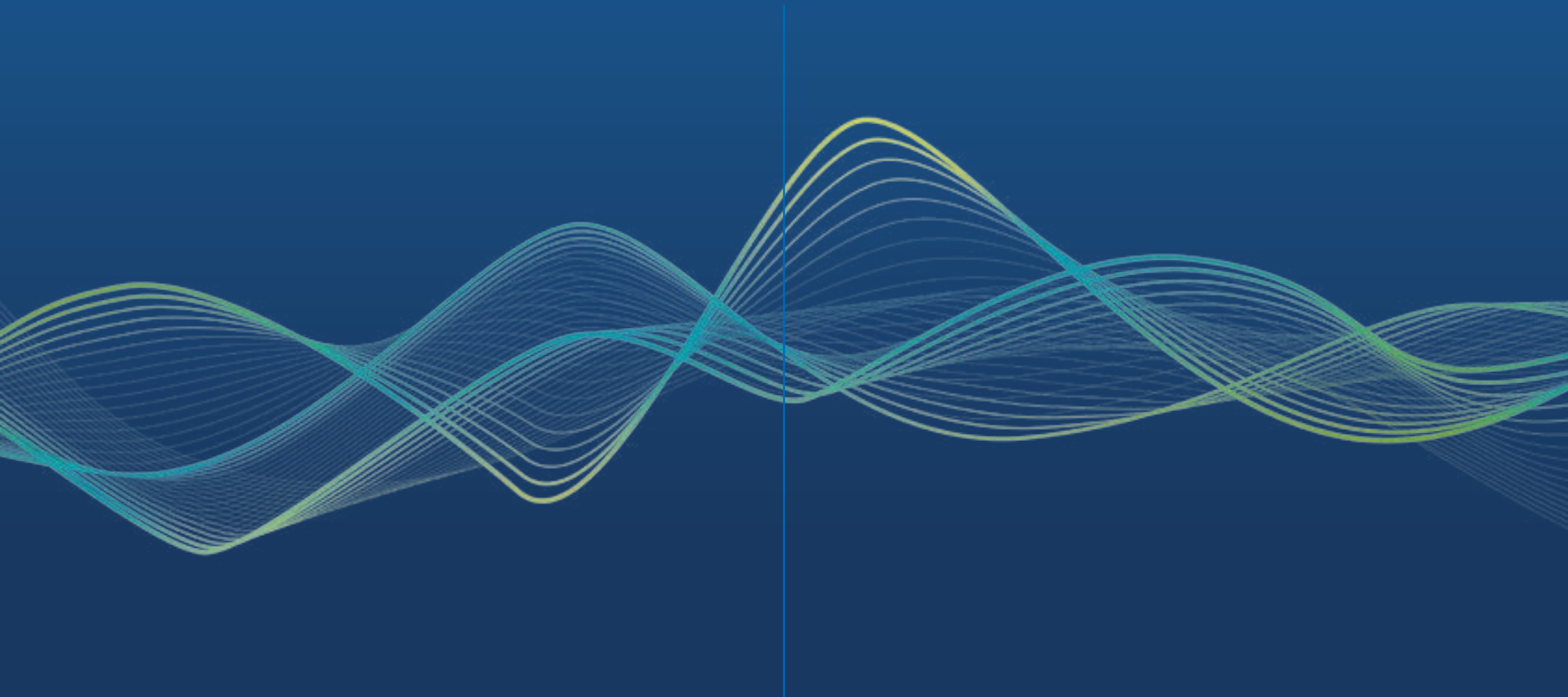
CREO MEDICAL

ANYTHING IS POSSIBLE WITH THE RIGHT APPROACH

Annual Report and Accounts 2017

Creo Medical is a medical device company focused on the emerging field of surgical endoscopy, a recent development in minimally invasive surgery



Overview

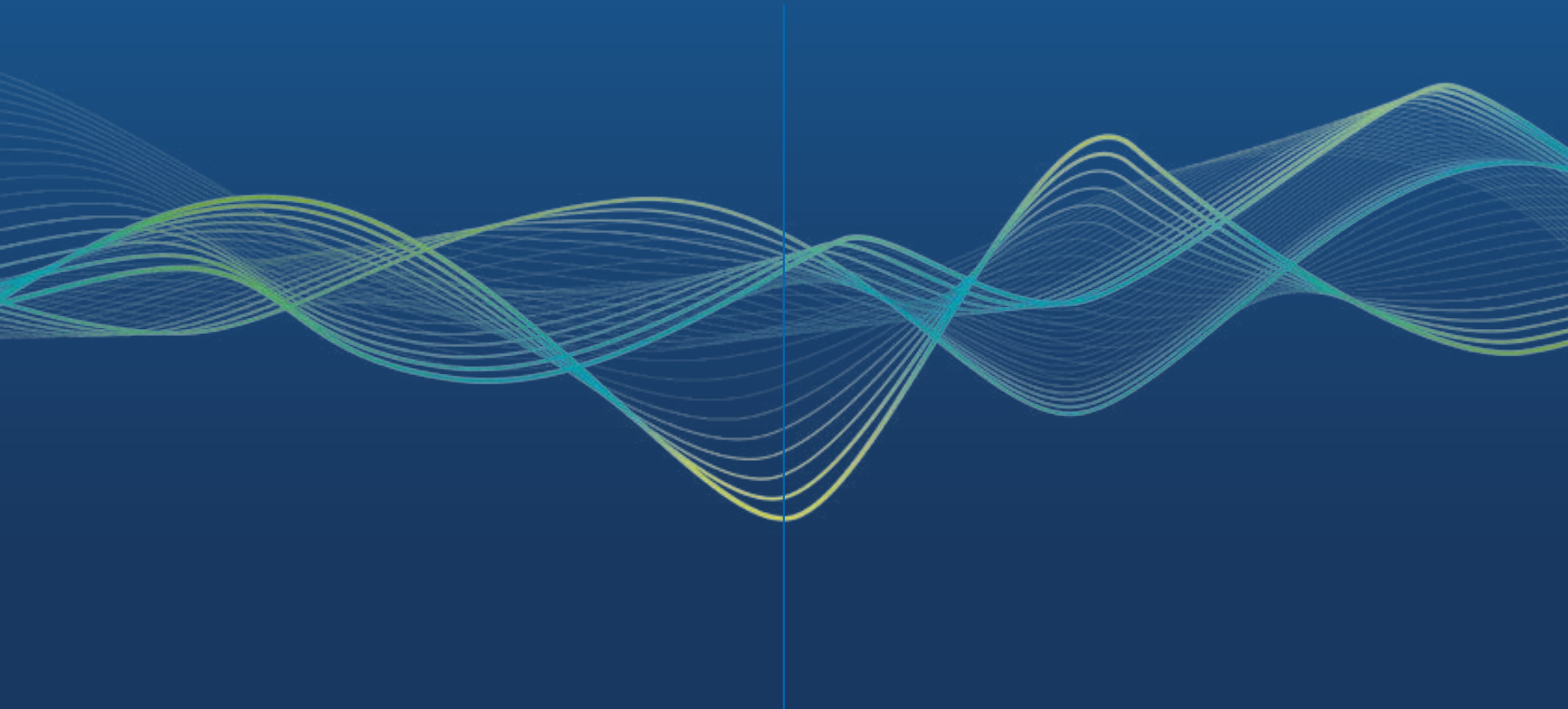
Strategic Report

Governance

Financial Statements

OUR VISION

Our goal is to develop and commercialise a suite of medical devices based on our groundbreaking CROMA electrosurgery platform



HIGHLIGHTS

Successful admission to AIM, raising £20m

—

Completion of Multi-Centre Clinical Study

—

CROMA platform and Speedboat device received CE mark

—

FDA clearance for Creo's CROMA platform and Speedboat device ahead of schedule

—

First patient treated with Speedboat

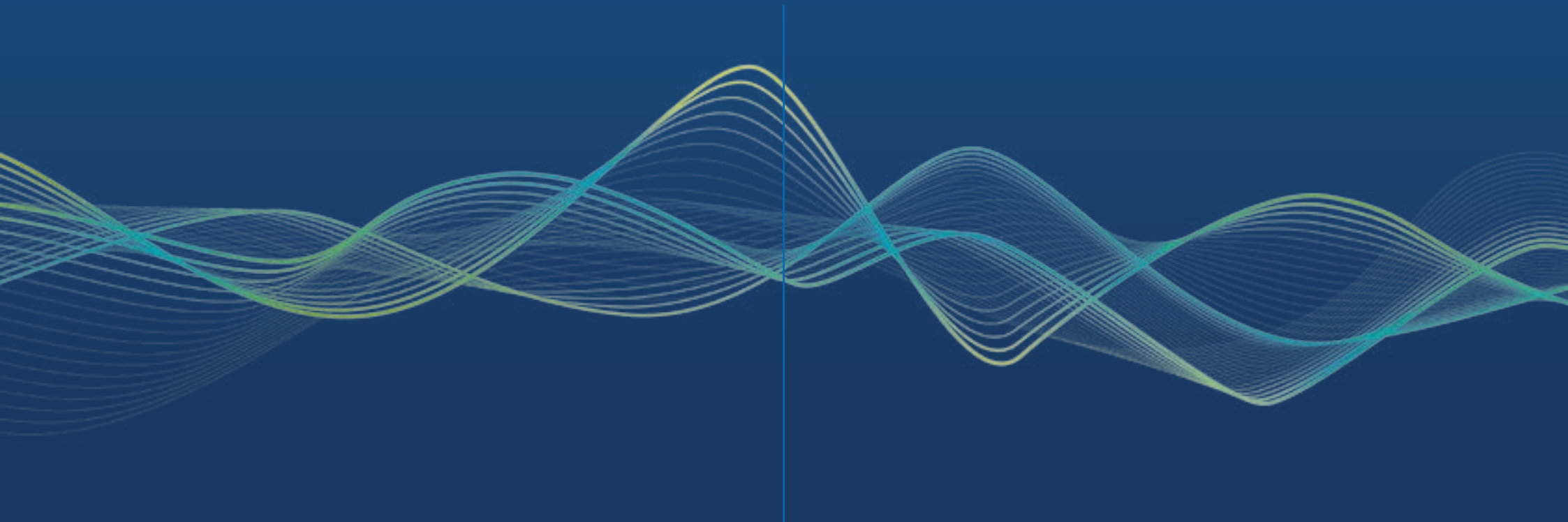
—

Significant grant funding awarded for research into brain tumour treatment

TRANSFORMING SURGERY

Creo Medical is at the forefront of a paradigm shift in endoscopic surgery or surgical endoscopy – whatever the terminology, this is the new frontier of minimally invasive surgery.

In the same way that laparoscopic techniques revolutionised procedures that previously were only feasible with open surgery (with large incisions and the associated risks and recovery time), surgical endoscopy has the potential to transform surgery.



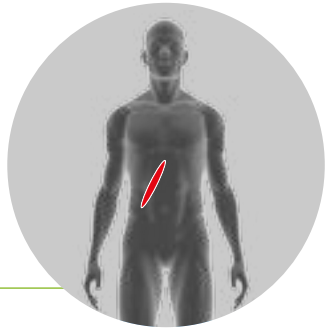
THE RAPID RISE OF ENDOSCOPY

OPEN SURGERY
1800-1970

GOLDEN ERA

Open surgery remains as standard of care but availability of fibreoptic and CCD endoscopes leads to development of early endoscopic devices.

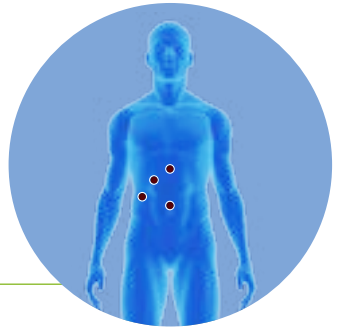
1970-1990



SURGICAL MILESTONE

Keyhole/laparoscopic surgery overtakes open surgery, accounting for 75% of all procedures.

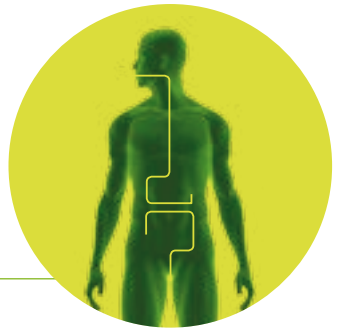
1990-2010



PARADIGM SHIFT

Advances in single-port laparoscopy, robotic surgery, natural orifice translumenal endoscopic surgery & flexible endoluminal endoscopy herald a new era of healthcare.

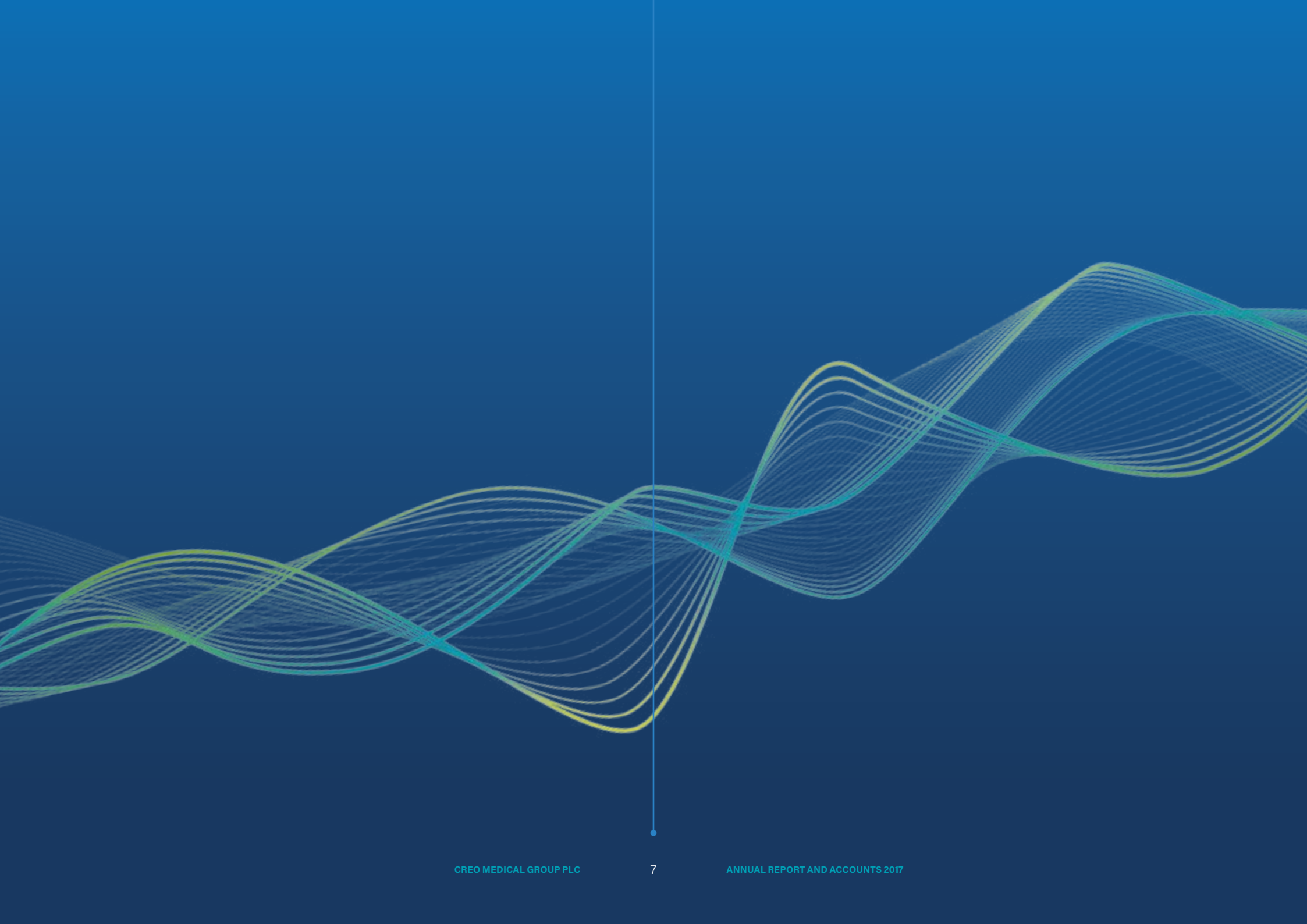
2010-2025



TRANSFORMING OUTCOMES

Fold in shorter procedures, hospital stays and recovery times, correspondingly lower costs and significantly improved outcomes, and it's a compelling story with material benefits for patients, physicians and healthcare providers.

By moving treatment away from the operating theatre into the endoscopy suite, patients can avoid the need for a general anaesthetic and mitigate the risks inherent with surgical procedures.



CROMA PLATFORM

GAME CHANGING TECHNOLOGY

Our strategy is to bring the CROMA platform to market through a suite of instruments we have designed, initially into the field of GI Therapeutic Endoscopy and Bronchoscopy

CROMA PLATFORM

Our game changing technology

Dissection & Resection

—

Hemostasis

—

Ablation

KEY BENEFITS

Advantages

- Bipolar radiofrequency for precise localised cutting
- Microwave coagulation provides control
- Single interface port, no need to swap instruments
- Small integrated unit

Physician Benefits

- Safe, peace of mind, fast set-up
- Predictable tissue effect
- Saves considerable time during procedures
- Can be used in surgery and endoscopy

Patient Benefits

- Lower risk of remote burns
- Lower risk of thermaldamage to adjacent tissues
- Less time in hospital

Core Features

- RF bipolar energy has a 10 fold reduction in voltage levels over traditional monopolar systems
- Microwave energy has up to a 100 fold reduction in voltage levels over monopolar RF energy based coagulation/ablation systems
- Closed loop monitoring of current and voltage at the tip of the device to ensure optimal dosage of energy into tissue
- Precise and optimised cutting with lower thermal margins due to intelligent energy delivery algorithms and device geometry
- Greater control over coagulation due to the controlled depth of penetration of the microwave energy

CROMA PLATFORM

GI ENDOSCOPY

Colorectal cancer worldwide:

- **16m** screening colonoscopies are performed per annum in the US[1]
- **1.1m** will find a lesion which should be treated[2]
- Approximately **50%** of those lesions are surgically removed[1]
- But traditional colorectal surgery is associated with a 6% mortality rate at 30 days[3]

Growth of GI indications

- Poor diet, obesity, sedentary lifestyles and an aging population is driving growth in the Endoscopy device market.
- Western governments and healthcare organisations continue to expand endoscopic screening programs which, in turn, is driving an increase in the detection rates for a range of conditions requiring the resection/biopsy of tissue and the control of bleeding.
- Western practice continues to refer lesions > 2.5cm for surgical resection on a significant scale. Surgical removal, whilst delivering excellent curative results, is also a major operation requiring long hospital stay (4-5 days) with a significant mortality rate.
- This is driving significant demand for novel and superior technology. Our CROMA platform has been designed to transform the resection of large and pre-cancerous into routine endoscopy, either displacing a surgical procedure or procedures undertaken endoscopically with primitive snares (which historically could result in high recurrence rates and even reported to be a factor in colorectal interval cancer).

1 US surgical procedures volumes 2010, Millennium Research, RPUS435SV10, Feb 2010
2 Gastrointest Endosc 2014; 80-133-43
3 Ann R Coll Surg Engi 2011; 96: 445-450

CROMA PLATFORM

Our game changing technology

Dissection & Resection

—

Hemostasis

—

Ablation

ADVOCATES

"Your device is like a harmonic scalpel at the end of a scope, this is the holy grail of therapeutic endoscopy!"

