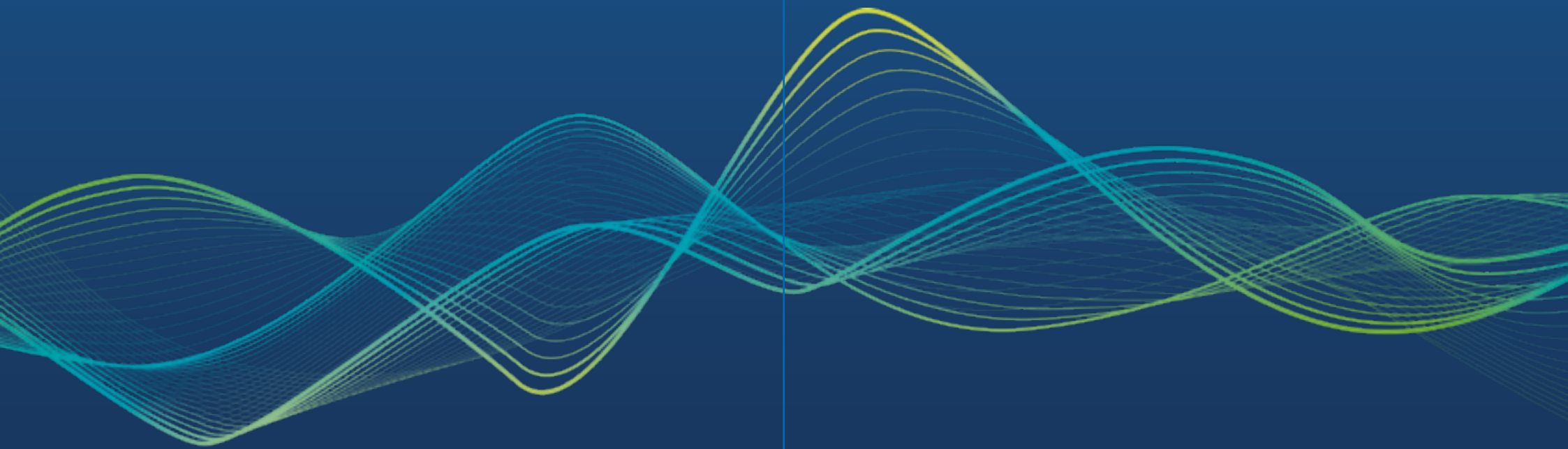
CREO MEDICAL

ANYTHING IS POSSIBLE WITH THE RIGHT APPROACH

Report and Accounts 2018

Creo Medical is a medical device company focused on the emerging field of surgical endoscopy, enabling clinical procedures to be performed minimally and non-invasively.



OUR VISION

To develop and commercialise a suite of electrosurgical medical devices based on our groundbreaking CROMA Advanced Energy platform.

HIGHLIGHTS

FDA clearance received for Creo's Speedboat device and CROMA Advanced Energy platform.

–

Patients treated in multiple countries using Speedboat in both upper and lower GI procedures.

–

Creo's Clinical Education Programme is now clearly defined and repeatable, enabling physicians to be trained in the use of Speedboat.

–

New framework distribution agreements entered into covering a number of European markets along with the UK and South Africa to complement existing distribution agreement with PENTAX Medical for the Asia-Pacific region.

–

Strengthened balance sheet following the successful raise of an additional £48.5m (before expenses) through a significantly oversubscribed share placing.

Strategic Report

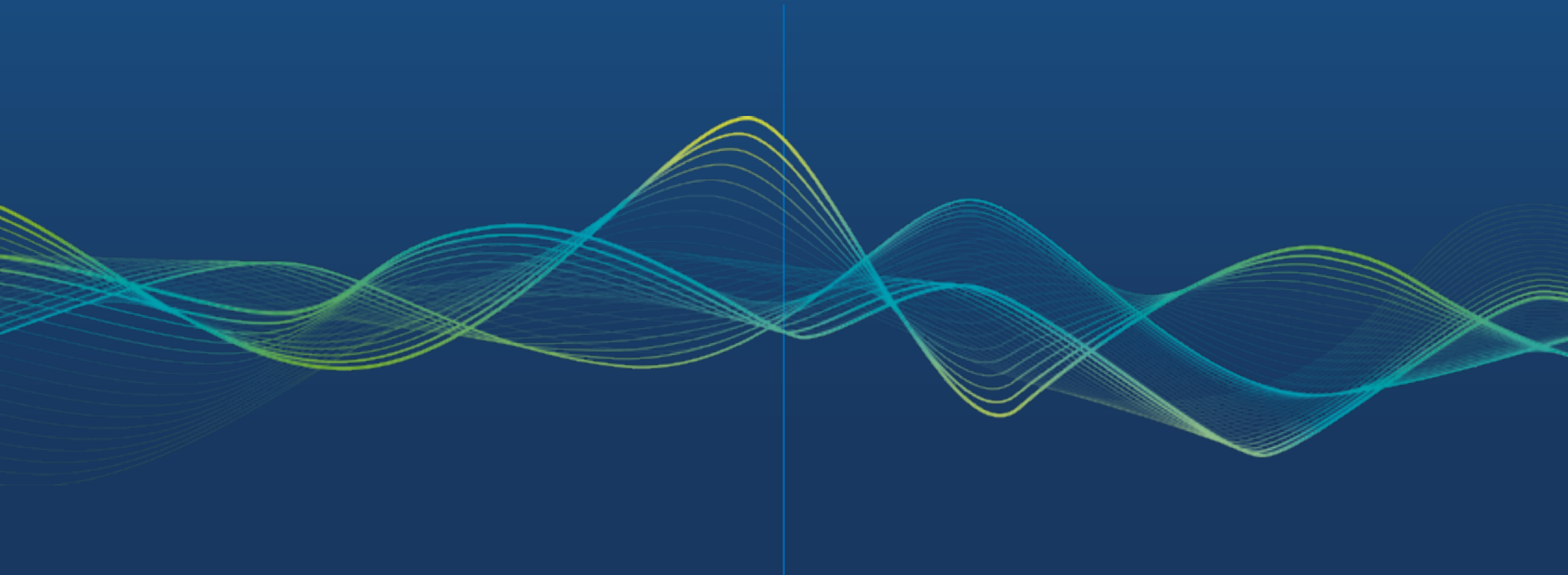
Governance

Financial Statements

TRANSFORMING SURGERY

Creo Medical is at the forefront of a paradigm shift in surgical endoscopy – 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.



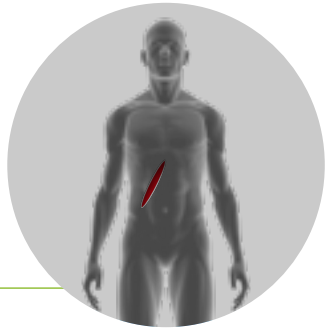
THE RAPID RISE OF ENDOSCOPY

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.

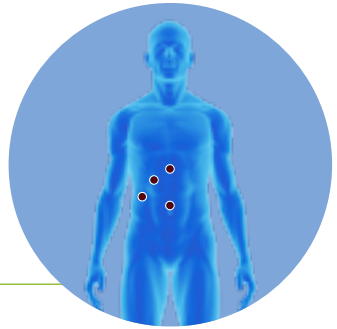
1970-1990



SURGICAL MILESTONE

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

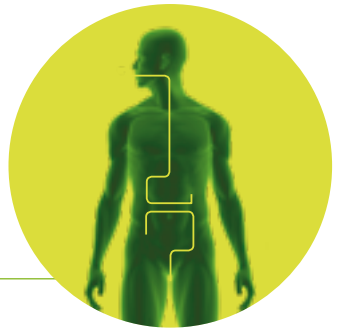
1990-2010



PARADIGM SHIFT

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

2010-2025



$3-4BN GI ENDOSCOPIC INSTRUMENT ADDRESSABLE MARKET[2,3]

With minimal competition.

$7BN LAPAROSCOPIC INSTRUMENT MARKET[1]

Centred around Johnson & Johnson, Medtronic and Olympus/Gyrus.

1. Medtronic investor presentation, June 2016
2. Boston Scientific investor presentation, 2015
3. Conmed investor presentation, August 2016

TRANSFORMING OUTCOMES

Surgical endoscopy allows treatment to be moved from the operating theatre to the outpatient endoscopy suite, bringing reduced risk, removal of the need for general anaesthetic, shorter procedures, reduced hospital stays and faster recovery times, correspondingly lower costs and significantly improved outcomes.

It's a game changer for patients, physicians and healthcare providers.

"A patient, 71 years old, came through the routine Bowel Cancer Screening programme at East Kent Hospitals University NHS Foundation Trust. The index colonoscopy confirmed a daunting 7cm lesion in the distal sigmoid, which traditionally would be treated with surgical colectomy. After a multi-disciplinary meeting, it was decided to perform an endoscopic excision, where Creo's Advanced Energy platform and Speedboat device were used. It was a seamless and complete dissection of the lesion, performed under conscious sedation in 1 hour and 20 minutes. The patient was discharged 2 hours following the procedure. No immediate or delayed complications were noted.

A repeat colonoscopy revealed no recurrence, indicating a complete eradication of the lesion."

Dr. Zacharias Tsiamoulos

"Following the introduction of Speedboat in East Kent Hospitals University NHS Foundation Trust, we have been really pleased with the results for both our patients and our service. With the development of this service we are now able to offer patients treatment closer to home... the use of Speedboat enables us to offer patients treatment in the endoscopy setting and we are keen to expand this service using this device."

Lisa Neal, East Kent Hospitals University NHS Foundation Trust

"I am sure that what has happened to me has saved my life and I urge anyone who gets [a home screening test] through the post to do the test, it might just save your life."

Patient

CROMA ADVANCED ENERGY PLATFORM

Game changing technology

Dissection & Resection

—

Haemostasis

—

Ablation

Matched energy and device performance, ultimately providing a toolbox of integrated, energy-optimised devices.

Physician benefits

—

Enhanced patient outcomes

—

Healthcare provider efficiencies

Our strategy is to bring the CROMA Advanced Energy platform to the flexible endoscopy market through a suite of electrosurgical instruments designed to cut, coagulate and ablate tissue.

Long term, we see opportunities to exploit our extensive portfolio of intellectual property via our CROMA Advanced Energy platform.

"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 would transform my repertoire."

Mr Mike Williamson
Endoscopist, RUH, Bath

APPLICATIONS

Gastrointestinal Endoscopy

APPLICATIONS

Gastrointestinal Endoscopy

Growing incidence of GI indications

- Poor diet, obesity, sedentary lifestyles and an aging population are leading to an increased prevalence of GI conditions.

Growing demand for screening

- Western governments and health organisations continue to expand endoscopic screening programmes, which is driving an increase in detection of a range of conditions requiring the resection or biopsy of tissue and the control of bleeding.

16m screening colonoscopies are performed per annum in the US[1]

1.1m find a lesion requiring treatment[2]

c.50% of those lesions are removed surgically[1]

Compelling improvements vs. current options

- Current treatment is open or laparoscopic surgery, requiring up to 5-day hospital stays and with a mortality rate of up to 6% at 30 days[3].
- Advanced therapeutic endoscopy allows procedures to be performed in outpatient clinics and the risk of complications and mortality are also reduced.

We are developing a range of devices to cover both upper and lower GI procedures.

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.

APPLICATIONS

Endoscopic accessible soft tissue ablation

APPLICATIONS

Endoscopic accessible soft tissue ablation

Demand for new therapies:

- The GI tract allows access to close-by organs (for example, liver, pancreas and kidney). Cancers of these organs are among the highest causes of cancer-related deaths and are characterised by limited effective treatments and poor rates of survival.

Indications:

- Liver cancer combines high incidence and high mortality – it is the 4th biggest cause of cancer death worldwide, with 780,000 deaths annually and has the second highest mortality rate (93%)[1].
- Pancreatic cancer has the highest mortality rate (94%) of all major cancers[1]. It is expected to become the second largest cause of cancer-related deaths around 2020 in the USA[2] where it has a 5-year survival rate of 9%[3] (7% in the UK[4]).
- Prevalence of incidental pancreatic cysts has been shown in studies to be c.9%[5]. Precancerous or cancerous potential of cysts is estimated to be 2%[6]. With a European and North American population of c.1.1bn, this could imply c.2m people with a potentially cancerous pancreatic cyst.
- Kidney cancer is increasing at one of the highest rates globally (est. 22% growth 2014-2020[7]) with over 400,000 incidences per year[1].

780,000 deaths annually from liver cancer[1]

94% mortality rate for pancreatic cancers[1]

Therapeutic Endoscopy using an Endoscopic Ultrasound Scan combined with Creo's flexible microwave ablation probe could provide an alternative way to ablate soft tissue tumours and treat patients for whom there may be limited options for surgical intervention.

Creo's flexible microwave ablation probe is intended to navigate the GI tract to access adjacent organs using a fine gauge needle antenna, managing tumours and extending patient survival.

1. WHO, IARC Cancer Today Online Analysis 2018.
2. Lola Rahib, Benjamin D. Smith, Rhonda Aizenberg, Allison B. Rosenzweig, Julie M. Fleshman and Lynn M. Matrisian. Projecting Cancer Incidence and Deaths to 2030: The Unexpected Burden of Thyroid, Liver, and Pancreas Cancers in the United States. DOI: 10.1158/0008-5472.CAN-14-0155 Published June 2014.
3. American Cancer Society, Cancer Facts & Figures 2019.
4. Pancreatic Cancer UK fact sheet.
5. Oliveira PBd, Puchnick A, Szejnfeld J, Goldman SM (2015). Prevalence of Incidental Pancreatic Cysts on 3 Tesla Magnetic Resonance. PLoS ONE 10(3): e0121317. doi:10.1371/journal. pone.0121317.
6. https://www.roswellpark.org/cancertalk/201711/do-pancreatic-cysts-become-cancerous
7. European Association of Urology, Scientific & Policy Briefing on Kidney Cancer.

APPLICATIONS

Bronchoscopic accessible ablation

APPLICATIONS

Bronchoscopic accessible ablation

Demand for new therapies

There are **1.8m** global cases of lung cancer each year[1]

85% of patients are inoperable[2], leaving radiotherapy and chemotherapy the only treatment options

17% five-year survival rate[3]

- Therapeutic bronchoscopy allows treatment of pre-cancerous nodules in the lung as a first-line option, as well as treatment of patients not eligible for surgery.
- Lung cancer is not yet routinely screened for, however recent consolidation in the sector indicates investment and improvements in diagnostic accuracy.
- Population-based screening will become a part of life in the near future, resulting in earlier stage disease diagnosis.
- Earlier diagnosis requires less invasive and more precise treatment options.
- These requirements ideally suit the key features of the CROMA Advanced Energy platform and tiny non-cooled flexible ablation devices.
- Creo's lung probe is intended to be able to navigate to, see and treat lesions deep in the lung, ablating lesions safely without the complications associated with percutaneous ablation.

1. WHO, IARC Cancer Today Online Analysis 2018.
2. US surgical procedures volumes 2010, Millennium Research, RPUS435SV10, Feb 2010.
3. Gastrointest Endosc 2014; 80-133-43.

DEVICES

A toolbox of integrated,
energy-optimised devices.

KEY BENEFITS

...for physicians

- **Precise**, optimised cutting and predictable tissue effect
- **Flexibility** through ability to use devices in surgery, endoscopy and in flexible vessel sealing applications
- **Fast** set-up, reducing the need to swap devices

...for patients

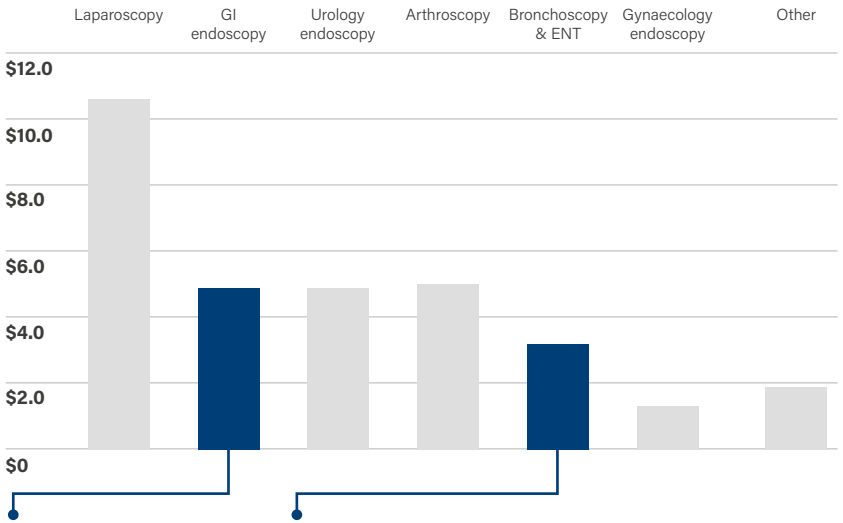
- **Improved** outcomes through less invasive procedures
- **Reduced** risk of thermal damage to adjacent tissue
- **Reduced** time in hospital

...for healthcare providers

- **Reduced** cost of procedures
- **Frees** up resources
- **Reduced** bed-stays
- **Higher** patient throughput

GLOBAL MARKET POTENTIAL

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



1 GI Endoscopy

- Limited innovation in recent years
- Growing volume of interventional techniques
- Upper and lower GI either within the gastrointestinal tract or accessing close-by organs
- $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

- Other endoscopic markets
- Laparoscopy $8bn addressable instrument market[4]
- Non-thermal plasma
- Endoscopic sterilisation
- Wound care

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.

VALUE PROPOSITION

Our strong portfolio of IP coupled with deep in-house expertise and partnerships with trusted third parties create a powerful combination to make a life changing difference.

