Group;
- Reviewing the adequacy and effectiveness of the Group’s internal financial controls and internal control and risk management systems;
- Reviewing the adequacy and effectiveness of the Group's anti-money laundering systems and controls for the prevention of bribery and receive reports on non-compliance; and
- Overseeing the appointment of and the relationship with the external auditor.

The Audit Committee currently has three members, all of whom are Independent Non-Executive Directors and at least one member who has recent and relevant financial experience. As at 26 June 2019, the Audit Committee is comprised of John Snow as Chair, James Barber, and Bryan Dobson.

**2. Remuneration Committee**

The purpose of the Remuneration Committee is to develop and propose to the Board the framework and policies for the remuneration of the Group's Executive Directors and senior management.

The Committee normally meets at least twice a year and is responsible for determining and reviewing the policy for the remuneration of the Executive Directors and such other members of the executive management as it is designated to consider. Within the terms of the agreed policy, it determines the total individual remuneration of the Executive Directors. The Committee also approves the design of, and determines targets for, any performance-related pay schemes, reviews the design of any share incentive plans, determines the awards to the Executive Directors and sets the policy for, and scope of, pension arrangements for each Executive Director. Finally, the Committee approves the design and principles of the remuneration schemes for the employees of the business outside of the management team, which are implemented by the Executive Directors.

As at 26 June 2019, the Remuneration Committee is comprised of Bryan Dobson as Chair, James Barber, and John Snow, each of whom is an Independent Non-Executive Director.

**3. Nominations Committee**

The Company's Nominations Committee is comprised of James Barber as Chair, Bryan Dobson, and John Snow. The Committee is normally required to meet at least once a year and is responsible for reviewing the structure, size and composition of the Board and recommending to the Board any changes required, for succession planning and for identifying and nominating for approval of the Board candidates to fill vacancies as and when they arise, with a view to ensuring that the Board is composed of individuals with the necessary skills. The Committee is also responsible for reviewing Board performance, making recommendations to the Board concerning suitable candidates for the role of senior independent Director (if applicable) and the membership of the Board's committees, and the election or re-election of Directors at the annual general meeting.

## Terms of Reference

All Board committees operate within defined terms of reference and sufficient resources are made available for them to undertake their duties. The terms of reference for each committee are available on the Company's website (in the Investor Relations section and under Corporate Governance).

## Corporate Social Responsibility

The Board recognises the critical role of ethics, the growing concerns for social and environmental matters, and the need to take into account the interests of the Group's stakeholders, including its investors, employees, suppliers and business partners, when operating the business.

## Employment

The Board recognises its legal responsibility to ensure the well-being, safety and welfare of its employees and maintain a safe and healthy working environment for them and for its visitors.

## Relations with Shareholders

Itaconix attaches a high priority to effective communication with both institutional and private shareholders. The AGM is the principal forum for dialogue with private shareholders. A business presentation is made at the AGM and there is an opportunity for shareholders to put questions to the Directors. Itaconix aims to maintain regular contact with institutional shareholders through a programme of one to one visits, group meetings and briefings scheduled around the announcement of significant commercial developments in the business and the preliminary and interim financial results.

## Share Dealing Code

The Company has adopted a share dealing code to ensure directors and certain employees do not abuse and do not place themselves under suspicion of abusing inside information of which they are in possession and to comply with its obligations under the Market Abuse Regulation ("MAR") which applies to the Company by virtue of its shares being traded on AIM. Furthermore, the Company's share dealing code is compliant with the AIM Rules for Companies published by the London Stock Exchange (as amended from time to time).

Under the share dealing code, the Company must:

- Keep a list of each person who is in possession of inside information relating to the Group;
- Procure that all persons discharging managerial responsibilities and certain employees are given clearance by the Group before they are allowed to trade in Company securities; and
- Procure that all persons discharging managerial responsibilities and persons closely associated to them notify both the Company and the Financial Conduct Authority of all trades in Company securities that they make.

## Internal Control

The Board has overall responsibility for ensuring that the Group maintains a system of internal control to provide its members with reasonable assurance regarding the reliability of financial information used within the business and for publication and that the Group’s assets are safeguarded. There are inherent limitations in any system of internal control and accordingly even the most effective system can provide only reasonable, and not absolute, assurance with respect to the preparation of accurate financial information and the safeguarding of assets. The key features of the internal control system that operated throughout the year are described under the following headings:

- Control environment: particularly the definition of the organisation structure and the appropriate delegation of responsibility to operational management.

- Identification and evaluation of business risks and control objectives: particularly through a formal process of consideration and documentation of risks and controls which is periodically undertaken by the Board.

- Main control procedures: which include the setting of annual and longer term budgets and the monthly reporting of performance against them, agreed treasury management and physical security procedures, formal capital expenditure and investment appraisal approval procedures and the definition of authorisation limits (both financial and otherwise).

- Monitoring: particularly through the regular review of performance against budgets and the progress of research activities undertaken by the Board. The Board reviews the operation and effectiveness of this framework on a regular basis. The Directors consider that there have been no weaknesses in internal controls that have resulted in any losses, contingencies or uncertainties requiring disclosures in the financial statements.

## Annual General Meeting

The Annual General Meeting of the Group will take place on 19 July 2019. Full details are included in the Notice of Meeting that accompanies this Annual Report and is published on our website (www.itaconix.com).

James Barber
Chairman

26 June 2019

I am pleased to present the report on behalf of the Remuneration Committee.

The Committee is responsible for setting the remuneration policy of the Executive Directors and other senior staff, including terms of employment, salaries, any performance bonuses and share option awards.

## Committee Composition

The members of the Remuneration Committee as at 26 June 2019 are Bryan Dobson as Chair, James Barber, and John Snow. We are all Non-Executive Directors.

## Committee Duties

The Company has established a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director is involved in deciding his own remuneration.

## Remuneration Policy

The key principles of the Remuneration Policy include:

- The need to attract, retain and motivate executives who have capability to ensure the Group achieve its strategic objectives;
- The need to ensure that short term benefits and long term incentive plans are aligned with the interests of shareholders;
- The need to take into account the competitive landscape in the North American and European specialty chemicals industry and current best practice in setting appropriate levels of compensation.
- The Committee to meet at least twice per year.

## Director's Remuneration

The following table summarises the total gross remuneration for the qualifying services of the directors who served during the year to 31 December 2018.

### Directors' Remuneration and Transactions

The Directors' emoluments in the year ended 31 December 2018 were:

| | Basic salary | Benefits in kind | Pension | Bonus | Compensation for loss of office | 2018 Total (£000) | 2017 Total (£000) |
|---|---|---|---|---|---|---|---|
| **Executive Director** | | | | | | | |
| *John R. Shaw* | 84 | - | - | - | - | 84 | - |
| *Kevin Matthews* (2) | 132 | 19 | 13 | 69 | 254 | 487 | 312 |
| *Robin Cridland* (3) | 138 | 9 | 14 | 65 | 237 | 463 | 284 |
| **Non Executive Directors** | | | | | | | |
| *James Barber* | 38 | - | - | - | - | 38 | 35 |
| *Bryan Dobson* | 54 | - | - | - | - | 54 | 60 |
| *John Snow III* (5) | 9 | - | - | - | - | 9 | - |
| *Julian Heslop* (4) | 30 | - | - | - | - | 30 | 40 |
| *Michael Townend*(1) | - | - | - | - | - | - | - |
| **Total** | 485 | 28 | 27 | 134 | 491 | 1,165 | 731 |

(1) An amount of £15,000 was paid to IP Group plc for the services of Mr. Townend.

(2) Dr Kevin Mathews resigned on 21 December 2018

(3) Robin Cridland resigned on 31 August 2018

(4) Julian Heslop resigned on 2 October 2018

(5) John Snow III was appointed on 1 October 2018

**Directors' Interests**

The interests of the Directors in the share capital of the Company are disclosed below. There were 3 resignations of Directors: Robin Cridland on 31 August 2018, Julian Heslop on 2 October 2018 and Dr Kevin Mathews on 21 December 2018. There have been no changes in the Directors' interests since 31 December 2018.

| Directors' Interests | 31 December 2018<br>Number of ordinary shares of 1p each | 31 December 2017<br>Number of ordinary Shares of 1p each |
|---|---|---|
| John R. Shaw | 33,173,097 | 1,831,789 |
| Kevin Matthews (1) | 20,000 | 20,000 |
| Robin Cridland (2) | 52,836 | 52,836 |
| James Barber | 700,000 | 45,000 |
| Bryan Dobson | 583,500 | 83,500 |
| Michael Townend (5) | 64,940 | 64,940 |
| John Snow III (4) | - | - |
| Julian Heslop (3) | 660,000 | 60,000 |

(1) Dr Kevin Mathews resigned on 21 December 2018

(2) Robin Cridland resigned on 31 August 2018

(3) Julian Heslop resigned on 2 October 2018

(4) John Snow III appointed 1 October 2018

(5) Mike Townend resigned on 24 May 2019 as a subsequent event

None of the Directors has a service contract with the Group requiring more than twelve months' notice of termination to be given. None of the Directors had, either during or at the end of the year, any material interest in any contract of significance with the Company or its subsidiaries.

## Executive Directors' Service Contracts

The Executive Directors signed service contracts on their appointment. These contracts are not of fixed duration. The Chief Executive Officer's contract is terminable by either party giving twelve months' written notice.

## Non-Executive Directors

The Non-Executive Directors signed letters of appointment with the Group for the provision of Non-Executive Directors' services, which may be terminated by either party giving written notice. The remuneration of the Non-Executive Directors is determined by the Board as a whole.

The Committee met twice during the financial year to 31 December 2018.

Bryan Dobson
Chairman of the Remuneration Committee

26 June 2019

# AUDIT COMMITTEE REPORT

The Audit Committee is responsible for challenging the quality of internal and external controls and or ensuring that the financial performance of Itaconix is properly reviewed and reported.

The Committee reviews reports on the interim and annual accounts, financial announcements, the Company's accounting and financial control systems, changes to accounting policies, the extent of non-audit services undertaken by the external auditor and the appointment of the external auditor.

During the period the Audit Committee reviewed the draft interim reports and associated announcements. The Audit Committee considered the accounting policies and principles adopted in these accounts as well as significant accounting issues and areas of judgement and complexity.

## Committee Composition

The terms of reference for the Audit Committee require the committee to consist of preferably three members but not less than two members and that a majority of the members shall be independent non-executives with at least one of whom shall have recent relevant financial experience.

The members of the Audit Committee as at 26 June 2019 are John Snow as Chair, James Barber, and Bryan Dobson. We are all Independent Non-Executive Directors.

The Board is of the view that the Audit Committee has recent and relevant financial experience. John Shaw, CEO, and relevant management may attend Committee meetings by invitation.

## Role of the Committee

The main duties of the Committee are set out in its terms of reference, which are available on Itaconix's website. The main items of business considered by the Committee included:

- Reviewing the Group's accounting policies and reports produced by internal and external audit functions;
- Considering whether the Group has followed appropriate accounting standards and made appropriate estimates and judgments, taking into account the views of the external auditor;
- Reporting its views to the board of directors if it is not satisfied with any aspect of the proposed financial reporting by the Group;
- Reviewing the adequacy and effectiveness of the Group's internal financial controls and internal control and risk management systems;
- Reviewing the adequacy and effectiveness of the Group's anti-money laundering systems and controls for the prevention of bribery and receive reports on non-compliance; and
- Overseeing the appointment of and the relationship with the external auditor.