Rob Hawes M.D.
Florida Hospital, Orlando, US

"Speedboat RS2 could make ESD safer, quicker and accelerate the learning curve"

Prof Brian Saunders
St Mark's, UK

"Speedboat RS2 would transform my repertoire"

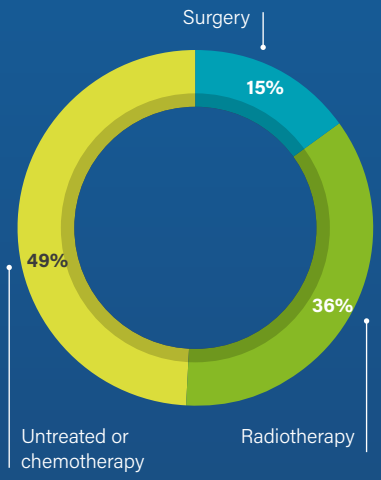
Mr Mike Williamson.
Endoscopist, RUH, Bath

CROMA PLATFORM

ABLATION

Lung cancer worldwide:

- **Screening** not performed
- **1.8m** Global cases of lung cancer each year
- **17%** Five-year survival rate
- **85%** Nodules are considered to be inoperable



CROMA PLATFORM

Our game changing technology

Dissection & Resection

—

Hemostasis

—

Ablation

ABLATION

The proposed device is intended to be able to navigate to, see & treat lesions deep in the lung:

- **Access** Creo Medical's lung probe is intended to be compatible with existing access instruments - meaning that currently inaccessible areas of the lung may be treated with no additional equipment required
- **Safety** Creo's lung probe is intended to ablate lung lesions safely without the complications associated with percutaneous ablation

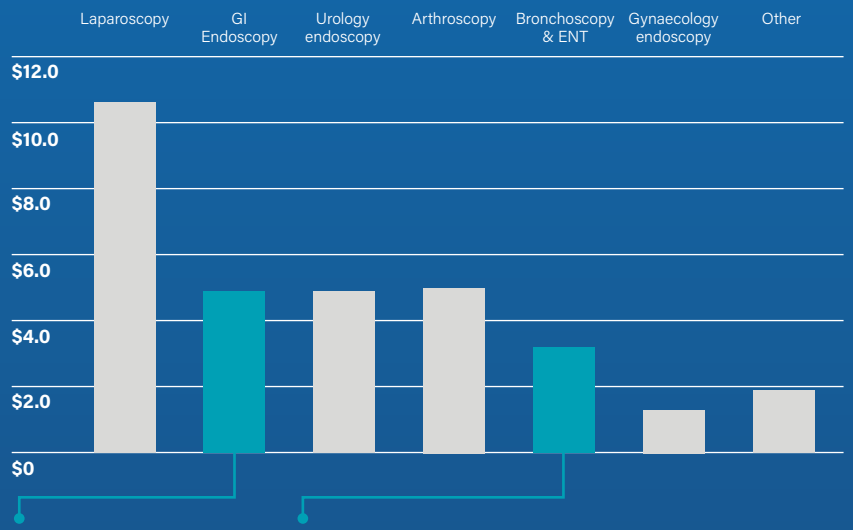
"Can you imagine the utility of this? If we can navigate to lesions, sample them, but also ablate them all in one go? I think that will be completely revolutionary for lung cancer management"

Dr Pallav Shah
Consultant Pulmonologist
Royal Brompton Hospital, UK

CROMA PLATFORM

GLOBAL MARKET POTENTIAL

Global endoscopic market by segment ($bn)[1]



1 GI Endoscopy

- Limited innovation in recent years
- Growing volume of interventional techniques
- $3-4bn addressable instrument market [2,3]
- 4-6% annual growth[2]

2 Bronchoscopy

- Growth driven by screening
- No interventional options available
- Demand for new therapies

Long-term opportunities

- Laparoscopy $8bn addressable instrument market [4]
- Other markets

1 Data presented is total segment value - including imaging & devices; "Endoscopy Devices: Applications And Global Markets" (HLC093A), BCC Research, 2011
2 Boston Scientific investor presentation, 2015
3 Conmed investor presentation, August 2016
4 Medtronic investor presentation, June 2016

CROMA PLATFORM

Our game changing technology

Dissection & Resection

—

Hemostasis

—

Ablation

Competitive differentiation

Therapy	Current options	Our options
Treatment for GI	Open or laparoscopic surgery: ▪ Higher risk of complications ▪ Risk of mortality ▪ Long hospital stay	Advanced therapeutic endoscopy: ▪ Lower risk of complications ▪ Risk of mortality is negligible ▪ Performed in out-patient clinic
Potential treatment for Bronchoscopy	Most patients are untreated: ▪ 85% patients are inoperable[1] ▪ Fall-back to surgery = radiotherapy & chemotherapy ▪ 17% five-year survival rate[2]	Therapeutic bronchoscopy: ▪ Treatment of precancerous nodules as first-line option ▪ Treatment of patients not eligible for surgery
Vessel sealing	No flexible endoscopic vessel sealer available: ▪ Harmonics cannot work in flexible applications ▪ No microwave options available	Flexible endoscopic vessel sealing: ▪ Combination of RF & microwave ▪ Potential to outperform rigid instruments

1 Data for England & Wales – National Lung Cancer Audit annual report 2015 (for the audit period 2014), Royal College of Physicians, 2015

2 American Cancer Society. Cancer Facts & Figures 2016. Atlanta: American Cancer Society; 2016.

INVESTMENT PROPOSITION

Our advanced energy platform, healthy pipeline of new devices, strong IP and management team give us a stable foundation for growth.

CROMA platform with compelling benefits

Our patented energy system combines microwave and bipolar radiofrequency energy capable of delivering precise cut, coagulation and ablation in a range of miniature endoscopic devices for electrosurgery applications, bringing advantages in time, cost and outcomes.

See page 8 for CROMA platform

Rich product pipeline and strong IP

We have a broad pipeline of products – staging from early concept development to post market human use – supported by an IP portfolio comprising over 97 patents granted and 245 pending.

See page 22 for Our products and pipeline

Sound pedigree

Our management team is drawn from the surgical instrumentation market and has experience spanning R&D, quality, regulatory approval and commercialisation, and our distribution agreement entered into on 1 August 2016 with HOYA Group, PENTAX Medical gives us a route to market in multiple countries.

See page 32 for Our people

We have set ourselves up to capitalise on the opportunity, advancing our pipeline systematically to target high value segments.

Sizeable opportunity

Our devices are designed to enhance existing techniques and provide effective new curative therapies in high value segments of large and growing global markets – heralding a new era. The $3.4bn addressable instrument market[1, 2] continues to expand through increased screening, poor diet, obesity and an aging population. Western healthcare organisations continue to expand screening programs driving increasing early stage detection rates for a range of conditions requiring tissue management and the control of bleeding.

See page 20 for Our market opportunity

Scalable business model

Our pioneering CROMA platform is designed around the razorblade principle, with a single accessory port compatible with a suite of single-use devices that deliver superior outcomes for physicians and patients. Our model – from R&D, through manufacture and sales & distribution – is designed to be resilient and scalable.

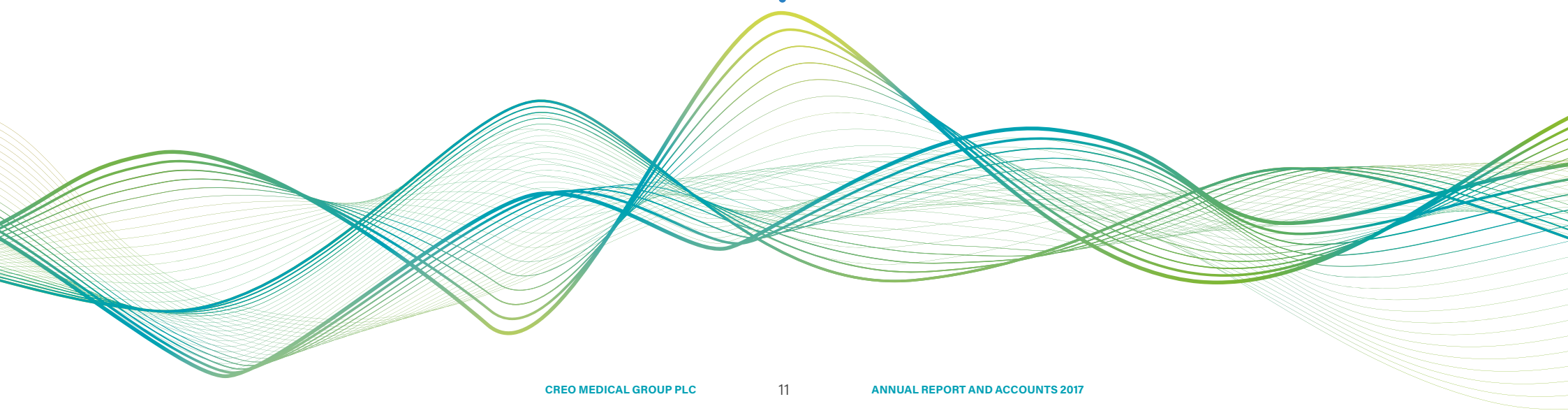
See page 26 for Our business model

Clear commercialisation strategy

We are pursuing a defined roadmap towards the launch of a GI suite of devices. This starts through building advocacy through key opinion leaders, driving penetration through innovative training and the subsequent breadth of usage through stimulating increased generator utilisation and expanding into adjacent markets.

See page 28 for Our strategy

1 Boston Scientific investor presentation, 2015
2 Conmed investor presentation, August 2016



Chairman's and CEO's Q&A

Charles and Craig reflect on a year of significant milestones, and look forward to building on the sound business and regulatory foundations enabled by the IPO.

Charles Spicer
Chairman

Craig Gulliford
Chief Executive Officer

What were the significant achievements of the year?

CG: The last year has seen several terrific achievements but I would begin with the successful completion of our multi-centre clinical study into the safety and efficacy of microwave energy. This was the first such study in the surgical endoscopy field so ground-breaking. This served as the bedrock for our CE mark later in the year clearing the product for clinical use in Europe – another significant achievement which came in as per expectations in Q3 of this FY.

Following the CE mark the first patients were treated with the product. So, following a long development phase, we are now improving lives with our technology for the first time. As we have now also initiated the clinical training programme, we are poised to enable more cases to be carried out allowing us to impact the lives of a wider group of our customers' patients over the course of the next year.

In March, we were awarded a research grant for early stage research focused on Glioblastoma to treat childhood brain tumours. Creo is one of six European partners in a multidisciplinary consortium developing a truly innovative micro-optofluidic lab-on-chip platform that deploys semi-conductor technology to neutralise cancer stem cells with electromagnetic waves. This fits in our longer term technical roadmap, but it is a special privilege to be working with this consortium to help change young people's lives for the better in the future.

After the end of the financial year we were delighted to receive 510(k) regulatory clearance from the FDA for our Speedboat device in the US, several months earlier than anticipated. This major landmark demonstrates our sound quality assurance and regulatory approach. We are now able to commit to and plan the roll-out of initial clinical cases and to establish our training regime in the US.

With a growing head count over the year, I have been proud to support the team through investment in leadership and personal development.

CS: The IPO was a major achievement in its own right and a transformative event for the business, given the challenging backdrop in the equity markets especially with Brexit and the US election results.

Using RF and microwave in combination, we are bringing together proven technologies into a single device that is more controllable than alternative tools. This is significant; it offers the potential to translate treatment from the operating room to the endoscopy suite with a range of advanced, minimally-invasive products for use with flexible endoscopes. We believe Creo will be at the vanguard of the transformation of diagnostic flexible endoscopy into wider therapeutic practice, thereby saving patients from surgery.

What was the rationale for the IPO?

CG: The decision to take public a pre-revenue business was not taken lightly, but we wanted the ability to raise funds for investment in both organic growth and potential future strategic acquisitions, supported by our long-term investors. There proved to be clear support for the proposition, demonstrated by our raising more capital than we could have reasonably expected had we gone down the venture capital route. We see this as a positive endorsement of our business, long-term plan and the breadth of the opportunity. Aside from the strengthened balance sheet, being a public company has brought us added advantages in terms of international profile, credibility and the ability to attract and retain talented staff.

The placing proceeds are allowing us to invest across the business, including R&D to advance our pipeline of devices, clinical and regulatory activities, business development and manufacturing. All of which enables us to pursue our vision of becoming a leading advanced energy, minimally-invasive medical devices company.

CS: The listing process pulled together the whole business and has given the company an enhanced identity and greater self-confidence. Admission to AIM gave us the opportunity to put in place those board structures, governance and management systems that are rightly required for a public company. The disciplines required of a public company lend themselves to the mindset of an effective medical technology business and so have helped us to 'grow up' as a company.

Completing an IPO takes a great deal of hard work from all involved. I wish to thank, in particular, all our advisers who did an exemplary job and continue to support us.

What are the principal market drivers in your target applications?

CG: We estimate the emerging market of surgical endoscopy in the indication areas targeted by Creo to be worth more than $1.4 billion globally. Demand for such procedures is fundamentally driven by poor diet and sedentary lifestyles effecting disease incidence rates worldwide, especially as western diet and lifestyle becomes more prevalent in the developing world.

In contrast to the laparoscopic markets, clinicians have benefited from limited innovation in the GI endoscopy sector, particularly in terms of advanced, custom-designed solutions using controllable advanced energy to improve procedures. We continue to see strong demand from the clinical community for such tools.

How has the business performed against strategy?

CG: We have a clear strategy and our plans are well on track. Our customers have treated a small number of carefully selected patients, and have had positive feedback from the first participants in our developing clinical training programme. We will select the trainees and supervise them carefully for the next eighteen months, increasing from a small number of cases in Europe to a carefully-selected wider group delivering good quality clinical outcomes in Europe and the US over the next eighteen to twenty-four months. The goal is a repeatable, predictable training programme that delivers clinical results in the wider endoscopy community.

We have performed well against our Intellectual Property strategy and goals. The CTO's Q&A sets out more details of our Intellectual Property and Knowledge development.

We have recently moved into our new facility in Chepstow. Four times larger than our previous facility, but at a comparable underlying rent, this gives us the space to expand and build the business appropriately including expanding our histopathology and tissue capability.

CS: The IPO has given us the ability to put in place what we need ahead of schedule. We have an excellent team, having invested significantly in leadership and personal development to empower our people and integrate new joiners into the organisation. Now settled in our excellent new facility, our team is well placed to execute the next phase of Creo's growth.

What have been the key areas of focus for the Board?

CS: We have a focused board that brings together broad and deep experience of medical technology in different global regions. In addition to me, there are two non-executive directors, John Bradshaw and David Woods. Dave is a med-tech veteran from our key partner and shareholder HOYA Group, PENTAX Medical, a global leader in flexible endoscopes. John chairs our audit committee and has huge experience in our sector, having been CFO of Gyrus Group plc, the laparoscopic surgery pioneer, where our founder and CTO, Chris Hancock, also worked. All three of us are passionate about med-tech and have complementary skills and experience in the sector.

As well as putting in place the governance infrastructure and procedures required for a quoted business, our focus is to support the executive team and staff in implementing Creo's business plan and to oversee the allocation of resources to ensure we maximise shareholder value.

How would you describe Creo's culture?

CS: Craig and his management team have worked hard to build the team ethos and company values. Creo's culture is collegiate and our people share a vision of what the product can achieve. Key to our success is the close working relationship between Craig as CEO and Chris, our founder and CTO, who invented the technology. Friends since university, and with complementary skills, they set the tone for respect, teamwork and mutual support around the business.

How do you see the outlook for the business?

CG: The strategy is clear; to establish CROMA through a comprehensive training and education program which will provide data points for the learning curve ahead of adoption as well as demonstrating the capabilities of the CROMA platform.

Since the IPO we have hired significant experienced commercial talent with experience in delivering training and education programs during the rise in laparoscopic surgery. This expertise is already being applied to build the CREO surgical training program as well as identifying a range of distribution partners in Europe, EMEA and the US.

Our strategy, in simple terms, is during the first year after IPO to focus on regulatory issues. Year 2 will be predominantly early clinical end points while we start to build the longer term commercial platform with clinical end points and the right mix of direct and distribution resources. We hope that this will then allow us to formally launch a suite of products in year 3.

Our highest priority is the clinical training programme especially as we reach into the US. Over the next 18 months, we will iterate new devices from our pipeline, with an eye on 2019 when we plan commercial launch of a suite of GI products.

We are in a good place, and getting done the things we said we would get done. The achievement of FDA clearance ahead of schedule gives us the time to do things even more carefully and to more diligently build the platform in terms of clinical use, so that when we launch with additional devices, we will have a strong product foundation.

CS: There is still a lot to do, and the business is focused on getting our first product to launch in a really professional way with a forensic focus on quality. Thanks to the excellent Creo family we are in a good position, and that includes our fellow shareholders, advisers and partners as well as the staff and management team.

CTO's Q&A Meet the inventor

Professor Christopher Hancock describes Creo Medical's journey and its approach to innovation and IP

Professor Christopher Hancock
Chief Technology Officer

The beginning

Winding right back, I did an apprenticeship in microwave radar engineering before going to Bangor University in 1987. When I joined Gyrus Medical in 1997 I saw the application of energy to a new design of medical instruments – I'd never come across keyhole surgery or the use of energy in surgery. I found it fascinating to be able to combine the techniques I'd learned in my apprenticeship and university and apply them in clinical applications.

In 2002 I left Gyrus Medical to take some time out to travel around the world to develop my own thoughts and ideas around new high frequency microwave devices developed for the communications industry and novel microwave techniques – travelling provided the ideal environment for me to free think and to be creative; anything is possible with a head full of ideas and a notebook!

During my 9 months of travel, I wrote and filed 4 patent applications on the ideas I had for using high frequency microwave energy and novel energy delivery techniques. During this time I became extremely passionate about using the new devices and the ideas I had come up with to provide a better, less invasive alternative for the treatment of cancer. To be able to treat the tumour from the inside in a controlled manner without causing unnecessary damage to healthy tissue is an interesting alternative to chemotherapy or radiotherapy, where you're basically poisoning the body and damaging other healthy organs. It was these original ideas that formed the basis of MicroOncology Ltd, a company set up to develop the new cancer treatment system.

Our model was to develop and build the prototype cancer treatment system, register as much new IP as possible and then license or sell the IP rights to a third party who would take on the product development and commercialise the system. This model worked for the cancer treatment system, but the market was changing and in 2007 it dawned on me that to create a successful medical device company you really need to have the infrastructure that owns its IP and is able to exploit it for the benefit of patient outcomes. When Craig joined the business he suggested we change the model to develop the resources and infrastructure to be able to take a device to the point where it can be used to treat patients. That's when we became Creo Medical.

From this point, our focus became broader. We looked at a number of ideas before concentrating on the platform generator. In the same way that there was a transition from open surgery to laparoscopic surgery, our platform facilitates the move to the next era in treatment, non-invasive surgery through natural orifices, which minimises risk and trauma to the patient. From a technical standpoint, what we're doing now at Creo Medical is enabled by new microwave power devices whose cost reduction is driven by demand in the communications industry. These sorts of devices and technologies usually start in military applications which are eventually adopted by the communications industry. This enabled the use of higher frequency, more controllable energy delivery to treat fine tissue structures as well as larger volume tumour ablation. Our breakthrough is the combined use of high frequency microwave energy to coagulate blood vessels to stop bleeding and RF energy to produce scalpel blade like cuts with a small blunt energy delivery structure. The combined high frequency microwave and low frequency RF energy can be used to treat a range of clinical conditions, many of which are unmet clinical needs. The ability to combine RF and microwave energy delivery, along with other novel ideas, is also providing very interesting results for non-invasive tumour ablation.

A portfolio of IP

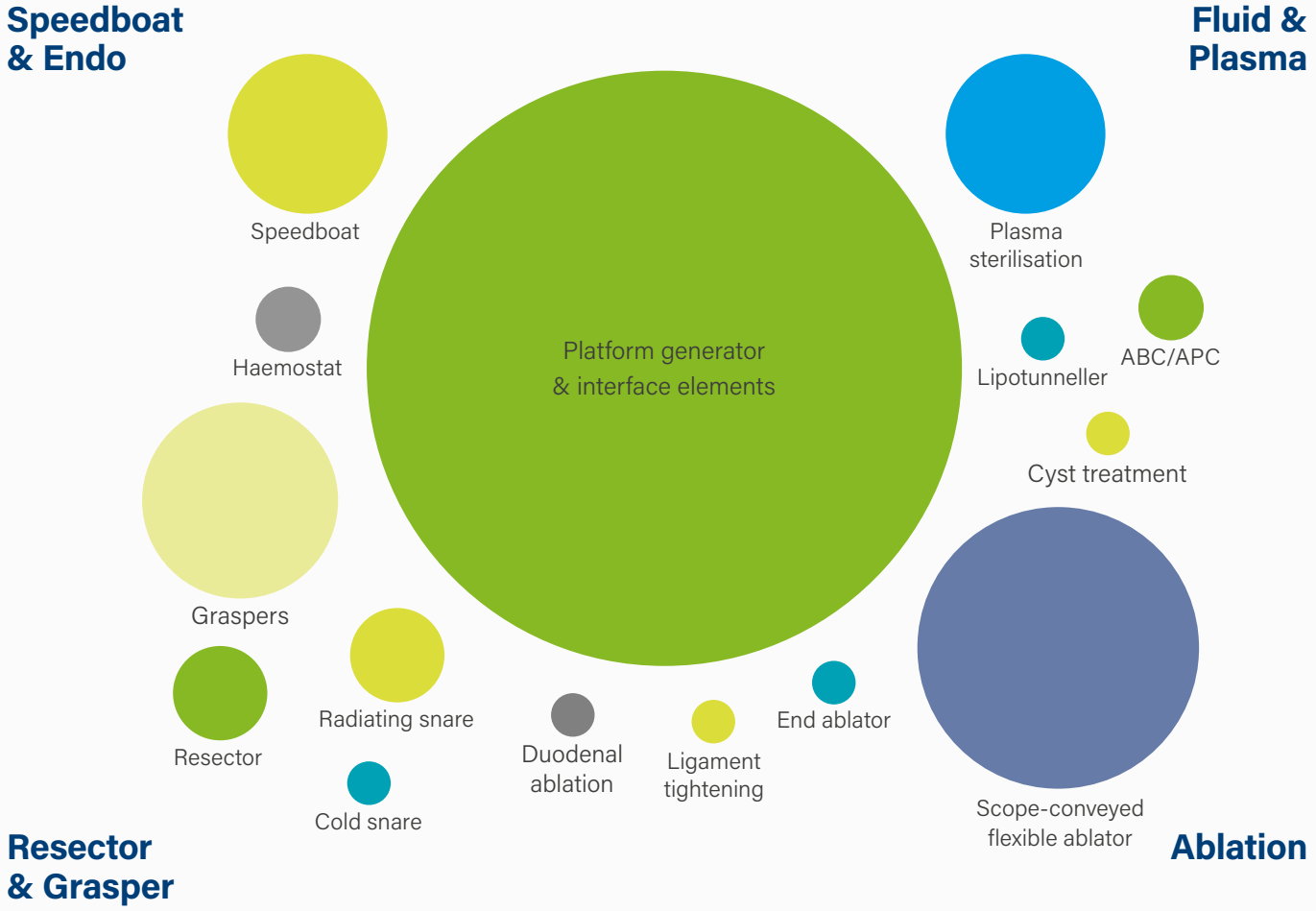
IP management is vital in medical devices, and is something we take very seriously. We've built an estate of IP families, with our CROMA platform at the heart (see Chart 1). For a company of our size we have a huge suite of patents. We have an array of foreground and background patents to protect our CROMA platform and the range of devices it services.