CROMA Advanced Energy platform with compelling benefits

Our patented CROMA Advanced Energy platform delivers microwave and bipolar radiofrequency energy through a single accessory port, delivering precise cut, coagulation and ablation for a range of electrosurgical devices bringing advantages in time, costs and outcomes.

Read about our CROMA Advanced Energy platform on page 8.

Rich product pipeline and strong IP

We have a promising pipeline of products, from early concept development to in-human use, supported by an IP portfolio of 79 patent families, comprising 135 granted patents and 431 pending applications as at 31 December 2018.

Read about our products and pipeline on pages 23 and 24.

Experienced team

Our management team is drawn from the surgical instrumentation and technology market and has experience spanning R&D, quality, regulatory approval and commercialisation.

Read about our people on page 32.

Market potential

Our devices are designed to enhance existing techniques and provide effective new curative therapies in high value segments of large and growing global markets. Healthcare providers are expanding screening programs, driving increasing early stage detection rates for a range of conditions requiring tissue management and the control of bleeding.

Read about our market opportunity on page 16.

Scalable business model

Our pioneering CROMA Advanced Energy platform is designed to be scaled via the razorblade model 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.

Read about our business model on page 26.

Clear commercialisation strategy

We are pursuing a defined roadmap towards the launch of a suite of devices, initially focused on GI applications. We begin by building advocacy with Key Opinion Leaders, driving penetration through our Clinical Education Programme and the subsequent breadth of usage through stimulating increased generator utilisation and expanding into adjacent markets.

Framework distribution agreements with respected partners give us a route to market in multiple countries around the world.

Read about our commercial strategy on page 30.

Chairman's Statement

Strengthened business, strengthened balance sheet and strong governance.

Charles Spicer
Chairman

Overview

The 18 months ended 31 December 2018 have been a remarkable period for Creo. Our Speedboat device has been used with our CROMA Advanced Energy platform to remove lesions from the gastrointestinal tracts of multiple patients with no reported complications. Typically, instead of having to undergo surgery under general anaesthetic, these patients needed only mild sedation and were treated as day patients.

Clinicians from around the world are now interested in using our surgical solutions. We have put in place framework distribution agreements with recognised leaders in endoscopic devices in countries spanning the EU, Asia-Pacific and South Africa. By rolling out the Creo Clinical Education Programme, our partners will be leveraging their resources and strong relationships to encourage adoption of our platform.

Strengthened balance sheet

In August 2018, we completed an issue of new shares at 125 pence per share to raise £48.5 million before expenses. The placing, which was significantly oversubscribed, followed our IPO on AIM in December 2016 which raised £20 million before expenses at 76 pence per share. It has substantially strengthened Creo's balance sheet and given us the confidence to continue to accelerate physician training and the commercial rollout of our products internationally over the next few years.

The subscribers to the placing include leading institutional and specialist investors that complement our existing shareholder base. We welcome these new joiners to the register and thank all our shareholders for their continuing support for our strategic vision.

Our people and culture

During the period we continued to recruit talented and experienced individuals across all business functions to bolster Creo's expertise and capacity for growth. We now employ more than 50 people, who work in a creative, innovative and driven environment, with a shared goal of improving clinical outcomes and changing patients' lives.

As we move into the next stage of our strategic development, our management team and staff now have a clearly-defined three-pronged strategy. Our R&D team are focusing on turning projects into products by developing our growing proprietary intellectual property into a widening range of medical devices. Our commercial colleagues are driving clinical adoption by supporting recent trainees as they transition into confident and frequent users of our products. Finally, all the relevant departments and suppliers are supporting the evolution of our current small-scale production into a manufacturing capability appropriate for our growing product range and rising demand from multiple markets.

As the business grows, we are putting in place clear goals, targets and appropriate incentives to continue this evolution from earlier stage innovator into a fully functioning global MedTech company.

Board and governance

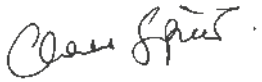
At the IPO we set up Board and governance structures suitable for a fast-growing, AIM-quoted company. Our three Executive Directors are supported by three experienced Non-Executive Directors with a breadth of experience in the medical technology sector, finance and governance.

Given Creo's growth over the last 18 months and the future prospects of the business, the Board continues to review its structure, governance and procedures to ensure that the business is well placed to take advantage of the opportunities that lie ahead.

Outlook

With physicians being successfully trained on the CROMA Advanced Energy platform and Speedboat device, a substantially strengthened balance sheet, a clear strategy and a skilled and motivated management team and staff, Creo has a solid platform for growth and the Board looks forward with confidence to exciting opportunities for the Company in 2019 and beyond.

The Board would like to thank the Creo team, along with our physicians and their patients, our customers, suppliers, shareholders and other partners for all their hard work, positive contributions and support during the period.



Charles Spicer
Chairman

Chief Executive's Review

I am delighted to report on 18 months of exceptional progress, which saw significant advances across the business. We set ourselves ambitious challenges and have worked hard to put in place the structures, approvals and partnerships we need to commercialise our ground-breaking CROMA Advanced Energy platform, the Speedboat device and make great strides towards the launch of the next devices on our roadmap.

Craig Gulliford
Chief Executive Officer

Advancing applications for regulatory approval

Our 3-year plan at IPO was simple: in year 1 we aimed to deliver initial regulatory clearance for the first product; in year 2 our aim was to deliver initial clinical results; and in year 3 our aim was to initiate the commercial launch of a suite of devices powered by our CROMA Advanced Energy platform.

During the reporting period we have built on our first year of progress. We were delighted to achieve regulatory clearance for our CROMA Advanced Energy platform and Speedboat device at the start of the reporting period; a core objective for 2018.

We are also very pleased with the progress of our immediate product roadmap, with significant development progress allowing Creo to achieve design freeze in its initial suite of devices. These devices are the range we intend to initially launch in the gastrointestinal field, covering haemostasis, resection and ablation of soft tissue for therapeutic endoscopists. With the input from Creo's Horizon Group of Key Opinion Leaders (please see page 20 for further details of Creo's Horizon Group), the original concept devices have developed into device designs which we expect to have better performance over that anticipated at the beginning of the programme.

Growing base of users and clinical data

Possibly the most rewarding aspect has been the first cohort of human patients, with the first patient treated as part of Creo's Clinical Education Programme outside our academic development centre being a cancer patient, treated under sedation. Being a cancer, we almost certainly helped save this patient's life.

Equally significant is the continuation of our Clinical Education Programme which has seen us train and subsequently enable physicians in multiple markets carry out their first cases using Speedboat, all without any reported adverse events. This has been facilitated through a thorough program of development which has now become a repeatable and predictable Clinical Education Programme. Creo's Clinical Education Programme has trained over 60 physicians, and has a healthy backlog of trainees for Creo to focus on together with distribution partners as these physicians become the trainers of the future for our distribution partners.

Our Clinical Education Programme has culminated in the delivery of three live cases over three sites in Europe, with over 40 visiting doctors watching the cases live. We are excited by the prospect of building on this with increasing publication material over the coming years as we transition into a fully-fledged commercial business.

Market-leading distribution partners

One principal objective for the team during the reporting period was to hone Creo's business development. In parallel with our work to establish and characterise the Clinical Education Programme, we have accelerated the establishment of a scalable route to market by entering into framework distribution agreements with leading distributors to work with Creo as they develop clinical training and commence market seeding in multiple territories in Europe and in South Africa. By working with leading distributors of endoscopy and GI devices, we can leverage their existing infrastructure and relationships to drive adoption of our solutions.

Having initially entered an agreement with HOYA Group, PENTAX Medical in 2016 for the distribution of products, we have now agreed the initial phase of this regional distribution across the Asia-Pacific territory in which PENTAX Medical will establish Creo's Clinical Education Programme and subsequently seed the market. The agreement also includes a commitment to roll out to other territories in the region. It is gratifying that our distribution partners see such potential in our products and are prepared to invest significant resources and effort to seed their respective markets.

Market dynamics

Although there are ongoing advances in screening techniques to identify tumours, many that are identified currently cannot be treated without subsequent surgical intervention – if at all. This presents a significant opportunity for endoscopic surgery. The economic benefits and reduced risks to patients provide further compelling reasons for adopting minimally invasive surgical procedures.

Generally, the indications for which our devices are intended to treat are all seeing signs of increased volumes of screening or the beginnings of screening programs where they have generally not been possible before. The UK is set to lower the screening age for bowel cancer from 60 to 50, as is already practised in the US. The American Cancer Society recently called for colorectal cancer screening to begin at age 45, not 50, in response to a greater incidence among a younger demographic. In contrast, rates of colorectal cancer have declined among people aged over 54 over the past 20 years, since the introduction of population-based colorectal screening programs for the over 55s.

Areas of application for our ablation products, in particular lung cancer, are seeing the initial introduction of screening where it has not been possible before. This is principally down to improvements in diagnostic capability which, as with colorectal cancer, is diagnosing disease at an earlier (and smaller) stage in its progression requiring minimally invasive ablation solutions, ideally suited to the CROMA Advanced Energy platform.

Successful fund raise

Building Creo into a major medical device business with multiple devices targeting indications in multiple areas of therapy, all powered by a common platform, clearly requires capital. We always anticipated a fundraising exercise during the course of this period and gaining access to the capital required was one of the attractions of the IPO.

It was great to receive the level of interest and support from both existing and new investors when we approached the market in 2018 for the next phase in our capital raising programme. Through an oversubscribed share placing we raised a gross amount of £48.5 million, which will allow us to build the business and potentially expand our horizons as we consider how we develop the team, our distribution network and product portfolio.

A talented team and can-do culture

As the business evolves we have continued to build and develop our team, recruiting key people across engineering, manufacturing and sales to ensure we have the structure in place to grow. As a listed group operating in health care, clearly there is a need to comply with regulatory requirements. While we of course do all that we need to do in that regard, we make great efforts not to impinge on our culture of creativity and openness.

With over 50 employees we are still small in terms of headcount. We are proud of our 'can-do' mentality and sense of togetherness fostered in our weekly all hands meeting and innovation meetings that invite contributions from team members of all functions and levels of experience.

In terms of operating responsibly, we are mindful of everything we do. Earlier this year we formalised our values, centred around making a life changing difference, being sustainable and profitable, creating a positive and innovative working environment and being an employer of choice. Our business is built upon solutions that can change patients' lives for the better. Having worked so hard on the initial regulatory clearance with Speedboat, it is hugely satisfying for the whole team, new and old, to know that we have already made a huge impact on patients' lives. That is a great reason to come to work in the mornings, and to target our resources (and those of our partners) as efficiently as we can to bring our solutions to market in a timely and effective manner.

Promising outlook

We don't underestimate the challenge of changing the structures required to roll out our system, nor of gaining regulatory clearance for the other devices in the pipeline. However, the reaction of clinicians to seeing the product being used speak for themselves. Similarly, our distribution partners are keen to grow Creo's Clinical Education Programme in multiple territories and seed their respective markets in advance of full commercialisation. These factors, along with our strengthened internal team and the response to our recent round of fundraising, give us confidence that the next year and beyond will see Creo making a life-changing difference to patients around the world.

As we gear up for the year ahead and the longer term, we remain humble and focused on core principles of execution and mindful that execution with diligence and care is of primary importance. Our long-term success will be determined by our principal focus in the year ahead which centres around transforming our trainees into power users (the trainers of the future), transforming our in-house production into manufacturing with scale and to continue to convert our development projects into great products to change further lives.

As a team we are well set to deliver on this exciting challenge.

Craig Gulliford
Chief Executive Officer

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. Our 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 are we 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 associated with partial or complete removal of the colon when using traditional surgical blades. In contrast to the need for a long hospital stay, endoscopy procedures can be performed in an outpatient clinic.

Despite the rise in incidence rates due to increases in underlying causes and through increased screening, in comparison to laparoscopy where there are a variety of advanced energy devices for a wide range of procedures, the endoscopist has very few 'tools' to work with. Our Horizon Group (please see page 20 for further details) has quantified 76 specific unmet or underserved clinical needs in the GI where advanced energy could be applied.

The markets we address are large

We focus on significant markets where we can bring products to market that serve poorly met needs. Our initial focus is in the GI tract, GI tract accessible soft tissue (liver, pancreas, kidney) and lung interventions.

Colorectal cancer is the third most common cancer worldwide and the second leading cause of death with over 880,000[3] related deaths. Obesity, sedentary lifestyles, poor diet and aging populations are key drivers, but increasing screening programmes, earlier detection and improvements in treatment (including at pre-cancerous stages) are reducing incidence and mortality particularly in developed countries[4].

Soft tissue cancers of the liver and pancreas, whilst lower in terms of incidence have the two highest mortality/incidence rates, exceeding 90% and jointly account for some 1.3 million incidences and 1.2m causes of death[3]. Both cancers are characterised by late stage detection, thereby being mostly inoperable (for pancreatic cancer, less than 20% of patients are candidates for surgery[4]) and have very low 5-year survival rates.

Known as the silent killer, pancreatic cancer is expected to become the second leading cause of cancer-related death in the United States by 2020[5] with a current 5-year survival rate of 9%[4]. During 2019, more than 56,000 Americans will be diagnosed with pancreatic cancer, and some 45,750 are expected to die[4]. In the UK it is the 5th biggest cancer killer, where the survival rate is only 7%[6]. Approximately three-quarters of patients die within the first year of diagnosis[6].

1. Annals of Hepatology, Vol. 10 No.3, 2011: 287-295.
2. Ann R Coll Surg Engl 2011; 93: 445–450.
3. WHO, IARC Cancer Today Online Analysis 2018.
4. American Cancer Society, Cancer Facts & Figures 2019.
5. Lola Rahib, Benjamin D. Smith, Rhonda Aizenberg, Allison B. Rosenzweig, Julie M. Fleshman and Lynn M. Matrisian. Projecting Cancer Incidence and Deaths to 2030: The Unexpected Burden of Thyroid, Liver, and Pancreas Cancers in the United States. DOI: 10.1158/0008-5472.CAN-14-0155 Published June 2014.
6. Pancreatic Cancer UK fact sheet.

The incidence of liver cancer is increasing, driven not only by poor lifestyles, but also as a result of Hepatitis B (HBV) and Hepatitis C (HCV) viruses. Hepatitis cause is more prevalent in developing countries, though in the US three-quarters of the HCV-infected population are aging baby-boomers (born 1945-65) for whom recommended testing uptake is low (1 in 8)[4].

Lung cancer is the most common cancer worldwide with the highest incidence and mortality rates (exceeding 1.7m deaths annually)[3]. There were 46,700 new cases of lung cancer in the UK in 2015, three-quarters of which were diagnosed at later stages[7]. There are no nationwide population-based screening programmes in the US or UK, although the NELSON Study recently recommended that routine screening be introduced for high risk patients. Approximately 150,000 screenings in the US involve a pulmonary nodule[8].

In cases of lung cancer, 85% of patients are currently inoperable[9] and have to rely on radiotherapy and chemotherapy, with the 5-year survival rate only 17%[10]. 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.

The addressable markets are large and growing. The global market for endoscopic devices is estimated to be worth $30bn, and growing at a compound annual growth rate of 6.3%[11]. Within this, the global market for energy systems and instruments is valued at $4.9bn[12]; see Fig 1. In the UK alone, there were 508 endoscopy units in 2017 and more than 4,000 endoscopists.

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, and estimated annual average growth of 4-6%[13-14]. 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[15], of which 50% are surgically removed[16]. There are moves to reduce the screening age in the UK and US, for example, as incidence has grown among a younger demographic.

For liver, pancreas and kidney treatment, endoscopically delivered fine needle microwave ablation provides minimally invasive treatment to manage tumours, and extend and improve quality of life where limited alternative surgical intervention options exist.

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 1.7m[3] cases of lung cancer related deaths each year.

Longer-term opportunities include laparoscopy applications, with an estimated addressable market of $8bn[17].

Drivers of growth in demand for minimally invasive surgery include:

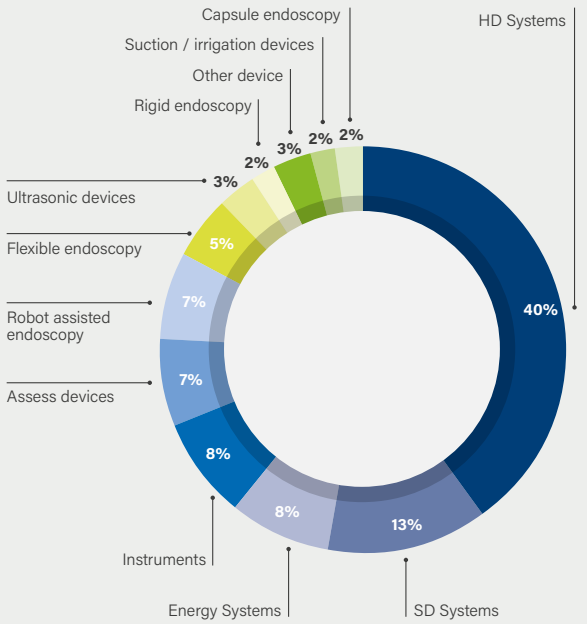
- emerging applications and technological innovations, bringing compelling benefits that are recognised by patients, clinicians and healthcare providers;
- aging population and incidence of life-threatening diseases;
- increasing patient awareness and influence over their treatment.

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 laparoscopic surgery from the early 1990s is the obvious example. In recent years, advances in single-port laparoscopy, robotic surgery, natural orifice transluminal 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.

Figure 1: Global market for Endoscopic Devices



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9. Data for England & Wales – National Lung Cancer Audit annual report 2015 (for the audit period 2014), Royal College of Physicians, 2015.
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13. Boston Scientific investor presentation, 2015.
14. Conmed investor presentation, August 2016.
15. Gastrointest Endosc 2014; 80-133-43.
16. US surgical procedure volumes 2010, Millennium Research, RPUS43SV10, February 2010.
17. Medtronic investor presentation, June 2016.