## Financial Reporting

The Committee reviews whether suitable accounting policies have been adopted and whether management has made appropriate judgements and estimates. The Committee's remit includes reviews of accounting papers prepared by management providing details on the main financial reporting judgements as well as assessments of the impact of potential new accounting standards.

IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" were both adopted during the year and, as described in Note 2 to the financial statements, did not have a material impact on the Group.

IFRS16 'Leases' is applicable for annual reporting periods beginning on or after 1 January 2019, and Itaconix has decided not to early adopt the new standard. Further details are described in Note 2 to the financial statements.

The Committee have concluded that the annual report and financial statements are appropriately prepared and provide the information necessary for shareholders to assess Itaconix's strategy and performance.

## Risk Management and Internal Controls

The risk and control management framework of Itaconix is designed to manage rather than eliminate the risk of failure to meet Itaconix's objectives and the system can only provide reasonable and not absolute assurances against material misstatement or loss. Itaconix faces a number of risks, the significant ones of which are set out in the section on Principal Risks and Uncertainties on page 9.

Through the control systems outlined in the Statement of Corporate Governance on pages 13 to 17, Itaconix operates an ongoing process of identifying, evaluating and managing significant risks faced by the business. This process includes the following:

- Defined organisation structure and appropriate delegation of authority;
- Formal authorisation procedure for investments;
- Clear responsibility for management to maintain good financial control and the production and review of detailed, accurate and timely financial information;
- Identification of operational risks and mitigation plans developed by senior management; and
- Regular reports to the Board from the Executive Directors.

Itaconix remains, in substance, in early stage development and is currently implementing appropriate internal control systems and processes to reflect its size and business complexity. The Committee has been kept up-to-date of progress in implementing these processes, reviewed the Board's processes and the Committee is satisfied that the risk management and internal control systems in place are currently operating effectively.

## External Auditor

BDO was appointed auditor of Itaconix in 2018. The Committee considers that its relationship with the auditor is working well and is satisfied with their effectiveness.

The Committee is responsible for implementing a suitable policy for ensuring that non-audit work undertaken by the auditor is reviewed so that it will not impact their independence and objectivity. The breakdown of fees between audit and non-audit services is provided in Note 7 to Itaconix's financial statements.

The non-audit fees primarily relate to taxation advice and, as necessary, the Committee held private meetings with the auditor to review key items within its scope of responsibility.

Taking into account the auditor's knowledge of Itaconix and experience, the Committee has recommended to the Board that the auditor is reappointed for the year ending 31 December 2019.

For and on behalf of the Audit Committee

John Snow III
Chairman of the Audit Committee

26 June 2019

The Directors of Itaconix plc (registered number 08024489) submit their report prepared in accordance with Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('Schedule 7').

## Principal Activities

The principal activity of Itaconix is the sale of functional polymers that improve the safety, performance and sustainability of home and personal care products.

## Website Publication

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained herein. Financial Instruments and Liquidity Risks Information about the use of financial instruments by the Company and its subsidiaries and the Group's financial risk management policies are given in note 21.

## Directors and their Interests

The Directors of the Group at 31 December 2018 were:

James Barber (Chairman);
John R. Shaw (Chief Executive Officer);
Bryan Dobson (Non-Executive);
Michael Townend (Non-Executive);
John Snow III (Non-Executive); and

James Barber, Bryan Dobson, and Mike Townend were re-elected at the 2018 Annual General Meeting. John Shaw and John Snow III were appointed subsequent to the 2018 Annual General Meeting. In accordance with Article 90 of the Company's Articles of Association, John Shaw and John Snow III are required to stand for election at the 2019 Annual General Meeting. Mike Townend stepped down from the Board in May 2019.

Biographical details of all the Directors as at 31 December 2018 are given above on pages 11 to 12.

## Liability Insurance for Directors, Officers and Employees

Itaconix has purchased insurance to cover the Directors, officers and employees of Itaconix plc and its subsidiaries against defence costs and civil damages awarded following an action brought against them in their personal capacity whilst carrying out their professional duties for the Group.

## Dividends

Itaconix is seeking primarily to achieve capital growth for its shareholders. Its intention is to retain future distributable profits, if any, and therefore does not anticipate paying any dividends in the foreseeable future. The Directors therefore do not recommend payment of a dividend (2017: £nil).

## Events after the Balance Sheet Date

Effective 24 May 2019, Michael Townend stepped down as a Non-Executive Director on the Board of Itaconix.

In May 2019, the Group completed its divestment in the nicotine gum business when the Group sold its holdings (22.49%) in its associate company, Alkalon A/S to that company's existing shareholders. The total cash consideration was c. DKK 2.0 million equivalent to c. £242,000. The proceeds consisted of c. £194,000 for the Group's minority equity interest in Alkalon and c. £48,000 for the full principal and accrued interest of a shareholder loan. The full cash proceeds were received 5 June 2019.

## Research and Development

Details of the Group's activities on research and development during the year are set out in the Strategic Report on pages 6 to 10 and Chief Executive Officer's Report on pages 3 to 5

## Going Concern

Itaconix business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report and the financial position of Itaconix, its cash flows, liquidity position and borrowing facilities are described in the notes to the financial statements, in particular in the consolidated cash flow statement and in Note 21 (financial instruments).

These financial statements have been prepared on the going concern basis. In assessing the Group's going concern position, the Directors have reviewed its current business activities, its financial performance, and the risks set out in the Strategic Report that may affect its future development.

As described in Note 3 on page 37, the Directors have reviewed the Group's cash flow forecasts covering a period of at least 12 months from the date of approval of the financial statements, which foresee that the Group will be able to operate with its existing funding. However, the success of the business is dependent on customer adoption of our products in order to increase revenue and profits growth. Inability to deliver this could result in the requirement to raise additional funds.

The Directors have concluded that the circumstances set forth above represent a material uncertainty, which may cast significant doubt about the Company and Group's ability to continue as going concerns. However, they believe that taken, as a whole, the factors described above enable the Company and Group to continue as a going concern for the foreseeable future. The financial statements do not include the adjustments that would be required if the Company and the Group were unable to continue as a going concern.

## Substantial Shareholdings

In addition to the Directors' interests, as disclosed in the Director's Remuneration Report, as at 31 May 2019, the Company had been notified of the following shareholdings amounting to 3% or more of the ordinary share capital of the Company:

| Institution | Shares Held | % Holding |
|---|---|---|
| Woodford Investment Management | 88,688,000 | 33.0% |
| John R. Shaw | 33,173,097 | 12.3% |
| IP Group | 30,125,730 | 11.2% |
| Guy Broadbent | 15,000,000 | 5.6% |
| Hargreaves Lansdown Asset Management | 12,448,284 | 4.6% |
| David E. Shaw | 8,146,274 | 3.0% |
| Janus Henderson Investors | 8,120,500 | 3.0% |

The percentage interest has been calculated on the total voting rights of 269,130,071, being the Company's issued share capital on 31 May 2019. No other person has reported an interest in the ordinary shares of the Company required to be notified to the Company.

## Information Presented in Other Sections

Certain information required to be included in a directors' report by Schedule 7, including references to future developments, research and development and financial instruments, can be found where applicable in the other sections of this Annual Report. All of the information presented in those sections is incorporated by reference into this Directors' Report and is deemed to form part of this report.

## Directors' Responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under the law the Directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and applicable law. 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 Company and of the profit or loss of the Group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market. In preparing these 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 as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business. The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006.
- They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Information Given to the Auditor

Each of the persons who are Directors of the Company at the date when this report was approved confirms that:

- So far as the Director is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditor is unaware; and

- The Director has taken all steps that they ought to have taken as a Director to make themselves aware of any relevant audit information (as defined in the Companies Act 2006) and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

## Auditor

BDO, LLP have expressed their willingness to continue in office as auditor. A resolution concerning their re-appointment will be proposed at the 2019 Annual General Meeting.

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

John R. Shaw
Chief Executive Officer

26 June 2019

### Independent auditor's report to the members of Itaconix plc

## Opinion

We have audited the financial statements of Itaconix plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2018 which comprise the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated and company balance sheets, the consolidated and company statement of changes in equity, the consolidated and company statement of cash flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements 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 December 2018 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 provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the 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 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.

## Material uncertainty related to going concern

We draw attention to note 3 in the financial statements which indicates that the group may need to raise further finance within the next 12 months to enable it to cover its operating expenses and meet its liabilities as they fall due. These events or conditions, along with the other matters as set forth in note 3, indicate the existence of a material uncertainty that may cast significant doubt about the parent company and group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

The calculations supporting the going concern assessment require management to make highly subjective judgements. We have therefore spent significant audit effort in assessing the appropriateness of the assumptions involved, and as such this has been identified as a Key Audit Matter.

Our audit procedures included the following:

- Reviewing management's assessment of going concern through analysis of the group's cash flow forecast and other projections from 12 months from the date of the Annual Report's approval including assessing and challenging the assumptions used through discussions with management and comparison against post year-end results to date and performing sensitivity analysis to consider cash flow changes if the level of revenue and costs were to remain static.
- Reviewing the terms of the group's existing financing, finance raised post year end and plans for future fund raising;
- Reviewing post-balance sheet events, specifically the cash flow position against budgeted performance; and
- Considering the adequacy of the disclosures in the financial statements against the requirements of the accounting standards.

## Key audit matters

In addition to the matter described in the material uncertainty related to going concern section, key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| ***Matter*** | ***How we address the matter in our audit*** |
|---|---|
| ***Revenue Recognition and adoption of IFRS 15: Revenue from Contracts with Customers***<br><br>The Group has adopted the new revenue accounting standard from 1 January 2018.<br><br>This standard brings a new and detailed approach to accounting for revenue, with a more prescriptive framework and as such, significant emphasis has been placed on this transition throughout the audit, resulting in the recognition of this key audit matter.<br><br>The Group has one major revenue stream and revenue is recognised at point in time. For the group, there is a key risk of material misstatement arising from both the recognition of revenue around the year end (cut-off) and the revenue recognition policy itself, as detailed in Notes 2, 3 & 5 to these financial statements. | We assessed whether the revenue recognition policies adopted by the Group comply with International Financial Reporting Standard 15 Revenue from Contracts with Customers (IFRS 15)<br><br>We have performed the following procedures:<br><br>• We agreed a sample of transactions from throughout the year to invoice and evidence of delivery;<br><br>• We tested a sample transactions either side of the balance sheet date to check that they have been recorded in the correct period;<br><br>• We performed audit procedures to confirm whether the processing and timing of journals to record revenue around the year-end are appropriate.<br><br>We have further reviewed the requirements of the IFRS 15 transition and the client's assessment of expected impacts. There has been no impact to adopting the new standard to the brought forward balances.<br><br>We have reviewed the financial statement disclosures to check that they are in accordance with the requirements of the standard. |
| ***Valuation of contingent consideration***<br><br>Refer to the accounting policies in Note 3 and Notes 4 and 20 of the Consolidated Financial Statements.<br><br>The group balance sheet reports a £3.1m (2017: 0.61m) provision for contingent consideration that arose from an acquisition in the prior period. The contingent consideration is subject to an estimate uncertainty. | We have performed the following procedures:<br><br>• Confirmed that the cash flow forecast used in the measurement of the liability is consistent with the information approved by the Board.<br><br>• Evaluated forecasts in light of historical accuracy of management's forecasts and subsequent results;<br><br>• We tested the methodology applied in the calculations and the mathematical accuracy of management's model; and<br><br>• We performed sensitivity analysis on the key assumptions in the model |

## Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

## Level of materiality applied and rationale

We determined materiality for the Group financial statements as a whole to be £120,000, which was calculated with reference to the loss before tax.