2017 has been a record year for Creo Medical in terms of generating of new intellectual property and the grant of key patent applications that protect our CROMA platform and core pipeline devices. Since 1 January 2017, 15 new patents have been granted or allowed (63 if the independently enforceable national patents derived from European patent applications are counted separately). We have also filed 17 new inventions since 1 January 2017.

97 granted patents
245 patents pending†

† Correct as at 10 November 2017
* Size of circle represents number of patents

Chart 1: Graphical representation of Creo Medical's patent families*



Geographic protection

This takes the Creo Medical patent portfolio to 97 granted patents (295 if national patents derived from European applications are counted separately) and 245 pending applications in 12 jurisdictions across the globe. We chose our jurisdictional coverage carefully to give us the best patents protection in various key markets around the world (see Chart 2).

Chart 2: IP map

Future applications

We are currently focused on GI applications, and have an IP suite that is comparable to that of a large corporate; we could license access to the CROMA platform and the group of instruments designed for use in the GI tract. We can then focus our resources on instruments for ablation, pulmonary, and a range of other tumours throughout the body.
For example, we are working on some exciting ideas with members of my Microwave Medical Research Group at Bangor University to navigate inside the bronchial tree, to be able to see and to treat the patient through the delivery of microwave energy. A lot of the uptake of the colon cancer treatment device can be attributed to increased screening, and there is a big drive towards pulmonary screening too.

The close interaction with Bangor University has worked extremely well for Creo Medical in that we have taken on first class microwave and RF engineers who became interested in medical applications of microwave energy through the microwave engineering techniques module I teach at Bangor University. As a part of our engineering training programme at Creo Medical, we also encourage engineers to register as external students on MSc and PhD programmes, where the work at Creo Medical constitutes the research element of the programme – this new approach was set up three years ago and has worked very well both for Creo Medical and Bangor University.

Innovation culture

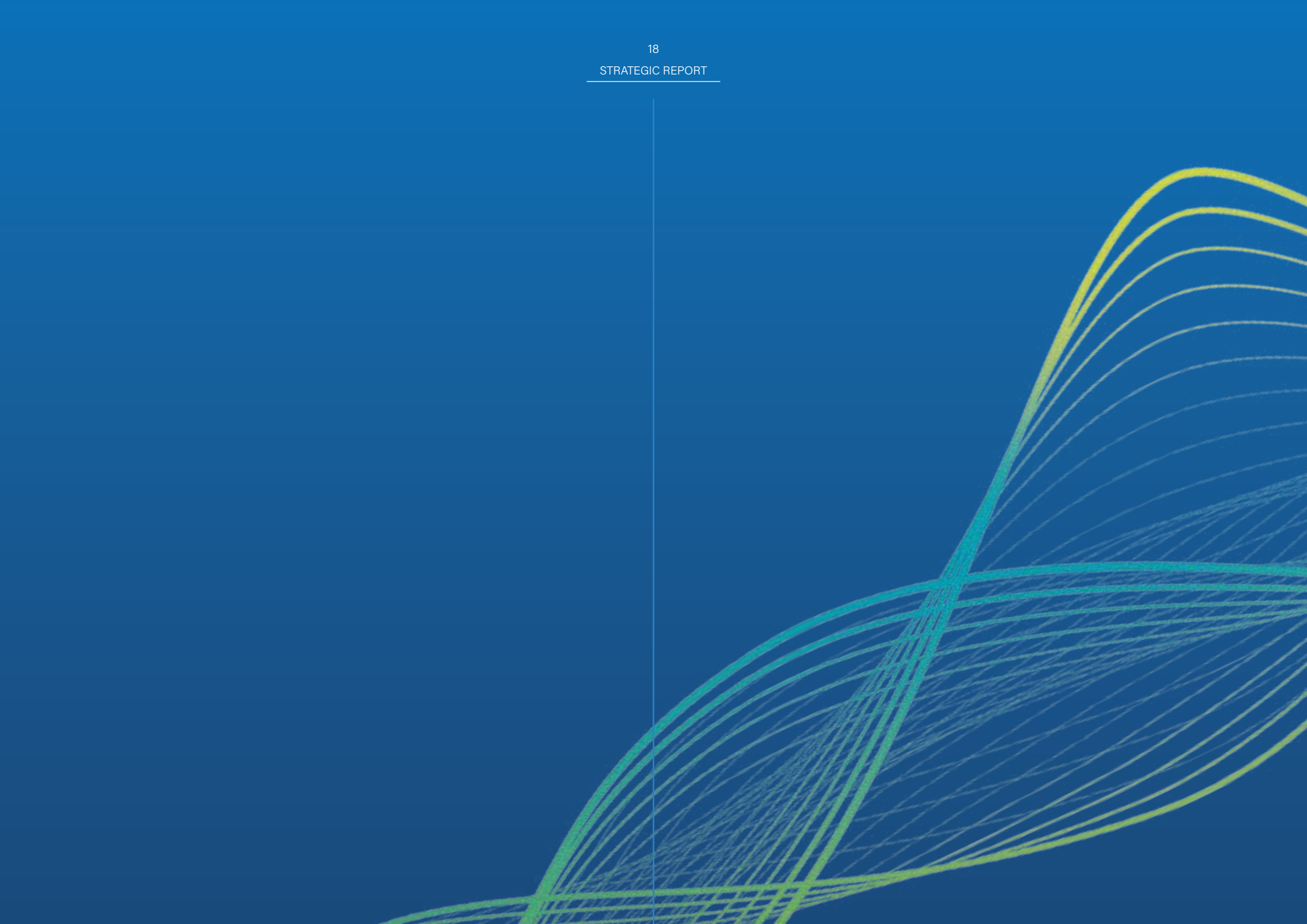
At Creo Medical we have a very inclusive approach to innovation. Our view is that if you treat people well and respect them you'll get the best out of them. We run an innovation workshop every month and invite as many people from the company as possible to attend. Not just the engineers and the commercial team, but HR, finance, even the company lawyer! It is important to get input from everyone, and to genuinely listen to this input – 'there is no such thing as a bad idea'. Being open minded and able to adapt is important. Listening to the users is key, to the clinicians and patients.

Innovation networks

An example of how we work is the Semiconductor-based Ultrawideband Micromanipulation of Cancer Stem Cells (SUMCASTEC) project we started working on this year. This is an Horizon 2020 project involving a European consortium of neuroscientists, clinicians, microbiologists, and engineers with various areas of expertise, whose aim is to work on treatment for extremely aggressive brain tumours, in particular Glioblastoma, which represents around 15% of brain tumours and Medulloblastoma, which is the most common type of pediatric malignant primary brain tumour.

Creo Medical heads up two key parts of this project.
The first is to provide the product development and commercialisation arm that will enable the outcome of this research to be transferred to a device that can be used to treat these (and other) brain tumours in-situ using a minimally invasive approach that preserves as much brain function as possible. The second is to develop the cell neutralisation aspect of the project, where focussed thermal and non-thermal energy delivery techniques are being considered to selectively destroy the cancerous cells, without causing damage to surrounding tissue (this is particularly important when considering structures within the brain). This aspect of the work is being carried out in close collaboration with Bangor University.

Finally, we continue to actively work with other academic and clinical institutions both in the UK and around the world to promote the collaborative way of working and to enable the Creo Medical products to receive the best possible clinical and scientific input. In 2017, we have been actively working with the University of West of England, University College London, St. Mark's Hospital, Florida Hospital (Orlando, USA), East Kent Hospitals University NHS Foundation Trust, Royal United Hospital Bath, University of Manchester, Northwick Park Institute of Medical Research and medical training labs in Berlin, Germany and Boston, USA.



STRATEGIC REPORT

Strategic Report

Our market opportunity

Our solutions will enable transformational procedures that blur the lines between surgery and endoscopy, addressing unmet needs in large and growing applications.

What is electroscopic surgery?

Electrosurgery is the application of electrical current to biological tissue as a means to cut, coagulate and ablate. Electrosurgical devices were first commercialised in the 1920s for use in open surgical applications. Over time, advancing technology drove innovation into laparoscopy (i.e. keyhole surgery), a field in which there are now a considerable number of devices. In contrast, therapeutic endoscopy or endoscopic surgery has comparably few surgical tools available.

Endoscopes are effective screening and diagnostic instruments that allow physicians to visualise the internal structures of organs such as the gastrointestinal tract, lungs and bladder via naturally occurring orifices. Endoscopes are not equipped to perform a surgical intervention in most situations. Insertion of the endoscope is surgically non-invasive, avoiding the need for surgical incisions, which, however small, increase the risk to the patient and increase the cost of the procedure.

Endoscope diameter is limited by the size of the entry orifice. For example, a colonoscope will typically be 12mm in diameter, while an orally inserted gastroscope will typically have a diameter of 10mm. Within these confines the endoscope must carry a video camera lens, light source, air/water/suction channel and guide wires to control the insertion. There is very limited space left in an endoscope for instruments, although all endoscopes have a working instrument channel offering approximately 3mm of space through which devices can be introduced. As such, and with the limited device options currently available, while a patient can be diagnosed endoscopically, the majority of interventions still require a minimally invasive surgical procedure at best, or open surgery at worse.

A minimally invasive procedure, such as laparoscopy, improves on open surgery as it can be performed through a few small incisions rather than a single large one. Laparoscopic surgical procedures are versatile as multiple instruments can be placed at the surgical site through multiple bore insertion tubes with short lengths, allowing fast insertion and removal of instruments. Creo Medical's technologies are designed to enable certain surgical procedures to be effected through the insertion of devices through the working channel of an endoscope, circumventing the need to make abdominal incisions with the associated general anaesthetic.

Endoscopy has been a rapidly expanding practice due to the advent of colorectal cancer screening in most healthcare systems. This has driven growth in equipment and devices to enhance the ability to screen and detect early stage and pre-cancerous lesions in the GI tract.

Why we are targeting particular segments?

There are unmet needs

Advanced therapeutic endoscopy has the potential to reduce the risk of complications, with mortality rates improved to negligible levels – current mortality rates from upper GI bleeding are up to 15%[1], and traditional colorectal surgery is associated with a 6% mortality rate at 30 days[2] because of the risks of puncturing the colonic wall when using traditional surgical blades. In contrast to the need for a long hospital stay, endoscopy procedures can be performed in an out-patient clinic.

Despite the rise in incidence rates through increased screening and associated increases in incidence of various indications, in comparison to laparoscopy where there is a variety of advanced energy devices for a wide range of procedures, the endoscopist has very few "tools" to work with. Our clinical advisory group "Horizon", comprising some of the world's pre-eminent endoscopists, have quantified 76 specific unmet or underserved clinical needs in the GI where advanced energy could be applied.

$30bn

The global market for endoscopic devices

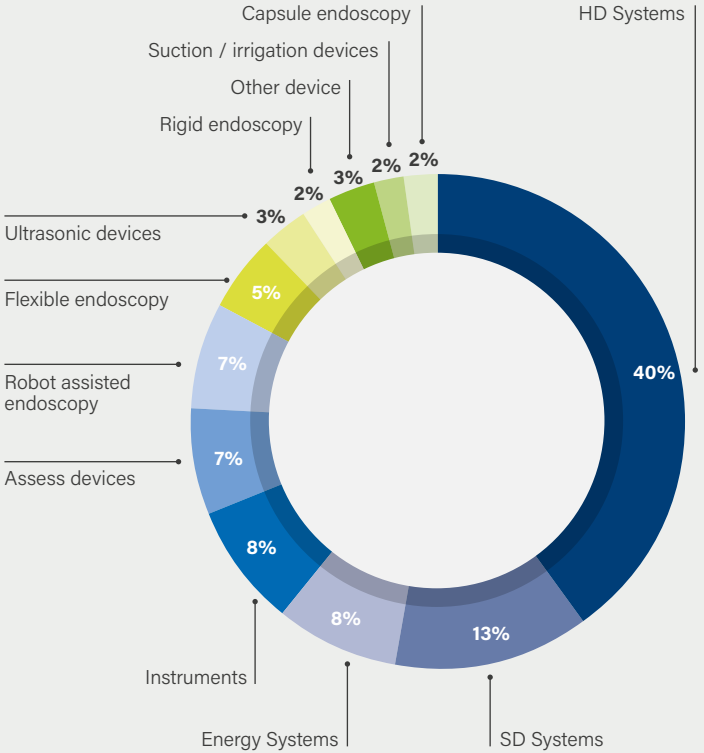


Figure 1: Global Market for Endoscopic Devices

In cases of lung cancer, 85% of patients are currently inoperable[3] and have to rely on radiotherapy and chemotherapy, with the five-year survival rate only 17%[4]. Surgery involves removal of large sections of the lung and even the entire lung. Challenges with existing treatment include difficulties with access for interventional treatment via bronchoscope, since this is limited by the size of the airway (<2mm in the periphery of the lung), poor navigation, and safety considerations, as percutaneous ablation is associated with skin burns, pain, infection and pneumothorax. Technology is developing fast to improve early diagnosis, with an end goal of screening for lung cancer.

When it comes to vessel sealing, no flexible endoscopic vessel sealer is currently available, as harmonics cannot work in flexible applications and there are no microwave options. Creo Medical's flexible endoscopic vessel sealer, with its combination of bipolar radiofrequency and microwave has the potential to outperform rigid instruments.

The addressable markets are large and growing. The global market for endoscopic devices is estimated to be worth $30bn[5], and growing at a compound annual growth rate of 6.3%[5]. Within this, the global market for energy systems and instruments is valued at $4.9bn[6]; see Figure 1.

In terms of specific applications, the GI endoscopy market, which has seen limited innovation in recent years but a growing volume of interventional techniques, has an addressable market of $3-4bn[7, 8], and estimated annual average growth of 4-6%[7]. For example, in the field of colorectal cancer, 16m screening colonoscopies are performed in the US per annum, of which 1.1m identify a lesion requiring treatment[9], of which 50% are surgically removed[10].

In bronchoscopy, there is demand for new therapies and growth is driven by screening, but, as mentioned above, no interventional options are currently available. Worldwide, there are 1.8m cases of lung cancer each year.

Longer term opportunities include laparoscopy applications, with an estimated addressable market of $8bn[11].

Drivers of growth in demand for minimally invasive surgery include:

- Emerging applications and technological innovations, bringing compelling benefits that are recognised by clinicians and healthcare providers;
- Aging population and incidence of life threatening diseases;
- Increasing patient awareness and influence over their treatment.

Why do we believe in the market opportunity?

There is a precedent: similar paradigm shifts have previously taken place in other fields of medicine. The transition from open surgery to laparoscopy surgery from the early 1990s is the obvious example. In recent years, advances in single-port laparoscopy, robotic surgery, natural orifice translumenal endoscopic surgery and flexible endoluminal endoscopy have heralded a new era of healthcare.

Thought leaders are advocating our solutions, and promoting the 'Anything is possible with the right approach' mindset to educate and engender confidence among endoscopists, blurring the lines between these practitioners who have typically specialised in investigative work, and surgeons. This is revolutionary: procedures that previously took place in the operating room can now be undertaken in an endoscopy room, with material advantages in cost, time and patient outcomes.

1 Annals of Hepatology, Vol. 10 No.3, 2011: 287-295
2 Ann R Coll Surg Engl 2011; 93: 445–450
3 Data for England & Wales – National Lung Cancer Audit annual report 2015 (for the audit period 2014), Royal College of Physicians, 2015
4 American Cancer Society. Cancer Facts & Figures 2016. Atlanta: American Cancer Society; 2016.
5 Markets and markets, Dec-15, MD 2212; Stratistics MRC, May-15, MRS 25447; BCC research, Mar-16, HLC093C; TechNavio, Jun-15, 3280756; TMR, Jul-14, 2014 07-02; IQ4I, 2014, 8664243; Occam, Jun-16, HME-2610516
6 TMR, Jul-14, 2014-07-02
7 Boston Scientific investor presentation, 2015
8 Conmed investor presentation, August 2016
9 Gastrointest Endosc 2014; 80-133-43
10 US surgical procedure volumes 2010, Millennium Research, RPUS43SV10, February 2010
11 Medtronic investor presentation, June 2016

Our products and pipeline

Our unique platform and pipeline of devices are designed to enhance existing surgical techniques and offer new curative therapies.

CROMA electrosurgical platform

Our advanced energy platform uniquely combines bipolar radiofrequency for precise localised cutting and microwave for controlled coagulation, providing physicians with flexible, accurate and highly controllable devices delivered through a standard flexible endoscope.

This technology makes it possible to treat conditions using flexible endoscopy in the endoscopy suite as opposed to a surgical outcome carried out in the operating theatre under general anaesthetic. CROMA delivers Dissection, Resection Haemostasis and Ablation with unparalleled controllability.

The benefits for physicians and patients include:

- a bipolar radiofrequency energy source which facilitates precise, localised cutting or resecting of tissue, resulting in predictable tissue effect and reducing the risk of remote burns and of unwanted thermal damage to healthy tissue;
- a microwave energy source which facilitates controlled and focussed coagulation of vessels and ablation of cancerous or pre-cancerous lesions to provide more control to the surgeon. This results in highly predictable tissue effects;
- a connection which uniquely combines the delivery of RF and microwave energy; and
- energy which is optimised for specific purposes without the need for complex set up.

Our strategy is to bring the CROMA platform to market through a suite of medical devices which we have designed.

97
granted patents

245
patents pending

Our products and pipeline
continued

Minimally invasive surgical devices
The first device developed for use with CROMA is the Speedboat. The Speedboat harnesses the cut and coagulation capability of CROMA and enables the removal of cancerous and pre-cancerous GI growths and lesions in the bowel with a flexible endoscope. This approach can replace open or laparoscopic surgery as well as the alternative endoscopic approach of Endoscopic Mucosal Resection (EMR). EMR can remove larger lesions but in many pieces, which can lead to residual abnormal tissue being left behind, causing recurrence. With the Speedboat device, the endoscopist is able to remove the lesion in a single large piece (en-bloc), providing a more complete and accurate specimen for analysis and reducing the need for frequent endoscopic checks. The use of the Speedboat device reduces the risks associated with alternative laparoscopic procedures and can reduce the length of hospital stays.

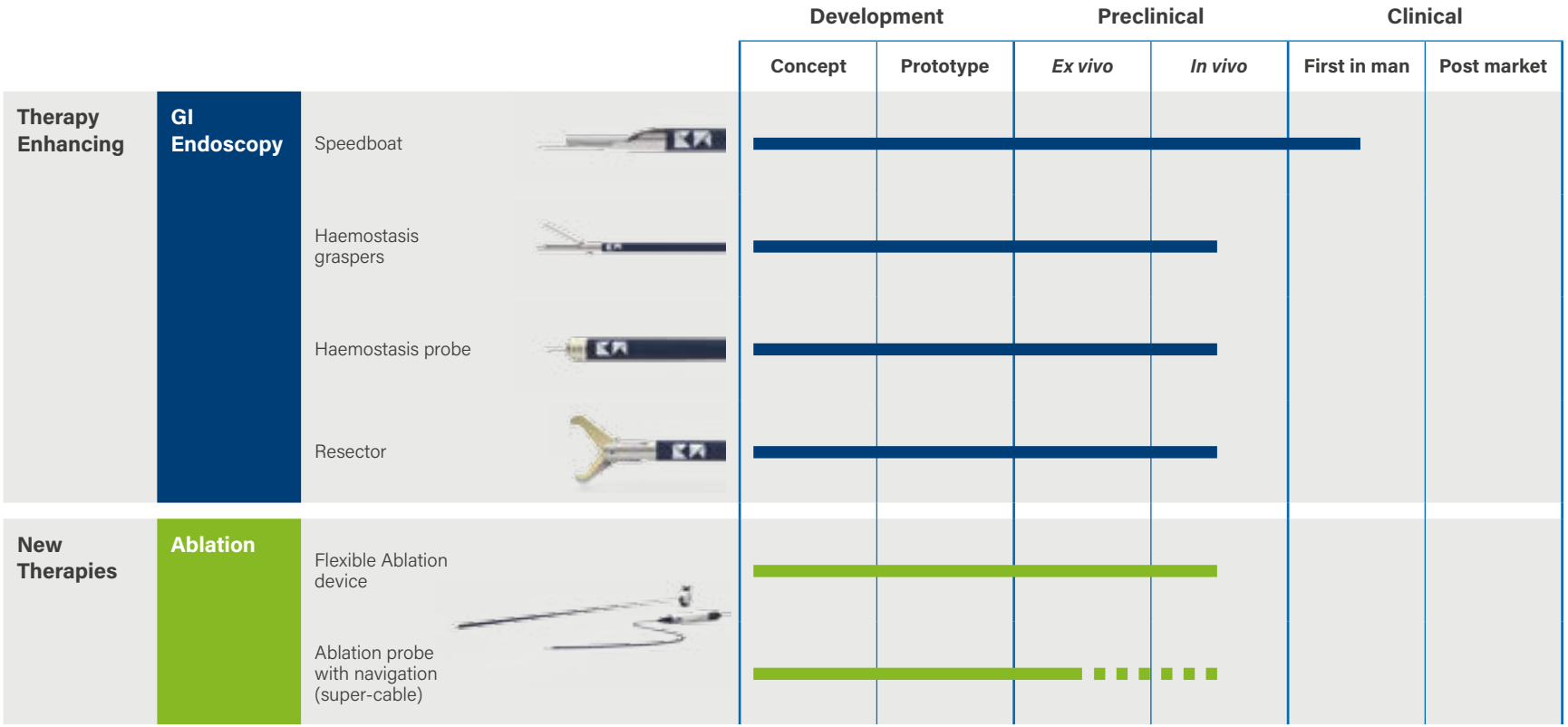
The Speedboat device has the ability to coagulate bleeding vessels when the microwave energy is activated by the surgeon, and to cut or resect when the RF energy is activated. Along with other design features of the device that enable certain procedures to be delivered endoscopically, this reduces the risks associated with these procedures:

- curved hull shape of underside of device (i.e. Speedboat);
- integrated retractable needle to prevent multiple instrument changes; and
- flat gold plated top side of device to assist with orientation of the device that ensures it is in the correct plane in respect of the tissue.