Clinical Education Programme

Creo Medical's Clinical Education Programme offers clinicians and their assistants the space, tools and expertise to practice the safe and effective use of Creo's products in addition to improving their skills and learning new techniques.

Our education led strategy

Our education led strategy centres around the 'Creo Medical Clinical Education Programme', a peer-to-peer training programme that enables physicians and their assistants to learn and share best practice techniques for the safe and effective use of Creo Medical's products.

Initially created for our Speedboat product, our Clinical Education Programme will be developed and delivered under the direct control of Creo in partnership with our distribution partners worldwide. Each market where distribution is in place must identify and train leading physicians to a level where they can run the Creo Clinical Education Programme within their own territories, with appropriate data capture and monitoring to allow Creo to maintain the education and learning standards we know can be achieved and repeated. This network of centres of excellence worldwide naturally provides a platform for the introduction of additional GI and other devices in the coming years. Feedback from the repeatable programme finalised last year recognises our training as being the gold standard in the market today.

For the Speedboat device, the programme consists of a fixed agenda during an event at a Skills Laboratory comprised of a mixture of didactic lectures alongside hands-on, case-oriented ex-vivo and in-vivo practical training. Trainees can ordinarily expect to complete a minimum of 10 demonstration cases over the course of an event.

Initial training is usually followed up by a tailored mentoring programme where the trainer and trainee perform a number of human cases together. The safety features of the Speedboat device together with the combination of lectures, training and mentoring is designed to remove the need for long residential placements. The training events also crucially include the assistants in attendance who receive combined and separate one-to-one assistant led training, which has been found to be a key ingredient to success.

The evolution of the Creo Clinical Education Programme during the reporting period has been extremely successful, resulting in a consistent, repeatable programme with predictable results. On multiple occasions we have had trainees attending the programme during a weekend, to then deliver their first mentored upper and lower GI cases in clinic on the Monday following.

We exited 2018 on a run rate of over 10 clinicians per quarter being trained. This includes trainees from multiple distributors from multiple regions.

Priorities for 2019/20

The Clinical Education Programme will be further standardised to enable delivery by multiple trainers in each distributor territory with in-built monitoring and data capture to maintain standards. This will facilitate the target of training further physicians and their assistants in 2019. Creo will always direct, own and monitor the Clinical Education Programme wherever delivered.

During the next 2 years our aim will be to integrate and extend the programme to include the educational and training requirements of the GI suite of devices as these are launched into the market.

The overall goal is to have trainers in situ for each distributor territory.

Clinical Development

Spotlight on a clinician: Dr. Zacharias Tsiamoulos

What made you become one of the early adopters of Creo's Speedboat device?

I love innovation and research. Historically in the UK and Europe, pre-cancerous colorectal lesions have been treated either with a piecemeal snare resection or with surgery. Snare resections are quick and practical, but there is a high rate of recurrence, so the patient needs to be brought back for repeat procedures, as frequently as 5 times in 5 years. The other option is surgery, which brings a risk of mortality and requires a minimum of 5 days' hospital stay even if there are no complications. This is not good for the patient, and becomes very expensive for the Healthcare Trust.

In 2016/17, I was only doing piecemeal snare resections. Within a year of coming across Speedboat I had completely changed my practice to treat all of my patients with Creo's Advanced Energy platform and the Speedboat device. My motivation is to see my patient leaving the room with their bowel preserved and no pain.

The first case I worked on turned out to be cancerous, so the first time I used Speedboat was to save someone's life.

How were you able to introduce this new technology to the hospital trust?

People are generally apprehensive of new technology. I was lucky, as I moved to my Trust and, as the endoscopy clinical lead for the Trust, was able to repatriate skills to create a new service. This allowed me to adopt Speedboat at the Trust.

Can you give an example to illustrate patient outcomes?

As part of the UK national bowel cancer screening programme, a 72 year old patient was found to have a large, 7cm lesion in his bowel. Historically, surgical intervention would have been required. Or, if the patient had been referred to one of the London centres, they might have considered a procedure with monopolar knives under general anaesthetic for 4 or 5 hours, and a hospital stay for 2 or 3 days.

This patient was referred to my clinic. I decided to remove the lesion using Speedboat: it took an hour and a half, the patient went home the same day and there was no bleeding. Analysis showed the lesion to be pre-cancerous. On the first follow-up after 3 months, there was no recurrence. When the patient came to the Trust, as a token of his appreciation he gave me a real Japanese samurai sword with my name on a plaque and the quote 'the surgeon who saved my life'. When you see the patient with a smile on their face saying 'you saved my life', that's the reason why I do this job.

What are the benefits of Speedboat for practitioners?

With Speedboat, you have one device that can cut, coagulate, inject, protect and rotate. There's no delay because of needing to change instruments, and I feel very confident that I can control bleeding of all vessels. There's no need to use any other device.

With a piecemeal resection there is a risk of bleeding within 2 weeks. So far we haven't had any delayed bleeding following Speedboat procedures. Also, bipolar energy is much safer for cutting tissue than monopolar, since there is much greater control of the site where the energy is delivered so the risks of adhesion associated with monopolar energy delivery are avoided.

In addition, Speedboat encourages teamwork. The nurse's role in the procedure is so important and has a significant impact on the outcome. This is why Creo invites clinicians to train together with their nurses on the Creo Clinical Education Programme. It is then easier to implement the techniques in their own practice. The doctor holds the colonoscope, the nurse holds the device. There's a mutual respect for the benefit of the patient. With Speedboat the team feel engaged in the procedure and so perform brilliantly and in a very efficient way.

One of the nurses we trained commented that the room is very relaxed because the bleeding can be controlled with the same device. The nurse isn't busy waiting to change devices in a stressful situation, rather they are there to help guide and be an embedded part of the process. As in surgery, you have an assistant and having a nurse assist with Speedboat dissections is very important.

"The first case I worked on turned out to be cancerous, so the first time I used Speedboat was to save someone's life."

Dr. Zacharias Tsiamoulos

Clinical Development
continued

The Horizon Group of KOLs

The Horizon Group has been particularly focused on evolving our gastrointestinal product portfolio. In addition we also work with Key Opinion Leaders across the world drawing our expertise in a wide range of clinical practice.

Creo's Horizon Group – Created to identify and address the needs of the GI market

Creo's Horizon Group consists of key physicians who serve the important advisory function of assisting Creo to identify and assess unmet market opportunities in gastrointestinal endoscopy that could contribute to the improvement of patient outcomes.

Under the close guidance of the group leader, Robert Hawes, MD, Creo has brought together a group of endoscopy experts from around the world to not only identify unmet needs of GI endoscopy, but also to provide Creo with important perspectives on market dynamics.

In the past 2 years, the Horizon Group has reviewed potential GI diseases and treatment areas that could benefit from devices powered by Creo's Advanced Energy platform. The Horizon Group meets regularly with Creo engineers and management at key GI meetings and pre-clinical settings worldwide, reviewing ideas and developments and evaluating next-generation prototype devices.

Horizon Group activity and development of our product portfolio

Creo's Horizon Group was created in 2016 and held its first group meeting in January 2017 in Amsterdam to identify clear unmet and poorly served needs in the gastrointestinal endoscopy arena that could be addressed using Creo's Advanced Energy platform.

Internally, Creo had identified some 45 potential areas to address, with the Horizon Group identifying 76 potential areas of application. Creo's immediate activity was to qualify the 76 potential areas of application in terms of our ability to meet the need, as well as the size of and time to market.

2017 and 2018 was characterised by high levels of activity, workshops and investment to develop and enhance the emerging device portfolio, with the goal being to develop those devices that could deliver game changing outcomes and be brought to market.

Our initial product development centred around 4 product families that address 15 to 20 of the identified 76 potential areas of application. These are our first **Speedboat**, **Narrow Ablation** and **Flexible Ablation Probes**, **Resector** and **Haemostat**.

During the reporting period we have created multiple fully resourced product development teams (one for each product family). In 2018, Horizon Group members were brought together in Boston and have performed hands-on assessments of Creo's next-stage tissue resection, coagulation and ablation devices throughout the GI tract.

Looking forward, we are very excited about the future development of our product portfolio and the expansion of the Horizon Group in order to continue to develop products that make meaningful advances in unmet and poorly served GI and wider needs.

The Horizon Group

Robert Hawes
MD

Dr. Hawes is recognised worldwide as a gastroenterologist, researcher, prolific author, speaker, mentor and pioneer of new procedures and technology for therapeutic endoscopy.
Dr. Hawes has received the prestigious Rudolf Schindler Award from the American Society of Gastrointestinal Endoscopy (ASGE), ASGE's highest honour, as well as ASGE's Master Endoscopist Award. Dr. Hawes practices at the Center for Interventional Endoscopy at AdventHealth Orlando and is a co-founder of the AdventHealth Institute for Minimally Invasive Surgery. Dr. Hawes received his medical school, residency and fellowship training at Indiana University. Dr. Hawes has recognised that Creo's advanced energy technology, delivered with small flexible devices for tissue resection, coagulation and ablation, is new and unique; something that has been missing and sought after for decades in the field of GI endoscopy.

Kazuki Sumiyama
MD, PhD

Dr. Sumiyama is the Director, Division of Endoscopy, Jikei University Hospital; Professor, Department of Endoscopy, The Jikei University School of Medicine; and Professor, Department of Gastroenterological Endoscopy, The Jikei University School of Medicine Graduate School.
Dr. Sumiyama's focus is pre-clinical research and clinical use of improved tissue resection, ESD, coagulation and ablation devices and advanced energy for endoscopy. His extensive clinical expertise in both the upper and lower GI tract brings a broad range of input to the development and design of the Creo endoscopic devices.

Bronte Holt
MBBS (Hons), BMedSc, FRACP, PhD

Dr. Holt is an Interventional Endoscopist and Gastroenterologist, St Vincent's Hospital, Melbourne, Australia and Senior Clinical Lecturer, The University of Melbourne. Dr. Holt was an Advanced Endoscopy Fellow both at the Center for Interventional Endoscopy, AdventHealth, Orlando, FL and Westmead Hospital, Sydney, Australia. She is a recipient of numerous research grants and awards; she has a long list of peer-reviewed papers and currently supervises training in Advanced Endoscopy at St Vincent's Hospital. Dr. Holt's key interests, as part of the Horizon Group, are tissue resection and treatment of pancreatic disorders including cysts.

Shyam Varadarajula
MD

Dr. Varadarajula is the Medical Director of AdventHealth Orlando Center for Interventional Endoscopy and Professor of Medicine, University of Central Florida College of Medicine. He is recognised worldwide as a leading physician, researcher, prolific author, speaker and mentor in pancreatic and biliary disorders, endoscopic ultrasound and therapeutic ERCP.
Dr. Varadarajula's key interest is to use Creo's microwave technology for pancreatic disorders.

Amyn Haji
MA, MBBChir, MSc, FRCS (Eng)

Dr. Haji is a Consultant in Colorectal Surgery at King's College Hospital NHS Foundation Trust with interest in Minimally Invasive Colorectal Surgery and Advanced Colonoscopy. Dr. Haji is lead for both Colorectal Surgery and Endoscopy for the King's College Hospital NHS Foundation Trust with his focus to further develop and shape colorectal and interventional endoscopy services. Dr. Haji offers Creo a unique perspective as a colorectal surgeon who performs advanced endoscopic procedures.

Oliver Pech
MD, PhD

Dr. Pech is Professor of Medicine, University of Regensburg, Head of Gastroenterology and Interventional Endoscopy, St. John of God Hospital, Regensburg, Germany. His research interest as part of the Creo Horizon Group is the endoscopic therapy of early cancers involving endoscopic resection, ESD and ablation.

Chief Technology Officer's Statement

At a personal level, the last 18 months have been the most exciting time since the start of Creo's journey.

Chris Hancock
Chief Technology Officer

Using our Speedboat device to remove both cancerous and pre-cancerous lesions from the upper and lower GI tract to transform the lives of patients is truly amazing.

A cohort of clinicians have now been trained to use the device and they all want to get the Speedboat device into their facility and use it to treat their patients as soon as possible; this is yet another great endorsement of our technology.

We have seen great progress in the development of our pipeline of endoscopic devices that complement the Speedboat device.

In March 2018, our Horizon Group met in Boston, USA to evaluate Creo's pipeline GI devices in a pre-clinical setting (see page 20 for more information on Creo's Horizon Group). The outcome was extremely successful and led to the design freeze on our suite of new Creo endoscopic GI and flexible ablation products.

In addition to the Horizon Group work, a body of evidence that demonstrates efficacy for our pipeline devices has been collected during 2018; including pilot GLP and GLP ex-vivo data gathered under the guidance of Professor James E. Coad MD at West Virginia University, USA and in-vivo data gathered under the guidance of Professor Paul Sibbons at Northwick Park Institute of Medical Research.

The last 18 months has continued to be fruitful for Creo in terms of developing and filing new inventions to protect our CROMA Advanced Energy platform and conceptualising new devices. In total, 24 new Creo inventions were filed in the period between 1 July 2017 to 31 December 2018.

A number of key patent applications relating to our CROMA Advanced Energy platform, enhancements to the Speedboat device and the development of our suite of GI products and flexible ablation devices were also granted during the period. Since 1 July 2017, 46 new patents were granted or allowed (181 if the independently enforceable national patents derived from European patent applications are counted separately). This takes the Creo patent estate to 135 granted patents (452 if national patents derived from European applications are counted separately) and 431 pending applications in 12 jurisdictions across the globe*.

*As at 31 December 2018.

Immediate Product Roadmap

CROMA Advanced Energy platform

Our unique CROMA Advanced Energy platform is built upon Creo's patented technology to allow the delivery of microwave and bipolar radio frequency energy through a single accessory port, enabling the use of a range of novel miniature endoscopic devices with precise and highly controllable cutting, coagulation and ablation capabilities.

Speedboat

Speedboat is the first device developed for use with the CROMA Advanced Energy platform. Speedboat allows the removal of cancerous and pre-cancerous gastrointestinal lesions using a flexible endoscope in a single large piece (en-bloc), providing a more complete and accurate specimen for analysis and reducing the need for frequent endoscopic checks.

Speedboat has already achieved some excellent clinical results, but this is the beginning of the immediate roadmap to launch a suite of GI devices to leverage the core patient, physician and provider benefits of the CROMA Advanced Energy platform.

The first year following the IPO we gained regulatory clearance of Speedboat and the CROMA Advanced Energy platform which during 2018 allowed us to achieve great initial clinical results.

Looking ahead, the immediate product roadmap aims to deliver a range of devices for the therapeutic endoscopist, all centred around the core features of the CROMA Advanced Energy platform (being precise resection, dissection, haemostasis and ablation for relevant clinical indications).

The GI sector has been completely underserved with regard to innovation and, in particular, advanced energy devices. This, we believe, is primarily due to the technical challenge associated with delivering advanced energy through flexible, narrow and miniature devices required of GI practice. Advanced energy has long been the mainstay of advanced laparoscopic surgery. The suite of devices we aim to launch begin to bring this capability to the GI endoscopist.

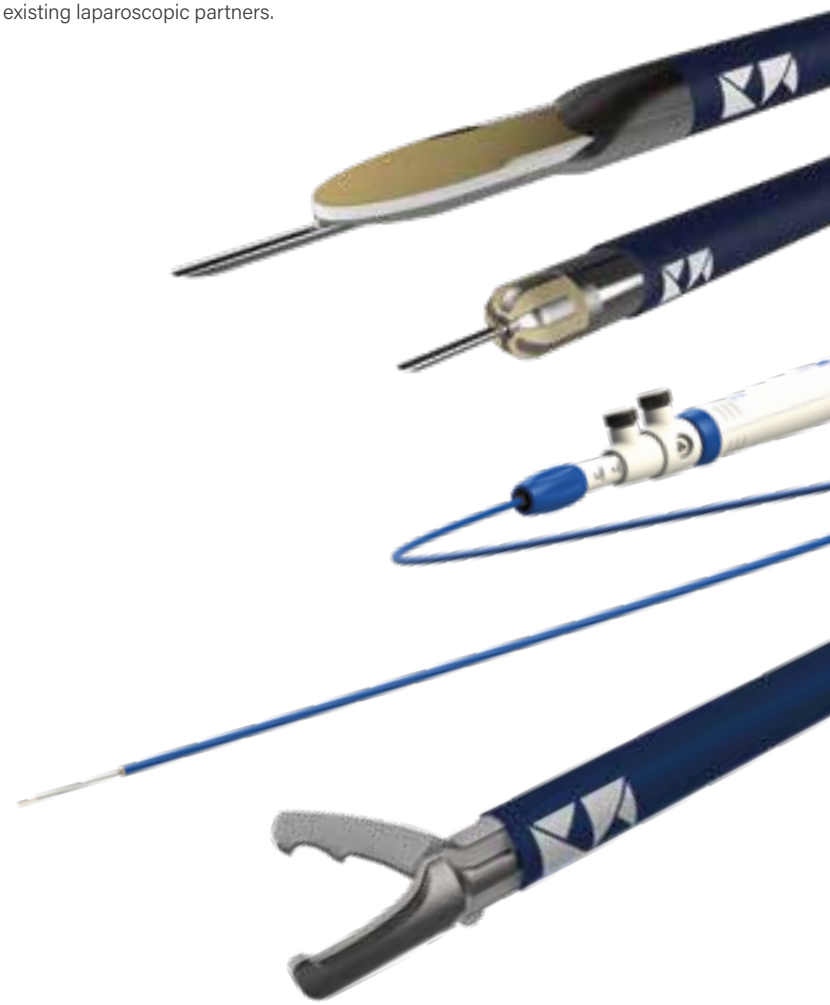
We have built 4 fully resourced device development teams. These teams are dedicated to the development of the CROMA Advanced Energy platform, the development of Dissection and Haemostasis devices, Resection devices and Ablation devices, initially delivered via flexible endoscopy platforms used in upper GI, lower GI, PancraBilliary and Pulmonary applications.