Materiality for the parent company has been capped at 65% of group materiality, at £78,000.

The individual component materiality was set at 65% group materiality, at £78,000.

We used loss before tax as a benchmark as this is the primary KPI used to address the performance of the business by the Board, and is referenced within the RNS announcements released by the Group.

Performance materiality was set at 65% of materiality at £78,000. In setting the level of performance materiality we considered a number of factors including the expected total value of known and likely misstatements.

We agreed with the Audit Committee that misstatements in excess of £2,340, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

## An overview of the scope of our audit

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

In establishing the overall approach to the Group audit, we assessed the audit significance of each component in the group by reference to both its individual financial significance to the Group or other specific nature or circumstances. We identified three individually significant components, which makes up 100% of the group activity.

To this extent:

- The Group audit team performed a full scope audit for Itaconix Plc.
- We instructed our US member firm, as component auditors for Itaconix Corporation and Itaconix (U.K) Limited as these entities books and records are located in the US, to perform a full scope audit.
- We also instructed the auditors of Alkalon A/S, an entity which is an equity investment of the group, to report to us.
- Detailed instructions were issued and discussed with the component auditors, and these covered the significant risks (including the Group risks of material misstatement described in the above key audit matters) that should be addressed by the audit team.
- The Group audit team was actively involved in directing the audit strategy of the components, reviewed the audit work and findings and considered the impact of these upon the Group audit opinion. We visited the component auditors in the USA and Denmark to carry out a review of their files and meet, as it relates to the USA, with local management.

We ensured that audit teams both at group and at component level have the appropriate skills and competences which are needed to perform the audit. Furthermore, we included specialists in the area of Valuation in our team.

The Group audit team centrally performed the audit of share options, contingent consideration and equity investment in Alkalon.

## Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts, 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.

## 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 its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

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

## Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 24, 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: 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 Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Iain Henderson (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK

26 June 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# CONSOLIDATED INCOME STATEMENT

## For the year ended 31 December 2018

| | | **2018** | 2017 |
|---|---|---|---|
| | Notes | **£'000** | £'000 |
| **Continuing operations** | | | |
| **Revenue** | 5 | **660** | 553 |
| Cost of sales | | **(555)** | (332) |
| **Gross profit** | | **105** | 221 |
| Other operating income | 6 | **96** | 112 |
| Administrative expenses | | **(4,310)** | (5,507) |
| **Group operating loss before exceptional items** | 7 | **(4,109)** | (5,174) |
| Exceptional (expense) income on revaluation of contingent consideration | 20 | **(2,489)** | 2,511 |
| Exceptional expense on organizational restructuring | 7 | **(891)** | - |
| Exceptional expense on impairment of intangible assets | | **-** | (8,992) |
| Finance income | 9 | **3** | 1 |
| Share of profit (loss) of associate | 14 | **90** | (214) |
| **Operating Loss before tax from continuing operations** | | **(7,396)** | (11,868) |
| Release of previously recognised deferred tax liability | 10 | **-** | 1,229 |
| Taxation credit | 10 | **140** | 465 |
| **Loss for the year from continuing operations** | | **(7,256)** | (10,174) |
| **Profit after tax for the year from discontinued operations** | 11 | **-** | 33 |
| **Loss for the year** | | **(7,256)** | (10,141) |
| **Basic loss per share** | 12 | **(4.6)p** | (12.9)p |
| **Diluted loss per share** | 12 | **(4.6)p** | (12.9)p |

The accompanying note 1 to 29 form an integral part of the financial statements.

# CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

| | Notes | 2018 £'000 | 2017 £'000 |
|---|---|---|---|
| **Loss for the year** | | **(7,256)** | (10,141) |
| ***Items that will be reclassified subsequently to profit or loss*** | | | |
| Exchange (losses) in translation of foreign operations | | **(357)** | (543) |
| **Total comprehensive loss for the year, net of tax** | | **(7,613)** | (10,684)) |
| **Attributable to:** | | | |
| Equity holders of parent | | **(7,613)** | (10,684) |

The accompanying note 1 to 29 form an integral part of the financial statements.

# CONSOLIDATED AND COMPANY BALANCE SHEETS
## At 31 December 2018

| | Notes | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Property, plant and equipment | 15 | **719** | 980 | **–** | – |
| Trade and other receivables | 17 | **–** | – | **2,582** | 4,820 |
| Investment in subsidiary undertakings | 13 | **–** | – | **793** | 565 |
| Investment in associate undertakings | 14 | **131** | – | **–** | – |
| | | **850** | 980 | **3,375** | 5,385 |
| **Current assets** | | | | | |
| Inventories | 16 | **303** | 271 | **–** | – |
| Trade and other receivables | 17 | **711** | 706 | **567** | 283 |
| Cash and cash equivalents | 18 | **2,083** | 3,606 | **1,721** | 2,638 |
| | | **3,097** | 4,583 | **2,288** | 2,921 |
| **Total assets** | | **3,947** | 5,563 | **5,663** | 8,306 |
| **Financed by** | | | | | |
| **Equity shareholders' funds** | | | | | |
| Equity share capital | 23 | **2,686** | 787 | **2,686** | 787 |
| Equity share premium | | **30,301** | 28,603 | **30,301** | 28,603 |
| Own shares reserve | | **(3)** | (4) | **(3)** | (4) |
| Merger reserve | | **20,361** | 20,361 | **2,455** | 2,455 |
| Share based payment reserve | | **6,632** | 6,404 | **825** | 597 |
| Foreign translation reserve | | **539** | 896 | **-** | - |
| Retained earnings | | **(60,333)** | (53,077) | **(33,724)** | (24,803) |
| **Total equity** | | **183** | 3,970 | **2,540** | 7,635 |
| **Non-current liabilities** | | | | | |
| Contingent consideration | 20 | **3,052** | 607 | **3,052** | 607 |
| **Current liabilities** | | | | | |
| Trade and other payables | 19 | **712** | 986 | **71** | 64 |
| **Total liabilities** | | **3,764** | 1,593 | **3,123** | 671 |
| **Total equity and liabilities** | | **3,947** | 5,563 | **5,663** | 8,306 |

The loss for the year for the Company amounted to £8,921k (2017: £3,130k). The financial statements of Itaconix plc, registered number 08024489, were approved by the Board of Directors for issue on 26 June 2019.

**John R. Shaw**
Director

**James Barber**
Director

The accompanying note 1 to 29 form an integral part of the financial statements

# CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY
For the year ended 31 December 2018

**Consolidated statement of changes in equity**

| | Equity share capital £'000 | Equity share premium £'000 | Own shares reserve £'000 | Merger reserve £'000 | Share based payment reserve £'000 | Foreign translation reserve £'000 | Retained deficit £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2017 | 787 | 28,588 | (5) | 20,361 | 6,220 | 1,439 | (42,936) | 14,454 |
| Loss for the year | – | – | – | – | – | – | (10,141) | (10,141) |
| Exchange differences on translation of foreign operations | – | – | – | – | – | (543) | – | (543) |
| Exercise of share options | – | 15 | 1 | – | – | – | – | 16 |
| Share based payments | – | – | – | – | 184 | – | – | 184 |
| **At 31 December 2017** | **787** | **28,603** | **(4)** | **20,361** | **6,404** | **896** | **(53,077)** | **3,970** |
| Loss for the year | – | – | – | – | – | – | (7,256) | (7,256) |
| Share issuance, net of expenses | 1,899 | 1,698 | – | – | – | – | – | 3,597 |
| Exchange differences on translation of foreign operations | – | – | – | – | – | (357) | – | (357) |
| Exercise of share options | – | _ | 1 | – | – | – | – | 1 |
| Share based payments | – | – | – | – | 228 | – | – | 228 |
| At 31 December 2018 | **2,686** | **30,301** | **(3)** | **20,361** | **6,632** | **539** | **(60,333)** | **183** |

**Company statement of changes in equity**

| | Equity share capital £'000 | Equity share premium £'000 | Own shares reserve £'000 | Merger reserve £'000 | Share based payment reserve £'000 | Foreign translation reserve £'000 | Retained deficit £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2017 | 787 | 28,588 | (5) | 2,455 | 413 | – | (21,673) | 10,565 |
| Loss for the year | – | – | – | – | – | – | (3,130) | (3,130) |
| Exercise | – | 15 | 1 | – | – | – | – | 16 |
| Share based payments | – | – | – | – | 184 | – | – | 184 |
| At 31 December 2017 | **787** | **28,603** | **(4)** | **2,455** | **597** | – | **(24,803)** | **7,635** |
| Loss for the year | – | – | – | – | – | – | (8,921) | (8,921) |
| Share issuance, net of expenses | 1,899 | 1,698 | – | – | – | – | – | 3,597 |
| Exercise of share options | – | – | 1 | – | – | – | – | 1 |
| Share based payments | – | – | – | – | 228 | – | – | 228 |
| At 31 December 2018 | **2,686** | **30,301** | **(3)** | **2,455** | **825** | – | **(33,724)** | **2,540** |

The accompanying Note 1 to 29 form an integral part of the financial statements

# CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2018

The reserves described above have the purposes described below:

**Share capital**

Amount subscribed for share capital at par value.

**Share premium**

Amount subscribed for share capital in excess of nominal value.

**Own shares reserve**

The reserve records the nominal value of shares purchased and held by the Employee Benefit Trust to satisfy the future exercise of options under the Group's share option schemes.

**Merger reserve**

This reserve arose as a result of a common control business combination on the formation of the Group. The premium on the issue of shares as part of a business combination is credited to this reserve.

**Share based payment reserve**

This reserve records the credit to equity in respect of the share based payment cost.

**Foreign exchange translation reserve**

This reserve arises on the translation of the assets and liabilities of overseas subsidiaries.

# CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS

## For the year ended 31 December 2018

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2018** | 2017 | **2018** | 2017 |
| | Notes | **£’000** | £’000 | **£’000** | £’000 |
| **Net cash (outflow) / inflow from operating activities** | 24 | **(4,850)** | (4,659) | **519** | (85) |
| Interest received | | **–** | 1 | **–** | – |
| Proceeds from property, plant and equipment | | **56** | – | **–** | – |
| Purchase of property, plant and equipment | | **–** | (436) | **–** | – |
| Investment in associate undertaking | | **(26)** | (60) | **–** | – |
| Cash loaned to subsidiary undertakings | | **–** | – | **(4,733)** | (1,717) |
| Cash loaned to associate undertaking | | **–** | (44) | **–** | – |
| **Net cash inflow / (outflow) from investing activities** | | **30** | (540) | **(4,733)** | (1,717) |
| Cash received from issue of shares | | **3,497** | 16 | **3,497** | 16 |
| Transactions costs paid on the issue of shares | | **(200)** | – | **(200)** | – |
| **Net cash inflow from financing activities** | | **3,297** | 16 | **3,297** | 16 |
| **Net (outflow) in cash and cash equivalents** | | **(1,523)** | (5,183) | **(917)** | (1,786) |
| Cash and cash equivalents at beginning of year | | **3,606** | 8,789 | **2,638** | 4,424 |
| **Cash and cash equivalents at end of year** | | **2,083** | 3,606 | **1,721** | 2,638 |

The accompanying Note 1 to 29 form an integral part of the financial statements

## 1. Introduction and statement of compliance with IFRS

The Board has considered compliance with IFRS carefully, and made disclosures that it deems appropriate in the financial statements and notes, with emphasis to the reader where relevant.

The Group's and the Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with the Companies Act 2006 as applicable to companies reporting under IFRS. The principal accounting policies adopted by the Group are set out in note 2. The nature of the Group's operations and its principal activities are set out in the Strategic Report.

The Directors anticipate that the adoption of standards and interpretations issued, but not applied in these financial statements as not yet effective, will have no material impact on the financial statements of the Group, as further explained in note 2 below.

## 2. Changes in Accounting Policies

***Adoption of new and revised standards effective from 1 January 2018***

The Group has applied the same accounting policies and methods of computation in its financial statements as in its 2017 annual financial statements, except for those that relate to new standards and interpretations effective for the first time for periods beginning on (or after) 1 January 2018, which have been adopted in the current year's financial statements. New standards that have impacted the Group for the year ended 31 December 2018 are:

- IFRS 9 *Financial Instruments*; and
- IFRS 15 *Revenue from Contracts with Customers*

*<u>IFRS 9 "Financial Instruments"</u>*

IFRS 9 has replaced IAS 39 Financial Instruments: Recognition and Measurement, and has had an effect on the Group in the following areas:

- The impairment provision on financial assets measured at amortised cost (such as trade and other receivables) has been calculated in accordance with IFRS 9's expected credit loss model, which differs from the incurred loss model previously required by IAS 39. This has resulted in £nil provision for expected losses.
- Loans to subsidiaries measured at amortised cost have been calculated in accordance with IFRS 9's expected credit loss model. These loans were considered to be credit-impaired at the date of initial adoption of the new standard. The directors have considered cash flows that may be generated from the orderly sale of the underlying business in order to establish the assessment of lifetime expected credit losses at initial adoption and at year end.

The impact of the standard on opening balances is not material and as such, the Group has chosen not to restate comparatives on adoption of IFRS 9.

*<u>IFRS 15 "Revenue from Contracts with Customers"</u>*

IFRS 15 has replaced IAS 18 Revenue and IAS 11 Construction Contracts as well as various interpretations previously issued by the IFRS Interpretations Committee. The Group adopted IFRS 15 using the cumulative effect method applied to those contracts with were not completed as of 1 January 2018. The impact of the new standard on opening balances was immaterial. It has impacted the Group in the following ways:

(a) Sale of goods

Purchase orders with customers in respect of the sale of water-soluble polymers (£0.66m) continue to be recognised when goods are delivered to the customer, and as such control of the asset is transferred to the customer. IFRS 15 has therefore had no impact on this revenue stream.

(b) Collaborative research

Contracts with customers in which collaborative research (£0.04m) on development stage products are completed are recognized in agreement with milestones as identified in the contractual agreement. IFRS 15 has therefore had no impact on this revenue stream.

***New standards, interpretations and amendments not yet effective***

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early. The most significant of these is:

*IFRS 16 "Leases" – (effective for 2019 financial report)*

Adoption of IFRS 16 Leases will result in the Group recognising right of use assets and lease liabilities for all contracts that are, or contain, a lease. For leases currently classified as operating leases, under current accounting requirements the Group does not recognize related assets or liabilities, and instead spreads the lease payments on a straight-line basis over the lease term, disclosing in its annual financial statements the total commitment. The Group will only recognize such leases on its balance sheet as at 1 January 2019. In addition, it will measure right-of-use assets by reference to the measurement of the lease liability on that date. This will ensure there is no immediate impact to net assets on that date. At 31 December 2018 operating lease commitments amounted to £0.39m. Instead of recognizing an operating expense for its operating lease payments, the Group will instead recognize interest on its lease liabilities and amortization on its right-of-use assets. This will increase reported EBITDA by the amount of its current operating lease expense.

## 3. Accounting policies

### *Basis of accounting*

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs), which are adopted by the EU. Set out below are the main accounting policies which applied in preparing the financial statements for the years ended 31 December 2018 and 31 December 2017. The Group financial statements are presented in GBP because this is the currency of the primary economic environment in which the Group currently operates, and all values are rounded to the nearest thousand (£'000) unless otherwise indicated. The Company's functional currency is GBP. The financial statements have been prepared on the historical cost basis, except for contingent consideration which has been measured at fair value.

### *Going concern*

The financial statements have been prepared on a going concern basis. The Directors have reviewed the Company's and the Group's going concern position taking account its current business activities, budgeted performance and the factors likely to affect its future development, set out in the Annual Report, and including the Group's objectives, policies and processes for managing its working capital, its financial risk management objectives and its exposure to credit and liquidity risks.

The Group made a loss for the year of £7,256k, had Net Current Assets at the period end of £2,385k and a Net Cash Outflow from Operating Activities of £4,850k. Primarily, the Group meets its day to day working capital requirements through existing cash resources and had on hand cash, cash equivalents and short term deposits at the balance sheet date of £2,083k (2017: £3,606k).

During the year, the Group reduced its expenditures, restructured its operations and successfully raised net funding of £3,297k.

The Directors have reviewed the Group's cash flow forecasts covering a period of at least 12 months from the date of approval of the financial statements, which foresee that the Group will be able to meet its liabilities as they fall due. However, the success of the business is dependent on customer adoption of our products in order to increase revenue and profits growth. Inability to deliver this could result in the requirement to raise additional funds.

The Directors have concluded that the circumstances set forth above represent a material uncertainty, which may cast significant doubt about the Company and Group's ability to continue as a going concern. However, they believe that taken, as a whole, the factors described above enable the Company and Group to continue as a going concern for the foreseeable future. The financial statements do not include the adjustments that would be required if the Company and the Group were unable to continue as a going concern.

### *Consolidation*

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. The Company controls an investee if, and only if the Company has the following:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure of rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

In accordance with Section 408 of the Companies Act 2006, no profit and loss account is presented for the Company.

### *Business combinations, contingent consideration and goodwill*

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognised in accordance with IFRS 9 in profit or loss.

The fair value of contingent consideration is determined by reference to the projected financial performance in relation to the specific contingent consideration criteria for each acquisition.

Goodwill is initially measured at cost being the excess of the aggregate of the acquisition-date fair value of the consideration transferred over the fair value of the assets acquired and the liabilities assumed in exchange for the business combination. Assets acquired and liabilities assumed in transactions separate to the business combinations, such as the settlement of pre-existing relationships or post-acquisition remuneration arrangements are accounted for separately from the business combination in accordance with their nature and applicable IFRSs. Identifiable intangible assets, meeting either the contractual-legal or separability criterion are recognised separately from goodwill. Contingent liabilities representing a present obligation are recognised if the acquisition-date fair value can be measured reliably.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes and not be larger than an operating segment before aggregation.

### *Associates*

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associates are accounted for using the equity method. Each investment in an associate is recognised (and subsequently held) at cost when acquired.

The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in other comprehensive income ("OCI") of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of profit or loss separate from operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At least at each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and charges it to "Share of profit or loss of associate" in the statement of profit or loss.

### *Discontinued operations*

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

All other notes to the financial statements include amounts from continuing operations, unless otherwise mentioned.

### *Revenue recognition*

Revenue is recognised to the extent that services have been delivered and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Revenue from the sale of goods is recognised when performance obligations have been satisfied. The delivery date is usually the date on which performance obligations have been satisfied. However, where goods are supplied when title does not irrevocably pass on delivery, it may not be appropriate to recognise all the revenue immediately. The Group provides for potential sales returns based on its actual experience of returns from customers in such cases. Where it has no such history it makes estimates by reference to minimum sales commitments in the relevant contract, or by reference, where available, to customer retail sales data or customer inventory levels at the financial year end, or based on other reasonable and relevant judgements.

### *Government grants and research income*

Government grants and research income are recognised as a credit to the income statement where there is reasonable assurance that they will be received and all associated conditions will be complied with.

When the income relates to an expense item, it is recognised as income over the period necessary to match it on a systematic basis to the costs that it is intended to compensate. Where the income relates to an asset, it is recognised as deferred income and released to income in equal annual amounts over the expected useful life of the related asset.

### *Research and development costs*

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

The Group will also capitalise development costs to the extent they are intangible assets arising on consolidation following an acquisition.

### *Foreign currencies*

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the year-end date. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in the income statement in the period in which they arise. Exchange differences on non-monetary items are recognised in the statement of comprehensive income to the extent that they relate to a gain or loss on that non-monetary item taken to the statement of comprehensive income, otherwise such gains and losses are recognised in the income statement.

The assets and liabilities in the financial statements of foreign subsidiaries are translated at the rate of exchange ruling at the year end date. Income and expenses are translated at the actual rate. The exchange differences arising from the retranslation of the opening net investment in subsidiaries are taken directly to the 'Foreign currency retranslation reserve' in equity. On disposal of a foreign operation the cumulative translation differences (including, if applicable, gains and losses on related hedges) are transferred to the income statement as part of the gain or loss on disposal.

### *Property, plant and equipment*

Property, plant and equipment are stated at cost, less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met.

Depreciation is calculated to write off the cost less estimated residual value of all tangible assets over their expected useful economic life on a straight-line basis. The rates generally applicable are:

| | |
|---|---|
| Plant and equipment | 4-7 years |
| Short leasehold equipment | 5 years |
| Computer and office equipment | 3 years |

### *Financial assets*

Financial assets are recognised in Itaconix's and the Company's statement of financial position when Itaconix and the Company becomes party to the contractual provisions of the instrument. Under IFRS 9 the classification of financial assets is based both on the business model and cash flow type under which the assets are held. There are three principal classification categories for financial assets: amortised cost; fair value through other comprehensive income; and fair value through profit or loss. Itaconix has not classified any of its financial assets as fair value through other comprehensive income.

*Amortised cost*

These assets are non-derivative financial assets held under the 'held to collect' business model and attracting cash flows that are solely payments of principal and interest. They comprise trade and other receivables and cash and cash equivalents. They are initially measured at fair value plus transaction costs, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions for trade and other receivables are calculated using an expected credit loss model. Under this model, impairment provisions are recognised to reflect expected credit losses based on combination of historic and forward-looking information, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net; such provisions are recorded in a separate allowance account. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

### *Cash, cash equivalents and investments*

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand. Investments comprise funds placed on short term deposits.