We are working on further areas of application of bipolar radiofrequency and microwave technology, including bronchoscopically guided lung tumour ablation, an area associated with a low proportion of patients suitable for curative surgery and poor survival rates. CROMA could potentially offer a minimally invasive treatment for these lesions. We have developed the Ablation Probe and the related 'super-cable' prototype intended to enhance the navigation of the Ablation Probe while providing integrated navigation and imaging.

The Group's 'super-cable' technology enables the centre conductor of a coaxial transmission line (microwave cable) to be made hollow which allows Creo to use the hollow centre of the cable to introduce a fibre-scope for illumination and a bundle of lensed fibres for vision. Creo has also integrated a control wire into the hollow cable for steering purposes. The 'super-cable' is likely to be the basis for future Creo endoscopic and bronchoscopic devices which could replace existing endoscopes and bronchoscopes with smaller diameter structures to allow access to sites that are currently inaccessible, enabling diagnosis and therapy to be performed.

Development of the Ablation Probe and 'super-cable' is at preliminary stages, although in-vivo testing to demonstrate navigation deep into the lung has been achieved. See the status of this and other products in our pipeline below.



Our business model

RESILIENT AND SCALABLE

Our business model is designed to be resilient and scalable, and to leverage the strengths of our pioneering products and strategic relationships to create value for stakeholders.

INPUTS

We will **create** value through our unique resources and relationships

Expertise and IP
We have a depth of expertise, with a talented team of world-class developers drawn from the front-line of related disciplines, spanning military radar, microwave ovens as well as medical devices.

Our established and growing IP portfolio includes 97 granted patents and 245 pending patent applications, all in the area of electrosurgical energy generation and control, together with a range of applicator structures for advanced tissue management.

Strategic relationships
We establish and nurture relationships with eminent clinicians and Key Opinion Leaders practicing in our fields of interest around the world. These relationships help us to perfect our devices, generate clinical data and develop a network of influential advocates who help drive adoption of our CROMA platform and devices.

Our distribution agreement with HOYA Group, PENTAX Medical will allow the distribution of our products – once commercialised – in key markets in the Asia Pacific region.

Long-term investors
Sizeable shareholdings are held by key members of our team, as well as strategic partners, and our status as a public company gives us access to capital to achieve our vision.

KEY DIFFERENTIATORS

We will **grow** value through our resilient and scalable model

RESILIENCE

Recurring revenues from razorblade model

The CROMA generator has a single accessory port compatible with a suite of single-use devices that use the microwave and RF energy for cutting, coagulating and ablating in various procedures.

Diversified applications

The precise cut, coagulation and ablation capabilities of the CROMA platform have application in a range of electrosurgical procedures where tissue resection with haemostasis (control of bleeding) and/or the ablation of tissue is required. Surgery is carried out in increasingly minimally invasive environments which requires long, flexible devices and the need for precision and control.

Our strategy is to deliver new curative therapies and therapy-enhancing technologies which have a high health economic benefit for the global healthcare system. We will initially focus on the gastrointestinal endoscopy market, potentially expanding to bronchoscopy and laparoscopy over time.

Diversified geographies

Following our CE mark and FDA clearance for CROMA and Speedboat, we are seeking regulatory approval for our suite of devices in the EU, US and – via our distribution agreement with HOYA Group, PENTAX Medical – key markets in the Asia Pacific region.

SCALABILITY

Rich pipeline

Our pipeline of instruments is focused on three therapeutic endoscopic specialisms: lower gastrointestinal, lung/bronchoscopy, and upper gastrointestinal. Our devices are at various stages of development, from concept to in-human testing. The main products are the Speedboat, the Haemostasis Graspers, the Haemostasis Probe, the Resector and the flexible lung tumour Ablation Probe.

Advocacy-based training model

We are working to build advocacy by utilising our network of key opinion leaders to deliver and endorse a training programme to endoscopists, to demonstrate to them that our products could be utilised with their existing levels of competence and skill.

Large and growing addressable markets

The GI endoscopy market has an addressable market of $3-4bn and forecast annual average growth in GI instruments of 4-6%. Other target applications are the bronchoscopy and laparoscopy markets.

Pragmatic manufacturing model

We have dedicated spaces for innovation (Bath), design & development (Bath/Chepstow), cleanroom manufacturing & assembly (Chepstow). We plan to retain manufacturing largely in-house to ensure quality control. In due course we will look at controlled outsourcing of aspects of the manufacturing process to increase capacity and reduce production costs in the medium term.

Wide sales and distribution reach, direct and through partners

We intend to establish a direct sales force initially in core markets and to enter into distribution agreements for non-core territories. In 2016 we entered into a Distribution Agreement with HOYA Group, PENTAX Medical covering key markets in the Asia Pacific region.

VALUE CREATION

We will **share** value with our stakeholders

Physicians

Peace of mind from a safe, fast set-up of a procedure that can be used in surgery and endoscopy, with predictable tissue effect and saving of considerable time.

Patients

Improved outcomes, including lower risk of remote burns and thermal damage to adjacent tissue, faster recovery and less time in hospital.

Healthcare providers

Improved outcomes and lower costs resulting from the use of endoscopy suites rather than operating theatres (and endoscopists rather than surgeons) and reduced need for hospital stays for patients.

Investors

Attractive growth prospects.

Employees

Dynamic, creative and entrepreneurial culture, with exciting opportunities for development.

Our strategy

ADVANCING OUR PIPELINE

We have made pleasing progress to advance our pipeline through our phased commercialisation model, and are on track for the market to adopt our first device during 2017 and 2018 ahead of our commercial builds in 2019.

STRATEGIC PILLARS

INNOVATION AND IP

- Continue to invest in R&D to develop our technology and IP portfolio, seeking non-dilutive grant funding where possible and appropriate.
- Actively review peers to identify potential strategic collaborations, non-organic growth opportunities and licensing opportunities.

REGULATORY

- Pursue regulatory approvals for the suite of products in the EU, US and in the Asia Pacific region, through our Distribution Agreement with HOYA Group, PENTAX Medical.

COMMERCIALISATION

- Build advocacy by deploying the CROMA electrosurgical platform in target hospitals and developing a network of Key Opinion Leaders to build a body of clinical case reports;
- Drive penetration via our training programmes and the development of a value-added pipeline of instruments for GI endoscopy; and
- Drive breadth of usage by growing footprint of generators, including into new geographical markets and adjacent segments such as bronchoscopy.

PROGRESS IN 2017

- 17 new inventions registered since 1 January 2017;
- 15 patents granted since 1 January 2017; and
- Participation in a multidisciplinary consortium aimed at developing a novel and innovative micro-optofludic lab-on-chip platform deploying semi-conductor technology to neutralise cancer stem cells with electromagnetic waves.

- Obtained CE Mark for the CROMA generator & Speedboat;
- HOYA Group, PENTAX Medical initiated the regulatory procedures for entry into the Asia Pacific region; and
- Held pre-submission meeting with FDA for ablation device and confirmed that non-clinical regulatory pathway.

- Passed key milestone of first human case of Speedboat, by Brian Saunders; and
- Rolling out CROMA generator & instruments to EU KOLs to generate clinical data and medical industry recognition.

PRIORITIES

- Expand the portfolio of consumable instruments available, both for the GI endoscopy suite and into adjacent segments such as bronchoscopy.

- Obtain FDA clearance of the Speedboat (obtained on 21 August 2017); and
- Obtain CE and FDA clearance for suite of devices, including the Resector, the Haemostasis Graspers and the Haemostasis probe to enable their launch into the EU and US, and through HOYA Group, PENTAX Medical into key Asia Pacific markets.

- Identify new broader GI customer base in EU markets;
- Launch KOL advocacy phase for Speedboat in the US;
- Continue with placements in the EU and Asia Pacific;
- Identify early adopters for ablation device;
- Continue to roll out instruments; and
- Initiate general sales roll-out:
  - Establish a direct sales force in the EU
  - Develop a distributor network for regions outside core markets.

We will consider strategic acquisitions as a way to enhance our technological base and/or accelerate our market reach

Financial Review

Richard Rees
Chief Financial Officer

Revenue

The Group does not currently generate any revenue from its activities. Other operating income of £0.3m in the year (4 months to June 2016: £0.2m) relates to research grants.

Operating loss

The operating loss for the period increased to £8.9m (4 months to 30 Jun 2016: £1.9m), reflecting the increased operating expenses in relation to clinical and development activities together with further investment in headcount and business infrastructure to support the business and enable it to continue to develop and commercialise its technology. This continued investment in the business will support its anticipated growth and development in the coming periods.

The underlying operating loss (or adjusted EBITDA) for the year was £5.6m (4 months to 30 June 2016: £1.6m).

Whilst EBITDA is not a statutory measure the Board believe it is helpful to investors to include as an additional metric to help provide a meaningful understanding of the financial information as this measure provides an approximation of the ongoing cash requirements of the business through development phase. The Adjusted EBITDA position excludes share based payment expenses which are non-cash, exceptional costs relating to the flotation of the Group in the year and incorporates the recovery of research and development expenditure which the Group is able to benefit from through R&D Tax credit schemes.

Expenses of the initial public offering (IPO)

IPO related costs incurred in the period were £1.3m (4 months to 30 June 2016: £nil). These costs primarily related to commissions, legal, accounting and other advisor fees including irrecoverable VAT in connection with the IPO. In addition to these costs a further £1.5m (4 months to 30 June 2016: £nil) was capitalised.

Tax

The tax credits recognised in the current and previous fiscal year relate solely to R&D tax credit claims.

(All figures £)	12 months to 30 Jun 2017	4 months to 30 Jun 2016
Operating Loss	(8,903,066)	(1,874,656)
Share based payments	776,782	20,361
Depreciation and Amortisation	142,423	46,942
R&D Tax Credits	1,160,000	255,077
Expenses of the initial public offering - one off	1,252,692	–
Underlying operating loss	**(5,588,236)**	**(1,552,276)**

Expenses

Administrative expenses comprising R&D, operational support, sales and marketing, and finance and administration costs totalled £9.2m (4 months to 30 June 2016: £2.0m). Adjusting for costs and tax income above, underlying administrative expenses are £5.6m (4 months to 30 June 2016: £1.6m).

This annualised increase of £0.9m reflects the continued investment made by the Group in clinical and development activities. Personnel costs continue to be the largest expense and represent approximately 69% of the Group's underlying administrative expenses.

"I am pleased to announce our maiden annual report following listing on AIM in December 2016. The £20 million raised on IPO has and will continue to enable us to further develop and commercialise our technology and provide the Company with the platform for future development"

Richard Rees
Chief Financial Officer

Loss per share

Loss per share was 13 pence (4 months to 30 Jun 2016: 5 pence). Removing the significant non-recurring costs in relation to the IPO of £1.3m the loss per share is 11 pence.

Dividend

No dividend has been proposed for the year ended 30 June 2017 (4 months to 30 June 2016: £nil).

Cash flow and Balance Sheet

Net cash used in operating activities was £6.9m (4 months to 30 Jun 2016: £1.6m), driven by the planned increase in investment in research and development during the period. Net cash generated from share issue was £20.0m (4 months to 30 Jun 2016: £nil) reflecting the net proceeds of the issue of shares in the IPO and Pre-IPO rounds of fundraising.

Total assets increased to £16.1m (30 Jun 2016: £2.4m), a 571% increase, reflecting the increase in cash arising from the issue of new ordinary shares at the IPO and pre IPO rounds, offset by the operating cash outflow for the period. Cash and cash equivalents at 30 June 2017 was £13.7m (30 Jun 2016: £0.8m). Net assets were £14.7m (30 Jun 2016: £1.6m), a 819% increase.

Accounting policies

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards. The Group's accounting policies have been applied consistently throughout the year and are described on pages 56 to 60.

Principal risks and uncertainties

The principal risks and uncertainties facing the Group are set out on pages 34 to 39.

Directors

Details of the Directors who served during the year ending 30 June 2017 are noted in the Remuneration Report set out on pages 48 and 49. All six of the Directors serving on the Board at the year end were male.

Conflicts of interest

To address the provisions of Section 175 of the Companies Act 2006 relating to conflicts of interest, the Company's Articles of Association allow the Board to authorise situations in which a Director has, or may have, a conflict of interest. Directors are required to give notice of any potential situation or transactional conflict that are to be considered at the next Board meeting and, if considered appropriate, conflicts are authorised. Directors are not permitted to participate in such considerations or to vote regarding their own conflicts.

Our people

EXCEPTIONAL LEADERS AND PARTNERS

Not only do we have a brilliant team at Creo, but our network of partners and the key opinion leaders we work with are exceptional.

Richard Craven and Dr Stefanie Pohlmann

The Creo Medical team

We are a disparate bunch. We think outside the box, including when it comes to the disciplines from which our colleagues are drawn. Led by our founder Chris Hancock, Professor of microwave engineering, our development team includes a radar specialist with a background in the military, an expert in antenna modelling from the telecoms sector, and an industrial designer who used to design microwave ovens. We think laterally, and fish from a broad pool when it comes to recruiting the best talent.

Our backgrounds may be diverse, but our enquiring minds, hunger for solutions and relentless drive mean we work as a cohesive team. We're not precious, nor bound by received wisdoms. We love nothing more than bouncing ideas around and get very excited when concepts from our different fields come together in an 'aha' moment. Our monthly innovation workshops are open to all colleagues, and when we think we're onto something, our attitude is to seek forgiveness, not permission.

Clinical advisers and Key Opinion Leaders

We don't have a formal clinical advisory board, as we thought that might limit our thinking. Instead we have a Horizon Group that draws upon our relationships with experts in different clinical areas – gastrointestinal and pulmonary, for example – and territories, such as the US, Europe, Japan and Australia.

Professor Brian Saunders

Professor Saunders is a specialist gastrointestinal endoscopist and luminal gastroenterologist, with a focus on the detection, treatment and prevention of intestinal diseases through flexible endoscopy.

Dr Zachorias Tsiamoulas

Dr Tsiamoulas trained at St. Marks Hospital and is now Endoscopy Clinical lead at East Kent University Hospital Trust. Dr Tsiamoulas has published numerous papers on therapeutic endoscopy and is responsible for training the Speedboat technique.

Robert Hawes MD

Dr Hawes is nationally recognised in the USA as a gastroenterologist, researcher, professor, author and pioneer of procedures such as ERCP and therapeutic endoscopy.

Professor Pallav Shah

Professor Shah is a consultant physician in respiratory medicine and is the lead clinician for lung cancer at Royal Brompton Hospital and also at Chelsea and Westminster Hospital.

HOYA Group, PENTAX Medical HQ, Akishima, Japan.

Strategic partners

An important partner for us is HOYA Group, PENTAX Medical, one of our early investors with whom in 2016, we entered into an agreement to distribute our products – once commercialised – in key Asia Pacific markets.

Employing approximately 34,000 people in over 30 countries and with revenues of over $4bn, HOYA Group, PENTAX Medical is a global med-tech company headquartered in Japan, and a leading supplier of endoscopic imaging devices, solutions and services to the global medical community.

Principal risks and uncertainties

The Board has overall responsibility for risk management and internal controls.

APPROACH TO MANAGING RISK

The Audit Committee formally reviews the effectiveness of the Group's risk management processes and internal control systems on behalf of the Board. Our risk management process is designed to identify, evaluate and mitigate significant risks to the business. Although we believe that our risk management procedures are adequate, the methods used to manage risk may not identify current or future risks or the extent of future exposures.

COMMERCIAL, OPERATIONAL, REGULATORY AND LEGAL RISKS

RISK	DESCRIPTION	MITIGATION
Market acceptance of current and new products	While we believe a viable market for our products exists, there can be no assurance that our technology will prove to be an attractive addition or alternative to existing surgical devices. Conversely, the business needs to be able to scale up in the event of rapid adoption of our products. The development of a market for our products (and the timing of this) is affected by many factors, including: (i) the emergence of newer, more competitive technologies and products; (ii) the cost of our products; (iii) regulatory requirements; (iv) customer perceptions of the efficacy and reliability of our products; and (v) customer reluctance to buy a new product.	▪ We engage with Key Opinion Leaders and clinicians on the development of our products, gathering feedback in order to develop products that meet their needs. ▪ Our training programme is designed to educate clinicians on best practice and use of the product. ▪ We continue to develop our product portfolio beyond the initial suite of products to give depth and breadth to the business. ▪ We have designed the business to be scalable, for example with the management structure, facilities and our approach to training clinicians. ▪ Our strategy to work through multiple channels to market will share some risk with third party distributors.

Product development	Much of our future revenues depend on our ability to continue to develop new products. These may take longer to develop than planned, require more resources or may pose technical challenges that we cannot solve, which may require us to repay some of all of the monies we have received from certain grant agreements with a number of UK agencies.	▪ New product development is complementary to work already being undertaken by the business. We are therefore able to leverage existing skills and knowledge. ▪ We work closely with UK agencies that provide grant funding to ensure that clear and achievable obligations are set out in any grant terms. ▪ The Creo team have a depth of knowledge and experience in the devices that they are developing.
Regulatory risk	Our products are regulated by national and regional medical device regulations; there can be no assurance that we will receive regulatory approvals on a timely basis, or at all. There may also be regulatory changes that could require additional studies and a need to re-submit products to the regulatory authorities. We also need to comply with ongoing regulatory requirements, such as to maintain a quality system, for which we are subject to periodic inspections (scheduled and unscheduled), restrictions in relation to promotional materials and post-market safety surveillance programmes. Reimbursement of medical devices in Europe is determined on a country-by-country basis, at a national level or, in some cases, by regional authorities within countries. Securing reimbursement may require us to collect and disseminate further data to demonstrate the clinical value and cost-effectiveness of our products, and there can be no assurance that the reimbursement process will be successful.	▪ We have CE marking and FDA clearance for our speedboat device and CROMA generator. ▪ Our QMA team is focused on the regulatory needs for product development and develops quality documentation to support all regulatory applications. ▪ We are ISO: 14385 accredited. ▪ We are subject to regular audits from bodies such as ISO and BSi.

Principal risks and uncertainties
continued

COMMERCIAL, OPERATIONAL, REGULATORY AND LEGAL RISKS

RISK	DESCRIPTION	MITIGATION
Risks relating to IP, proprietary rights and confidential information	We rely primarily on a combination of patents and proprietary knowledge, as well as confidentiality procedures and contractual restrictions to establish and protect our proprietary IP rights. There can be no assurance of obtaining new patents, or that existing patents will provide us with sufficient protection in the case of an infringement of our technology or that others will not independently develop comparable or superior technology. We may inadvertently infringe a third party's patent, which could lead to litigation, the requirement to obtain a licence, or the need to cease development or commercialisation of the infringing technology or product.	▪ We have a longstanding track record of IP generation and successful applications. ▪ We have a long standing relationship with our patent agent who advises on the application and execution of patents. ▪ Our employees work in the field of medical devices and so are aware of predicate devices and intellectual property rights. ▪ We have a policy of requiring advisers, contractors and third-party partners to enter into confidentiality agreements and employees to enter into invention, non-disclosure and non-compete agreements. ▪ There is an ongoing review of terms and conditions with third parties to ensure that IPR is retained and protected.
Product liability or other legal risks	Criminal or civil proceedings might be filed against Creo Medical by study subjects, patients, the regulatory authorities, other companies and any other third party using or marketing our products. If we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities or be required to limit commercialisation of our products if approved. Even successful defence could require significant financial and management resources.	▪ Our products have obtained approvals/clearance from third party regulatory bodies in the EU and United States. ▪ Our design process seeks to mitigate issues by including pre-clinical and clinical trials. ▪ We invite input from Key Opinion Leaders on product development and their needs. ▪ Our QMS system is designed to comply with ISO 14385. ▪ We review our insurance coverage annually.