Our Dissection and Haemostasis devices build on the Speedboat device and enable devices to deal, for example, with GI bleed indications and benefit from the controlled heat and temperature delivery of microwave energy, utilising unique non-stick coatings to offer uniquely controlled non-stick haemostasis.

Our flexible Resection device integrates laparoscopic device capability at the end of narrow flexible devices for a wide range of tissue resection and management applications. This device will be rolled out in various different forms to bring a surgical toolbox to the world of surgical endoscopy.

Finally, our range of flexible, tiny microwave ablation devices deliver probably the world's smallest microwave ablation catheters in different variants for the precise and accurate delivery of microwave energy for the ablation of pre-cancerous and cancerous tissue in various organs including the pancreas, lung, liver and kidney.

The focus of all these devices is delivery through flexible platforms. However, in each range of devices the potential to deliver rigid laparoscopic devices will ultimately be an option either developed internally or via licensing arrangements with existing laparoscopic partners.



Medium-Term Product Roadmap

Beyond the immediate roadmap of flexible advanced energy devices, Creo has a large IP estate to protect our CROMA Advanced Energy platform and a range of device structures with an equally wide range of potential clinical applications, all driven by the CROMA Advanced Energy platform.

The CROMA platform will benefit from a continuous roadmap of improving capability based on the current and continually broadening IP portfolio and technological advances in microwave and RF power devices, signal processing, electromagnetic modelling tools and rapid prototyping equipment. This will see the current research projects bring additional modalities to the CROMA platform. A continuing versioning roadmap of software will deliver simple to use, intuitively operated devices to the clinical community. This is a key requirement that our current users praise us for.

A significant portion of the Creo IP estate protects our non-thermal plasma technology for applications in a number of areas, including wound care, urinary tract infections and endoscope sterilisation. This technology has been validated through work with microbiologists at UCL Hospital and the University of West of England where, in 2018, we demonstrated that our non-thermal plasma produces a significant log reduction of microorganisms, as specified by the FDA.

During 2018 we prototyped novel flexible non-thermal plasma applications to sterilise the instrument channel of a range of endoscopes. A typical applicator and scope arrangement is shown in Fig. 1. This and a range of similar flexible applicator designs were protected through new GB patent applications filed in 2018.

A second family of devices on our medium-term roadmap is a family of laparoscopic devices, where a number of our flexible endoscopic devices, such as Speedboat and resector products can be refactored to deliver microwave and RF energy at the end of a rigid 300mm-long catheter.

The Creo IP families already in place to protect the Speedboat blade and a range of scissor structures and jaw arrangements that deliver both microwave energy for coagulating tissue and bipolar RF energy for cutting tissue cover both rigid laparoscopic devices as well as flexible arrangements. An example of a device developed by the Creo concept team in 2018 is shown in Fig. 2. This device uses a novel microwave antenna structure to deliver microwave energy into the walls of vessels for effective vessel sealing.

Creo has been delivering as commercial partner in the SUMCASTEC project since its announcement in 2017. With responsibility for the cell neutralisation aspect of the work, we have delivered novel enhancements to the core CROMA technology to our microbiology partners in Rome. These novel CROMA systems are crucially delivering "non-thermal" effects that are being analysed with regard to their impact on medulloblastoma and glioblastoma cells in fluid cultures.

Results so far indicate that it is possible to use the first Creo developed high voltage pulse generator to open up the cell membranes and introduce fluorescent dyes.

This research program will enhance the production CROMA platform of the future with the inclusion of non-thermal capability to complement RF, microwave and non-thermal plasma modalities.

Figure 1: Flexible plasma applicator inserted down the instrument channel of an endoscope for sterilisation

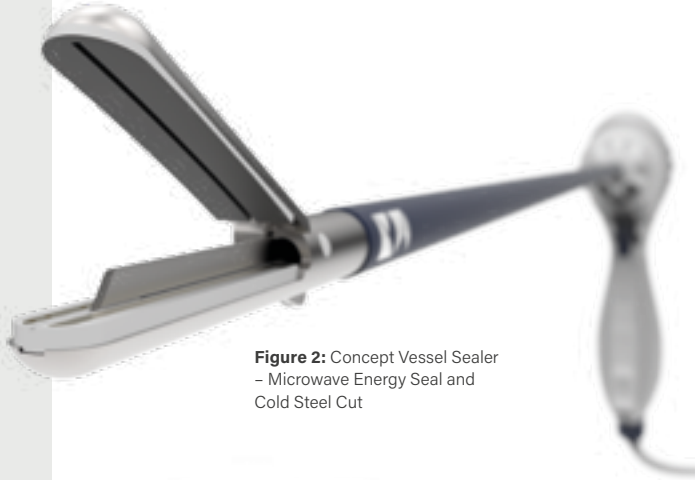


Figure 2: Concept Vessel Sealer – Microwave Energy Seal and Cold Steel Cut

Innovation in our IP and our Collaboration – the Long-Term Roadmap

IP management

We take IP management very seriously. For a company of our size we have an extensive suite of patents, including an array of foreground and background patents to protect our core innovations. Our portfolio of **79 patent families** is centred on our CROMA Advanced Energy platform and associated interface elements, which are currently protected by **24 families**. Most of the remaining families are directed at instruments that can be used to deliver microwave and RF energy into tissue to perform bronchoscopic, endoscopic, laparoscopic and open procedures.

From 1 July 2017 to 31 December 2018 Creo was granted or allowed 46 new patents. We also filed 24 new inventions during the period to protect future medical device ideas and to enhance the protection we have on our technology.

Our ambition is for our CROMA Advanced Energy platform and instruments to be used in all hospitals to treat as many clinical conditions as possible via endoscopic, laparoscopic and open surgical procedures, including wound treatment and tumour ablation.

IP estate

The Creo IP estate has developed not only through new inventions protected by the constant filing of new GB applications and existing patent applications reaching the International and National Phases, but through key applications being granted in the UK and all over the world. Table 1 below summarises this activity.

Table 1: Patents granted during the 18-month period

Technology area	Number of granted patents (1 July 2017 – 31 December 2018)
CROMA Advanced Energy platform	16
Ablation Devices	10
Speedboat and Resector	16
Plasma Technology	4

Open approach to innovation

Even with fully resourced internal development teams, to fully exploit the opportunity we recognise the need to collaborate with partner organisations in order to develop our own IP as well as stimulating the continual development of device IP powered by the CROMA platform.

We have a very open approach to innovation, both within Creo and beyond. Within the business, we hold a monthly innovation workshop. We also have a long history of collaborating externally with various academic institutions.

Long term, as the CROMA Advanced Energy platform capability develops, as with other industry sectors, we intend to explore opportunities to creatively collaborate, partner with or license to device manufacturers and innovators, large and small, in multiple markets worldwide, where the device engineering capability exists.

Extending the engineering discipline and interfacing which we utilise within Creo, we intend to develop innovative partnering and engineering agreements to stimulate much wider IP creation but with the crucial control steps to maintain the core values of intuitive, self provisioning and safe to use advanced energy devices powered by the CROMA platform.

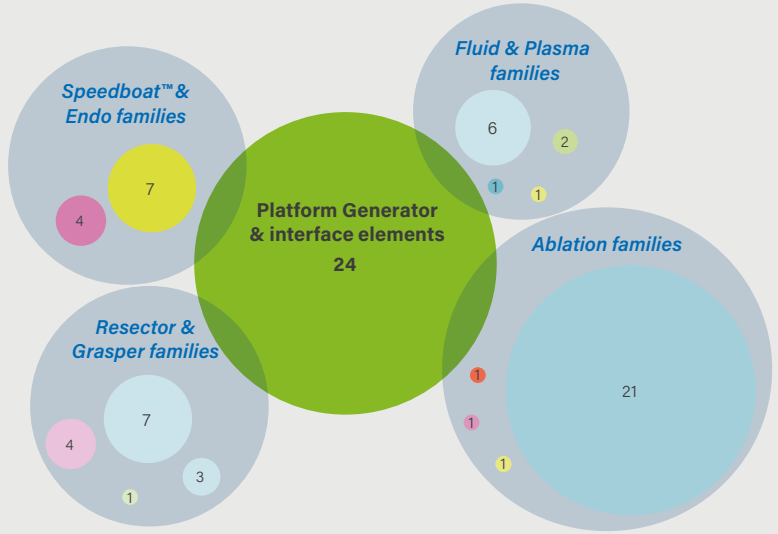
Creo's IP portfolio, when combined with innovative collaboration, truly has the potential to fulfil clinical applications across multiple indications.

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

135 granted patents
431 patents pending

As of 31 December 2018, we had 135 granted patents and 431 pending applications around the world.

* Size of circle represents number of patents



Our Business Model

RESILIENT AND SCALABLE

We have established a resilient and scalable model that combines the strengths of our pioneering products with the reach of our strategic partners for the benefit of our stakeholders.

INPUTS

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

Expertise and IP
Our talented team of world-class developers is drawn from diverse related disciplines, spanning military radar to medical devices.

Our IP portfolio includes 79 patent families, comprising 135 granted patents and 431 pending applications (as at 31 December 2018), 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 Advanced Energy platform and electrosurgical devices.

Our framework distribution agreements to provide clinical training and market seeding will allow us to scale our presence and provide a platform for the distribution of our products – once commercialised – in key markets around the world.

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.

During 2018 we have significantly strengthened our balance sheet following the successful raise of an additional £48.5m (before expenses).

KEY DIFFERENTIATORS

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

RESILIENCE

Recurring revenues from razorblade model

The CROMA Advanced Energy platform 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 Advanced Energy 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. The ability to bring precision and control to long, flexible devices opens up opportunities in minimally invasive surgery.

Our strategy is to deliver new curative therapies and therapy-enhancing technologies which have compelling health and economic benefits 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 our CROMA Advanced Energy platform and Speedboat, we are seeking regulatory clearance for our suite of devices in the EU, US and via our distribution agreements in other key markets around the world.

SCALABILITY

Rich pipeline

Our pipeline of instruments is initially focused on applications throughout the gastrointestinal tract, with other devices targeting GI accessible soft tissue ablation.

Education-led commercial strategy

We are working to build advocacy through a network of Key Opinion Leaders to endorse and deliver a training programme to endoscopists in the use of Speedboat and the CROMA Advanced Energy platform. We are accelerating the Creo Education Programme through our agreements with world-class distributors, who will ensure that their trainers, having been carefully mentored by Creo's doctors and endoscopy nurses, can deliver training for clinicians at a consistently high standard.

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 soft tissue ablation, bronchoscopy and laparoscopy markets.

Pragmatic manufacturing model

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

Wide sales and distribution reach

We have framework distribution agreements with specialist partners covering key markets around the world, initially covering clinical education and market seeding.

VALUE CREATION

We will **share** value with our stakeholders

Patients

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

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.

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.

Operational Strategy Execution

Operational execution recognises where Creo is in its evolution and our need to focus on 3 key strategic pillars.

PROJECTS TO PRODUCTS

PROGRESS

Having gained FDA clearance and CE mark accreditation for our CROMA Advanced Energy platform and Speedboat device and trained multiple clinicians, our clinical database has continued to grow. The majority of procedures were for lower GI conditions, but in a small number of cases Speedboat was also used in upper GI applications for the first time.

We held a pre-submission meeting with the FDA for the next device in the suite, a flexible ablation device.

We have defined our suite of GI devices as a direct result of inputs from our Horizon Group.

We have now frozen the design on our haemostat device, resector device, narrow ablation device and flexible ablation device.

PRIORITIES

We intend to submit filings to seek FDA clearance and CE mark accreditation for our resector and haemostat devices, as well as ablation products, to enable their launch into EU and US markets, and in Asia-Pacific.

PRODUCTION TO MANUFACTURING

PROGRESS

We recruited a new head of operations, and have worked to standardise operating procedures. We have increased output through batch production, and have plans in place to extend our current facility since our upstream and downstream manufacturing is operating at capacity. We have the ability to double output with minimal investment into additional facilities and operatives. Proceeds from the share placing allow investment in the addition of moderate scale to allow for pilot lines for pipeline products.

We have received our first batch of outsourced products for testing that have been manufactured outside of the UK.

PRIORITIES

We will begin the process of extending our production facility in 2019.

We have started and will continue to develop our initiative to partner with third party manufacturers to outsource selected elements to maximise efficiency and scalability.

TRAINEES TO USERS

PROGRESS

We have now trained clinicians from the USA, South Africa, Japan, Australia and Europe, and are working to convert trainees into users by changing treatment pathways. Our framework agreements with distributors spanning markets in Europe and Asia-Pacific include minimum order quantities and commitments to recruit minimum numbers of participants to the Clinical Education Programme events.

We have had trainees attend the Clinical Education Programme during a weekend and then deliver their first mentored upper and lower GI cases in clinic on the Monday following.

PRIORITIES

We will continue to broaden our coverage of new geographical markets by leveraging relationships with third party distributors, with Italy, France and Germany being targeted early in 2019. We will work with Key Opinion Leaders in the US to drive advocacy.

Commercial Strategy

Our global commercial strategy is centred around our Clinical Education Programme and focused in 3 distinct regions.

Clinical education led
Our commercial strategy is Clinical Education led (please see page 18 for more details on our Clinical Education Programme). We are establishing this process with our distribution partners in their respective jurisdictions. Creo will continue to own, operate, coordinate and monitor our Clinical Education Programme around the world.

EMEA
We have established framework distribution agreements throughout the region in various markets to assist with our commercialisation. Our distribution partners will establish a local Creo Clinical Education Programme in conjunction with us before they seed their respective markets with products.

APAC
HOYA Group, PENTAX Medical are our long-standing distribution partner in the region and during the period we have agreed an extension to this agreement, including Australia being the first jurisdiction in which PENTAX Medical will establish the Creo Clinical Education Programme and commence market seeding with our products.

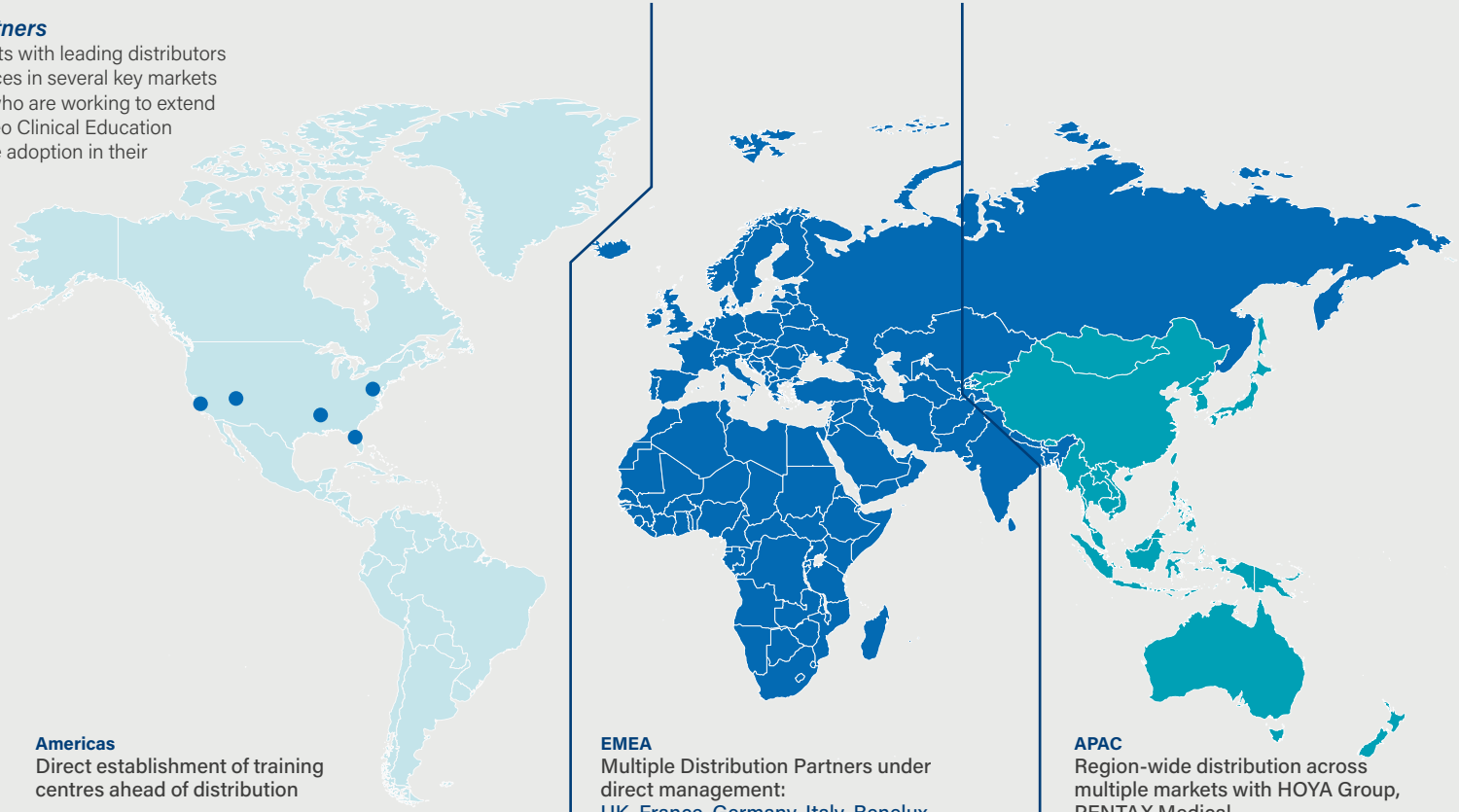
USA
We have equipment in place with Key Opinion Leaders trained through our Clinical Education Programme and these centres have treated our first US patients (post period) with our Speedboat devices powered by our CROMA Advanced Energy platform. These centres have been identified as centres of excellence for the operation of our Clinical Education Programme and we aim to increase the number of these centres to scale up our Clinical Education Programme in the USA under our direct control. We are currently engaged with potential distribution partners alongside our own direct network to finalise initial roll out to users ahead of final long-term decisions with regard to US distribution.