### *Leases*

Operating lease payments are recognised as an operating expense in the income statement on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

### *Income taxes*

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- Where the temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undisclosed basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income statement.

### *Research and development tax credit*

Companies within the Group may be entitled to claim special tax allowances in relation to qualifying research and development expenditure (e.g. R&D tax credits). The Group accounts for such allowances as tax credits, which means that they are recognised when it is probable that the benefit will flow to the

Group and that benefit can be reliably measured. R&D tax credits reduce current tax expense and, to the extent the amounts due in respect of them are not settled by the balance sheet date, reduce current tax payable.

### *Financial liabilities*

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

*Financial liabilities at fair value through profit or loss*

Financial liabilities are stated at fair value with differences taken to the consolidated income statement. Interest on financial liabilities up to maturity is included in the finance costs line item in the consolidated income statement.

*Trade and other payables*

Trade payables and other payables are not interest bearing and are stated at their full value on initial recognition. For disclosure purposes, the fair values of trade and other payables are estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date. As trade payables and other payables are short term in nature as at the reporting date, the carrying value is considered to be a reasonable approximation of fair value.

*Other financial liabilities*

Other financial liabilities are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised costs using the effective interest method, with interest recognised on an effective rate basis.

### *Inventory valuation*

Inventories are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition.

### *Share based payments*

The Company issues equity-settled share-based payments to certain employees and these payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of the grant using appropriate pricing models. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions.

At the date of each statement of financial position, the Company revises its estimate of the number of equity instruments that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment is made to equity over the remaining vesting period. The fair value of the awards and ultimate expense are not adjusted on a change in market vesting conditions during the vesting period.

The value of share-based payment is taken directly to reserves and the charge for the period is recorded in the income statement. Itaconix's scheme, which awards shares in the parent entity, includes recipients who are employees in all subsidiaries. In the consolidated financial statements, the transaction is treated as an equity-settled share-based payment, as Itaconix has received services in consideration for equity instruments. An expense is recognised in the Group income statement for the fair value of share-based payment over the vesting year, with a credit recognised in equity.

In the subsidiaries' financial statements, the awards, in proportion to the recipients who are employees in said subsidiary, are treated as an equity-settled share-based payment, as the subsidiaries do not have an obligation to settle the award. An expense for the grant date fair value of the aware is recognised over the vesting year, with a credit recognised in equity. The credit is treated as a capital contribution, as the parent is compensating the subsidiaries' employees with no cost to the subsidiaries as there is no expectation to recharge the cost. In the parent company's financial statements, there is no share-based payment charge where the recipients are employed by a subsidiary, with the parent company recognising an increase in the investment in the subsidiaries as a capital contribution from the parent and a credit to equity

***Equity instruments***

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs. Dividends and distributions relating to equity instruments are debited direct to equity.

***Exceptional items***

The Group has classified the organizational restructuring, the fair value adjustment of the contingent consideration, and the impairment of the goodwill and other intangible assets as exceptional items in the income statement. These items are not considered to reoccur and are of such significance to the results that they have been presented as exceptional to provide a fair and balanced presentation in the financial statements.

## 4. Critical accounting assumptions and key sources of estimation uncertainty

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent assets and liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

***Judgements***

In the process of applying the Group's accounting policies, management has made a number of judgements. Those which have the most significant effect on the amounts recognised in the financial statements are summarised below:

***Valuation of contingent consideration***

The value of any contingent consideration is also reviewed at each period end by way of comparison to the value of expected future payments, as estimated using appropriate methodologies, e.g. discounted cash flow techniques. See note 20 for further details.

***Accounting for the investment in Alkalon***

On completion of the divestment of the nicotine gum business, the consideration to Itaconix was 15% of the equity of the new business resulting from the combination of the divested business and Alkalon's existing business. In addition, the Group has the right to appoint a director to the board of Alkalon (which it has exercised), and following certain commercial contracts awarded to Alkalon during the year the interest owned by Itaconix increased to 22.5%. Taking these factors into account, management judges it appropriate to equity account for the investment in Alkalon under IAS 28 as an associate. At each period end the carrying value of the investment in Alkalon is also reviewed for impairment with a view to assessing recoverability.

***Share based payment cost***

The estimation of share based payment costs requires the selection of an appropriate valuation model, considerations as to the inputs necessary for the valuation model chosen and the estimation of the number of awards that will ultimately vest, inputs for which arise from judgements relating to the probability of meeting non-market performance conditions and the continuing participation of employees (see Note 25).

***Fair value of Group indebtedness (Company only)***

The fair value of amounts owing from group companies is impaired in those cases where the subsidiary is, at the balance sheet date, both illiquid and not yet generating positive cash flows, or otherwise highly unlikely to repay such indebtedness (see Note 17).

## 5. Revenue

Revenue recognised in the Group income statement is analysed as follows:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Sale of goods | **660** | 553 |
| | **660** | 553 |

***Geographical information***

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Europe | **176** | 249 |
| North America | **477** | 296 |
| Asia | **7** | 8 |
| | **660** | 553 |

The revenue information is based on the location of the customer.

***Segmental information***

The revenue information above is derived from the continuing operations and excludes the Nicotine Gum segment that was disposed of during the previous year (see Note 11).

The Group therefore has one segment - the Specialty Chemicals segment which designs and manufactures proprietary specialty polymers to meet customers' needs in the home care and industrial markets and in personal care. This segment makes up the continuing operations above.

Net assets of the Group are attributable to geographical location as at 31 December 2018.

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Europe | **39** | 2,717 |
| North America | **124** | 1,253 |
| Asia | – | – |
| | **183** | 3,970 |

## 6. Other operating income

Other operating income arises mainly from grants and research income and sale of fixed assets. Since it is not considered to be part of the main revenue generating activities, the group presents this income separately from revenue.

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Grant and research income | **59** | 112 |
| Sale of assets | **37** | – |
| | **96** | 112 |

## 7. Group operating loss

This is stated after charging:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Auditor's remuneration: | | |
| Audit of the financial statements | **10** | 10 |
| Audit of the subsidiaries | **57** | 47 |
| Non-audit services | **6** | 7 |
| Total fees | **73** | 64 |
| Equity settled share based payment expense | **228** | 184 |
| Employer's national insurance (credit) associated with vested share options | **(29)** | (55) |
| Depreciation of owned assets | **222** | 259 |
| Amortisation of intangible assets | **-** | 267 |
| Minimum operating lease payments: | | |
| – land and buildings | **333** | 345 |
| Research and development expenditure | **405** | 1,080 |
| Foreign exchange differences | **89** | 83 |

On 1 June 2018, the Group announced an operational update regarding the restructuring of its UK subsidiary to focus the Group's resources on growing revenues of its core products. The Group's activities were consolidated into its US operations, thereby improving the link between product support and manufacturing. The Group incurred a one-time exceptional cost of £891k to restructure the UK subsidiary, to pay Director's and staff redundancy payments, lease termination, and facility clean-up costs.

## 8. Staff costs

Staff costs for the Group, including Directors, consist of:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Wages and salaries | **2,810** | 2,993 |
| Invoiced by third parties | **15** | 15 |
| Post-employment benefits | **99** | 130 |
| Equity settled share based payment expense | **228** | 184 |
| | **3,152** | 3,322 |

Details of Directors' fees are included in the Directors' Remuneration Report on page 18.

Details of key management personnel fees are included in Note 26.

# NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2018

The average monthly number of Group employees, including Directors, during the year was made up as follows:

| | 2018 No. | 2017 No. |
|---|---|---|
| Executive Directors | 2 | 2 |
| Non-executive Directors | 5 | 4 |
| Research and development | 14 | 24 |
| Finance and administration | 4 | 4 |
| Sales | 4 | 2 |
| Production | 2 | 2 |
| Contract staff | 1 | 1 |
| | 32 | 39 |

Itaconix plc had no employees other than the Directors.

## 9. Finance income

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Interest receivable on bank deposits | 3 | 1 |

## 10. Taxation

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Corporation tax credits | | |
| Prior years' corporation tax credits | 21 | 23 |
| Reduction in deferred tax liability on IP amortisation | - | 107 |
| Current year corporation tax liability | (6) | (5) |
| Current year corporation tax credits | 125 | 340 |
| Corporation tax credits | 140 | 465 |

During the year ended 31 December 2018, the Group had a taxation credit, excluding exceptional items disclosed separately, of £140k (2017: £465k), £125k of which relates to R&D tax credits estimated to be claimable on qualifying expenditure for the year ended 31 December 2018, but also including a provision of £6k for US taxation payable in respect of 2018 by the US subsidiary. The amount of R&D tax credits actually received in the year of £361k relates to the submitted R&D tax claims for the year ended 31 December 2017.

**Total tax on loss on ordinary activities**

The tax for the year can be reconciled to the loss per the income statement as follows:

| | **2018** | 2017 |
|---|---|---|
| | **£'000** | £'000 |
| Loss before tax from continuing operations | **(7,396)** | (11,868) |
| Loss before tax from discontinued operations | **-** | 33 |
| Loss before tax relief | **(7,396)** | (11,835) |
| Loss on ordinary activities multiplied by standard UK corporation tax rate of 19% | **(1,405)** | (2,278) |
| Effects of: | | |
| Disallowed expenses & non-taxable income | **364** | 1,117 |
| Capital allowances in excess of depreciation | **-** | 13 |
| Adjustments in respect of prior periods | **(21)** | (23) |
| Other timing differences | **644** | - |
| Surrender of tax losses for R&D tax credit | **166** | 451 |
| Movement in deferred tax not recognised | **237** | 702 |
| Deferred tax arising upon impairment and amortisation of intangible assets | **-** | (1,336) |
| Current year R&D tax credit | **(125)** | (340) |
| Total tax credit for the year | **(140)** | (1,694) |
| Release of previously recognised deferred tax liability (shown on the face of the income statement due to its nature) | **-** | (1,229) |
| Corporation tax credit | **(140)** | (465) |

The Group tax credit relates to continuing operations in the year.

***Deferred tax***

The Group has the following net deferred tax asset which is not recognised:

| | **2018** | 2017 |
|---|---|---|
| | **£'000** | £'000 |
| Accelerated capital allowances | **1** | (9) |
| Other timing differences | **22** | - |
| Tax losses carried forward | **6,283** | 5,943 |
| Share based payments | **25** | 160 |
| | **6,331** | 6,094 |

The net deferred tax asset is not recognised as there is insufficient evidence of future taxable profits against which the asset will be available for offset.

The table below summaries deferred tax liabilities of the Group that are recognised:

| | **2018** | 2017 |
|---|---|---|
| | **£'000** | £'000 |
| As at 1 January | - | (1,458) |
| Reduction in deferred tax liability on IP amortisation | - | 107 |
| Foreign exchange movement | - | 122 |
| Elimination of liability due to full impairment of intangible assets | - | 1,229 |
| As at 31 December | - | - |

A liability arose in 2016 on the valuation of intangible assets recognised on consolidation of Itaconix Corporation. However, in respect of 2017, as a result of slower than expected sales growth of the products acquired with Itaconix Corporation and a consequent reduction in management forecasts, the acquired intellectual property has been fully impaired resulting in the corresponding elimination of the deferred tax liability.