Dependence on key executives and personnel	The future success of the Group will depend in part upon the expertise and continued service of certain key executives and technical personnel. In particular, Professor Chris Hancock has been, and remains, essential to the development of the Group. Our ability to successfully develop commercial products will also depend on our ability to attract and retain suitable personnel.	▪ We have implemented a share option scheme to retain key employees and enter into contracts that contain limited non-competition provisions with key personnel. ▪ We are working hard to recruit and retain PHDs to support Chris Hancock, and collaborate in particular with Bangor University. ▪ By capturing IPR through patent applications, we are able to ensure ownership of knowledge and create foundations for our product pipeline. ▪ We have taken great steps since IPO to recruit more people, including a new HR executive to develop and manage talent.
Dependence on distributors in certain geographical areas	Sales of our products depend, in part, on the financial resources, expertise and clients of our distributors, agents and other channel partners. In 2016 we entered into a distribution agreement with HOYA Group, PENTAX Medical to distribute our products, once commercialised, in key Asia Pacific markets. We do not currently have a distribution partner in the EU or US. We cannot ensure that we will be able to retain our distributors, renew existing distribution agreements on commercially favourable terms, enter into new distribution agreements for target geographical markets or that distribution partners will dedicate the resources necessary for the commercial success of our products.	▪ HOYA Group, PENTAX Medical remains a major shareholder, therefore our success is their success, and we are involved in on-going discussions with them to ensure that the distribution agreement we have together meets the needs of all parties. ▪ We have recruited employees with experience in sales in the medical device sector. They will be responsible for establishing distribution partners in key territories as well as developing a direct sales team.

Principal risks and uncertainties
continued

POLITICAL RISKS

RISK	DESCRIPTION	MITIGATION
The UK's exit from the European Union	We face risks in relation to the political and economic instability associated with the UK leaving the EU, as well as potential changes to the legal framework applicable to our business.	▪ Our strategy is not to focus solely on EU markets; the US is a key territory, and we will also seek to commercialise our products in other markets. ▪ We monitor developments on an on-going basis to allow the business to react when necessary. ▪ Employees that are not UK citizens currently have the right to work, and our HR team will seek to manage processes to ensure that this will continue to be the case post Brexit. ▪ If necessary, we may choose to establish a presence in the EU to facilitate access to the market.

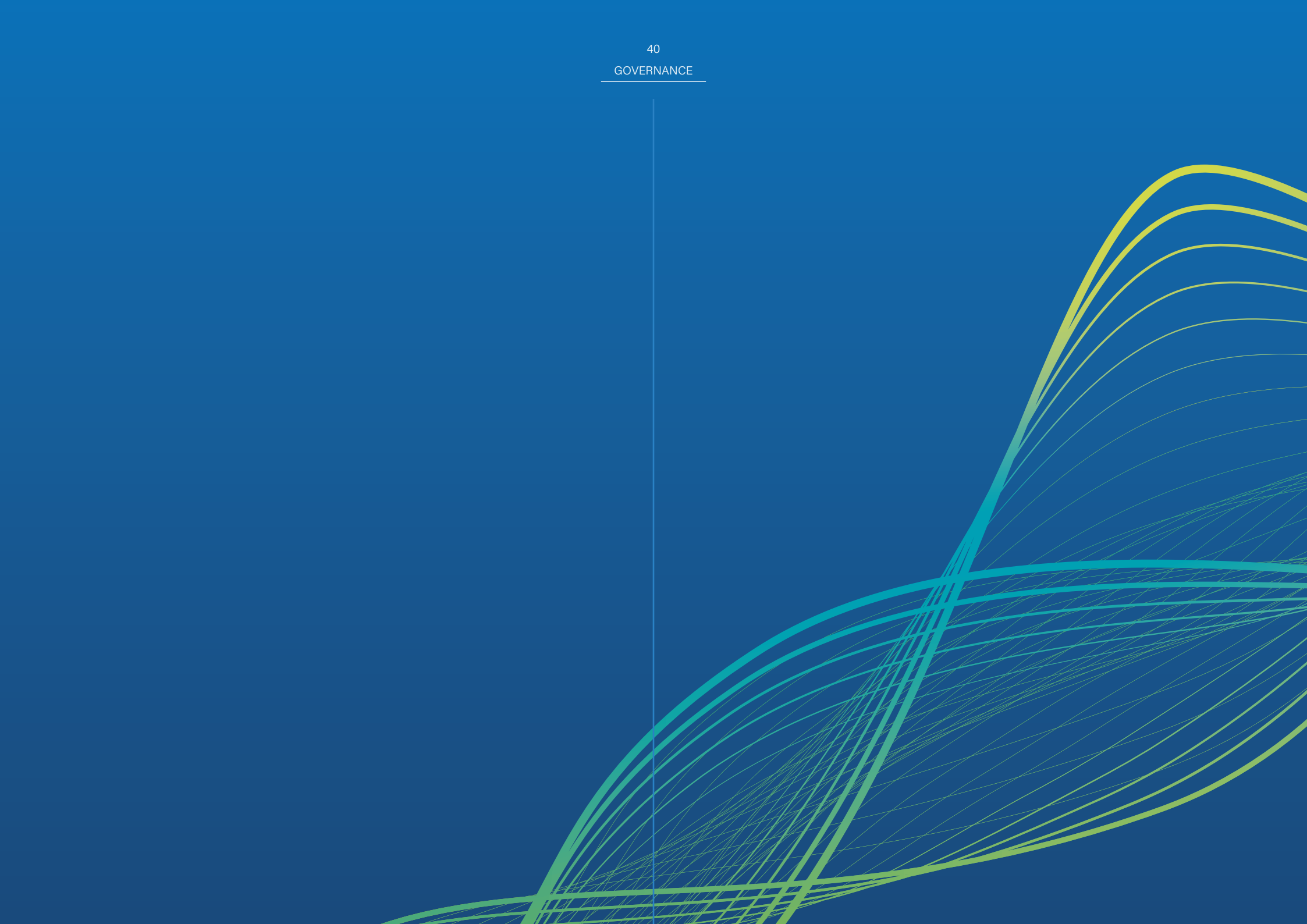
FINANCIAL RISKS

Availability and terms of additional financing required	Our financing requirements depend on numerous factors, including the rate of market acceptance of our technologies and our ability to attract customers. We may be unable to obtain adequate financing on acceptable terms, if at all, which could cause us to delay, reduce or abandon research and development programmes or hinder commercialisation of some or all of our products.	▪ We work closely with a number of agencies and bodies to maximise the amount of grant funding that is available to assist with our technological development while minimising our spend. ▪ A significant amount of our development spend is subject to research and development tax relief. ▪ We also have in place controls and procedures to manage expenditure in line with budgets.

Potential changes to research and development tax relief in the United Kingdom	Adverse decisions of a regulator, including tax authorities, or changes in tax treaties, laws, rules or interpretations could reduce or eliminate research and development tax relief that we may be eligible for in the UK.	▪ We engage with third party professionals to review and submit any research and development tax claims. ▪ We monitor tax changes to ensure that we can quickly respond to any changes in regimes that may have an adverse effect on the business.
Foreign exchange rate fluctuations	We record transactions and prepare our financial statements in Sterling, but a substantial proportion of our income is expected to be received in US dollars and Euros as well as smaller amounts in other currencies. We also incur some expenditure in US dollars and other currencies. To the extent that the Group's foreign currency assets and liabilities are not matched, fluctuations in exchange rates may result in realised or unrealised exchange gains and losses on translation of the underlying currency into Sterling.	▪ We enter into various derivative financial instruments to manage our exposure to foreign exchange risks, including forward exchange contracts and cross currency swaps.

The strategic report was approved by the Board of Directors on 13 November 2017 and was signed on its behalf by:

Richard Rees
Chief Financial Officer
13 November 2017



GOVERNANCE

Governance

Board of Directors

1

Craig Gulliford

Board of Directors
Chief Executive Officer

Craig is a founding angel investor in Creo Medical and joined the company as CEO in 2012. Craig qualified with an MSc in Electronic Engineering from the University College of North Wales and has 20 years' experience in building international businesses from early stage through to significant scale. His early career developed in the Middle East working with large corporates delivering complex commercial projects.

In January 1999, Craig joined a start-up software and hardware business where, as COO, he was part of a small team that grew the company both organically and through acquisition, from a loss making start-up to a profitable business delivering significant shareholder returns and an exit in 2007.

2

Professor Christopher Hancock

Board of Directors
Chief Technology Officer

Chris is the founder of Creo Medical with 20 years of experience in medical device development including four years at Gyrus Group plc in his role as Senior Engineer.

Chris holds a personal Chair in the Medical Microwave Systems Research Group at Bangor University. Chris is a Fellow of the Institute of Physics, a Chartered Physicist, Fellow of the Institute of Engineering and Technology, a Chartered Engineer and a Senior Member of the IEEE. Chris is a named inventor and lead author on over 400 granted patents, patent applications and international journal publications.

3

Richard Rees

Board of Directors
Chief Finance Officer

Richard joined Creo Medical as CFO in July 2016. Prior to joining Creo, Richard was CFO of SPTS Technologies, a UK-based, global manufacturer of semiconductor capital equipment. In 2011, Richard was part of a management team at SPTS Technologies that, together with Bridgepoint Capital, acquired SPTS Technologies for $200 million from Sumitomo Precision Products. In 2014, SPTS Technologies was acquired by Orbotech Ltd for more than $350 million. Prior to joining SPTS Technologies, Richard spent 7 years at KPMG in audit.

4

Charles Spicer

Board of Directors
Chairman

Charles is an experienced director of and adviser to public and private companies primarily in the med-tech sector. Charles is chairman of Realm Therapeutics plc, IXICO plc and 11 Health & Technologies Ltd. In addition, Charles is chair of the UK Department of Health's Invention for Innovation (i4i) Funding Panel.

Charles was a director of Aircraft Medical (acquired by Medtronic Inc. in December 2015) and Stanmore Implants (acquired by Stryker Inc., April 2016). Charles was also previously chief executive of MDY Healthcare plc, a strategic healthcare investor and, prior to that, head of healthcare corporate finance at both Numis Securities and Nomura International.

Charles is the chair of the Company's Remuneration Committee and is a member of the Company's Audit Committee.

5

John Bradshaw

Board of Directors
Independent Non-Executive Director

John Bradshaw is a chartered accountant with more than 25 years post qualification experience including as senior audit manager at Arthur Andersen and as CFO in a number of UK public companies, venture capital backed private companies and partnerships including Gyrus Group PLC. Current activities include CFO of Syncona Investment Management Limited and a Non-Executive Director of IXICO plc.

John is the chair of the Company's Audit Committee and is a member of the Company's Remuneration Committee.

6

David Woods

Board of Directors
Non-Executive Director

David is an industry veteran within the med-tech sector. His experience in the Medical Device Market encompasses General and Orthopaedic Surgery, Gastroenterology, Pulmonology and ENT. David is currently the Global Chief Marketing officer at HOYA Group PENTAX Medical following senior roles as President and Vice President of Business Development of the Americas. David was awarded the ASGE Presidents award in 2010 recognising exceptional contributions to the society and its mission.

Directors' Report

The Directors present their report together with the audited consolidated financial statements for the 12 months to 30 June 2017. These will be laid before the shareholders of the Company at the next Annual General Meeting (AGM).

Creo Medical Group plc was admitted on the AIM market of the London Stock Exchange (LSE:CREO) on 9 December 2016. The company is incorporated in England and Wales, registration number 10371794 and the address of its registered office is Block B, Beaufort Park, Chepstow NP16 5TY.

Principal activity
The principal activity of the company during the period continued to be that of research and development of surgical equipment in respect of certain medical procedures.

Results and dividends
The results of the Group for the 12 months to 30 June 2017 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on page 54.

The Directors do not recommend the payment of a dividend.

Review of the period
A summary of the Group's progress and development is set out in the joint Chairman's and Chief Executive's Q&A and the Financial Review, which form part of the Strategic Report on pages 12 and 13. This analysis includes comments on the position of the Group at the end of the period, an indication of likely future developments in the business of the Group and details of the Group's activities in the field of research and development.

Directors
The directors who held office during the year and up to the date of approval of the financial statements were as follows:

- Professor Christopher Paul Hancock (appointed 12 September 2016)
- Craig Jonathan Gulliford (appointed 12 September 2016)
- Richard John Rees (appointed 12 September 2016)
- David Gerard Woods (appointed 30 November 2016)
- Charles Alexander Evan Spicer (appointed 5 December 2016)
- John Bradshaw (appointed 8 December 2016)

Directors' interests and indemnity arrangements
The Directors' interests in the shares of the Company are disclosed in the Remuneration Report on pages 48 and 49.

In accordance with Section 234 of the Companies Act 2006 and as permitted by the Articles of Association of the Company, the Company maintains insurance throughout the year for its Directors and officers against the consequences of actions brought against them in relation to the execution of their duties for the Company.

No Director had, during or at the end of the year, a material interest in any contract which was significant in relation to the Group's business except in respect of service agreements and share options and as disclosed in the Remuneration Report. It is noted that David Woods is Global Chief Marketing officer at HOYA Group, PENTAX Medical, one of Creo Medical Group plc's largest shareholders and with whom the Company has entered an agreement for the distribution of its products, once commercialised, in key markets in the Asia Pacific region.

The Company has not granted any indemnities to any of its Directors against liability in respect of proceedings brought by third parties.

Share capital
Details of the Company's issued share capital are shown in note 20 to the consolidated financial statements.

The share capital comprises one class of ordinary shares and these are listed on AIM. As at 30 June 2017 there were in issue 80,711,745 fully paid ordinary shares. All shares are freely transferable and rank pari passu for voting and dividend rights.

Substantial holdings
As at 30 June 2017, shareholders holding more than 3% of the share capital of Creo Medical Group plc were as follows:

Finance Wales Investments	13,376,727	16.57%
Hargreave Hale	12,764,585	15.82%
Mr Christopher Hancock	4,880,150	6.05%
HOYA Corporation	4,799,880	5.95%
Mr Jonathan Craton	3,400,294	4.21%
Cotterford Company Ltd	3,335,398	4.13%
Mr Mark Farmer	3,121,607	3.87%
Royal Bank of Canada (CI)	2,974,727	3.69%
Angel CoFund	2,967,120	3.68%
Legal & General Investment Management	2,631,580	3.26%

Save as referred to above, the Directors are not aware of any persons as at 30 June 2017 who were interested in 3% or more of the voting rights of the Company or could directly or indirectly, jointly or severally, exercise control over the Company.

Financial risk management objectives and policies
The Company's financial risk management objectives and policies are shown in note 18 to the consolidated financial statements. The main risks arising from the Company's financial instruments are interest rate risk, exchange rate risk, credit risk, and liquidity risk, which are continuously monitored by the Board.

Political contributions
The Company made no political donations or incurred any political expenditure during the year.

Disclosure of information to auditor
The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Other information
An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on page 12.

Auditor
KPMG LLP were appointed as auditor during the period. In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

Richard Rees
Director
Block B, Beaufort Park, Chepstow, Wales, NP16 5TY

13 November 2017

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 period. Under that law the Directors have elected to prepare the Company's consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, and the Company Financial Statements in accordance with FRS 101: Reduced Disclosure Framework.

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 Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the financial statements on the 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 Group'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 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Corporate Governance Report

Introduction
Creo Medical Group PLC was admitted to AIM on 9 December 2016. As an AIM-quoted company compliance with the UK Corporate Governance Code (the Code) is not mandatory. Nevertheless, the Board recognises the importance of sound corporate governance and, as such, seeks to comply with the Code to the extent practicable for a public company Creo Medical's size and nature. In addition, the Board seeks to follow, as far as practicable, the recommendations of the Quoted Companies Alliance Guidelines which have become a widely recognised benchmark for corporate governance of smaller quoted companies, particularly AIM companies.

This Corporate Governance Report describes how Creo Medical applies certain principles identified in the Code.

The Board
Creo Medical has a strong and effective leadership team. The Board of Directors is made up of the following individuals:

Executive Board Members
Craig Jonathan Gulliford, Chief Executive Officer
Richard John Rees, Chief Finance Officer
Prof Christopher Paul Hancock, Chief Technology Officer

Non-Executive Board Members
Charles Alexander Evan Spicer, Chairman
John Bradshaw, Independent Non-Executive Director
David Gerard Woods, Non-Executive Director

Brief biographies for each Director, together with their membership of Board Committees, are set out on page 43.

The Board considers that it contains an appropriate range of skills, experience and knowledge for both the current business and the business' future growth plans. In addition, the Board members are of sufficient calibre to bring independent judgment of issues of strategy, performance, resources, and standards of conduct, which are vital to the future growth and success of the Group. The Board believes that it operates in an open and constructive manner, working effectively as a team.

The Chairman provides leadership to the Board and is responsible for setting the agenda for Board meetings, ensuring that the Directors receive the information that they need to participate in Board meetings, and that the Board has sufficient time to discuss issues on the agenda, especially those relating to strategy and governance.

The Chief Executive Officer is responsible for the day to day leadership of Creo Medical, the management team and its employees. The Chief Executive Officer is responsible, in conjunction with senior management, for the execution of strategy approved by the Board and the implementation of Board decisions.

The Board is collectively responsible for the Group's long-term success. Its principal role is to provide leadership for the Group within a framework of prudent and effective controls, which enables risk to be assessed and managed. Certain risk factors identified by the Board are set out on pages 34 to 39. The Board considers the management team's strategic proposals and, following a rigorous review, determines the Group's strategy and ensures that the necessary resources are in place for the management team to execute that strategy.

Board and committee independence
The UK Corporate Governance Code recommends that, in the case of a UK listed company that is a "smaller company" (as defined in the UK Corporate Governance Code as being a company that is outside the FTSE 350), it should have at least two independent non-executive directors. As such, the Board consists of two independent non-executive directors (including the Chairman) and one non-independent non-executive director and three executive directors. Save for David Woods the company regards the non-executive directors as "independent non-executive directors" within the meaning of the UK Corporate Governance Code and free from any relationship that could materially interfere with the exercise of their independent judgment.

Board meetings
The Board seeks to meet regularly, but in any event to hold no less than 6 formal board meetings in each financial year. During the period from 9 December 2016 to 30 June 2017 the board met 4 times.

In addition to the formal scheduled meetings, informal discussions with both Executive Directors and senior operational managers of the Company in relation to strategic business development and other topics important to the Group's progress have been held by members of the Board throughout the year.

Conflicts of interest
To address the provisions of Section 175 of the Companies Act 2006 relating to conflicts of interest, the Company's Articles of Association allow the Board to authorise situations in which a Director has, or may have, a conflict of interest. Directors are required to give notice of any potential situation or transactional conflict that are to be considered at the next Board meeting and, if considered appropriate, conflicts are authorised. Directors are not permitted to participate in such considerations or to vote regarding their own conflicts.

The Board has received no notice from Directors of potential or actual conflicts of interest save in respect of David Woods. To prevent conflicts of interest, David Woods does not participate in or attend discussions with regards to matters which may give rise to a conflict of interests.

Reappointment of Directors
The Company's Articles of Association require that at each Annual General Meeting (the AGM) one-third of Directors shall retire and seek reappointment by shareholders. Additionally, any new Director appointed by the Board is required by the Articles to retire at the next AGM and to seek appointment by shareholders. Without limitation to these requirements and in accordance with the Code all current Board members will seek to be reappointed at the next AGM.

Insurance
The Board has in place Directors' and Officers' Liability insurance.

Committees
The Board has delegated certain powers and duties to the Board Committees, all of which operate within clearly defined terms of reference and in accordance with the Code, where applicable. The Code recommends that all the members of the Remuneration and the Audit Committee are independent Non-executive Directors.

Audit committee

The Audit Committee is chaired by John Bradshaw and its other member is Charles Spicer. The Audit Committee is expected to meet formally at least two times a year and otherwise as required. The Audit Committee has the responsibility for ensuring that the financial performance of the Company is properly reported on and reviewed and its role includes monitoring the integrity of the financial statements of the Company (including annual and interim accounts and results announcements), reviewing internal control and risk management systems, reviewing any changes to accounting policies, reviewing and monitoring the extent of the non-audit services undertaken by external auditors and advising on the appointment of external auditors.

The Board considers that the members of the Audit Committee have sufficient competence to understand, analyse and when necessary challenge the management accounts and public financial statements of the Company. The Company's Auditor has unrestricted access to the Chairman of the Audit Committee. The Chief Financial Officer and a representative of the Auditor of the Company are normally invited to attend meetings of the Audit Committee.

During the period from 9 December 2016 to 30 June 2017 the Audit Committee has met once.

Remuneration committee

The Remuneration Committee is chaired by Charles Spicer and its other member is John Bradshaw, each of whom are independent non-executive directors. The Remuneration Committee meets at such times as required.

The Remuneration Committee has responsibility for determining, within the agreed terms of reference, the Company's policy on the remuneration packages of the Company's chief executive, chairman, and the executive directors, the company secretary, senior managers and such other members of the executive management as it is designated to consider. The Remuneration Committee also has responsibility for determining (within the terms of the Company's policy and in consultation with the Chairman of the Board and/or the chief executive officer) the total individual remuneration package for each executive director, the company secretary and other designated senior executives (including bonuses, incentive payments and share options or other share awards). The remuneration of non-executive directors will be a matter for the Chairman and executive directors of the Board. No Director or manager is allowed to partake in any discussions as to their own remuneration. In addition, the Remuneration Committee has the responsibility for reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and giving full consideration to succession planning. It has responsibility for recommending new appointments to the Board.

During the period from 9 December 2016 to 30 June 2017 the Remuneration Committee met one time. Details of the Remuneration Committee's activities and recommendations are set out on pages 48 and 49.