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

Our sales channel

Distribution partners

We have agreements with leading distributors of endoscopic devices in several key markets around the world, who are working to extend the reach of the Creo Clinical Education Programme to drive adoption in their respective markets.



Americas
Direct establishment of training centres ahead of distribution

EMEA
Multiple Distribution Partners under direct management:
UK, France, Germany, Italy, Benelux, Spain, South Africa

APAC
Region-wide distribution across multiple markets with HOYA Group, PENTAX Medical

Our People

EXCEPTIONAL LEADERS AND PARTNERS

Our talented team at Creo is complemented by our network of key opinion leaders and distribution partners.

Indra Davies
Marketing and Training Assistant

The Creo Medical team

We think outside the box, including when it comes to the disciplines from which our colleagues are drawn. Led by our founder and CTO Chris Hancock, our development team includes specialists from multiple sectors. 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 love nothing more than bouncing ideas around and get very excited when concepts from our different fields come together. Our monthly innovation workshops are open to all colleagues.

Our culture is fundamental to the way we work, and we have distilled this into 5 core values:

Collaborative

- Collaboration makes being disruptive positive, beneficial and effective.
- Collaboration with our colleagues and business partners enables us to turn our creative ideas and inventions into real innovations.

Creative

- Our diverse team means that we create original and therefore more effective approaches to medical device challenges.
- This approach is born from being inquisitive, always learning, and being passionate about turning ideas into reality.

Life changing

- Our aim is for medical devices to be simpler and safer to enable better patient outcomes that are less invasive.
- Our innovations and the clinicians who use them change lives for the better.
- We have an uncompromising adherence to ethical excellence.

Can-do

- We believe that our 'can-do' approach, the energy to take action and our hunger for solutions mean that we can succeed in our goals.
- We face challenges with the kind of courage that comes from a personal belief in not only what we are doing, but why we are doing it and what it means for the wider world.

Disruptive

- We challenge assumptions and the status quo.
- Our goals are nothing less than a paradigm shift in the medical device market and to deliver life changing products.

Wider Creo family

We don't limit ourselves to our recruited talent. Our ever growing network enables Creo to utilise a wide range of consulting talent with extensive experience drawn from product design, microwave engineering, software development and medical devices.

Steven Patterson
Quality Assurance Manager

Principal Risks and Uncertainties

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. The Board has overall responsibility for risk management and internal controls. 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	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 clinical education programme is designed to educate clinicians on best practice and use of our products. ▪ 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 will depend on our ability to continue to develop new products. These products may take longer to develop than planned, require more resources or may pose technical challenges that we cannot solve.	▪ New product development is complementary to work already being undertaken by the business. We are therefore able to leverage existing skills and knowledge. ▪ 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 resubmit 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. On Brexit, the UK may require alternative standards to the prevailing CE standards requiring additional regulatory approval of our products before they can be offered for sale in the UK.	▪ 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: 13485 accredited and are subject to regular audits from bodies such as ISO and BSi. ▪ All documentation is stored and available should any resubmission be necessary, and our quality systems are designed to be sufficiently robust to withstand any necessary scrutiny. ▪ We are working with local distribution partners to mitigate exposure to reimbursement risk. Local distributors will identify the pricing locally to establish whether a particular market is worth pursuing. ▪ We have taken steps to ensure that our CE registrations remain valid within the EU should the UK exit from the EU. ▪ We are monitoring development regarding the UK's exit from the EU and will take necessary actions to register products in any alternative UK based system as and when appropriate.

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 long-standing track record of IP generation and successful applications, and have a long-standing relationship with our patent agent who has a deep understanding of our technology and the medical device sector and who advises us on the application and execution of patents. ▪ We undertake freedom to operate searches at the early development stages of a new device and seek to ensure all devices are covered by strong IP coverage. ▪ There is an ongoing review of terms and conditions with third parties to ensure that IPR is retained and protected wherever possible.
IT security	The risk of industrial hacking for sensitive information and/or with the intention of deliberate malice. In the event of a data breach the Group is liable to be fined for a breach of GDPR legislation.	▪ Strong IT security measures have been implemented and are reviewed to ensure that we are adequately protected. ▪ The Company holds very limited personal data and policies are in place that are designed to ensure compliance with GDPR.

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 in the development of our products. ▪ We invite input from Key Opinion Leaders on product development and their needs. ▪ Our QMS system is designed to comply with ISO 13485. ▪ We review our insurance coverage annually. ▪ Our Clinical Education Programme is designed to educate clinicians on the safe and effective use of our products.
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 have taken great steps over the last 18 months to continue to recruit more people across the whole business. ▪ Our HR team are focused on obtaining, developing and managing talent within the business. ▪ By capturing IPR through patent applications, we are able to ensure ownership of knowledge and create foundations for our product pipeline.

Principal Risks and Uncertainties
continued

COMMERCIAL, OPERATIONAL, REGULATORY AND LEGAL RISKS

RISK	DESCRIPTION	MITIGATION
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 USA. 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 is a major shareholder, therefore our success is their success, and we are involved in ongoing discussions with them to ensure that the distribution agreement we have together meets the needs of all parties. ▪ We have recruited employees with direct and relevant experience in sales in the medical device sector. They are responsible for establishing distribution partners in key territories as well as developing a direct sales team. ▪ In the last 18 months we have entered into framework agreements with a number of distribution partners around the world, including the UK, Europe and South Africa.
Dependence on key suppliers and internal resource to manufacture products	The manufacture of our products involves a number of parts, some of which may only be available from a limited number of third parties and/or rely on key internal processes within the business. Failure by a third party to deliver components or a third party ceasing to manufacture components could result in delays in the manufacture of products or the need to redesign certain elements.	▪ Wherever possible we seek to have a number of suppliers for components. As we move to manufacturing, we are seeking to ensure that all critical components have at least 2 sources. ▪ We are actively reviewing possible outsourcing partners to assist with part or all of certain manufacturing processes. ▪ We have designed our manufacturing to be scalable and have a number of operatives trained in all aspects of manufacturing.

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 European Union, as well as potential changes to the legal framework applicable to our business.	▪ Our strategy is not to focus solely on EU markets. Alongside the EU, we will focus on the UK and the US along with other markets. ▪ We monitor developments on an ongoing 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 and steps are currently being taken in this regard.
Events taking place in other jurisdictions may adversely impact on Creo's ability to market products	We face certain geopolitical risks in relation to countries seeking to on-shore or pursuing a "buying local" policy which could fetter international sales of products manufactured outside of such countries.	▪ We have established a US subsidiary to assist with product exploitation in the US. ▪ Local distributors are engaged to seed local markets and generate initial demand of products therefore giving us a local presence with established persons.

Principal Risks and Uncertainties
continued

NATURAL DISASTERS AND PROPERTY LOSS

Events beyond the control of the management of the Company may have adverse effects on the business	The possible threat of natural disasters affecting the ability to trade and manufacture.	▪ The Company property is well secured and we have taken reasonable steps to protect the contents. ▪ A disaster recovery plan has been developed.

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.	▪ The 2018 fund raise gives the business significant balance sheet strength to achieve its near-term objectives. ▪ 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.

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. 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 as are required from time to time. ▪ The majority of our contracts are based in Sterling therefore mitigating our exposure to direct FOREX risk.

The Strategic Report was approved by the Board of Directors on 4 April 2019 and was signed on its behalf by:

Richard Rees
Chief Financial Officer
4 April 2019

Financial Review

Richard Rees
Chief Financial Officer

Revenue and other income

During the 18-month period we have commenced shipments of our CROMA Advanced Energy platform and Speedboat devices pursuant to the framework agreements entered into with our distribution partners. These early shipments represent a net cost to Creo as we are providing products on a free or discounted basis with the objective of initial market seeding and penetration.

Other operating income of £0.3m in the 18-month period to 31 December 2018 (12 months to June 2017: £0.3m) relates to research grants.

Operating loss

The operating loss for the 18 month period increased to £17.7m (12 months to June 2017: £8.9m), reflecting the increased operating and expanded period 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 period was £12.6m (12 months to June 2017: £5.6m).

Whilst EBITDA is not a statutory measure the Board believes 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 as it continues future development and begins to commercialise its approved products.

The Adjusted EBITDA position excludes share-based payment expenses, depreciation and amortisation which are non-cash and incorporates the recovery of research and development expenditure which the Group is able to benefit from through R&D Tax credit schemes.

Expenses arising from share issue

Following a share placing of 38,800,000 ordinary shares which raised £48.5m before expenses in August 2018, the expensed costs incurred in the period were £nil (12 months to June 2017: £1.3m), with capitalised costs in the period of £2.6m (12 months to June 2017: £1.5m).

Tax

The tax credits recognised in the current and previous fiscal year relate solely to R&D tax credit claims. A deferred tax asset has yet to be recognised due to the uncertainty over the timing of future recoverability.

Expenses

Administrative expenses comprising R&D, operational support, sales and marketing, and finance and administration costs totalled £17.9m (12 months to June 2017: £9.2m). Adjusting for costs and tax income above, underlying administrative expenses are £12.9m (12 months to June 2017: £5.8m).

This annualised increase of £2.8m reflects the continued investment made by the Group in clinical and development activities and the move from small discrete production batches into full-scale manufacturing. Personnel costs continue to be the largest expense and represent approximately 65% of the Group's underlying administrative expenses.

(All figures £)	18 months to 31 Dec 2018	12 months to 30 Jun 2017
Operating Loss	**(17,663,786)**	**(8,903,066)**
Share-based payments	1,804,820	776,782
Depreciation and amortisation	497,421	142,423
R&D expenditure recovered via tax credit scheme	2,786,181	1,160,000
Expenses of the initial public offering – one-off	–	1,252,692
Underlying operating loss	**(12,575,364)**	**(5,571,169)**

"I am pleased to announce our second report and accounts following our initial listing on AIM in December 2016. The £48.5m raised in the summer of 2018 was another turning point in the progression of Creo. These funds have provided Creo with the long-term platform to enable us to further develop multiple products through to commercialisation and provide the Company with the platform for future development."

Richard Rees
Chief Financial Officer

Loss per share

Loss per share was 16 pence (12 months to June 2017: 13 pence).

Dividend

No dividend has been proposed for the period to 31 December 2018 (12 months to June 2017: £nil).

Cash flow and balance sheet

Net cash used in operating activities was £14.3m (12 months to June 2017: £6.9m), driven by the planned increase in investment in research and development during the period and the move from small discrete production batches into production manufacturing. Net cash generated from share issue was £46.1m (12 months to June 2017: £20.0m), further strengthening the balance sheet and providing the platform for long-term product development, new product introduction and commercialisation.

Total assets increased to £49.7m (30 June 2017: £16.1m), a 209% increase, reflecting the increase in cash arising from the issue of new ordinary shares, offset by the operating cash outflow for the period. Cash and cash equivalents at 31 December 2018 were £44.6m (30 June 2017: £13.7m). Net assets were £47.7m (30 June 2017: £14.7m), a 224% 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 period and are described on pages 64 to 80.

Principal risks and uncertainties

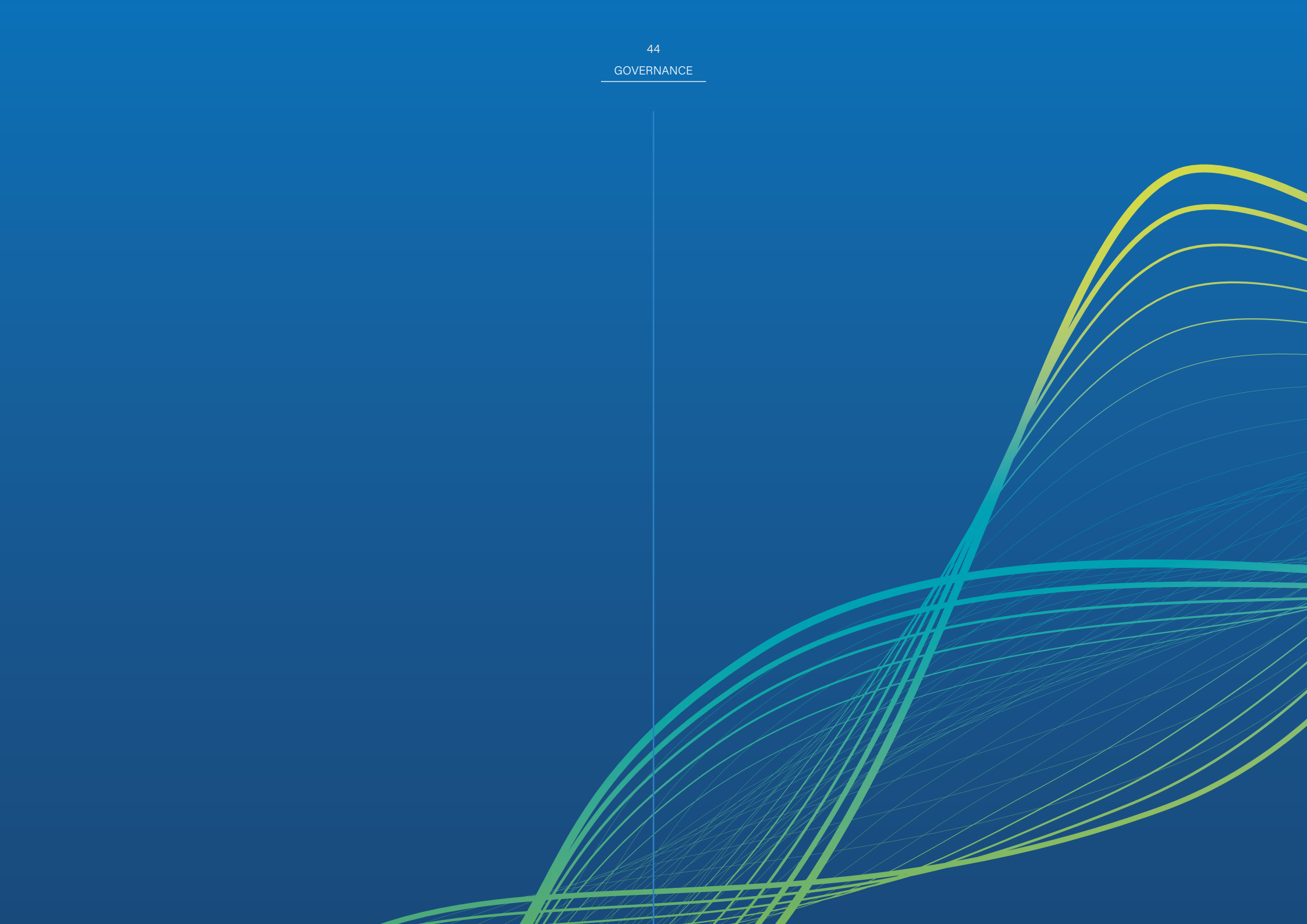
The principal risks and uncertainties facing the Group are set out on pages 34 to 41.

Directors

Details of the Directors who served during the period ended 31 December 2018 are set out on pages 46 to 47. 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.



GOVERNANCE

Governance

Board of Directors

1

Craig Gulliford

Chief Executive Officer

Craig is a founding angel investor in Creo Medical, joining as CEO in 2012. Craig qualified with an MSc in Electronic Engineering from the University College of North Wales and has over 20 years' experience in building international businesses from early stage through to significant scale. Craig's 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

Chief Technology Officer

Chris is the founder of Creo Medical with over 20 years' experience in medical device development, including 4 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 500 granted patents, patent applications and international journal publications.

3

Richard Rees

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

Chairman

Charles is an experienced director of public and private companies primarily in the MedTech sector. Charles is Chairman of IXICO plc, Realm Therapeutics 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

Independent Non-Executive Director

John is a chartered accountant with more than 20 years' experience as a Chief Financial Officer with venture capital backed and listed companies. John is the Chief Financial Officer of Syncona Investment Management Limited, the Investment Manager of Syncona Limited a FTSE250 listed life sciences investment company. John is a Non-Executive director and Audit Committee Chair of AIM listed 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

Non-Executive Director

David is an industry veteran within the MedTech sector. His experience in the Medical Device Market encompasses General and Orthopaedic Surgery, Gastroenterology, Pulmonology and ENT. David is currently the President and CEO of PENTAX Americas and M&A Director of HOYA Group, PENTAX Medical. 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 18 months to 31 December 2018. These will be laid before the shareholders of the Company at the next Annual General Meeting (AGM).

Creo Medical Group plc (listed on the AIM market of the London Stock Exchange (LSE:CREO)) is incorporated in England and Wales, registration number 10371794 and the address of its registered office is Creo House, Unit 2, Beaufort Park, Beaufort Park Way, Chepstow, Wales, United Kingdom NP16 5UH.

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 18 months to 31 December 2018 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on page 62.

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 Chairman's Statement and the Chief Executive's Statement and the Financial Review, which form part of the Strategic Report on pages 12, 14 and 42 respectively. 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 18 months up to the date of approval of the financial statements were as follows:

- Professor Christopher Paul Hancock
- Craig Jonathan Gulliford
- Richard John Rees
- David Gerard Woods
- Charles Alexander Evan Spicer
- John Bradshaw

Directors' interests and indemnity arrangements

The Directors' interests in the shares of the Company are disclosed in the Remuneration Report on pages 54 to 55.

In accordance with Section 234 of the Companies Act 2006 and as permitted by the Articles of Association of the Company, the Company maintained insurance throughout the 18-month period 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 18-month period, 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 Directors' Remuneration Report on pages 54 to 55. It is noted that David Woods is President and CEO of PENTAX Americas and M&A Director of 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 in key markets in the Asia-Pacific region and post period, Germany, France and Italy.