**Tax rate changes**

The main rate of UK corporation tax was 19% from 1 April 2015. This will fall to 17% for the year beginning 1 April 2020.

The US federal tax rate was reduced to 21% from 1 January 2018 (prior years: 35%).

## 11. Discontinued operations

On 16 September 2016, the Group announced that it had entered into agreements for the divestment of the nicotine gum business to Alkalon A/S, a Danish company, with completion subject to the satisfaction of certain conditions precedent including the transfer of key customer contracts and product licences to Alkalon. Completion was announced on 2 November 2016.

The results of the Nicotine Gum segment for the year are presented below:

| | **2018** | 2017 |
|---|---|---|
| | **£'000** | £'000 |
| Revenue | – | 25 |
| Cost of sales | – | 8 |
| Gross profit | – | 33 |
| Administrative expenses | – | – |
| Profit before tax from discontinued operations | – | 33 |
| Tax benefit: Related to current pre-tax loss | – | – |
| Profit for the year from discontinued operations | – | 33 |

The net cash flows incurred by the Nicotine Gum segment were nil for years end 31 December 2018 and 2017.

## 12. Loss per share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

| | | Continuing operations | Discontinued operations | Total |
|---|---|---|---|---|
| | **2018** | 2017 | 2017 | 2017 |
| **Loss** | **£'000** | £'000 | £'000 | £'000 |
| Loss for the purposes of basic and diluted loss per share (£'000) | **(7,256)** | (10,174) | 33 | (10,141) |
| Weighted average number of ordinary shares for the purposes of basic and diluted loss per share ('000) | **157,494** | 78,715 | 78,715 | 78,715 |
| **Basic and diluted loss per share** | **(4.6p)** | (12.9p) | 0.0p | (12.9p) |

The loss for the period and the weighted average number of ordinary shares for calculating the diluted earnings per share for the period to 31 December 2018 are identical to those used for the basic earnings per share. This is because the outstanding share options (Note 23) would have the effect of reducing the loss per ordinary share and would therefore not be dilutive.

## 13. Investment in subsidiary undertakings

In 2017, as a result of reduced forecasts for the Group including the products acquired with Itaconix Corporation in 2016, management has fully impaired the intangible assets arising on acquisition and has also impaired the value of the investment in Itaconix Corporation in the Company balance sheet proportionate to its shareholding. Impairment was calculated by comparing the asset carrying values with the value in use of the relevant cash generating unit, using discounted cash flow techniques. Notwithstanding this, it still expects the Group to become a profitable specialty chemicals business in the medium term.

| | **Company** |
|---|---|
| | **£'000** |
| At 1 January 2017 | 6,078 |
| Share based payments | 184 |
| Impairment | (5,697) |
| At 31 December 2017 | **565** |
| Share based payments | 228 |
| Impairment | - |
| At 31 December 2018 | **793** |

| **Name** | **Principal activity** | **Place of incorporation and operation** | **Proportion of ownership interest** |
|---|---|---|---|
| Direct investments | | | |
| Itaconix (U.K.) Limited (1) | UK operating company | England | 100% |
| Revolymer EBT Limited (1) | Trustee of Revolymer employee benefit trust | England | 100% |
| Indirect investments | | | |
| Itaconix Corporation (2) | Trading US subsidiary of Itaconix (U.K.) Ltd | USA | 100% |

(1) The registered address is Fieldfisher, LLP, Riverbank House, 2 Swan Lane, London, EC4R 3TT, UK
(2) The registered address is 2 Marin Way, Stratham, NH 03885, USA

## 14. Investment in associate undertakings

The Group's interest in Alkalon is accounted for using the equity method in the consolidated financial statements. The acquisition is considered to be a long term investment. The fair value of the investment at the period end was arrived at as described below.

| | £'000 |
|---|---|
| Fair value of Alkalon investment at 1 January 2017 | 145 |
| Increase in investment at 18 May 2017 | 60 |
| Share of loss of equity-accounted investees, net of tax | (214) |
| Gain on foreign exchange | 9 |
| Fair value of Alkalon investment at 31 December 2017 | - |
| Increase in investment at 30 April 2018 | 26 |
| Reclassification from impairment on loan to the investment in associate | 15 |
| Reversal of prior impairment | 88 |
| Share of profit of equity-accounted investees, net of tax | 2 |
| Fair value of Alkalon investment at 31 December 2018 | 131 |

| Name | Principal activity | Place of incorporation and operation | Proportion of ownership Interest |
|---|---|---|---|
| Alkalon A/S (from 31 October 2016) | Trading Danish associate of Itaconix (U.K.) Ltd | Denmark | 15% |
| Alkalon A/S (from 22 June 2017) | Trading Danish associate of Itaconix (U.K.) Ltd | Denmark | 17% |
| Alkalon A/S (from 30 April 2018) | Trading Danish associate of Itaconix (U.K.) Ltd | Denmark | 22% |

As part of a funding raise by Alkalon in 2018, the Group invested additional capital into Alkalon that increased the Group's interest to 22.49%.

As a result of certain commercial milestones being met during the year as laid out in the divestment agreements from 2016, the Group's interest in Alkalon was increased to 17.36% by the issuance of new equity in 2017.

The following table summarises financial information relating to Alkalon for the 2018 financial year:

| | **2018** | 2017 |
|---|---|---|
| | **£'000** | £'000 |
| Intangible assets | **555** | 486 |
| Tangible fixed assets | **231** | 221 |
| Current assets | **1,819** | 1,844 |
| Current liabilities | **(2,020)** | (2,070) |
| Equity | **585** | 481 |

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| Gross profit | **766** | 243 |
| Administration expenses | **(537)** | (1,135) |
| Finance income | **7** | - |
| Finance costs | **(228)** | (66) |
| Profit / (Loss) before tax | **8** | (958) |
| Income tax expense | **-** | (347) |
| Profit / (Loss) for the year (continuing operations) | **8** | (1,305) |
| Total comprehensive profit / (loss) for the year | **8** | (1,305) |
| | | |
| Group's share of profit / (loss) for the year | **2** | (214) |
| Revaluation in the year | **88** | - |
| Total profit / (loss) for the year | **90** | (214) |

The associate had no contingent liabilities or commitments as at 31 December 2018.

During 2017, jointly and severally with all the other shareholders, the Group provided a guarantee to Alkalon's contract manufacturer (CMO) up to a maximum EUR200k (around GBP175k), callable should Alkalon not meet its payment obligations to the CMO. Management did not expect the guarantee to be called to any extent, it expired on 15 February 2018 and indeed it had not been called to any extent at expiry. Accordingly no liability has been recorded at 31 December 2018.

During 2018, jointly and severally with all the other shareholders, the Group has provided further guarantees to Alkalon's CMO up to a maximum EUR800k (around GBP700k), callable should Alkalon not meet its payment obligations to the CMO and/or not meet minimum annual orders for product. These guarantees reduce by EUR125k (around GBP110k) every year for 4 years, down to a maximum of EUR300k (around GBP260k). Management does not expect these guarantees to be called, and to date they have not been called to any extent. Accordingly no liability has been recorded at 31 December 2018.

During 2018, previously recorded impairment losses against the fair value of the Group's investment in Alkalon was partially reversed based on the events noted below, for an amount of £88k.

During May 2019, the Group completed its divestment in the nicotine gum business when the Group sold its holdings (22.49%) in its associate, Alkalon to the associate's existing shareholders, who have also provided indemnification protecting the Group against any exposure from the guarantees noted above. The Director's decision to divest the Group's investment was made in 2019. Further details of this event are noted in Note 29.

## 15. Property, plant and equipment

| Group | Computer and office equipment £'000 | Plant and equipment £'000 | Short Leasehold equipment £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2017 | 211 | 1,702 | 359 | 2,272 |
| Additions | 18 | 418 | – | 436 |
| Disposals | (30) | (17) | (17) | (64) |
| At 31 December 2017 | 199 | 2,103 | 342 | 2,644 |
| Additions | – | – | – | – |
| Disposals | (181) | (1,152) | (271) | (1,604) |
| At 31 December 2018 | **18** | **951** | **71** | **1,040** |
| **Accumulated depreciation** | | | | |
| At 1 January 2017 | 171 | 1,020 | 278 | 1,469 |
| Charge | 21 | 217 | 21 | 259 |
| Eliminated on disposal | (30) | (17) | (17) | (64) |
| At 31 December 2017 | 162 | 1,220 | 282 | 1,664 |
| Charge | 18 | 187 | 17 | 222 |
| Eliminated on disposal | (165) | (1,137) | (263) | (1,565) |
| At 31 December 2018 | **15** | **270** | **36** | **321** |
| **Carrying Amount** | | | | |
| At 31 December 2018 | **3** | **681** | **35** | **719** |
| At 31 December 2017 | 37 | 883 | 60 | 980 |

## 16. Inventories

| Group | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Raw materials | **82** | 54 |
| Work in progress | **14** | 19 |
| Finished goods | **207** | 198 |
| | **303** | 271 |

## 17. Trade and other receivables

| Current assets | Group | | Company | |
|---|---|---|---|---|
| | 2018 £'000 | 2017 £'000 | 2018 £'000 | 2017 £'000 |
| Trade receivables | **119** | 127 | **–** | – |
| Amounts due from associate | **27** | 45 | **–** | – |
| Amounts owed by Group companies | **–** | – | **535** | – |
| Other receivables | **565** | 534 | **32** | 283 |
| | **711** | 706 | **567** | 283 |

Trade receivables are non-interest bearing and are generally on 30 day terms.

As at 31 December 2018, the unsecured shareholder loan to its associate Alkalon remained outstanding as the primary credit facility with Danske Bank, remained outstanding. The initial term of the loan agreement was 12 months from June 2017 and the interest rate of 4.5%. During 2018, the loan that had become past due was impaired £18k, as management was uncertain of the financial status of repayment. Subsequent to year end, the loan to its associate Alkalon, has been repaid and Group has divested from its holdings in its associate (see Note 29).

# NOTES TO FINANCIAL STATEMENTS
## For the year ended 31 December 2018

As at 31 December 2018, a provision of £nil (2017 – £nil) has been made to trade receivables that were considered to be impaired. Amounts due from group undertakings have been classified as current. The Company does not consider any of the amounts due from group undertakings to be overdue.

Included within other receivables is £486k (2017: £361k) of R&D tax credit receivables (see Note 10).

In respect of the Company

- The loss for the year includes a release of fair value impairment of group indebtedness of £nil resulting from a movement in provisions for this indebtedness (2017: charge £343k).
- As at 31 December 2018 the balance of the fair value of impaired debt from Group undertakings is £26,1971k (2017: £19,761k).
- There are no significant doubts as to the future recoverability of these balances, and as such, no provision for bad and doubtful debts has been raised against the amounts due from group undertakings, however to the extent the counter party is unable to do so, the Group does not intend to recall the amounts due, within one year.