Internal control and risk management

The Board is responsible for maintaining a sound system of internal financial and operational control and the ongoing review of their effectiveness. The Board's measures are designed to manage, not eliminate, risk and such a system provides reasonable but not absolute assurance against material misstatement or loss. Whilst the Company, as a small AIM-listed company, is not required to comply with the full provisions of the 'Internal Control Guidance for Directors on the Combined Code' (The Turnbull Report), the Board considers that the internal controls do meet many of those requirements and are adequate given the size of the Company. Some key features of the internal control system are:

- Management accounts information, budgets, forecasts and business risk issues are regularly reviewed by the Board who meet at least 6 times per year;
- The Company has operational, accounting and employment policies in place;
- The Company has in place, due to the nature of the products it is developing, a rigorous quality management system that is compliant with ISO: 14385 and which is regularly audited by independent third parties;
- The Board actively identifies and evaluates the risks inherent in the business and ensures that appropriate controls and procedures are in place to manage these risks;
- There is a clearly defined organisational structure within the Company with clear reporting lines; and
- There are newly established financial reporting and control systems within the Company.

Whistleblowing policy

The Group has adopted a whistleblowing policy. The aim of the policy is to encourage all employees to bring matters which cause them concern to the attention certain persons within the Group and ultimately the Chairman of the Board.

Communication with shareholders and the AGM

The Board recognises that it is accountable to its shareholders for the performance and activities of the Group and attaches considerable importance to maintaining regular dialogue and meetings with shareholders.

Apart from the AGM, the Group communicates with its shareholders by way of the Annual Report and financial statements and via the Company's website (www.creomedical.com) which is kept updated with preliminary and interim results, and announcements to the Stock Exchange in accordance with the AIM Rules.

The AGM allows shareholders to meet and communicate with the Board directly. Shareholders are encouraged to participate in the AGM, at which the Board will be available to answer questions from shareholders. Details of the first AGM of the Company and the business to be put to the meeting are contained in a separate circular to shareholders.

Going concern

The Board is required to assess whether the Group has adequate resources to continue operations for the foreseeable future. After making enquiries, the Directors have a reasonable expectation that the Company and the Group will continue in operational existence for the foreseeable future (being a period of at least 12 months from the date of this report). For this reason, they continue to adopt the going concern basis for preparing the financial statements.

By order of the Board

Richard Rees
Director
Block B, Beaufort Park, Chepstow, Wales, NP16 5TY

13 November 2017

Directors' Remuneration Report (unaudited)

Remuneration committee

The responsibilities of the Remuneration Committee are to advise upon and make recommendations to the Board on the Group's remuneration policies and, within the framework established by the Board, to recommend the remuneration of the Executive Directors. The CEO and CFO are invited to attend meetings to discuss remuneration packages and bonus schemes for senior executives within the Group, as well as the awarding of share options to such persons under any share scheme adopted by the Group.

Charles Spicer chairs the Committee and John Bradshaw served on the Committee during the period.

The Remuneration Committee assesses the performance of the Executive Directors and other senior managers in the context of recommending their annual remuneration, bonus awards and share option grants to the Board for final determination. The remuneration of the Non-executive Directors is recommended by the Executive Directors and takes account of the time spent on Board and Committee matters. The Board will make the final determination although no Director will participate in any discussion about his own remuneration.

An important objective of the Committee is to ensure that a competitive and appropriate base salary is paid to Directors and senior managers, together with incentive arrangements that are:

- aligned with shareholders' interests and with long-term business strategies;
- measured against challenging and well-defined financial targets (which are set in advance); and
- transparent and without 'soft' non-financial targets which could otherwise allow undue discretion to award bonuses that do not reflect actual financial performance.

Remuneration policy

The main elements of the remuneration package for Executive Directors and senior management are:

Base annual salary

The base salary may be reviewed annually by the Remuneration Committee. In determining the base annual salary the Remuneration Committee takes into account several factors, including the current position and development of the Group, individual contribution, and market salaries for comparable organisations.

Discretionary annual bonus arrangements

All Executive Directors are eligible for a discretionary annual bonus which is paid in accordance with a bonus scheme developed by the Remuneration Committee. This takes into account performance against defined personal objectives and the financial performance of the Group.

Share incentive schemes

The Group operates certain share option plans (further details of which are set out in Note 8 Share based payments), under which certain Directors and employees have been granted options to subscribe for ordinary shares. All options are equity settled. The options are subject to service conditions and have varying vesting periods and exercise prices (depending on the time of grant). The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Remuneration Policy for Non-executive Directors

Non-executive Directors are employed on letters of appointment which have an initial term of one year and then which may be terminated at any time by either party with three months' notice.

Remuneration for Non-executive Directors is set by the Executive Directors of the Board. Non-executive Directors do not participate in bonus schemes. Charles Spicer and John Bradshaw have been awarded share options.

Directors' remuneration

The remuneration of the Board Directors of Creo Medical Group plc during the period was:

(All figures £)	Salary and taxable benefits	Fees	Pension	Share based payments	12 months to 30 Jun 2017	4 months to 30 Jun 2016
Executive:						
Professor Christopher Hancock	117,877	–	75,547	113,873	307,297	30,160
Craig Gulliford	149,534	–	139,493	272,049	561,076	57,600
Richard Rees	185,296	–	66,000	137,267	388,563	–
Total executive	**452,707**	**–**	**281,040**	**523,189**	**1,256,936**	**87,760**
Non-Executive:						
Charles Spicer	27,083	11,187	–	10,608	48,878	–
John Bradshaw	14,583	572	–	7,072	22,227	–
David Woods	–	–	–	–	–	–
Total non-executive	**41,666**	**11,759**	**–**	**17,680**	**71,105**	**–**
Total directors' remuneration	**494,373**	**11,759**	**281,040**	**540,869**	**1,328,041**	**87,760**

Executive average salary and other pay related benefits in the year are below the median range for AIM listed companies of a similar market capitalisation. Reference 'Executive Remuneration in AIM Companies', an annual report produced by KPMG, March 2016.

Pension contributions include salary and bonus payments contributed on a salary sacrifice basis during the year. Bonus payments, included as part of the salary or sacrificed are one off payments directly related to the listing of Creo Medical Group PLC on AIM. The share based payment charge relates to share options issued by the Group. The charge for the year of £540,869 for directors compares to the charge incurred by the Group in total for all employees of £776,782.

Directors' shareholdings

The interests of the Directors holding office at 30 June 2017 in the shares of the Company, including family interests, were:

	30 Jun 2017 Number	30 Jun 2017 %
Executive:		
Professor Christopher Hancock	4,880,150	6.05%
Craig Gulliford	1,089,886	1.35%
Richard Rees	–	–
Total executive	**5,970,036**	**7.40%**
Non-Executive:		
Charles Spicer	65,790	0.08%
John Bradshaw	–	–
David Woods	–	–
Total non-executive	**65,790**	**0.08%**
Total directors' shareholdings	**6,035,826**	**7.48%**

Directors' interests in share options

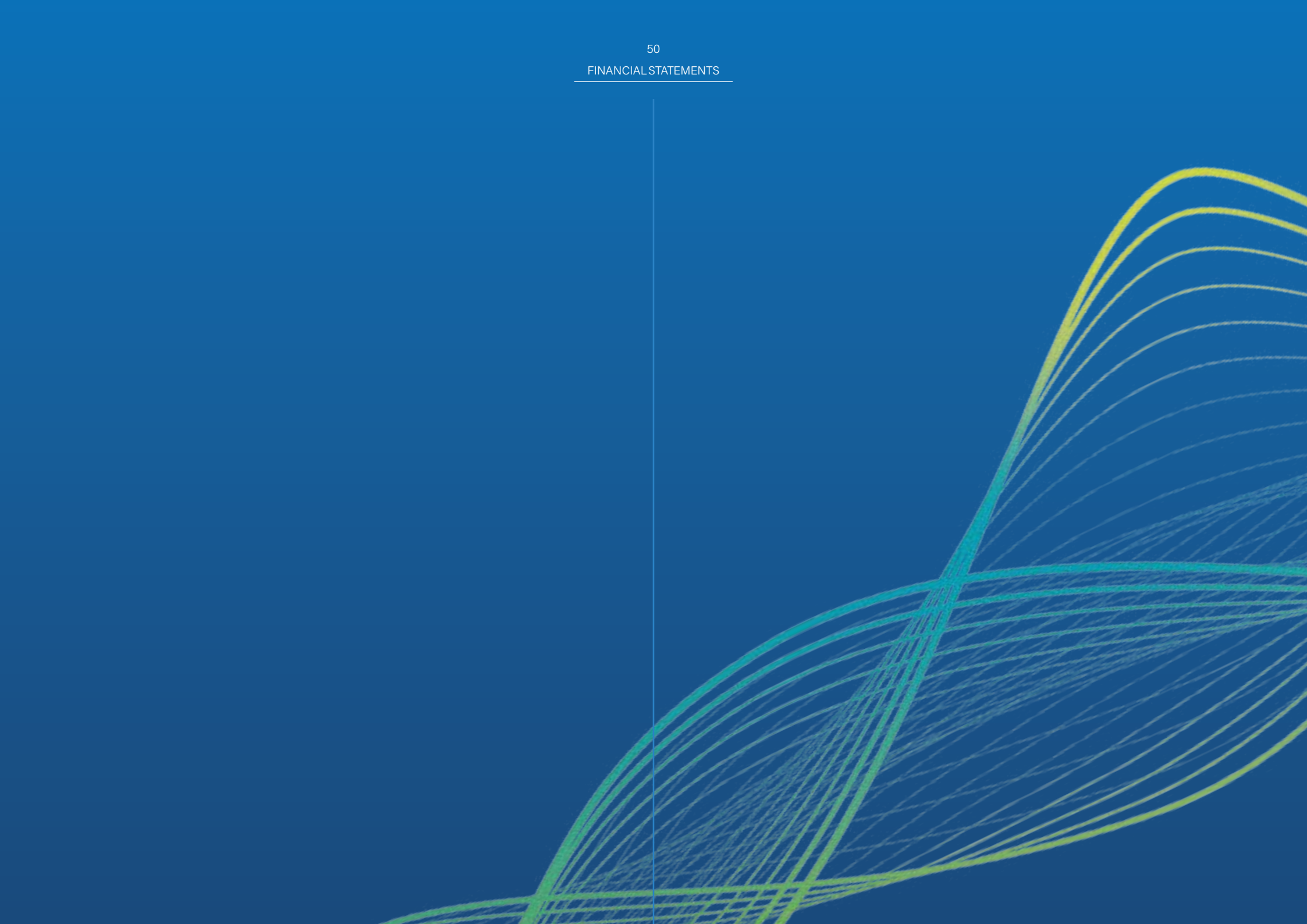
Directors' interests in share options, granted under either the Creo Medical Group plc Enterprise Management Incentive Share Option Scheme or the Creo Medical Group plc Unapproved Share Option Scheme, to acquire ordinary shares of 0.001 pence each in the Company at 30 June 2017 were:

	30 June 2016 Number	Granted during year	Exercised during year	30 June 2017 Number	Vested but unexercised	Exercise price
Executive:						
Professor Christopher Hancock	417,240		–	417,240	417,240	16.67p
Professor Christopher Hancock	–	72,000	–	72,000	72,000	41.67p
Professor Christopher Hancock		1,184,210	–	1,184,210	–	76.00p
	417,240	1,256,210	–	1,673,450	489,240	
Craig Gulliford	153,720	–	153,720	–	–	21.39p
Craig Gulliford	1,078,200	–	538,200	540,000	540,000	16.67p
Craig Gulliford	–	936,000	–	936,000	936,000	41.67p
Craig Gulliford	–	1,578,948	–	1,578,948	–	76.00p
	1,231,920	2,514,948	691,920	3,054,948	1,476,000	
Richard Rees	–	288,000	–	288,000	–	41.67p
Richard Rees	–	1,184,210	–	1,184,210	–	76.00p
	–	1,472,210	–	1,472,210	–	
Total executive	**1,649,160**	**5,243,368**	**691,920**	**6,200,608**	**1,965,240**	
Non-Executive:						
Charles Spicer	–	118,421	–	118,421	–	76.00p
John Bradshaw	27,000	–	–	27,000	27,000	21.39p
John Bradshaw	–	78,947	–	78,947	–	76.00p
	27,000	78,947	–	105,947	27,000	
David Woods	–	–	–	–	–	–
Total non-executive	**27,000**	**197,368**	**–**	**224,368**	**27,000**	
Total directors' shareholdings	**1,676,160**	**5,440,736**	**691,920**	**6,424,976**	**1,992,240**	

All share options are subject to employment conditions, those issued on Listing at 76p are also subject to performance conditions.

Other transactions that occurred with Directors during the year are detailed in note 22 to the financial statements under Related Party Transactions.

Charles Spicer
Chairman of the Remuneration Committee
13 November 2017



FINANCIAL STATEMENTS

Financial Statements

Independent Auditor's Report

1. Our opinion is unmodified

We have audited the financial statements of Creo Medical Group Plc ("the Company") for the year ended 30 June 2017 which comprise Consolidated Statement of Profit and Loss and Other Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows, Parent Company Statement of Financial Position , Parent Company Statement of Changes in Equity, and the related notes, including the accounting policies in note 1.

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 30 June 2017 and of the Group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Materiality: group financial statements as a whole	£65,000 (0.7% of total expenditure)
Coverage	100% of group loss before tax
Risks of material misstatement	
Treatment of research and development costs	
Going concern	

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, 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. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

	The risk	Our response
Development costs £3,583,041 development expenditure in period Refer to pages 56 to 60 (accounting policy) and note 7 on page 61 (financial disclosures)	***Accounting application:*** The group aims to develop cutting-edge surgical endoscopy products. IAS38 requires that if the criteria are met, development costs must be capitalised. Management assessed progress of the projects, including regulatory approval, against these criteria and at year end determined that the criteria had not been met for the group's projects. At this stage the relevant regulatory approvals had not been obtained to provide sufficient probability of cash inflows. As a result all costs incurred up to the end of the year have been expensed. The amounts involved are potentially significant, and the application of accounting standards to determine the point at which costs are capitalised is inherently subjective as the criteria involve an assessment of the probability of future outcomes.	Our procedures included: ▪ Accounting analysis: We reviewed the group's accounting paper and critically assessed this against the criteria of IAS38 for the capitalisation of costs and our understanding of the progress of the group's projects. ▪ Tests of detail: We obtained evidence of the current status of related regulatory approvals. ▪ Assessing transparency: We evaluated the adequacy of the disclosures compared with the requirements of the accounting standards and our understanding of the business.
Going concern Refer to page 56 (accounting policy) and page 59 (critical accounting judgments and policy update)	***Going concern:*** The company's products are still in the development stage and are not yet generating revenue. The company does not have any bank debt or overdraft / working capital facilities. Therefore, it is reliant on funding obtained from its investors to be able to meet its day-to- day working capital requirements. Going concern is therefore a risk if the company uses its available resources at a faster rate than forecast or does not obtain cash inflow from sale of the product in line with the projected timing, volume or pricing. The going concern assessment is subjective due to the inherent uncertainty involved in forecasting.	***Our procedures included:*** ▪ Control design: Testing the group's budgeting procedures upon which the cash flow forecasts are based; ▪ Funding assessment: Assessment of the funds available to the group and parent compared to the projected requirements; ▪ Our experience: Evaluating reasonableness of forecast assumptions used to support the going concern assessment. We evaluated historical performance as a guide of the future cash spend in the development phase and used our knowledge of the business and market to consider forecast changes; ▪ Sensitivity analysis: Performing stress testing analysis on the assumptions including increasing the rate of cost growth to establish headroom compared to the resources available to the company. ▪ Assessing transparency: We evaluated the adequacy of the disclosure relating to going concern and in particular the uncertainties relating to forecasting future performance.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £65,000, determined with reference to a benchmark of total expenses (of which it represents 0.7%).

We consider total expenses to be the most appropriate benchmark as the group does not currently generate revenue and so revenue and profit/(loss) are not meaningful measures.

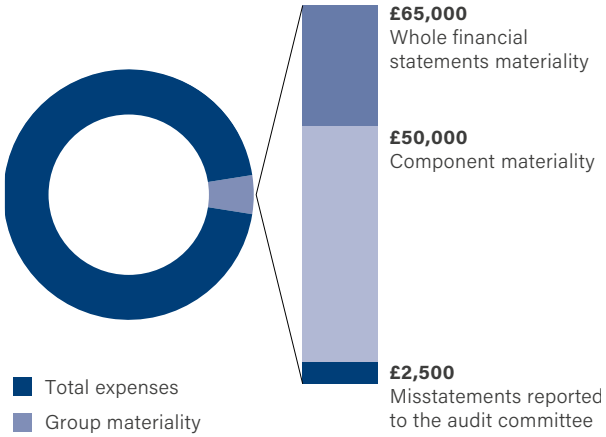
Materiality for the parent company financial statements as a whole was set at £65,000, determined with reference to a benchmark of company total assets, of which it represents 0.40%.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £2,500, in addition to other identified misstatements that warranted reporting on qualitative grounds.

The group has 2 reporting components both of which we subjected to a full scope audit. Our audit was undertaken to the materiality level specified above and was performed at the company's head office in Chepstow by the group audit team.

Total expenses
£9.2m

Group Materiality
£65,000



4. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

7. Other matter – Prior period financial statements

We note that the prior period financial statements were not audited. Consequently, International Standards on Auditing (UK and Ireland) require the auditor to state that the corresponding figures contained within these financial statements are unaudited. Our opinion is not modified in respect of this matter.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 45, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and, 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 they 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

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9. The purpose of our audit work and to whom we owe our responsibilities

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

Jeremy Thomas
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
3 Assembly Square, Britannia Quay, Cardiff CF10 4AX

Consolidated Statement of Profit and Loss and Other Comprehensive Income

(All figures £)	Note	12 months to 30 June 2017	4 months to 30 June 2016
Revenue	2	–	–
Other operating income	2	277,687	169,407
Administrative expenses		(9,180,753)	(2,044,063)
Operating loss		**(8,903,066)**	**(1,874,656)**
Finance costs	9	(10,721)	(1,472)
Finance Income	9	5,337	7,793
Loss before tax	3	**(8,908,450)**	**(1,868,335)**
Taxation	10	1,142,933	255,077
Loss for the year		**(7,765,517)**	**(1,613,258)**
Total comprehensive loss for the year		**(7,765,517)**	**(1,613,258)**
Earnings per Share			
Basic and diluted	11	(0.13)	(0.05)

The notes on pages 56 to 70 form part of the financial statements.

Consolidated Statement of Financial Position

(All figures £)	Note	30 June 2017	30 June 2016
Assets			
Non-current assets			
Intangible assets	12	10,896	12,876
Property, plant and equipment	13	325,019	239,748
Other financial assets	18	–	7,402
Other non current receivables	15	14,853	13,053
		350,768	273,079
Current assets			
Inventories	14	91,333	–
Trade and other receivables	15	542,914	479,150
Tax receivable	16	1,449,976	842,466
Cash and cash equivalents		13,688,762	823,283
		15,772,985	2,144,899
Total assets		**16,123,753**	**2,417,978**
Shareholder equity			
Called up share capital	20	80,712	1,436
Share premium	20	19,810,393	–
Merger reserve	20	13,602,735	13,480,175
Share option reserve	20	1,288,250	511,468
Retained earnings	20	(20,129,432)	(12,363,915)
		14,652,658	1,629,164
Liabilities			
Non-current liabilities			
Interest bearing liabilities	19	1,448	15,044
		1,448	15,044
Current liabilities			
Trade and other payables	17	1,455,874	761,987
Interest bearing liabilities	19	13,773	11,783
		1,469,647	773,770
Total liabilities		1,471,095	788,814
Total equity and liabilities		**16,123,753**	**2,417,978**

These financial statements were approved by the board of directors on 13 November 2017 and were signed on its behalf by:

Richard Rees
Director

Company registered number: 10371794

The notes on pages 56 to 70 form part of the financial statements.

Consolidated Statement of Changes in Equity

(All figures £)	Note	Called up share capital	Retained earnings	Share premium	Merger reserve	Share option reserve	Total equity
Balance at 28 February 2016		1,436	(10,750,657)		13,480,175	491,107	3,222,061
Total comprehensive income for the period							
Profit or loss		–	(1,613,258)	–	–	–	(1,613,258)
Other comprehensive income		–	–	–	–	–	–
Total comprehensive income		–	(1,613,258)	–	–	–	(1,613,258)
Transactions with owners, recorded directly in equity							
Equity settled share based payment transactions	8	–	–	–	–	20,361	20,361
Balance at 30 June 2016		**1,436**	**(12,363,915)**	**–**	**13,480,175**	**511,468**	**1,629,164**
Total comprehensive income for the period							
Profit or loss		–	(7,765,517)	–	–	–	(7,765,517)
Other comprehensive income		–	-	–	–	–	–
Total comprehensive income		–	(7,765,517)	–	–	–	(7,765,517)
Transactions with owners, recorded directly in equity							
Issue of share capital (6th October 2016)*		19	–	–	122,560	–	122,579
Bonus issue of share capital (9th November 2016)		50,950	–	(50,950)	–	–	–
Issue of share capital (9th December 2016)		28,307	–	19,861,343	–	–	19,889,650
Equity settled share based payment transactions	8	–	–	–	–	776,782	776,782
Balance at 30 June 2017		**80,712**	**(20,129,432)**	**19,810,393**	**13,602,735**	**1,288,250**	**14,652,658**

The notes on pages 56 to 70 form part of the financial statements.