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 21 to the consolidated financial statements.

The share capital comprises one class of ordinary shares and these are listed on AIM. As at 31 December 2018 there were in issue 120,495,385 fully paid ordinary shares. All shares are freely transferable and rank pari passu for voting and dividend rights.

Substantial holdings

As at 31 December 2018, shareholders holding more than 3% of the share capital of Creo Medical Group plc were as follows:

Canaccord Genuity Wealth Mgt	22,433,531	18.62%
Finance Wales Investments	12,776,727	10.60%
Baillie Gifford & Co	8,263,312	6.86%
FIL Investment International	4,911,307	4.08%
HOYA Corporation	4,799,880	3.98%
Mr Christopher Hancock	4,400,046	3.65%
Tellworth Investments	4,182,279	3.47%
Legal & General Investment Mgt	3,671,580	3.05%

Save as referred to above, the Directors are not aware of any persons as at 31 December 2018 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.

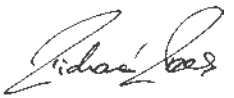
Other information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the 18-month period have been included in the Strategic Report on page 78.

Auditor

KPMG LLP were re-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
Creo House, Unit 2, Beaufort Park, Beaufort Park Way, Chepstow, Wales NP16 5UH

4 April 2019

Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under the AIM Rules for Companies they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and they have elected to prepare the parent Company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including 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 Group and parent Company and of their profit or loss for that period. In preparing each of the Group and Parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use 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.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that comply with that law and those regulations.

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 is traded on the AIM market of the London Stock Exchange (LSE:CREO). The Director's recognise the importance of sound corporate governance and are committed to maintaining high standards of corporate governance. As a company whose shares are admitted to AIM, the Board has adopted and complies with the Quoted Companies Alliance's Corporate Governance Code ("the Code").

The Quoted Companies Alliance Corporate Governance Code

In accordance with AIM Rules, the Company publishes an annual summary setting out how the Company complies with the Code. The 2018 summary is available on the Company's website at investors.creomedical.com/investors/corporate-governance.

The Code is constructed around 10 principles, taking key elements of good governance and applying them in a manner which is workable for the needs of a growing company in pursuit of medium to long-term value creation for shareholders. The Board's view is that the Company complies with the Code but any divergences from the Code are, in the circumstances, reasonable, appropriate and in the best interests of shareholders as a whole.

It is the role of the Board to ensure that Creo is managed for the medium to long-term benefit of all its shareholders. Underpinning this are the corporate governance processes that have been put in place since IPO that are designed to ensure control, reduce risk and add long-term value whilst giving the shareholders the opportunity to express their views and expectations for Creo in a manner to encourage open dialogue.

Set out below is an explanation of how the Company applies each principle of the Code together with a commentary of Creo's compliance against such principle. To the extent that an explanation of Creo's compliance set out against a principle is equally as relevant against another principle, the explanation is deemed to apply to all relevant principles.

DELIVER GROWTH

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

Creo is a medical device company focused on the emerging field of surgical endoscopy. Our goal is to develop and commercialise a suite of medical devices based on our ground-breaking CROMA electrosurgery platform, initially in the field of gastrointestinal therapeutic endoscopy and bronchoscopy.

Our ground-breaking CROMA electrosurgery platform has been designed around the "razorblade" model, with a single accessory port that is compatible with a suite of single-use devices that deliver superior outcomes for physicians and patients, delivering advanced energy, including bipolar radiofrequency and microwave energy, for tissue dissection, resection, ablation and coagulation.

To achieve our goal, we:

- Invest in developing and protecting our strong intellectual property portfolio, comprising, in total, 135 granted patents and 431 pending applications over 79 patent families[1];
- Recruit staff with a strong pedigree from the MedTech and other relevant sectors; with depth of expertise spanning from R&D, quality, regulatory approval and commercialisation;
- Invest in the development of our people by supporting ongoing academic qualifications and promote an entrepreneurial and collegiate working environment;
- Nurture long-term strategic relationships with:
  - Eminent clinicians and Key Opinion Leaders practicing in our fields of interest around the world;
  - Distribution partners to give us scalable geographical reach into key markets; and
  - Shareholders to ensure that we have access to the support and capital that we need to achieve our goal.

1. Correct as of 31 December 2018

2. Seek to understand and meet shareholder needs and expectations

We encourage shareholder engagement and have an "open door" for shareholder interaction. We are committed to active communication with all shareholders to ensure that our strategy and business model is understood but also to understand any concerns that shareholders may have. The Board believes that active engagement provides the Company with a stable shareholder base for the long-term.

All of our executive team engage in investor relations activities. Furthermore, our Chairman and senior independent Non-Executive Director regularly engage with institutional shareholders to gain feedback and discuss any areas of concern to ensure that they can be addressed at an executive level.

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

The size of the Company and stage of development is such that we receive regular direct feedback from all relevant stakeholders. This feedback allows the Board, and consequently the Company, to ensure that it is designing the business for long-term growth and success. Aside from our shareholders and the ultimate users and beneficiaries of the products we are developing: our employees, business partners and suppliers are our most important stakeholder groups, and how we seek to engage with them and ascertain their feedback is set out below.

Employees

We have regular "all employee" meetings to discuss progress of product development against current business plans. These meetings allow us to focus on areas that need greater support and also consider what resource the Company may need going forwards. This collegiate approach is taken into the workplace on a day to day basis.

We have implemented regular training and knowhow workshops for all employees on key skills to ensure that we provide continuous development and enhance team collaboration.

We continue to employ graduates and encourage continuous development and education for all employees.

Business partners and suppliers
Notwithstanding the early stage of development of the business, we believe that the achievement of long-term success requires us to forge good and equitable relationships with our business partners and suppliers. We seek to pay suppliers within agreed credit times and, as we move to the next phase of our development, will introduce further audit checks on our supply chain to encourage all suppliers and business partners to meet and adhere to the high ethical standards that we seek to achieve.

To mitigate risk in our supply chain, the Company aims to dual source all critical components. This gives the Company further opportunity to forge good relationships and plan for long-term success.

Modern day slavery
Notwithstanding that the Company currently falls under the current threshold obliging it to report annually on its Anti Modern Day Slavery compliance, in line with our underlying principle to improve lives the Company has adopted an Anti-Slavery and Human Trafficking policy. We seek to ensure that all suppliers and business partners also adopt and adhere to similar policies.

Anti-bribery and corruption
The Company has adopted an Anti-Bribery and Corruption policy. Many of our employees have previously worked within larger medical device and MedTech businesses, and accordingly they are well versed in the need to undertake business in an appropriate and transparent way. However, we do not simply rely on this. We seek to include provisions in our agreements with third parties to ensure that bribery and corruption does not form part of any business undertaken by or on behalf of the Company and is not within our supply chains.

4. Embed effective risk management, considering both opportunities and threats, throughout the organisation
Internal controls
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, as such, provide reasonable but not absolute assurance against material misstatement or loss. Some key features of the internal control system are:

- Management accounts information, budgets, forecasts and business risk information which are regularly reviewed by the Board;
- Due to the nature of the products being developed by the Company, we have a rigorous quality management system that is compliant with ISO:13485 and which is regularly audited by independent third parties;
- Operational, accounting and employment policies are in place and regularly reviewed and updated when appropriate;
- Clearly defined organisational structure within the Company; and
- Established financial reporting and control systems within the Company.

The Company reviews its internal controls regularly to ensure that they give the Company the flexibility that is necessary to allow it to grow and deliver long-term value to shareholders while having the correct checks and balances in place.

Risk register
The Company maintains a risk register which is reviewed regularly. This register allows the Board to appraise external and internal threats to the business and to plan and mitigate accordingly. Principal risks and uncertainties that may affect the business are set out in more detail on pages 34 to 41.

Legal
The Company has employed a General Counsel to assist and advise on all legal aspects of the business. The General Counsel seeks and manages external legal support where necessary and takes an active role in the management of the business to ensure that compliance is at the core of all that we do.

Code of conduct
The Company has adopted a Code of Conduct which sets out the standards that it expects all employees and representatives of the Company to meet to ensure that we maintain our high standards that we set ourselves. It is the Board's view that by encouraging high working standards we will mitigate against risks arising in our day to day activities.

MAINTAIN A DYNAMIC MANAGEMENT FRAMEWORK

5. Maintain the Board as a well-functioning, balanced team led by the chair
The Board
Creo has a strong and effective leadership team. Creo's Board comprises an Independent Non-Executive Chairman, 3 Executive Directors, and 2 further Non-Executive Directors, one of which acts as Creo's senior independent Non-Executive Director. The Board is made up of the following individuals:

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

Non-Executive Board Members
Charles Spicer, Independent Non-Executive Chairman
John Bradshaw, Senior Independent Non-Executive Director
David Woods, Non-Executive Director

Brief biographies for each Board member, together with their respective Board Committees memberships, are set out on page 47.

All Directors stood for re-election at the last AGM as this was the Company's maiden AGM. The Company's articles of association require one third of its Directors to stand for re-election at each AGM. The Company's articles of association can be downloaded from the Company's website at investors.creomedical.com.

Charles Spicer acts as Creo's Independent Non-Executive Chairman. Charles has a limited shareholding in the Company and a limited interest in the Company's share option scheme. Given Charles' limited participation, the Board does not consider his share and option holdings to be significant and therefore consider him to be an independent Non-Executive Director.

John Bradshaw acts as Creo's senior independent Non-Executive Director. John has a limited interest in the Company's share option scheme. Given John's participation in the share option scheme is limited, the Board does not consider his share option holding to be significant and therefore consider him to be an independent Non-Executive Director.

Corporate Governance Report
continued

MAINTAIN A DYNAMIC MANAGEMENT FRAMEWORK continued

David Woods is the President and CEO of PENTAX Americas and M&A Director of HOYA Group PENTAX Medical, one of the Company's shareholders. David brings seniority and market knowledge that is invaluable to the Board and its decision-making process. 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.

The Board feels that it has an appropriate balance between independence, knowledge of the Company's technology, sector experience and professional standing to allow it to discharge its duties and responsibilities well. All Directors are encouraged to debate and use independent judgement based on their respective knowledge and experience on all matters effecting the business.

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 or Directors do not attend or participate in such discussions. Directors are not permitted to participate in such considerations or to vote regarding their own conflicts.

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

The Board considers that it contains an appropriate range of skills, experience and knowledge and is mindful of the need to continuously review the needs of the business to ensure that this remains true. The Board members are of sufficient calibre to bring independent judgement 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 Board is supported by a number of professionals both internal and external, including the Company's General Counsel, the CFO (who is a chartered accountant), the Senior Independent Non-Executive Director (who is a chartered accountant) and external advisers (details of which are set out on page 47).

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

Since IPO the Board has sought to improve the ways in which it interacts and the manner in which information is presented to it. The processes that have been put in place allow for a consistent approach to reporting, thus aiding analysis by the Board of all matters at hand.

While the Company does not currently have any formal appraisal processes or evaluation criteria for Board members, the Chairman and Senior Independent Non-Executive Director regularly meet and discuss performance with members of the executive team, which in the Board's opinion is currently sufficient for the Company's purposes. This will be kept under review and the Board will consider whether formal evaluations are appropriate in the future.

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

Our core principle is clear: *to improve lives.* As such, ethical values and behaviours are at the heart of what we do. The Board seeks to enshrine such ethical values and behaviours throughout the conduct of all of Creo's activities. Our values are set out in our code of conduct and other policies, our working practices and our systems.

For our products to be adopted by our targeted markets, and thus enabling Creo to improve lives through, amongst other things, improved patient outcomes and reduced costs and time of procedures for healthcare providers, we are required to have a robust quality management system which is third party audited to ISO:13485 standards. Underpinning this quality management system are processes to ensure that necessary safeguards are in place to ensure the integrity of this system and accordingly the quality of the products under development.

The Board leads by example. The Board seeks to treat all persons fairly and equitably, through clearly defined parameters of operation. This includes full compliance with safe working practices but also maintaining and protecting a positive and supportive working environment.

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

The Chairman provides leadership to the Board and is responsible for agreeing the agenda for Board meetings, ensuring (with the Company Secretary) 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, the management team and its employees. The Chief Executive Officer is responsible, in conjunction with senior management, for the execution of the Company's strategy approved by the Board and the implementation of Board decisions.

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

Board meetings

The Board seeks to meet regularly, but in any event to hold no less than 6 board meetings in each year. In addition to the 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 Company's progress are held by members of the Board regularly.

During the period from 1 July 2017 to 31 December 2018 the Board met 10 times.

The Board and its committees are provided with information ahead of meetings to give time for review and analysis. For each Board meeting an agenda is prepared and approved by the Chairman and followed. The Board maintains an ongoing list of matters arising from the Board meetings which are then followed up at subsequent meetings to ensure that matters and decisions are being implemented.

Reserved matters

In 2017 the Board formally adopted a schedule of matters that are reserved for the Board to consider and, if thought appropriate, decide upon. These reserved matters relate to:

- Strategy and oversight, including the approval of annual budgets;
- Changes to the capital structure of the Company and the corporate structure of the Group;
- Approval of financial statements and reports and any capital spend above agreed limits;
- Approval of contracts outside of the ordinary course of the business;
- Changes to Board and Committee membership;
- Remuneration of Executive Directors and issues relating to share options;
- Any delegation of authorities;
- Governance; and
- Approval of policies.

Board Committees

The Board delegates certain duties to Board Committees, all of which operate within clearly defined terms of reference and, where applicable, in accordance with the Code.

Audit Committee

The Audit Committee is chaired by John Bradshaw and its other member is Charles Spicer, each of whom are independent Non-Executive Directors. The Audit Committee seeks to ensure that the financial performance of the Company is properly reported on and reviewed. 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 their appointment.

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 1 July 2017 to 31 December 2018 the Audit Committee met 4 times.

Remuneration Committee

The Remuneration Committee is chaired by Charles Spicer and its other member is John Bradshaw. The Remuneration Committee ensures that the Company's remuneration policy and practice promotes, encourages and drives the long-term growth of shareholder value in an effective manner and in accordance with the Board's strategy and policies. More particularly, the Remuneration Committee determines, within the agreed terms of reference, the Company's policy on the remuneration packages of the Company's Chief Executive, Chairman, 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 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.

During the period from 1 July 2017 to 31 December 2018 the Remuneration Committee met 4 times. Details of the Remuneration Committee's activities and recommendations are set out on pages 54 and 55.

BUILD TRUST

10. Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

We seek to maintain dialogue with shareholders and other relevant stakeholders through a number of channels. Our Annual Report and Accounts, full year and half year announcements are the primary sources of information for shareholders. These are supplemented by regular and appropriate RNS and RNS Reach announcements.

The above, together with other relevant information on the Company, can be obtained from our website at investors.creomedical.com.

The AGM offers an opportunity all shareholders to meet and have direct and meaningful discussions with the Board. We encourage shareholders to attend and participate in the AGM. In addition to our AGM, we seek to hold investor roadshows following the release of half and full year results and our Directors attend a number of investor and sector specific conferences which give smaller investors opportunity to speak with us.

Our active dialogue with shareholders means that the Board receives regular updates on the views of shareholders.

The Company's collegiate and open working environment means that all employees are able to relay concerns to the executive team on a daily basis. The Company has a whistleblowing policy to allow and encourage all employees to bring matters which cause them concern to the attention of certain persons within the Company and, ultimately, to the attention of the Chairman.

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
Creo House, Unit 2, Beaufort Park, Beaufort Park Way, Chepstow, Wales NP16 5UH

4 April 2019

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 and transaction 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. In certain circumstances, the Remuneration Committee may award a separate, specific transaction related bonus.

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, employees, certain contractors and commercial partners 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 1 year and then which may be terminated at any time by either party with 3 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 18-month period was:

(All figures £)	Salary and taxable benefits	Pension	Share-based payments	18 months to 31 Dec 2018	12 months to 30 Jun 2017
Executive:					
Professor Christopher Hancock	603,178	26,000	334,003	963,181	307,297
Craig Gulliford	791,519	10,507	441,736	1,243,762	561,076
Richard Rees	578,887	12,375	335,937	927,199	388,563
Total executive	**1,973,584**	**48,882**	**1,111,676**	**3,134,142**	**1,256,936**
Non-Executive:					
Charles Spicer	97,500	–	28,495	125,995	48,878
John Bradshaw	52,500	–	18,996	71,496	22,227
David Woods	–	–	–	–	–
Total Non-Executive	**150,000**	**–**	**47,491**	**197,491**	**71,105**
Total Directors' remuneration	**2,123,584**	**48,882**	**1,159,167**	**3,331,633**	**1,328,041**

Pension contributions include salary and bonus payments contributed on a salary sacrifice basis during the year. Salary and taxable benefits include 2 annual bonuses and a transaction related bonus paid and/or accrued during the 18-month period. The transaction related bonus relating to the 2018 £48.5m share placing is accrued and paid over a 2-year period commencing September 2018. The share-based payment charge relates to share options issued by the Group. The charge for the year of £1,159,167 for Directors compares to the charge incurred by the Group in total for all employees and suppliers of £1,804,820.