As at 31 December, the analysis of trade receivables that were past due but not impaired is as follows:

| **Group** | **Total** | **Neither past due nor impaired** | **<30 days** | **30–60 Days** | **60–90 days** | **90–120 days** | **>120 days** |
|---|---|---|---|---|---|---|---|
| | **£’000** | **£’000** | **£’000** | **£’000** | **£’000** | **£’000** | **£’000** |
| 2018 | 119 | – | 58 | 31 | 23 | 7 | – |
| 2017 | 127 | – | 86 | 41 | – | – | – |

The fair value of amounts owing from Group companies to the Company has been impaired to the extent the subsidiary (ie Itaconix (U.K) Limited) is, at the balance sheet date, both illiquid and not yet generating positive cash flows, or otherwise unlikely to repay such indebtedness. The group provides against trade receivables where there are significant doubts as to future recoverability based on prior experience, on assessment of the current economic climate and on the length of time that the receivable has been overdue.

| **Non-current assets** | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **£’000** | £’000 | **£’000** | £’000 |
| Amounts owed by Group companies | **–** | – | **2,582** | 4,820 |
| | **–** | – | **2,582** | 4,820 |

## 18. Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with a maturity of less than three months. The carrying amount of these assets approximates their fair value.

Analysis of cash and cash equivalents disclosed in the cash flow statement:

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Cash at bank and in hand | **2,083** | 3,606 | **1,721** | 2,638 |

### Credit, liquidity and market risk

The Group's principal financial assets are bank balances. The credit risk on these assets is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. The Directors have carefully reviewed the carrying value of the Group's financial assets and consider that at the date of this report no impairment in those values is anticipated.

## 19. Trade and other payables

**Current liabilities**

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Trade payables and other payables | **126** | 162 | **29** | 16 |
| Amounts due to associate | – | 9 | – | – |
| Other payables and accruals | **586** | 815 | **42** | 48 |
| | **712** | 986 | **71** | 64 |

The Directors consider that the carrying amount of trade and other payables approximate to their fair value.

## 20. Contingent Consideration

| | Contingent consideration | | | |
|---|---|---|---|---|
| | Group | | Company | |
| | **2018** | 2017 | **2018** | 2017 |
| | **£'000** | £'000 | **£'000** | £'000 |
| As at 1 January | **607** | 3,414 | **607** | 3,414 |
| Restructuring of contingent consideration | **2,227** | – | **2,227** | – |
| Movement in fair value and discounting unwind | **(38)** | (2,511) | **(38)** | (2,511) |
| Movement in foreign exchange | **256** | (296) | **256** | (296) |
| As at 31 December | **3,052** | 607 | **3,052** | 607 |
| | | | | |
| Current | **–** | – | **–** | – |
| Non-current | **3,052** | 607 | **3,052** | 607 |

As part of the purchase agreement with the previous owners of Itaconix Corporation, a contingent consideration was agreed with certain of the sellers (the "Sellers"). This would be payable to the Sellers, subject to the achievement of revenue targets for products based on the technology acquired for the calendar years 2017 to 2020, based on 50% of incremental annual net sales value above $3m in 2017 and in excess of the prior year for 2018 to 2020 inclusive (and no less than $3m). The deferred performance related consideration is capped at $6m in aggregate. Such deferred performance consideration, if any, would be satisfied annually entirely in new ordinary shares of Itaconix plc at the then prevailing price.

During 2018 in conjunction with the fund raise, a restructuring of the contingent consideration was executed. The contingent consideration was restructured into two components:

- A one time issue of 15 million new Itaconix plc shares to the Sellers
- The continuation of the previous contingent consideration mechanism (i.e. up to $6m in shares), but with the window of time for potential achievement expanded to the end of 2023 (from the end of 2020) and including all the revenues of the Group (which are primarily from products based on the acquired technology in any event)

It should also be noted that the second component summarised above is intended to serve as an incentive programme for the two members of management (John Shaw and Yvon Durant) who are also Sellers and are entitled to 63% of the total contingent consideration (in both the existing and proposed construct). Accordingly, they will not be eligible for any cash bonus or other share incentive programme for the years 2018 to 2020 inclusive. Simultaneously the merger agreement with the former shareholders of Itaconix Corporation and related agreements will be amended to remove various restrictive clauses, including minimum funding requirements and employment terms.

Based on the share price at the execution of the restructuring agreement, the 15m shares had a value of £0.3m which was expensed immediately. The value of the adjusted contingent component using the latest Board approved forecasts and assumptions as above is $3.9m or around £3.1m.

In respect of 2018, the deferred consideration was valued using a discounted cash flow-based assessment of the expected sales of the relevant products extracted from the latest Board approved forecasts, consistent with the approach in prior years. A discount rate of 11.2% was used. The valuation includes elements which are unobservable and which have a significant impact on the fair value. Accordingly, contingent consideration is classified as Level 3 fair value measurement.

As a result of the change forecasts, earn out period and discount rate from the original value assessments, the contingent consideration at 31 December 2018 was revalued to £3,052k. Sensitivity analysis was also performed, summarised as follows:

- If the sales in the period 2019 to 2022 were reduced by $1m, the fair value would be reduced by approximately $390k or around £304k
- A 1% increase in the discount rate would reduce the fair value by $190k or around £145k

Since the forecasts used were a conservative base case, the computed fair value was deemed appropriate.

## 21. Financial instruments

### Financial risk management objectives and policies

Itaconix principal financial liabilities comprise trade and other payables and borrowings. The primary purpose of these financial liabilities is to finance the operation. Itaconix has trade and other receivables and cash that derive directly from its operations.

The Company has limited financial liabilities as its primary purpose is to hold investments in other group companies. The Company's receivables largely relate to funding the operations of Itaconix.

| | **Group 2018 £'000** | **Company 2018** £'000 | Group 2017 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash | **2,083** | 3,606 | **1,721** | 2,638 |
| Trade and other receivables | **711** | 706 | **567** | 283 |
| Intercompany receivable | **-** | 2,582 | **-** | 4,820 |
| **Financial liabilities** | | | | |
| Trade and other payables | **712** | 986 | **71** | 64 |
| Contingent Consideration | **3052** | 607 | **3,052** | 607 |
| | **(970)** | **5,301** | **(835)** | 7,070 |

The Directors consider that the carrying amount for all financial assets and liabilities approximates to their fair value.

### *Financial risk management*

The group is exposed to market risk, which includes interest rate risk and currency risk, credit risk and liquidity risk. The senior management oversees the management of these risks and ensures that the financial risk taken is governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Itaconix's policies and risk appetite.

### *Liquidity risk*

Itaconix seeks to manage financial risk by ensuring adequate liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Short-term flexibility is achieved by holding significant cash balances in Itaconix's main operational currencies, notably UK Sterling, US Dollar.

### *Credit risk*

The principal credit risk for Itaconix arises from its trade receivables. In order to manage credit risk, new customers undergo credit review and customer accounts are regularly reviewed for debt ageing and collection history. As at 31 December 2018, there were no credit risk balances.

Credit risk from cash balances with banks and financial institutions is managed in accordance with group policy. Credit risk with respect to cash is managed by carefully selecting the institutions with which cash is deposited

The financial assets of the group comprise cash at banks, trade receivables and other receivables. Having reviewed the recoverability of Itaconix's financial assets since the reporting date, as well as the likelihood of future losses over the next 12 months and the lifetime of the assets, the Board does not consider it necessary to recognise any credit losses.

### *Foreign exchange risk*

Itaconix has operations in both the UK and trades with customers internationally. Revenue and costs are exposed to variations in exchange rates and therefore reported losses. There is some natural hedging of transactional foreign exchange risk, however Itaconix remains subject to translation exchange risk.

### *Interest rate risk*

The Group finances its operations principally from equity funding and has no debt. Therefore the downside risk associated with changes in interest rates is minimal. No sensitivity analysis has been presented for changes in interest rates as these do not have a material impact on the loss before tax.

### *Currency risk*

During the year, the Group received revenue in GBP, EURO and USD, whilst the majority of its cost base is in GBP. These receipts are currently relatively small and tend to be used first to cover costs in the same currency before conversion to GBP, and so currency risk impacting cash balances is deemed to be appropriately managed. However, the acquisition of US-based Itaconix Corporation in the middle of the previous year means that this risk profile has changed and will be continued to be kept under close review accordingly. Specifically, a loan from Itaconix plc to Itaconix Corporation to fund the US operations is denominated in USD and so is re-translated to GBP each period end, potentially resulting in significant debits or credits to the Company's profit and loss but with no cash or other impact on the Group as the loan is eliminated on consolidation. Further, the deferred consideration payable to the former shareholders of Itaconix Corporation is denominated in USD and, as well as being revalued based on likelihood of payment, is retranslated to GBP each period end, potentially resulting in significant non cash debits or credits to the Company and Group's profit and loss. Management notes that such foreign exchange movements are non cash items. No forward foreign exchange contracts were entered into during the period (2017: Nil). At 31 December 2018 the bank balances on hand of foreign currencies were:

| **Currency** | **2018** | 2017 |
|---|---|---|
| USD | **258,378** | 180,717 |
| CAD | **66,017** | 80,776 |
| EUR | **50,891** | 1,102 |

The foreign currency balances are in aggregate higher than at the end of 2017, which is due to the US-based Itaconix Corporation being the main operating entity. No sensitivity analysis has been presented for changes in currency exchange rates, although management will keep the need for sensitivity analysis under regular review going forward.

### *Liquidity risk*

The Group seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Group's policy through the period has been to ensure continuity of funding by equity. The table below summarises the maturity profile of the Group's financial liabilities at the year-end based on contractual undiscounted payments.

At 31 December 2018:

| **Group** | **On demand** | **Less than 3 months** | **3 to 12 months** | **1 to 5 years** | **> 5 years** | **Total** |
|---|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Trade and other payables | – | **126** | – | – | – | **126** |
| Provisions | – | – | – | **3,052** | – | **3,052** |
| Finance lease obligations | – | – | – | – | – | – |
| | – | **126** | - | **3,052** | – | **3,178** |

# NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2018

At 31 December 2017:

| Group | On demand | Less than 3 months | 3 to 12 months | 1 to 5 years | > 5 years | Total |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Trade and other payables | – | 560 | 426 | – | – | 986 |
| Provisions | – | – | – | 607 | – | 607 |
| Finance lease obligations | – | – | – | – | – | – |
| | – | 560 | 426 | 607 | – | 1,593 |

All of the trade and other payables balances (£71k) of the Company are due for payment in less than three months (2017: £64k less than three months)

The range of interest rates applicable to instant access deposit accounts and term deposits at 31 December 2018 was 0.25% to 1.00% per annum (2017: 0.25% to 1.00%).

### *Capital risk management*

The Group manages its capital to ensure that it will be able to continue as a going concern while also maximizing the operational potential of the business. The capital structure of Itaconix consists of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital and reserves as disclosed in the consolidated statement of changes in equity. Itaconix is not exposed to externally imposed capital requirements.

### *Committed facilities*

The Group has no floating rate committed borrowing facilities as at 31 December 2018 (2017: nil).