Consolidated Statement of Cash Flows

(All figures £)	Note	12 months to 30 June 2017	4 months to 30 June 2016
Cash flows from operating activities			
Total comprehensive loss for the period		(7,765,517)	(1,613,258)
Depreciation/amortisation charges		142,424	46,941
Increase in share option reserve		776,782	20,361
Fair value adjustment to derivatives		7,402	(6,002)
Finance costs		3,319	1,472
Finance income		(5,337)	(1,791)
R&D expenditure credit (RDEC)		(17,067)	–
Taxation	10	(1,142,933)	(255,077)
		(8,000,927)	(1,807,354)
Increase in inventories	14	(91,333)	–
Increase in trade and other receivables		(65,564)	(65,556)
Increase in trade and other payables		693,887	260,781
		(7,463,937)	(1,612,129)
Interest paid		(3,319)	(1,472)
Tax received		552,490	(26,719)
Net cash from operating activities		**(6,914,766)**	**(1,640,320)**
Cash flows from investing activities			
Purchase of intangible fixed assets	12	(1,264)	(13,244)
Purchase of tangible fixed assets	13	(224,450)	(86,961)
Interest received		5,337	1,791
Net cash from investing activities		(220,377)	(98,415)
Cash flows from financing activities			
Capital repayments in year		(11,606)	(4,762)
Share issue	21	20,012,229	–
Net cash from financing activities		20,000,623	(4,762)
Increase/(Decrease) in cash and cash equivalents		12,865,479	(1,743,496)
Cash and cash equivalents at beginning of period		823,283	2,566,779
Cash and cash equivalents at end of period		**13,688,762**	**823,283**

The notes on pages 56 to 70 form part of the financial statements.

Notes to the financial statements

1. Accounting policies

General information

Creo Medical Group plc is a public company, limited by shares, registered and domiciled in England and Wales in the UK. The company's registered number is 10371794 and the registered office is Block B, Beaufort Park, Chepstow, Gwent, Wales, NP16 5TY.

The Group financial statements consolidate those of the parent company and its subsidiary (together referred to as the "Group"). The Parent Company financial statements present information about Creo Medical Group plc as a separate entity and not about its group.

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the European Union ("adopted IFRSs"). The Company has elected to prepare its Parent Company financial statements in accordance with FRS 101. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these group financial statements.

Basis of preparation

This is the first annual financial report of the Company since the incorporation of Creo Medical Group plc on 12 September 2016 and the subsequent acquisition of Creo Medical Limited via a share for share exchange on 9 November 2016. The accounts of Creo Medical Limited for the period ended 30 June 2016, which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("adopted IFRSs"), have been delivered to the Registrar of Companies. Those accounts were unaudited as the Company was entitled to exemption from audit under section 477 of the Companies Act 2006. The financial statements are presented in sterling and rounded to the nearest pound.

This annual financial report for the twelve-month period ended 30 June 2017 (including comparatives for the 4 months ended 30 June 2016) was approved by the Board of Directors on 13 November 2017.

The following IFRSs have been issued but have not been adopted in preparing these financial statements. Their adoption is not expected to have a material effect on the consolidated financial statements of the group unless otherwise indicated:

- IFRS 9 Financial Instruments (effective 1 January 2018).
- IFRS 15 Revenue from Contract with Customers (effective 1 January 2018).
- IFRS 16 Leases (effective 1 January 2019)
- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (effective date to be confirmed).
- Agriculture: Bearer Plants – Amendments to IAS 16 and IAS 41 (effective date to be confirmed).
- Equity Method in Separate Financial Statements – Amendments to IAS 27 (effective date to be confirmed).
- Sale or Contribution of Assets between and Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (effective date to be confirmed)
- Annual Improvements to IFRSs – 2012-2014 Cycle (effective date to be confirmed).
- Investment entities: Applying the Consolidation Exception – Amendments to IFRS 10, IFRS 12 and IAS 28 (effective date to be confirmed).
- Disclosure Initiative – Amendments to IAS 1 (effective date to be confirmed).

With the exception of IFRS 16, none of these standards or amendments are expected to have a significant effect on the consolidated financial statements of the group. We will continue to assess the impact of IFRS 15 but currently this has no effect. To prepare for the adoption of IFRS 16 we will undertake a review of the group's leasing arrangements and comment on the impact in the Annual Report for the period ending 30 June 2018 ahead of any inclusion in the Consolidated Statement of Financial Position for the period ending 30 June 2019.

Measurement convention

The financial statements are prepared on the historical cost basis except that derivative financial instruments are stated at their fair value.

Business combinations and basis of consolidation

On 9 November 2016 Creo Medical Group plc offered a share for share exchange to the shareholders of Creo Medical Limited. As a result of this transaction, Creo Medical Group plc became the parent entity of Creo Medical Limited.

On the basis that there was no change in control following the share for share exchange, this is considered a common control transaction.

Therefore, within the Parent Company accounts the acquisition of Creo Medical Limited has been treated in accordance with IAS 27 Separate Financial Statements and so has been acquired at book value. Within the consolidated financial statements, the acquisition of Creo Medical Limited is considered to be a company reorganisation among entities under common control and as such IFRS 3 is not considered to apply, therefore book value accounting has been applied to the acquisition. The directors have chosen to restate the comparatives for the Company prior to the acquisition date to show the combination as though it has occurred prior to the start of the earliest period presented. This is deemed to provide the user with a truer view of the Company's performance through the period.

Accounting policies adopted are consistent across the group. All Intra-group balances and transactions, including unrealised income and expenses arising from intra-group transactions, are eliminated on consolidation.

Going concern

The funding raised as a result of the listing on AIM on 9 December 2016 has provided the financial resources required to support the Group's ongoing operations as well as its future development and growth. The group reported a loss for the year of £7.8m (4 months to 30 June 2016: loss £1.6m). Net assets as at 30 June 2017 were £14.7m (30 June 2016: £1.6m) and include cash and cash equivalents of £13.7m (30 June 2016: £0.8m).

Although there cannot be absolute certainty that the Company will complete the development and regulatory clearances required, the Board remains confident of its ability to continue with the development, the process of obtaining regulatory approvals and the commercialisation of its products. On this basis, the Company has prepared detailed forecasts and projections taking into account the available funding and its planned activities for the five year period to 30 June 2022.

1. Accounting policies continued

The company expects to commence sales of its products in FY2019 followed by a period of ramp up to achieving positive cash flows and profits by FY2022. Therefore, FY2018 represents a further year of non-revenue generating operations which the company will fund with existing cash resources. A forecast cash position of £7m as at 30 June 2018 is based on the current level of operations and expenditure and any further outflows planned. It is noted that further funding will be required during FY2019 to support the company's growth until it is projecting to generate positive cash flows.

The directors acknowledge that there is always a risk with raising additional capital, whether from equity or debt sources. However, the group has continually demonstrated its ability to raise funding from investors and consider there to be no significant reason it could not do so again given the current position of the group and the related investment proposition.

On the basis of the current position and the financial projections, the Directors are satisfied that the Group will have adequate resources to continue in operational existence for the foreseeable future and for a period of not less than 12 months from the date of signing these accounts. Thus, they continue to adopt the going concern basis of accounting in preparing the annual report.

Comparative information

The comparative figures for the financial period ended 30 June 2016 have been extracted from the statutory accounts of Creo Medical Limited for that period. As discussed above under Business combinations and basis of consolidation, the Company has applied the principles of book value accounting in the presentation of its consolidated accounts for the comparative period. In doing so the comparative period shows the results of the acquired entity (Creo Medical Limited) along with the share capital structure of the Parent Company (Creo Medical Group plc). Further, the consolidated share capital and share premium presented for the comparative period is that which was in existence immediately following the share for share exchange which occurred on 9 November 2016.

Intangible assets

Intangible assets include software for the period ending 30 June 2017.

Software which is not an integral part of hardware assets are stated at historic cost, including expenditure that is directly attributable to the acquired item, less accumulated amortisation and impairment losses.

Expenditure on research activities is recognised as an expense in the year in which it is incurred. Costs are classified as research expenditure rather than development unless all of the below criteria are met, in which case these costs are capitalised on balance sheet.

Development criteria:

a. completion of the intangible asset is technically feasible so that it will be available for use or sale;
b. the Company intends to complete the intangible asset and use or sell it;
c. the Company has the ability to use or sell the intangible asset and the intangible asset will generate probable future economic benefits over and above cost;
d. there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
e. the expenditure attributable to the intangible asset during its development can be measured reliably.

In particular, although CE approval and test cases were underway with the Speedboat product at year end, as at year end the company was not able to demonstrate criteria c as prior to FDA clearance being provided significant redesign could be required. Furthermore at year end and due to the nature of research work performed it was not possible to attribute accurately the costs to specific projects. An accurate cost allocation system has been put in place following year end.

Amortisation commences when the project is available for sale or use within the business.

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

Amortisation is charged so as to write off the costs of intangible assets over their estimated useful lives, on the following basis:

Software	– 3 years straight line

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

Depreciation is charged so as to write off the costs of assets over their estimated useful lives, on the following basis:

Leasehold property improvements	– 3 years straight line
Office equipment	– 2, 3 or 4 years straight line
Fixtures and fittings	– 3 or 4 years straight line
Motor vehicles	– 4 years straight line
Plant and machinery	– 3 years straight line or 4 years reducing balance

The gain or loss arising on the disposal of an asset is determined as the difference between sales proceeds and the carrying amount of the asset and is recognised in income on the transfer of the risks and rewards of ownership.

The Company has no class of tangible fixed asset that has been revalued. On transition to IFRS the net book values recorded at 1 March 2013 have been applied and these are based on historic cost at the date of acquisition.

Notes to the financial statements
continued

1. Accounting policies continued

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is based on First In, First Out (FIFO) principle using standard costing techniques and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition.

Financial instruments
The company predominantly enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, loans from other third parties, loans to related parties and investments in non-puttable financial instruments. Any transactions relating to share options issued by the entity are disclosed in the share based payment accounting policy and note. The company is also able to enter into a variety of derivative financial instruments to manage its exposure to foreign exchange risk, including foreign exchange forward contracts and cross currency swaps.

Trade and other receivables
Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Trade and other payables
Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Investments in debt and equity securities
Debt instruments like finance lease liabilities are stated at amortised cost less impairment.

Interest-bearing borrowings
Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Derivative financial instruments
Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. The group has not applied hedge accounting in the current or comparative periods.

Foreign currencies
The functional currency of the Group is pounds sterling. Transactions entered into by Group entities in a currency other than the reporting currency are recorded at the rates ruling when the transaction occurred. Foreign currency monetary assets and liabilities are translated into sterling at the rates ruling at the statement of financial position date. Exchange differences arising on the re-translation of the unsettled monetary assets and liabilities are similarly recognised in the income statement.

Current and deferred tax
Current taxes are based on the results shown in the financial statements and are calculated according to local tax rules, using tax rates enacted or substantially enacted by the statement of financial position date.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

The company incurs research and development expenditure which qualifies for Research and Development (R&D) tax relief and as such, prepares and submits an R&D claim to HMRC in relation to each accounting period. The claims are made on the basis that the company and its activities meet the necessary conditions.

As the company is currently loss making, there is no corporation tax liability arising, therefore it has chosen to convert the tax relief into payable tax credits instead of carrying forward a loss. This results in the credit being paid in cash directly to the company following the submission of a valid claim.

The company is claiming R&D tax relief predominately under the small or medium sized enterprises ('SME') scheme therefore the credit is accounted for as tax in accordance with IAS 12 Income Taxes. However, where the R&D expenditure is related to monies received from research grants, the company is claiming an R&D expenditure credit ('RDEC') under the Large Company Scheme and as such the related credit is accounted for 'above the line' in accordance with IAS 20 Accounting for Government Grants, specifically as a reduction from the related expenditure in the statement of comprehensive income.

Operating lease payments
Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Finance lease payments
Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Employee benefits
Defined contribution plans
A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

1. Accounting policies continued

Share-based payments

Equity-settled share options are granted to certain officers and employees. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognised over the tranche's vesting period based on the number of awards expected to vest, through an increase to equity. The number of awards expected to vest is reviewed over the vesting period, with any forfeitures recognised immediately.

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment transactions in which the Group receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Group's equity instruments are accounted for as cash-settled share-based payments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss. Where the Company grants options over its own shares to the employees of its subsidiaries it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its consolidated financial statements with the corresponding credit being recognised directly in equity. Amounts recharged to the subsidiary are recognised as a reduction in the cost of investment in subsidiary. Where costs recharged match those incurred there is no net impact on the investment in subsidiary.

Financing income and expenses

Financing expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Financing income comprise interest receivable on funds invested, dividend income, and net foreign exchange gains.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic benefit will be required to settle the obligation, the provision is reversed. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Critical accounting judgments and policy update

The Group is required to make estimates and assumptions concerning the future. These estimates and judgments are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. Accounting estimates and judgments have been required for the production of these Financial Statements. The following are those that are deemed to require the most complex judgments about matters that have the most significant effect on the amounts recognised in the Financial Statements.

Capitalisation of development costs

IAS 38 Intangible Assets, requires that development costs are capitalised when specific criteria is met. The determination of the satisfaction of the criteria is judgmental. Although certain products are in an advanced stage of development, the group determined that all the criteria was not met as at the year end and therefore the group has not capitalised any development costs under IAS 38 at 30 June 2017. Specifically, the ability to sell and generate future economic benefit is dependent on the group achieving regulatory approvals for its products. Although CE marking had been obtained in the year allowing the company to commence training programs and live trials in Europe, full FDA clearance had not been achieved. Without FDA clearance, thereby giving the group the necessary approvals in both Europe and the US, there is no guarantee that the group can generate future economic benefit from the product, as for example, significant redesign of the product may be required before FDA clearance is achieved. Therefore, as at the year end, the group was unable to demonstrate the satisfaction of the criteria in IAS 38 and all related development expenditure was expensed as incurred. Since year end the group has obtained FDA clearance for its speedboat device and the CROMA generator system. This enables the group to establish a training program and undertake clinical cases in the US. This is considered a significant milestone in the development of these products and the group will reassess the criteria for capitalising development costs in the year ending 30 June 2018.

Going concern

The group's going concern assessment is detailed in the related accounting policy. The key elements of uncertainty relate to the cash spend rate, the amount and timing of revenue being received and the availability of additional funding as required.

Notes to the financial statements
continued

1. Accounting policies continued

Recognition of deferred tax asset and tax credits

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Given the nature and stage of development of the group there are significant losses accumulated to date. To determine whether a deferred tax asset should be recognised in relation to the future tax deduction that these losses represent, the directors have considered the estimated profits over a medium term forecast. These forecasts continue to show tax losses for the medium term (5 years) as the group continues to develop its product base. Thus there is considered to be insufficient certainty over the timing and amount of loss recoverability for an asset to be recognised.

In the calculation of the tax receivable, the directors have assessed what they consider to be the R&D tax credit available on spending to date. Until the claim is accepted and paid there remains uncertainty over the recoverability of this claim however management consider that their estimate is a reasonable estimate of the recoverable amount.

2. Revenue and other operating income

The Group does not currently generate any revenue from its activities.

Other operating income relates to research grants. Income is recognised necessary to match it with the related costs in the profit or loss on a systematic basis over the periods in which the entity recognises expenses for the related costs for which the grants are intended to compensate. Furthermore, income is recognised only when there is reasonable assurance that the company will comply with any conditions attached to the grant and the grant will be received.

Segmental reporting: Operating segments are identified on the basis of internal reporting and decision making. The board regularly reviews the company's performance and balance sheet position for its operations and receives financial information for the company. As a result the company has one reportable segment, which is being the research and development of electrosurgical medical devices relating to the field of surgical endoscopy. As there is only one reportable segment whole profit, expenses, assets, liabilities and cash flows are measured and reported on a basis consistent with the financial statements, no additional disclosures are necessary.

3. Loss before tax

The loss before income tax is stated after charging/(crediting):

(All figures £)	12 months to 30 June 2017	4 months to 30 June 2016
Depreciation – owned assets	127,090	42,544
Depreciation – assets on hire purchase contracts	12,088	4,029
Amortisation	3,245	368
Operating leases – land and buildings	129,859	36,707
Operating leases – other	51,340	21,028
Research and development expenditure	3,583,041	833,881
Foreign exchange differences	12,734	(657)

4. Audit and non-audit fees

An analysis of auditors' remuneration is as follows:

(All figures £)	12 months to 30 June 2017	4 months to 30 June 2016
Audit fees	**50,000**	**–**
Audit-related assurance services	25,000	–
Tax compliance services	5,800	–
Corporate finance services	267,800	–
All other services	17,700	–
Non-audit fees	**316,300**	**–**

Corporate finance services include costs associated with the production of the following; long form report, short form report, remuneration and share plan review, enterprise management incentive plan and other non-recurring costs associated with the listing on AIM.

5. Staff numbers and costs

The cost of employees (including Directors) during the period was made up as follows:

(All figures £)	12 months to 30 June 2017	4 months to 30 June 2016
Wages and salaries	2,679,600	452,152
Social security costs	292,801	50,371
Pension	281,040	–
Share-based payments	776,782	20,360
Total remuneration	**4,030,223**	**522,883**

The average monthly number of employees during the period was as follows;

(All figures £)	12 months to 30 June 2017	4 months to 30 June 2016
Research and development	25	22
Administration	7	5
	32	**27**

Employee remuneration, excluding directors on comparison to 'Life Sciences' and Medical Device businesses, is at or above the median range.

All pension costs incurred in the year relate to directors. The staging date for auto-enrolment is 1 July 2017.

6. Directors remuneration

(All figures £)	12 months to 30 June 2017	4 months to 30 June 2016
Directors' remuneration	494,373	74,485
Pension	281,040	–
Share based payments expensed	540,869	13,275
Amounts paid to third parties in respect of directors' services	11,759	–
Total directors' remuneration	**1,328,041**	**87,760**

Directors' emoluments disclosed above, including the fair value for share based payment expenses, paid to the highest paid Director in the Period was £561,076 (Period to June 2016: £57,600), there were Company pension contributions of £281,040 made to defined contribution schemes during the current period (30 June 2016: £nil). The share options exercised in the period by the highest paid Director were £122,579 (30 June 2016: £nil).

Executive average salary and other pay related benefits in the year are below the median range for AIM listed companies of a similar market capitalisation. See Directors' remuneration report for details of total remuneration by director.

7. Research and development expenditure

During the current and comparative years, the principle activity of the entity was research and development. Expenditure on research and development activities is recognised in the statement of profit or loss as incurred.

8. Share based payments

At 30 June 2017 the Group has an established Enterprise Management Incentive ("EMI") and a non-EMI schemes ("the Schemes") under which share options have been granted to key management personnel and certain senior employees. The Schemes are an equity-settled share based payment arrangement whereby holders of vested options are entitled to purchase shares in the company at the market price of the shares at the grant date. Currently these schemes are limited to key management personnel and other senior employees.

The schemes include non-market based vesting conditions only, whereby the share options may be exercised from the date that they vest until the 10th anniversary of the date of the grant. There are no performance based vesting conditions and the only vesting requirement is that the recipient remains in employment with the Company. All options to be settled by the physical delivering of shares. Details of the grants under these schemes are as follows:

Award	Grant date	Number of options	Vesting conditions	Exercise price	Fair value	Contractual life of options
1	04 Jan 2012	2,003,760	Continual service of employment over 3 years	0.16 to 0.22	0.08 to 0.10	10 years
2	06 Dec 2013	243,720	Continual service of employment over 3 years	0.21	0.09	10 years
3	14 Jul 2015	1,091,520	Continual service of employment over 3 years	0.17	0.11	10 years
4	14 Jul 2015	670,680	Continual service of employment over 3 years	0.17	0.11	10 years
5	03 Aug 2015	1,242,000	Continual service of employment over 3 years	0.17	0.12	10 years
6	04 Aug 2015	216,000	Continual service of employment over 3 years	0.17	0.12	10 years
7	29 Sep 2016	1,944,000	Continual service of employment over 3 years	0.17	0.11	10 years
8	09 Dec 2016	5,907,896	Continual service of employment over 3 years	0.76	0.48	10 years
		13,319,576				

Notes to the financial statements
continued

8. Share based payments continued

Share option activity for the Year ended 30 June 2017 is presented below:

	30 June 2017 Number of options	30 June 2017 Weighted average exercise price	30 June 2016 Number of options	30 June 2016 Weighted average exercise price
Outstanding at start of period	5,196,240	£0.16	5,196,240	£0.16
Granted during the period	7,851,896	£0.76	–	–
Forfeited during the period	(413,280)	–	–	–
Exercised during the period	(691,920)	–	–	–
Outstanding at end of period	11,942,936	£0.46	5,196,240	£0.16
Exercisable at end of period	5,351,040	£0.16	4,225,680	£0.16
Weighted average remaining contractual life (in years) of options outstanding at the period end	–	8.4	–	8.1

On 9 November 2016 for every one share option held an additional 35 share options were issued, the share options were then sub divided by 10. The balance at 30 June 2016 has been restated from 14,434 to 5,196,240 £0.001 total ordinary share options.