Directors' shareholdings

The interests of the Directors holding office at 31 December 2018 in the shares of the Company, including family interests, were:

(All figures £)	31 Dec 2018 Number	31 Dec 2018 %
Executive:		
Professor Christopher Hancock	4,400,046	3.65%
Craig Gulliford	609,886	0.51%
Richard Rees	–	–
Total executive	**5,009,932**	**4.16%**
Non-Executive:		
Charles Spicer	65,790	0.05%
John Bradshaw	–	–
David Woods	–	–
Total Non-Executive	**65,790**	**0.05%**
Total Directors' shareholdings	**5,075,722**	**4.21%**

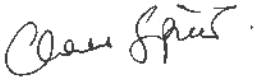
Directors' interests in share options

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 31 December 2018 were:

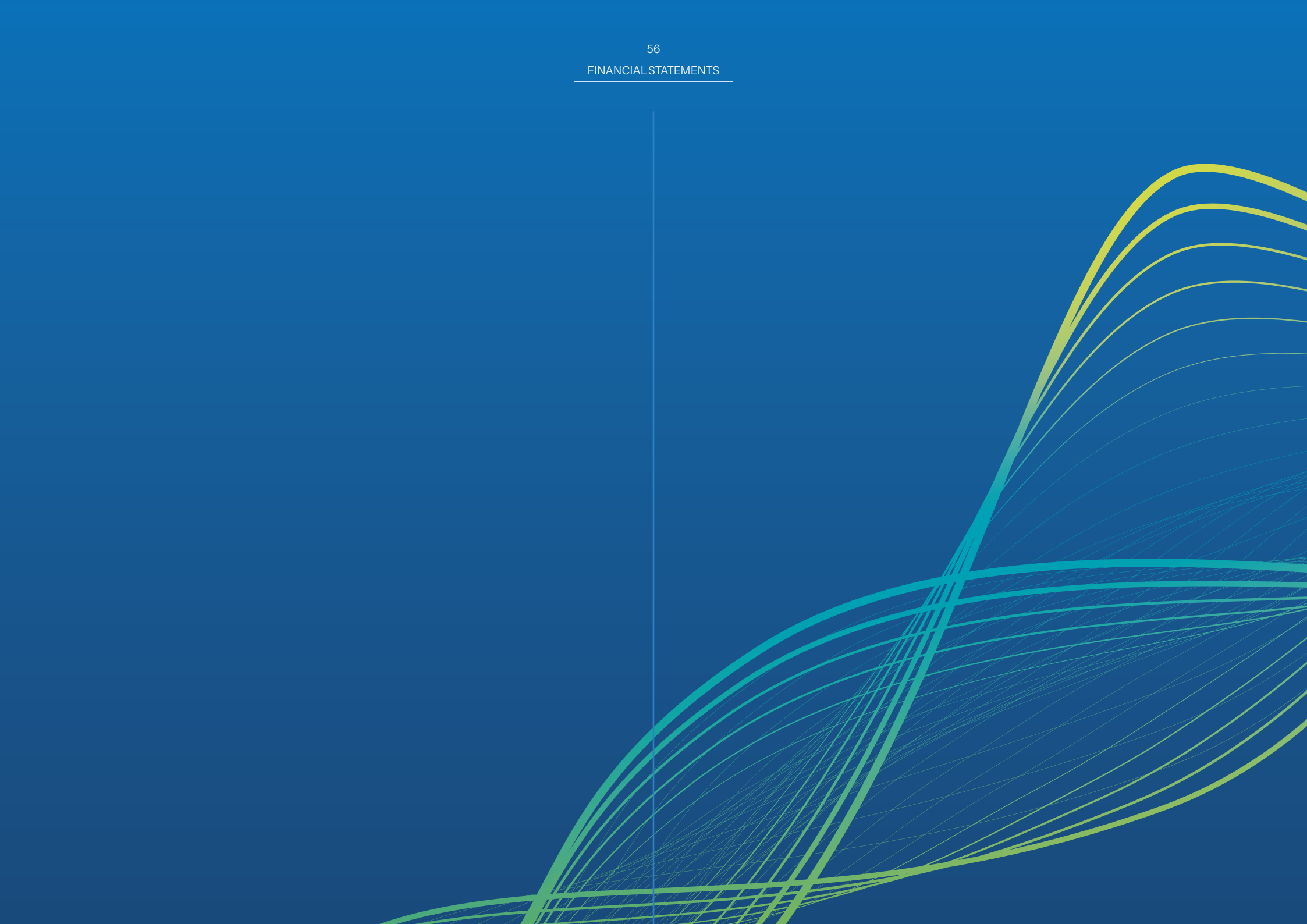
(All figures £)	30 Jun 2017 Number	Granted during year	Exercised during year	31 Dec 2018 Number	Vested but unexercised	Exercise price
Executive:						
Professor Christopher Hancock	417,240	–	–	417,240	417,240	16.67p
Professor Christopher Hancock	72,000	–	–	72,000	72,000	16.67p
Professor Christopher Hancock	1,184,210	–	–	1,184,210	–	76.00p
Professor Christopher Hancock	–	107,914	–	107,914	–	113.00p
Professor Christopher Hancock	–	268,293	–	268,293	–	153.75p
	1,673,450	376,207	–	2,049,657	489,240	
Craig Gulliford	540,000	–	–	540,000	540,000	16.67p
Craig Gulliford	936,000	–	–	936,000	936,000	16.67p
Craig Gulliford	1,578,948	–	–	1,578,948	–	76.00p
Craig Gulliford	–	143,885	–	143,885	–	113.00p
Craig Gulliford	–	325,203	–	325,203	–	153.75p
	3,054,948	469,088	–	3,524,036	1,476,000	
Executive continued:						
Richard Rees	288,000	–	–	288,000	288,000	16.67p
Richard Rees	1,184,210	–	–	1,184,210	–	76.00p
Richard Rees	–	118,705	–	118,705	–	113.00p
Richard Rees	–	268,293	–	268,293	–	153.75p
	1,472,210	386,998	–	1,859,208	288,000	
Total executive	**6,200,608**	**1,232,293**	**–**	**7,432,901**	**2,253,240**	
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
	105,947	–	–	105,947	27,000	
Total Non-Executive	**224,368**	**–**	**–**	**224,368**	**27,000**	
Total Directors' shareholdings	**6,424,976**	**1,232,293**	**–**	**7,657,269**	**2,280,240**	

All share options are subject to employment conditions, those issued on or post Listing at 76p, 113p and 153.75p are also subject to performance conditions.

Other transactions that occurred with Directors during the year are detailed in Note 23 to the financial statements under Related Party Transactions.



Charles Spicer
Chairman of the Remuneration Committee
4 April 2019



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 18 month period ended 31 December 2018 which comprise the 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 31 December 2018 and of the Group's loss for the period then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- 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	£120,000 (2017: £65,000) 0.75% (2017: 0.7%) of total expenditure
Coverage	100% (2017:100%) of Group loss before tax
Key audit matters vs 2017	
Recurring risks	Treatment of development costs ◀▶
	New: Recoverability of parent's debt due from Group entity ▲
Event driven	**New:** The impact of uncertainties due to the UK exiting the European Union on our audit ▲

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

Key audit matters are those matters that, in our professional judgement, 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, were as follows:

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit Refer to page 39 (principal risks) and page 65 (accounting policy).	**Unprecedented levels of uncertainty:** All audits assess and challenge the reasonableness of estimates, in particular as described in treatment of development costs below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: ▪ **Our Brexit knowledge:** We considered the Directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks. ▪ **Sensitivity analysis:** When addressing Development costs and other areas that depend on forecasts, we compared the Directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. ▪ **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on Development costs we considered all of the Brexit related disclosures together, including those in the Strategic Report, comparing the overall picture against our understanding of the risks. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

	The risk	Our response
Treatment of development costs (£150,000 capitalised and £3,794,000 expensed; 2017: £nil capitalised and £3,583,000 expensed). Refer to page 68 (accounting policy) and Note 12 page 73 (financial disclosures).	**Accounting application:** The group aims to develop cutting-edge surgical endoscopy products. Development costs are capitalised in accordance with the relevant accounting standards when specific criteria are met. The Directors assess progress of the Group's development projects against these criteria and, based on this assessment, determined that at the period end the criteria had been met in relation to the Group's Speedboat device and CROMA Advanced Energy platform projects. For the CROMA and Speedboat devices the Directors determined that due to regulatory approval, the number of physicians trained, successful in-patient procedures performed and a clear route to market established through collaboration agreements initiated in the period, there was sufficient evidence to support technical feasibility and commercial viability. Therefore, development costs related to progressing the devices to a Minimal Viable Product have been capitalised. For other ongoing development projects, some of which have achieved technical feasibility, it was determined that, at this stage the projects are not yet suitably progressed to provide sufficient probability of economic benefit. The amounts involved are potentially significant, and the application of the relevant accounting standards to determine the point at which costs are capitalised is inherently subjective as the criteria involves an assessment of the probability of future outcomes.	Our procedures included: ▪ **Accounting analysis:** We critically assessed the determination of whether or not costs on a project should be capitalised against the criteria of the relevant accounting standard and our understanding of the progress of the group's projects. ▪ **Tests of detail:** We obtained an understanding of the progress of projects through procedures including: obtained evidence of the current status of related regulatory approvals, the status of physicians trained in specific regions and the number and success of in-patient procedures performed. We also assessed the existence of and inspected the terms of the collaboration agreements in place in relation to the capitalised projects. ▪ **Assessing transparency:** We evaluated the adequacy of the disclosures of the judgements involved compared with the requirements of the accounting standards and our understanding of the business.
Recoverability of parent's debt due from Group entity (£23.9 million; 2017: £6.0 million). Refer to pages 79 to 80 (accounting policy and financial disclosures).	**Forecast-based valuation** The carrying amount of the Group debtor balance is significant and at risk of irrecoverability due to the subsidiary being in the early stage of its development and trading activity and therefore not currently having sufficient net assets and profitability. The estimated recoverable amount of the balance is subjective due to the inherent uncertainty in forecasting trading conditions and cash flows used in the budgets. The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of the group debtor has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.	Our procedures included: ▪ **Benchmarking assumptions:** Challenging the assumptions used in the cash flows included in the budgets based on our knowledge of the Group and the markets in which the subsidiaries operate; ▪ **Historical comparisons:** Assessing the reasonableness of the budgets by considering the historical accuracy of the previous forecasts in relation to costs; ▪ **Our sector experience:** Evaluating the current level of trading, including identifying any indications of a downturn in activity, by examining the post year end management accounts and considering our knowledge of the Group and the market; and ▪ **Assessing transparency:** Assessing the adequacy of the parent Company's disclosures in respect of the Group debtor balance.

We continue to perform procedures over going concern. However, following the successful funding round in July 2018, the Group secured sufficient funding to operate until at least 2021 without having to obtain further funding, therefore reducing the risk of non-going concern basis, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

Independent Auditor's Report
continued

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 £120,000 (2017: £65,000), determined with reference to a benchmark of Group total expenditure, of which it represents 0.67% (2017: Group total expenditure, of which it represents 0.70%). We consider total expenditure to be the most appropriate benchmark as the entity is still within the start-up phase of the business cycle.

Materiality for the parent Company financial statements as a whole was set at £108,000 (2017: £50,000). This is lower than the materiality we would otherwise have determined by reference to total assets, and represents 0.2% of the Company's total assets (2017: 0.3%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £6,000 (2017: £2,500), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 4 (2017: 2) reporting components, which include the parent Company, we subjected 2 (2017: 2) to full scope audits for Group reporting purposes.

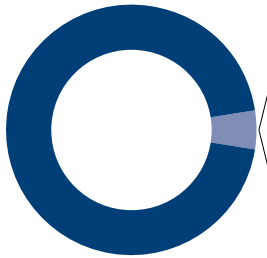
The components within the scope of our work accounted for the following percentages of the Group's results. The work on both components, including the audit of the parent Company, was performed at the Company's head office in Chepstow by the Group team.

For the residual 2 components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

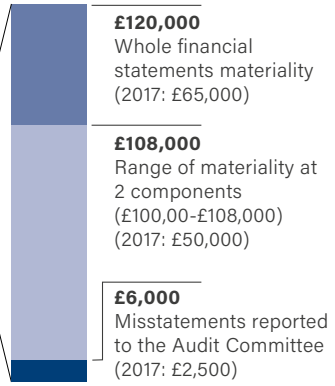
4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

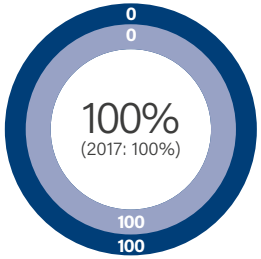
Total expenditure
£17.9m (2017: £9.2m)



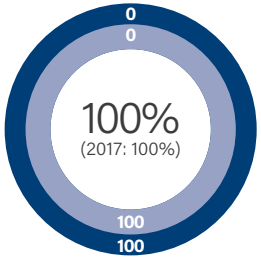
Group Materiality
£120,000 (2017: £65,000)



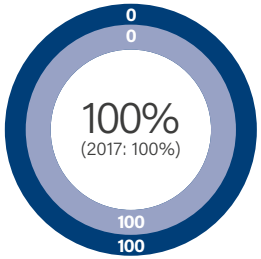
Group revenue

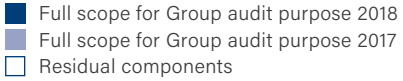


Group profit before tax



Group total assets





Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group or the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- Availability of cash resources.
- Achievement of forecasts.

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.

Based on this work, 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 a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

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. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 49, 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.

8. 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
4 April 2019

Consolidated Statement of Profit and Loss and Other Comprehensive Income

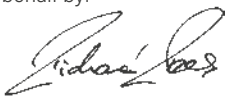
(All figures £)	Note	18 months to 31 Dec 2018	12 months to 30 Jun 2017
Revenue	2	–	–
Cost of sales		–	–
Gross Loss		–	–
Other operating income	2	279,959	277,687
Administrative expenses		(17,943,745)	(9,180,753)
Operating loss		**(17,663,786)**	**(8,903,066)**
Finance expenses	9	(16,744)	(10,721)
Finance income	9	104,343	5,337
Loss before tax	3	**(17,576,187)**	**(8,908,450)**
Taxation	10	2,767,579	1,142,933
Loss for the period/year		**(14,808,608)**	**(7,765,517)**
Other comprehensive income		–	–
Total comprehensive loss for the period/year		**(14,808,608)**	**(7,765,517)**
Earnings per Share			
Basic and diluted	11	(0.16)	(0.13)

The Notes on pages 64 to 80 form part of the financial statements.

Consolidated Statement of Financial Position

(All figures £)	Note	31 Dec 2018	30 Jun 2017
Assets			
Non-current assets			
Intangible assets	12	307,814	10,896
Property, plant and equipment	13	906,256	325,019
Other financial assets	18	10,857	–
Other non-current receivables	15	8,400	14,853
		1,233,327	350,768
Current assets			
Inventories	14	302,472	91,333
Trade and other receivables	15	1,052,766	542,914
Tax receivable	16	2,569,631	1,449,976
Cash and cash equivalents		44,588,722	13,688,762
		48,513,591	15,772,985
Total assets		**49,746,918**	**16,123,753**
Shareholder equity			
Called up share capital	21	120,495	80,712
Share premium	21	65,835,555	19,810,393
Merger reserve	21	13,602,735	13,602,735
Share option reserve	21	3,093,070	1,288,250
Retained earnings	21	(34,938,040)	(20,129,432)
		47,713,815	14,652,658
Liabilities			
Non-current liabilities			
Interest bearing liabilities	19	392,892	1,448
		392,892	1,448
Current liabilities			
Trade and other payables	17	1,599,620	1,455,874
Interest bearing liabilities	19	40,591	13,773
		1,640,211	1,469,647
Total liabilities		2,033,103	1,471,095
Total equity and liabilities		**49,746,918**	**16,123,753**

These financial statements were approved by the board of directors on 4 April 2019 and were signed on its behalf by:



Richard Rees
Director

Company registered number: 10371794

The Notes on pages 64 to 80 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 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)
Total comprehensive income		–	(7,765,517)	–	–	–	(7,765,517)
Transactions with owners, recorded directly in equity							
Issue of share capital		19	–	–	122,560	–	122,579
Bonus issue of share capital		50,950	–	(50,950)	–	–	–
Issue of share capital		28,307	–	19,861,343	–	–	19,889,650
Equity settled share-based payment transactions		–	–	–	–	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**
Total comprehensive income for the period							
Profit or loss		–	(14,808,608)	–	–	–	(14,808,608)
Total comprehensive income		–	(14,808,608)	–	–	–	(14,808,608)
Transactions with owners, recorded directly in equity							
Issue of share capital		39,783	–	46,025,162	–	–	46,064,945
Equity settled share-based payment transactions	8	–	–	–	–	1,804,820	1,804,820
Balance at 31 December 2018		**120,495**	**(34,938,040)**	**65,835,555**	**13,602,735**	**3,093,070**	**47,713,815**

The Notes on pages 64 to 80 form part of the financial statements.

Consolidated Statement of Cash Flows

(All figures £)	Note	18 months to 31 Dec 2018	12 months to 30 Jun 2017
Cash flows from operating activities			
Total comprehensive loss for the period		(14,808,608)	(7,765,517)
Depreciation/amortisation charges		497,421	142,423
Increase in share option reserve		1,804,820	776,782
Fair value adjustment to derivatives		(10,857)	7,402
Finance expenses		16,744	3,319
Finance income		(93,486)	(5,337)
R&D expenditure credit		(18,602)	(17,067)
Taxation	10	(2,767,579)	(1,142,933)
Loss on disposal of property, plant and equipment	13	12,278	–
		(15,367,869)	(8,000,928)
Increase in inventories	14	(211,139)	(91,333)
Increase in trade and other receivables		(514,256)	(65,564)
Increase in trade and other payables		143,746	693,887
		(15,949,518)	(7,463,938)
Interest paid		(16,744)	(3,319)
Tax received		1,666,525	552,490
Net cash from operating activities		**(14,299,737)**	**(6,914,767)**
Cash flows from investing activities			
Purchase of intangible fixed assets	12	(304,462)	(1,264)
Purchase of tangible fixed assets	13	(1,083,391)	(224,450)
Interest received		104,343	5,337
Net cash from investing activities		(1,283,510)	(220,377)
Cash flows from financing activities			
Capital received in respect of finance lease liabilities		121,595	–
Capital repaid in respect of finance lease liabilities		(45,333)	(11,606)
Capital received in respect of long-term borrowings		342,000	–
Share issue	22	46,064,945	20,012,229
Net cash from financing activities		46,483,207	20,000,623
Increase in cash and cash equivalents		30,899,960	12,865,479
Cash and cash equivalents at beginning of period		13,688,762	823,283
Cash and cash equivalents at end of period		**44,588,722**	**13,688,762**

The Notes on pages 64 to 80 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 Unit 2, Creo House, Beaufort Park, Beaufort Park Way, Chepstow, Wales, NP16 5UH.