There are no material differences between the fair value of financial instruments and the amount at which they are stated in the financial statements. This is due to the fact that they are of short maturity and if payable on demand the fair value is not materially different from the carrying value.

## 22. Commitments

### *Operating lease arrangements*

The Group leases certain assets on an operating lease basis. At the balance sheet date, the Group and Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Within one year | **264** | 334 | **–** | – |
| In two to five years | **127** | 378 | **–** | – |
| Over five years | **–** | – | **–** | – |
| Total future minimum lease payments | **391** | 712 | **–** | – |

## 23. Share capital

| | Group £'000 | Company £'000 |
|---|---|---|
| At 1 January 2017 (78,657,948 shares in issue) | 787 | 787 |
| **Issued as a result of an exercise of options** | | |
| 17/01/17-60,000 | – | – |
| **New share issued** | | |
| Nil | – | – |
| At 31 December 2017 (78,717,948 shares in issue) | 787 | 787 |
| **Issued as a result of an exercise of options** | | |
| 02/08/2018-577,530 | – | – |
| **New share issued** | | |
| 03/08/2018-15,000,000 | 150 | 150 |
| 03/08/2018-174,834,593 | 1,749 | 1,749 |
| At 31 December 2018 (269,130,071 shares in issue) | 2,686 | 2,686 |

Itaconix plc (previously Revolymer plc) was incorporated on 10 April 2012.

On the 3 August 2018 the Company issued 15,000,000 ordinary shares with a nominal value of 1p per share for 2p per share as part of the restructuring of the contingent consideration for the acquisition of Itaconix Corp (see Note 20).

On the 3 August 2018, the Company issued 174,834,593 ordinary shares with a nominal value of 1p per share for 2p per share. The consideration was received in cash

## 24. Notes to the statements of cash flow

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 £'000** | 2017 £'000 | **2018 £'000** | 2017 £'000 |
| Loss before tax | **(7,396)** | (11,868) | **(8,921)** | (3,130) |
| Depreciation of property, plant and equipment | **222** | 259 | **–** | – |
| Amortisation and impairment | **–** | 9,259 | **–** | – |
| Disposal of equipment | **(16)** | – | – | – |
| Impairment of group indebtedness | **–** | – | **6,435** | 4,964 |
| Revaluation of deferred consideration | **2,489** | (2,511) | **2,489** | (2,511) |
| (Gain) / loss on foreign exchange | **(142)** | (83) | **257** | 574 |
| Share based payments charge | **228** | 184 | - | - |
| Share of (profit) / loss from associate | **(90)** | **214** | – | **–** |
| Taxation | **140** | 465 | **–** | – |
| Operating cash flows before movements in working capital | **(4,565)** | (4,081) | **260** | 103 |
| (Increase) / decrease in inventories | **(32)** | (61) | **–** | – |
| (Increase) / decrease in receivables | **(5)** | 18 | **227** | (205) |
| (Decrease) / increase in payables | **(248)** | (535) | **8** | 17 |
| Net cash (outflow)/inflow from continuing operating activities | **(4,850)** | (4,659) | **519** | (85) |

## 25. Share based payments

An expense is recognised for share based payments based on the fair value of the awards at the date of grant, the estimated number of shares that will vest and the vesting period of each award. The charge for share based payments for the period to 31 December 2018 is £228k (2017: £184k) as disclosed in note 8.

During the year to 31 December 2018 no share options (2017: 4,512,460) were granted under the Itaconix LTIP scheme as either approved options (under the HMRC approved EMI scheme) or unapproved options. The management team received nil cost share options (either HMRC approved or unapproved) with market facing performance conditions required for vesting ("Management Options"). The fair value of Management Options as at the date of grant was therefore estimated using a Monte Carlo simulation model. The remaining employees did not receive share options under the EMI scheme (and with an exercise price of the market price as at the date of grant (2017: £0.24)) ("Employee Options"). Accordingly the fair value of the Employee Options was estimated as at the date of grant using a Black Scholes model. Both models took into account the terms and conditions upon which the options were granted using the following assumptions.

**Grant date**

| | Unapproved Management Options | EMI Management Options | EMI Employee Options |
|---|---|---|---|
| 2017 Option Grant | | | |
| Number of options granted | 2,096,282 | 1,582,127 | 834,051 |
| Exercise price | £nil | £nil | £0.235 |
| Expected volatility | 33.1% | 33.1% | 33.1% |
| Risk free rate | 0.4% | 0.4% | 0.4% |
| Expected dividend yield | 0% | 0% | 0% |
| Expected option life | 36 months | 36 months | 36 months |

The Employee Options have a vesting period of 36 months (2017: 36 months) with no performance criteria. The vesting period of the Management Options is also 36 months (2017: 36 months) but they only become exercisable if challenging market facing performance conditions are met; namely that 50% of the grant becomes exercisable if the weighted average ordinary share price in the 180 day period ending on 31 May 2020 of grant is £0.40. Between weighted average ordinary share prices of £0.40 and £0.55, vesting shall be pro-rata and on a straight line basis between 50% and 100%. Below £0.40 the grants are not exercisable and lapse in full.

The valuation methodology used in valuing share based payments includes the key assumptions shown above. Management have revisited and amended the assumptions in respect of expected volatility and risk free rate in the year to 31 December 2018 The charge for share based payments for the period to 31 December 2018 is accordingly £228k (31 December 2017 £184k).

### *Employee share option plan – unvested options*

During the year the Company operated an employee share option plan ("the EMI plan") for the benefit of certain employees of the Company.

All options granted in the year are subject to the employee completing a specified period of service. All options lapse when the employee ceases to be employed by the Company.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, unvested share options outstanding under the "EMI plan" during the year:

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## For the year ended 31 December 2018

| **Unvested** | **2018 Number of shares** | **WAEP** | 2017 Number of shares | WAEP |
|---|---|---|---|---|
| Balance at beginning of year | **3,741,837** | **£0.14** | 2,947,888 | £0.24 |
| Awarded during year | **–** | **£nil** | 2,416,178 | £0.08 |
| Lapsed during the year | **(1,849,441)** | **£0.36** | (1,622,229) | £0.23 |
| Unvested options at end of year | **1,892,396** | **£0.04** | 3,741,837 | £0.14 |

### *Unapproved share option plan – unvested options*

During the year, the Company operated a share option plan for the benefit of employees who had received grants under the EMI plan up to their personal limits.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, unvested share options outstanding under the Unapproved plan during the year:

| **Unvested** | **2018 Number of shares** | **WAEP** | 2017 Number of shares | WAEP |
|---|---|---|---|---|
| Balance at beginning of year | **6,158,491** | **£nil** | 4,062,209 | £nil |
| Awarded during year | – | **£nil** | 2,096,282 | £nil |
| Unvested options at end of year | **6,158,491** | **£nil** | 6,158,491 | £nil |

### *Summary of all options – vested and unvested*

The following table summarises the position regarding all share options whether vested or not, including those that vested at Admission in 2012:

| **Vested and unvested** | **2018 Number of shares** | **WAEP** | 2017 Number of shares | WAEP |
|---|---|---|---|---|
| Balance at beginning of year | **9,877,077** | **£0.08** | 8,387,620 | £0.12 |
| Awarded during the year | **–** | **£nil** | 4,512,460 | £0.04 |
| Lapsed during the year | **(2,070,333)** | **£nil** | (2,889,503) | £0.14 |
| Exercised during the year | **(891,067)** | **£0.01** | (133,500) | £0.12 |
| Balance at end of year | **6,915,677** | **£0.08** | 9,877,077 | £0.08 |

## 26. Related party transactions

### Transactions with key management personnel

*Remuneration of key management personnel*

The remuneration of the Directors, who are considered to be the key management personnel of the Company, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'.

| | **2018** | 2017 |
|---|---|---|
| | **£'000** | £'000 |
| Salaries and other short-term employee benefits | **1,137** | 690 |
| Post-employment benefits | **27** | 42 |
| Directors' fees invoiced by third parties | **15** | 15 |
| Equity settled share based payment expense | **129** | 75 |
| | **1,308** | 822 |

### Other related party transactions

The Group entered into the following related party transactions during the current and prior year:

IP2IPO invoiced the Group for the services of Mr Townend who has served on the Board of Itaconix plc.

In 2018 the Group invoiced Alkalon for the travel expenses of the mutual board member Robin Cridland for attending the Alkalon board meetings in the year. In 2017 the Group invoiced Alkalon for the services of its employee Jonathan Swanston, who assisted in the transfer of the nicotine business to Alkalon. The Group also acted as an agent for Alkalon in its conduct of the nicotine gum business following completion of the divestment, pending the novation and assignment of key nicotine gum contracts in favour of Alkalon. Alkalon is an associate company of the Group.

| **2018** | **Receipts from related parties £'000** | **Payments to related parties £'000** | **Amounts due to related parties £'000** | **Amounts due from related parties £'000** |
|---|---|---|---|---|
| IP2IPO Services Limited | **–** | **15** | **4** | **–** |
| Alkalon A/S | **3** | **–** | **–** | **27** |

| 2017 | Receipts from related parties £'000 | Payments to related parties £'000 | Amounts due to related parties £'000 | Amounts due from related parties £'000 |
|---|---|---|---|---|
| IP2IPO Services Limited | – | 15 | 4 | – |
| Alkalon A/S | 3 | – | – | 45 |

All related party transactions were made on terms equivalent to those that prevail in arm's length transactions. There have been no write-offs of related party balances during the year and there are no provisions against any related party balances. The terms and conditions of related party transactions are the same as those for other debtors and creditors.

## 27. Contingent assets

There were no contingent assets in 2018

## 28. Contingent liabilities

During 2017, jointly and severally with all the other shareholders, the Group provided a guarantee to Alkalon's contract manufacturer (CMO) up to a maximum EUR200k (around GBP175k), callable should Alkalon not meet its payment obligations to the CMO. Management did not expect the guarantee to be called to any extent, it expired on 15 February 2018 and indeed it had not been called to any extent at expiry. Accordingly no liability has been recorded at 31 December 2018.

During 2018, jointly and severally with all the other shareholders, the Group has provided further guarantees to Alkalon's CMO up to a maximum EUR800k (around GBP700k), callable should Alkalon not meet its payment obligations to the CMO and/or not meet minimum annual orders for product. These guarantees reduce by EUR125k (around GBP110k) every year for 4 years, down to a maximum of EUR300k (around GBP260k). Management does not expect these guarantees to be called, and none were up to and including the completed its divestment in Alkalon. Accordingly, no liability has been recorded at 31 December 2018.

## 29. Post Balance Sheet Events

Effective 24 May 2019, Michael Townend stepped down as a Non-Executive Director on the Board of Itaconix.

During May 2019, the Group completed its divestment in the nicotine gum business when the Group sold its holdings (22.49%) in its associate, Alkalon to the associate's existing shareholders. The total cash consideration was c. DKK 2.0 million equivalent to c. £242,000. The proceeds consisted of c. £194,000 for the Company's minority equity interest in Alkalon and c. £48,000 for the full principal and accrued interest of a shareholder loan. The full cash proceeds were received 5 June 2019. Furthermore, the acquirer indemnified the group against any claim for the Alkalon guarantees detailed in Note 28.

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