The estimated fair value of the share options was calculated by applying a Black-Scholes model. The model inputs for the current period option grants were as follows (there were no options granted in the 4 month period ending 30 June 2016):

	12 months to 30 June 2017	4 months to 30 June 2016
Exercise price	£0.76	–
Share price at date of grant	£0.80	–
Risk-free interest rate	0.5%	–
Expected volatility	51%	–
Dividend yield	0%	–
Contractual life of option (years)	10	–

Expected volatility was based on historical volatility of comparable listed companies, which may not necessarily be the actual outcome.

Share based payment expense

(All figures £)	12 months to 30 June 2017	4 months to 30 June 2016
Expense arising from share-based payment transactions	776,782	20,361

The following amounts for share-based payments are reflected in the above Consolidated Statement of Profit and Loss and Other Comprehensive Income in relation to directors:

(All figures £)	12 months to 30 June 2017	4 months to 30 June 2016
Professor Christopher Hancock	113,873	–
Craig Gulliford	272,049	13,275
Richard Rees	137,267	–
Charles Spicer	10,608	–
John Bradshaw	7,072	–
	540,869	**13,275**

9. Finance income and costs

(All figures £)	12 months to 30 June 2017	4 months to 30 June 2016
Finance income:		
Bank interest	5,337	1,791
Fair value adjustment for derivatives	–	6,002
Total finance income	**5,337**	**7,793**
Finance costs:		
Bank interest	–	17
Interest expense on finance leases liabilities	3,319	1,455
Fair value adjustment for derivatives	7,402	–
Total finance costs	**10,721**	**1,472**

10. Taxation

Recognised in the income statement

(All figures £)	Note	12 months to 30 June 2017	4 months to 30 June 2016
Current tax:			
Current year		(1,172,621)	(263,255)
Adjustments for prior years		29,688	8,178
Current tax credit		**(1,142,933)**	**(255,077)**
Deferred tax:			
Origination and reversal of temporary timing differences	16	–	–
Total tax credit		**(1,142,933)**	**(255,077)**

Reconciliation of effective tax rate

(All figures £)	Note	12 months to 30 June 2017	4 months to 30 June 2016
Loss for the period		(7,765,517)	(1,613,258)
Total credit		(1,142,933)	(255,077)
Loss excluding taxation		**(8,908,450)**	**(1,868,335)**
Tax using the UK corporation tax rate of 19.75%		(1,759,419)	(373,667)
Research and development		(468,342)	(100,634)
Movement in deferred tax not provided		883,432	171,231
Non-deductible expenses		171,708	39,815
Prior year adjustment		29,688	8,178
Total tax credit		**(1,142,933)**	**(255,077)**

The tax credit of £1,142,933 (Period to 30 June 2016: £255,077) relates to R&D tax relief claims submitted by the Group under the small or medium sized enterprises ('SME') scheme and therefore is accounted for as a tax credit in accordance with IAS12 Incomes Taxes. In addition, the Group as also submitted R&D claims under the large company ('RDEC') scheme in relation to monies received from Research Grants. In accordance with IAS 20 Accounting for Government Grants, an amount of £17,067 (period to 30 June 2016: £10,183) has been accounted for 'above the line' as a reduction from the related expenditure in the statement of comprehensive income.

11. Earnings per share

(All figures £)	12 months to 30 June 2017	4 months to 30 June 2016
(Loss)		
(Loss) attributable to equity holders of Company (basic)	(7,765,517)	(1,613,258)
Shares (number)		
Weighted average number of ordinary shares in issue during the period	60,017,322	33,211,080
Earnings per share		
Basic & diluted	(0.13)	(0.05)
Ordinary shares start of year	33,211,080	33,211,080
Issued in year		
Issue 1 – Ordinary	691,920	–
Issued with 9 months remaining		
Issue 2 – Ordinary	18,501,480	–
Issued with 7 months remaining		
Issue 3 – Ordinary	1,991,465	–
Issued with 7 months remaining		
Issue 4 – Ordinary	26,315,800	–
Issued with 7 months remaining		
Closing ordinary shares	80,711,745	33,211,080
Average ordinary shares	60,017,322	33,211,080
Basic EPS	**(0.13)**	**(0.05)**

Earnings per share has been calculated in accordance with IAS 33 – Earnings Per Share using for the loss for the period after tax, divided by the weighted average number of shares in issue.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all potential dilutive ordinary shares. The potential ordinary shares are considered to be antidilutive on the basis that they reduce the loss per share and are such are not included in the Company's EPS calculation, meaning that diluted EPS is the same as basic EPS. Adjusted EPS is calculated as follows:

(All figures £)	12 months to 30 June 2017	4 months to 30 June 2016
(Loss)		
(Loss) attributable to equity holders of Company (basic)	(7,765,517)	(1,613,258)
Expenses of the initial public offering (non-recurring)	1,252,692	–
Adjusted operating loss	(6,512,825)	(1,613,258)
Shares (number)		
Weighted average number of ordinary shares in issue during the period	60,017,322	33,211,080
Earnings per share adjusted		
Basic & diluted	(0.11)	(0.05)

Notes to the financial statements
continued

12. Intangible assets

(All figures £)	Computer software	Assets under construction	Total
Cost:			
At 1 July 2016	13,244	–	13,244
Additions	1,265	42,740	44,005
Amounts written off	–	(42,740)	(42,740)
At 30 June 2017	14,509	–	14,509
Amortisation:			
At 1 July 2016	368	–	368
Charge for period	3,245	–	3,245
At 30 June 2017	3,613	–	3,613
Net book value at 30 June 2017	10,896	–	10,896
Net book value at 30 June 2016	12,876	–	12,876

Amounts written off in the year of £42,740 relate solely to development costs incurred in the first half of the fiscal year, to 31 December 2016. On subsequent review, these costs did not meet the criteria for capitalisation and as such have been expensed in the second half of the year, to 30 June 2017.

13. Property, plant and equipment

(All figures £)	Leasehold property	Office equipment	Fixtures and fittings	Motor vehicles	Plant and machinery	Assets under construct ion	Total
Cost:							
At 1 July 2016	16,664	272,097	68,334	10,000	210,146	–	577,241
Additions	–	131,471	2,327	–	34,353	56,298	224,449
At 30 June 2017	16,664	403,568	70,661	10,000	244,499	56,298	801,690
Amortisation:							
At 1 July 2016	4,915	129,875	57,766	10,000	134,937	–	337,493
Charge for period	5,554	81,040	7,239	–	45,345	–	139,178
At 30 June 2017	10,469	210,915	65,005	10,000	180,282	–	476,671
Net book value at 30 June 2017	6,195	192,653	5,656	–	64,217	56,298	325,019
Net book value at 30 June 2016	11,749	142,222	10,568	–	75,209	–	239,748

At 30 June 2017 the net book value of office equipment leased assets was £19,143 (2016: £31,230).

14. Inventories

(All figures £)	30 June 2017	30 June 2016
Raw materials and consumables	91,333	–
Total inventories	**91,333**	**–**

The directors are of the opinion that the replacement values of inventories are not materially different to the carrying values stated above.

All inventories are expected to be recovered and used within the year and all relate to the development of current and approved products, as such no impairment is required.

15. Trade and other receivables

(All figures £)	30 June 2017	30 June 2016
Current:		
Other income	61,063	263,613
Prepayments	304,431	94,248
VAT	177,420	121,289
Total current	**542,914**	**479,150**
Non-current:		
Other debtors	14,853	13,053
Total trade and other receivables	**557,767**	**492,203**

16. Deferred tax and other tax receivables

Deferred tax assets and liabilities are offset where the company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

(All figures £)	30 June 2017	30 June 2016
Balances:		
Accelerated capital allowances	39,905	36,528
Tax losses offset (see below)	(39,905)	(36,528)
	-	-

The accelerated capital allowances deferred tax liability set out above is expected to reverse over the life of the related fixed assets. The tax losses deferred tax asset is expected to reverse in future years. Deferred tax has been calculated at a rate of 17%.

There are unused trading losses at 30 June 2017 of £11,272,469 (30 June 2016: £6,906,165). A deferred tax asset of £1,916,320 (30 June 2016: £1,344,705) has not been recognised in respect of these tax losses due to uncertainty in respect of its recoverability.

Tax receivables at 30 June 2017 of £1,449,976 (30 June 2016: £842,466) relate solely to R&D Tax credits. The company has submitted R&D tax credit claims for the periods presented in relation to its qualifying research and development expenditure and has taken the option of surrendering the resulting losses and claiming an R&D tax credit in the form of immediate cash payments from HMRC.

17. Trade and other payables

(All figures £)	30 June 2017	30 June 2016
Current:		
Trade payables	519,258	329,435
Social security and other taxes	87,884	48,899
Other payables	15,833	7,589
Deferred income	257,047	–
Accrued expenses	575,852	376,064
Total trade and other payables	**1,455,874**	**761,987**

18. Financial instruments

Carrying amount of financial instruments

The amounts for all financial assets carried at fair value are as follows:

(All figures £)	30 June 2017	30 June 2016
Foreign currency forward contracts:		
Assets	–	7,402

Financial instruments measured at fair value

The fair value of forward exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk free interest rate.

Financial risk management

The main purpose of the Company's financial instruments is to finance the Company's operations. The financial instruments comprise of finance leases, foreign currency forward contracts, cash and liquid resources and various items arising directly from its operations, such as trade receivables and trade payables. The main risks arising from the Company's finance instruments are exchange rate risk and liquidity risk. The Company's policies on the management of liquidity and foreign currency risks are set out below.

Fair Values of Financial Instruments

All financial assets and liabilities are held at amortised cost apart from forward exchange contracts, which are held at fair value, with changes going through the Statement of Profit or Loss. The Company has not disclosed the fair values for financial instruments such as short-term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair values.

The Company measured the fair value of instruments which are categorised as level 2 in the fair value hierarchy, being forward exchange contracts, by using the forward change rates at the measurement date with the resulting value discounted back to present values.

Liquidity

The Company's policy is to ensure that it has sufficient cash resources to cover its future trading requirements which is predominately sourced from its shareholders and investors. Short-term flexibility is available through current investor support via funding rounds held when required.

Foreign exchange risk

The Company currently purchases certain materials from the United States in connection with Research and Developments of its primary product. The consequence of this is that the Company is exposed to movement in foreign currency rates. Forward foreign exchange contracts are used to manage the net foreign exchange exposure.

Notes to the financial statements
continued

19. Interest bearing liabilities

(All figures £)	30 June 2017	30 June 2016
Current:		
Finance lease liabilities	13,773	11,783
Non-current:		
Finance lease liabilities	1,448	15,044
	15,221	**26,827**
Finance lease liabilities are payable as follows:		
Less than one year	13,773	11,783
Between one and five years	1,448	13,621
More than five years	–	1,423
	15,221	**26,827**

20. Share capital and reserves

(All figures £)	Ordinary shares	Preferred Ordinary shares	Deferred shares	Share capital
Balance at 30 June 2016				
Number of shares	92,253	51,393	1,683,050	1,826,696
Price per share (£)	0.01	0.01	0.01	0.01
Share value (£)	922	514	16,831	18,267
Issue of share capital (06/10/2016)				
Number of shares	1,922	–	–	1,922
Price per share (£)	0.01	–	–	0.01
Share value (£)	19	–	–	19
Cancellation of shares (04/11/2016)				
Number of shares	–	–	(1,683,050)	(1,683,050)
Price per share (£)	–	–	(0.01)	0.01
Share value (£)	–	–	(16,831)	(16,831)
Bonus issue of share capital (09/11/2016)				
Number of shares	3,296,125	1,798,755	–	5,094,880
Price per share (£)	0.01	0.01	–	0.01
Share value (£)	32,962	17,988	–	50,950
Subtotal 09/11/2016				
Number of shares	3,390,300	1,850,148	–	5,240,448
Price per share (£)	0.01	0.01	–	0.01
Share value (£)	33,903	18,502	–	52,405
Subdivision of shares by 10 (09/11/2016)				
Number of shares	33,903,000	18,501,480	–	52,404,480
Price per share (£)	0.001	0.001	–	0.001
Share value (£)	33,903	18,502	–	52,405
Reclassification of shares (09/12/2016)				
Number of shares	18,501,480	(18,501,480)	–	–
Price per share (£)	0.001	(0.001)	–	–
Share value (£)	18,502	(18,502)	–	–
AIM Listing (09/12/2016)				
Number of shares	26,315,800	–	–	26,315,800
Price per share (£)	0.001	–	–	0.001
Share value (£)	26,316	–	–	26,316
Issue of share capital (09/12/2016)				
Number of shares	1,991,465	–	–	1,991,465
Price per share (£)	0.001	–	–	0.001
Share value (£)	1,991	–	–	1,991
Balance at 30 June 2017	**80,712**	**–**	**–**	**80,712**

20. Share capital and reserves continued

On 6 October 2016 1,922 £0.01 ordinary shares were issued. On 4 November 2016 1,683,050 deferred shares were cancelled. On 9 November 2016 for every one share held an additional 35 shares were issued. The ordinary shares were then sub divided by 10 giving 33,903,000 £0.001 total ordinary shares. On 9 December 2016 the preferred ordinary shares were converted to 18,501,480 £0.001 ordinary shares and the Company listed on AIM, where a further 28,307,265 £0.001 ordinary shares were issued.

Share capital

Is the amount of nominal value of share held by shareholders. At 30 June 2017 80,711,745 shares have been issued, each with the nominal value of £0.001 equalling a share capital for the Company of £80,712. All ordinary shares rank as pari passu with regards to voting, dividends and rights on winding up.

Share premium

The share premium reserve comprises the difference between the nominal value and the value received on share issue offset by the costs directly associated with obtaining the capital funding e.g. legal fees.

Merger reserve

The merger reserve reflects the difference between the existing share capital and premium of Creo Medical Limited prior to share for share exchange and the nominal value of shares issued. Refer to note 1 Business combinations and basis of consolidation.

Share option reserve

The share option reserve reflects the cost to the group of share options granted but not yet exercised. Refer to note 8 Share based payments.

Retained Earnings

Retained earnings including profit or loss for the year comprises the earned profit of the Parent Company and its subsidiary.

21. Cash from share issue

(All figures £)	12 months to 30 June 2017	4 months to 30 June 2016
Share issue:		
Share options exercised	122,579	–
Advanced share subscription AIM listing	1,400,000	–
Share subscription AIM listing	20,000,008	–
Transaction costs AIM listing	(1,510,358)	–
	20,012,229	**–**

22. Related party disclosures

Remuneration of Directors

Directors of the Company control 7.48 per cent of the voting shares of the Company.

The remuneration of the Directors' of the company are disclosed in the Directors' remuneration report and Note 6 above.

Share options held by Directors are detailed in the Directors' remuneration report.

Interests and related party transactions are disclosed below

Finance Wales Investments Limited is a significant shareholder of the company and fees paid in the period totalled £50,580 (4 months to 30 June 2016 £20,068). The balance payable at 30 June 2017 was £nil.

Charles Spicer is Chair of the Product Development Awards Selection Panel B for Invention for Innovation (i4i). We received grant funding from Invention for Innovation (i4i) with funding received in the period totalling £439,571 (4 months to 30 June 2016 £170,483).

David Woods is Global Chief Marketing officer at HOYA Group, PENTAX Medical. There were no transactions in the period (4 months to 30 June 2016 £nil).

Christopher Hancock holds a Professorship with Bangor University and is the common-law spouse of Ling Chen. The fees paid in the period to Bangor University totalled £81,541 (4 months to 30 June 2016 £1,182), with the balance payable at 30 June 2017 being £1,862. The fees paid in the period to Ling Chen totalled £25,125 (4 months to 30 June 2016 £6,589), with the balance payable at 30 June 2017 being £nil.

Aggregate remuneration for the period for all key management totalled £930,606 (4 months to 30 June 2016 £117,883).

(All figures £)	12 months to 30 June 2017	4 months to 30 June 2016
Key management (salary and taxable benefits)		
Professor Christopher Hancock	117,877	31,680
Craig Gulliford	149,534	55,065
Richard Rees	185,296	–
Charles Spicer	27,083	–
John Bradshaw	14,583	–
Steve Morris	220,212	31,138
Roseanne Varner	216,021	–
	930,606	**117,883**

23. Ultimate controlling party

By virtue of the shareholding structure, there is no sole ultimate controlling party.

Notes to the financial statements
continued

24. Operating leases

The Company has annual commitments under non-cancellable operating leases relating primarily to land and buildings, plant and machinery and office equipment. Land and buildings have been considered separately for lease classification. Land and buildings amounts relate to leasehold properties at the Chepstow and Bath sites.

During the period to 30 June 2017 £181,199 was recognised as an expense in the Statement of Profit and Loss in respect of operating leases (4 months to June 2016: £57,735).

(All figures £)	30 June 2017	30 June 2016
Land and buildings:		
Less than one year	165,716	129,859
Between one and five years	569,917	103,913
Total	**735,633**	**233,772**
Other:		
Less than one year	45,708	51,340
Between one and five years	2,959	48,667
Total	**48,667**	**100,007**

25. Subsequent events

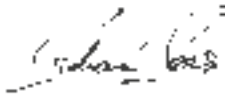
As discussed on page 12 of this report, after the end of the financial year, and prior to approving the annual report, the company received regulatory clearance from the FDA for the speedboat device in the US.
In accordance with IAS10 an adjusting event occurs if it is indicative of circumstances that were in place at the reporting date. In this case the subsequent FDA clearance provides evidence that at the reporting date the design of the Speedboat and CROMA products were sufficiently advanced to the feasibility criteria of IAS 38 Intangible assets. However as at period end this was not known and IAS 38 Paragraph 71 prohibits the capitalisation of expenditure that was initially recognised as an expense. Therefore no adjustment is made to costs at period end.

This is a significant milestone in the development of that particular product and therefore it has been disclosed in the annual report in order to provide sufficient information as to the nature and impact of the subsequent event. Whilst there is no current financial effect its impact is significant in relation to the appropriateness of the directors' going concern assessment as detailed in note 1.

Parent Company Statement of Financial Position

(All figures £)	Note	30 June 2017	30 June 2016
Assets			
Non-current assets			
Investments	28	1,455	–
		1,455	–
Current assets			
Trade and other receivables	29	120,000	
Cash and cash equivalents		13,404,450	
		13,524,450	–
Non-current assets			
Trade and other receivables	29	5,984,639	
		19,509,089	–
Total assets		**19,510,544**	**–**
Shareholder equity			
Called up share capital	20	80,712	
Share premium		19,810,394	
Share option reserve		529,199	
Retained earnings		(909,761)	
		19,510,544	–
Total equity and liabilities		**19,510,544**	**–**

These financial statements were approved by the Board of Directors on 13 November 2017 and were signed on its behalf by:



Richard Rees
Director

Company registered number: 10371794

Parent Company Statement of Changes in Equity

(All figures £)	Note	Called up share capital	Retained earnings	Share premium	Share option reserve	Total equity
Balance at start of period		**–**	**–**	**–**	**–**	**–**
Total comprehensive income for the period						
Profit or loss		–	(909,761)	–	–	(894,686)
Other comprehensive income		–	–	–	–	–
Total comprehensive income		–	(909,761)	–	–	(894,686)
Transactions with owners, recorded directly in equity						
Share for share exchange		1,455	–	–	–	1,455
Bonus issue of share capital (9th November 2016)		50,950	–	(50,950)	–	–
Issue of share capital (9th December 2016)		28,307	–	19,861,344	–	19,889,651
Share based payments	8	–	–	–	529,199	529,199
Balance at 30 June 2017		**80,712**	**(909,761)**	**19,810,394**	**529,199**	**19,510,544**

Notes to the Parent Company financial statements

26. Parent Company financial statements

As permitted by section 408(3) of the Companies Act 2006, a separate Statement of Comprehensive Income, dealing with the results of the Parent Company, has not been presented. The Parent Company loss for the period ended 30 June 2017 is £909,761 (30 June 2016: £ nil).

27. Parent Company accounting policies

To the extent that an accounting policy is relevant to both the Group and Company financial statements, refer to the Group financial statements for disclosure of the accounting policy.

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" ("FRS 101"). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 have been applied. In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements the Parent Company has taken advantage of the following disclosure exemptions under FRS 101:

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel; and
- Disclosures of transactions with a management entity that provides key management personnel services to the company.

As the consolidated financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share based payments
- Certain disclosures required by IAS 36 Impairment of assets in respect of the impairment of goodwill and indefinite life intangible assets;
- Certain disclosures required by IFRS 3 Business Combinations in respect of business combinations undertaken by the Company.

The accounting policies set out above have, unless otherwise stated, been applied consistently to all periods presented in these financial statements

Judgments made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1 Critical accounting judgments and policy update.

28. Investments

(All figures £)	Investment in subsidiary company
Cost:	
As at 30 June 2017	1,455

The Company has the following investments in subsidiary companies:

(All figures £)	Aggregate of capital and reserves	Profit or loss for the year	Registered Office address	Class of shares held	Ownership 2017
Cost:					
Creo Medical Limited	(4,856,432)	(6,855,757)	Block B Beaufort Park Chepstow Wales NP16 5TY	Ordinary	100%

29. Parent Company trade and other receivables

(All figures £)	30 June 2017	30 June 2016
Current:		
Research grant receivable	–	
Other debtors	120,000	
VAT	–	
Total current	**120,000**	**-**
Non-current:		
Other debtors	–	
Intercompany	5,984,639	–
Total non-current	**5,984,639**	**-**
Total trade and other receivables	**6,104,639**	**-**


ANYTHING IS POSSIBLE WITH THE RIGHT APPROACH

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