The Group financial statements consolidate those of the parent Company and its subsidiaries (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 second 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 financial statements are presented in Sterling and rounded to the nearest pound.

This financial report for the 18-month period ended 31 December 2018 (including comparatives for the 12 months ended 30 June 2017) was approved by the Board of Directors on 4 April 2019. The accounting reference date was extended from 30 June 2018 to 31 December 2018 giving an 18-month period ending 31 December 2018. This change was to align the accounting reference date to the annual calendar and our annual budgeting process.

Changes in accounting policy and disclosures

New standards, amendments and interpretations

The following new standards, amendments and interpretations have been adopted by the Group for the first time for the financial year beginning on 1 July 2017:

- Annual improvements 2014 – 2016 cycle
- Amendment to IFRS 2, 'Share-based payments' which clarifies the classification and measurement of certain share-based payment transactions
- IFRS 15 'Revenue from contracts with customers'
- Amendments to IAS 40, 'Investment Property' which clarifies that transfers to, or from, investment property can only be made if there has been a change in use that is supported by evidence
- Interpretation 22 'Foreign Currency Transactions and Advance Consideration' which clarifies how to determine the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts.

The adoption of these standards, amendments and interpretations has not had a material impact on the financial statements of the Group or parent Company. In reference to IFRS 15, the Group has not identified any contracts which are in the scope of IFRS 15 as disclosed per Note 2.

New standards, amendments and interpretations issued but not effective and not adopted early

The following new standards, amendments to standards and interpretations have been issued but not yet effective and therefore have not been applied in preparing these consolidate financial statements.

- IFRS 9 'Financial instruments' effective 1 January 2019 (effective date for annual periods beginning on or after 1 January 2018).
- IFRS 16 'Leases' effective for periods beginning on or after 1 January 2019.
- IFRS 17 'Insurance contracts' effective for periods beginning on or after 1 January 2019.
- Amendments to IAS 19 'Employee Benefits' which clarifies the accounting for defined benefit plan amendments, curtailments and settlements. Effective for periods beginning on or after 1 January 2019.
- Amendment to IAS 28 'Investments in associates and joint ventures' which clarifies the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Effective for periods beginning on or after 1 January 2019.
- Amendments to IFRS 10 'Consolidated financial statements' and IAS 28 'Investments in associates and joint ventures' which clarifies the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. Effective for periods beginning on or after 1 January 2019.
- Interpretation 23 'Uncertainty over Income Tax Treatments' which explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. Effective for periods beginning on or after 1 January 2019.

The Directors anticipate that none of the new standards, amendments to standards and interpretations is expected to have a significant effect on the financial statements of the Group or parent Company, except for IFRS 16 'Leases'.

IFRS 16 Leases

In February 2016, IASB issued IFRS 16, Leases, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contact (i.e., lessees and lessors).

The standard introduces a new lease model that will require most leases to be recorded on balance sheet and eliminates the required use of tests in current IFRS for determining lease classification. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases.

The Group will adopt the standard effective 1 January 2019 (the effective date) using the optional transition method to not apply the new lease standard in the comparative periods presented and will elect the "practical expedient package", which permits the Group not to reassess prior conclusions about lease identification, lease classification, and initial direct costs. IFRS 16 also provides practical expedients for the Group's ongoing accounting.

1. Accounting policies continued

The Group currently expects to elect the short-term lease recognition exemption for all leases that qualify. As such, for those leases that qualify, the Group will not recognise Right of Use assets or lease liabilities as part of the transition adjustment or in the future.

The Group assessed implementing changes to its systems, processes and controls in conjunction with a review of existing lease agreements. To determine the Group's lease population, a review of the leases included in the current IAS 17 minimum lease payments disclosure as well as supplier contracts for potential embedded leases was completed. The Group has determined that the adoption of IFRS 16 primarily relates to its property leases.

The Group expects the adoption of IFRS 16 will have a material impact on its consolidated balance sheet as its rights and obligations from its existing operating leases will be recognised on the balance sheet as assets and liabilities. As of 31 December 2018, the Group's undiscounted minimum lease commitments under non-cancellable operating leases was £510,823.

Based on currently available information, the Group expects to recognise operating lease liabilities and Right-of-Use assets of £463,654 and £463,654, respectively. The expected operating lease liabilities were calculated on the present value of the remaining minimum lease payments for existing operating leases as of 31 December 2018.

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 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, the new parent measured cost at the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the date of the reorganisation. 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 Group reported a loss for the period of £14.8m (12 months to 30 June 2017: loss £7.8m). Net assets as at 31 December 2018 were £47.7m (30 June 2017: £14.7m) and include cash and cash equivalents of £44.6m (30 June 2017: £13.7m).

The Board has considered the applicability of the going concern basis in the preparation of the financial statements. This included the review of internal budgets and financial results and a review of cash flow forecasts for the 12-month period following the date of signing the financial statements.

The Group has prepared detailed forecasts and projections taking into account the available funding and its planned activities for the 5-year period to 31 December 2023. Based on the current business plan the Group is forecasting to be cash generative (and profitable) within this period and its cash resources will extend to the year ending 31 December 2022. Therefore, further funding may be required in the medium-term to support the Group in reaching sustainable profitability. The level of additional funds required (if any) will be dependent upon the Group's performance against forecasts, and the level of income generated from seeding and sales activity, which itself is dependent on the commercialisation of current products and the development and commercialisation of further electrosurgical medical devices currently in the pipeline and based on the already developed CROMA Advanced Energy platform.

The Group completed a £48.5m share placing on AIM on 30 August 2018 which has provided the financial resources required to support the Group's ongoing operations as well as its future development and growth for the next 3-4 years at the current level of activity and spend. Further, the Group has entered into strategic collaboration agreements with distributors in a number of geographies and commenced delivering product, ahead of schedule, for training and market penetration purposes. This is expected to be followed by a period of ramp up as market penetration activities are currently leading to physical sales being realised in FY2019.

The Directors have a reasonable expectation that the Group will be able to raise further equity, or secure other financing, in the medium-term to support its ongoing development and commercialisation activities. However, there can be no guarantee that the Group will continue to complete the development and regulatory clearances required, that the Group will be able to raise sufficient funding from existing and new investors and/or secure financing facilities in the medium-term, nor that the Group will be successful with its current market penetration collaborations. In the event that commercialisation of existing products is slower than expected or that additional funding in the medium-term is delayed, the Directors consider that the Group would be able to reduce expenditure on its development programmes in order to continue funding its operations until additional financing is secured.

The Group continues to monitor the progress of the UK's departure from the EU and take steps that are necessary to continue to have access to the EU market. The Directors do not expect any significant impact on the Group from the UK's departure from the EU.

Notes to the Financial Statements
continued

1. Accounting policies continued

The Board remains confident of its ability to continue with the development, the process of obtaining regulatory approvals and the commercialisation of its products. Based on these factors, including the current level of cash resources, 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 the financial statements. Thus, they continue to adopt the going concern basis of accounting in preparing the Annual Report.

Intangible assets

Intangible assets include the capitalisation of development costs and software for the period ending 31 December 2018.

Software which is not an integral part of hardware assets is 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.

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
Development costs	– 5 years straight line from first paid revenue of products

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.

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.

1. Accounting policies continued

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.

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 in the period 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
Bonus
Bonuses as with wages, salaries, paid annual leave and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group.

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.

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.

Notes to the Financial Statements
continued

1. Accounting policies continued

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, market 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, market 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 judgements and policy update

The Group is required to make estimates and assumptions concerning the future. These estimates and judgements 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 judgements have been required for the production of these Financial Statements. The following are those that are deemed to require the most complex judgements about matters that have the most significant effect on the amounts recognised in the Financial Statements.

Capitalisation of development costs

Capitalisation of development costs requires analysis of the technical feasibility and commercial viability of the project concerned. Capitalisation of the costs will only be made where there is evidence that an economic benefit will flow to the Company.

During the period, the Group commenced capitalisation of development costs relating to its Speedboat device and CROMA Advanced Energy platform. These products relate to the emerging field of surgical endoscopy, and as such the commercial viability requires a number of factors to be in place following the initial design including regulatory approval, trained physicians, successful in-patient procedures performed and a clear route to market.

In the period, FDA clearance for the Speedboat device and the CROMA Advanced Energy platform was obtained, following which the Company was able to train a number of physicians and treat patients successfully in both upper and lower gastrointestinal procedures. Having then entered into strategic collaboration agreements with distributors for Speedboat and CROMA, the Company progressed the devices to a Minimal Viable Product ("MVP"), a milestone which was achieved in the period and the costs of which have therefore been determined as meeting the criteria for capitalisation. The Group's internal budgets demonstrate that the products will generate probable future economic benefits supporting its judgement to commence capitalisation of the relevant development costs.

Other products are in various stages of development and the Group has determined that although technical feasibility has been achieved, the commercial viability is yet to be achieved and therefore all the criteria were not met as at the period end.

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

Revenue from contracts with customers

IFRS 15 'Revenue from contracts with customers' establishes a comprehensive framework for determining whether, how much and when revenue is recognised. Revenue is recognised when a customer obtains control of the goods or services.

IFRS15 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

The standard replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts', and related interpretations and is effective for annual periods beginning on or after 1 January 2018. The Group has early adopted IFRS 15 as at 1 July 2018. As part of adopting IFRS 15 the company has not identified any contracts with customers within the scope of IFRS 15 and accordingly no revenue is recognised in the current or prior period.

Collaborative arrangements

The Group has entered into a number of collaboration agreements with distributors in the period in order to develop and penetrate geographical markets for Creo's initial products (Speedboat device and the CROMA Advanced Energy platform) and to establish a working relationship in readiness for Creo's suite of products.

The agreements represent the transfer of goods to the distributor for consideration and the receipt of services to Creo in the form of marketing, promotion and setting up training and qualifying centres.

The distributor is not deemed to be a 'customer' of the entity as defined in IFRS 15. Instead they are a collaborator or partner that shares in the risks and benefits of developing a product to be marketed and as such no revenue is recognised in respect of these agreements.

The overall arrangement represents a net cost to Creo on the basis that it is providing products on a free or discounted basis and providing training and other support to the distributor in return for services relating to the objective of market penetration.

The overall net cost of each agreement is determined at inception and spread over the period of the agreement. The assumptions upon which the estimates are made are periodically updated. Any impact on profit or loss is recognised in the period in which the updates are made.

Other operating income

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 £)	18 months to 31 Dec 2018	12 months to 30 Jun 2017
Depreciation – owned assets	471,745	127,090
Depreciation – assets on hire purchase contracts	18,132	12,088
Amortisation	7,544	3,245
Loss on disposal of property, plant and equipment	12,278	–
Operating leases – land and buildings	249,602	129,859
Operating leases – other	83,538	51,340
Research and development expenditure	7,846,144	3,583,041
Foreign exchange differences	18,411	12,734

4. Audit and non-audit fees

An analysis of auditors' remuneration is as follows:

(All figures £)	18 months to 31 Dec 2018	12 months to 30 Jun 2017
Audit fees	**108,280**	**50,000**
Audit-related assurance services	17,000	25,000
Tax compliance services	5,500	5,800
Corporate finance services	–	267,800
All other services	8,500	17,700
Non-audit fees	**31,000**	**316,300**

Corporate finance services in the prior period include costs associated with the listing on AIM.

Notes to the Financial Statements
continued

5. Staff numbers and costs

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

(All figures £)	18 months to 31 Dec 2018	12 months to 30 Jun 2017
Wages and salaries	5,329,362	2,679,600
Social security costs	661,393	292,801
Pension	546,393	281,040
Share-based payments	1,804,820	776,782
Total remuneration	**8,341,968**	**4,030,223**

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

(All figures £)	18 months to 31 Dec 2018	12 months to 30 Jun 2017
Research and development	38	25
Administration	11	7
	49	**32**

Pension costs incurred in the year relate to all employees. The staging date for auto-enrolment was 1 July 2017.

6. Directors remuneration

(All figures £)	18 months to 31 Dec 2018	12 months to 30 Jun 2017
Directors' remuneration	2,123,584	494,373
Pension	48,882	281,040
Share based payments expensed	1,159,167	540,869
Amounts paid to third parties in respect of directors' services	–	11,759
Total directors' remuneration	**3,331,633**	**1,328,041**

Directors' emoluments disclosed above, including the fair value for share based payment expenses, paid to the highest paid Director in the Period was £1,243,762 (Period to June 2017: £561,076), there were Company pension contributions of £48,882 made to defined contribution schemes during the current period (30 June 2017: £281,040). The share options exercised in the period by the highest paid Director was £nil (30 June 2017: £122,579).

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 emoluments and compensation, share options and contributions to the pension scheme split by Director which form part of these audited financial statements.

7. Research and development expenditure

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

8. Share based payments

At 31 December 2018 the Group has an established Enterprise Management Incentive ("EMI") and non-EMI schemes ("the Schemes") under which share options have been granted to certain officers, employees and certain suppliers. 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.

The schemes include both market and non-market based vesting conditions. The share options may be exercised from the date that they vest until the 10th anniversary of the date of the grant. In addition to the performance based vesting conditions the only vesting requirement is that the recipient remains in employment with the Company with the exception of tranches 11 and 12 where employment is not a criteria. All options to be settled by the physical delivering of shares. Details of the grants under these schemes are as follows:

8. Share based payments continued

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	1,121,400	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
9	04 Apr 2018	875,902	Continual service of employment and market based performance conditions	1.13	0.58	10 years
10	29 Aug 2018	1,746,718	Continual service of employment over 3 years and non-market based performance conditions	1.54	0.84	10 years
11	18 Oct 2018	749,209	Non-market base performance conditions	0.76	1.60	10 years
12	02 Jul 2018	1,000,000	Non-market base performance conditions	1.26	0.67	10 years
		17,721,285				

Share option activity for the Period ended 31 December 2018 is presented below:

	31 Dec 2018 Number of options	31 Dec 2018 Weighted average exercise price	30 Jun 2017 Number of options	30 Jun 2017 Weighted average exercise price
Outstanding at start of period	11,942,936	£0.46	–	–
Converted from old scheme	–	–	6,035,040	£0.16
Granted during the period	4,371,829	£1.26	5,907,896	£0.76
Forfeited during the period	(1,315,579)	£0.45	–	–
Exercised during the period	(983,640)	£0.16	–	–
Outstanding at end of period	14,015,546	£0.72	11,942,936	£0.46
Exercisable at end of period	4,367,400	£0.17	5,351,040	£0.16
Weighted average remaining contractual life (in years) of options outstanding at the period end	–	7.9	–	8.4

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:

	18 months to 31 Dec 2018	12 months to 30 Jun 2017
Exercise price	£0.76 to £1.54	£0.76
Share price at date of grant	£1.16 to £2.09	£0.80
Risk-free interest rate	0.5% to 0.75%	0.5%
Expected volatility	41% to 51%	51%
Dividend yield	0%	0%
Contractual life of option (years)	10	10

In the absence of any historical volatility data for the Group, the expected volatility was determined by reviewing the volatility of the share price of similar entities which are currently listed on AIM.

Notes to the Financial Statements
continued

8. Share based payments continued

Share based payment expense

(All figures £)	18 months to 31 Dec 2018	12 months to 30 Jun 2017
Expense arising from share-based payment transactions	1,804,820	776,782

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 £)	18 months to 31 Dec 2018	12 months to 30 Jun 2017
Professor Christopher Hancock	334,003	113,873
Craig Gulliford	441,736	272,049
Richard Rees	335,937	137,267
Charles Spicer	28,495	10,608
John Bradshaw	18,996	7,072
David Woods	–	–
	1,159,167	**540,869**

9. Finance income and costs

(All figures £)	18 months to 31 Dec 2018	12 months to 30 Jun 2017
Finance income:		
Bank interest	93,486	5,337
Fair value adjustment for derivatives	10,857	–
Total finance income	**104,343**	**5,337**
Finance costs:		
Bank interest	3,673	–
Interest expense on finance leases liabilities	13,071	3,319
Fair value adjustment for derivatives	–	7,402
Total finance costs	**16,744**	**10,721**

10. Taxation

Recognised in the income statement

(All figures £)	Note	18 months to 31 Dec 2018	12 months to 30 Jun 2017
Current tax:			
Current year		(2,551,029)	(1,172,621)
Adjustments for prior years		(216,550)	29,688
Current tax credit		**(2,767,579)**	**(1,142,933)**
Deferred tax:			
Origination and reversal of temporary timing differences	16	–	–
Total tax credit		**(2,767,579)**	**(1,142,933)**

Reconciliation of effective tax rate

(All figures £)	18 months to 31 Dec 2018	12 months to 30 Jun 2017
Loss for the period	(14,808,608)	(7,765,517)
Total credit	(2,767,579)	(1,142,933)
Loss excluding taxation	**(17,576,187)**	**(8,908,450)**
Tax using the UK corporation tax rate of 19% (2017: 19.75%)	(3,339,476)	(1,759,419)
Research and development	(1,097,669)	(468,342)
Movement in deferred tax not provided	1,508,705	883,432
Non-deductible expenses	377,411	171,708
Prior year adjustment	(216,550)	29,688
Total tax credit	**(2,767,579)**	**(1,422,933)**

The tax credit of £2,767,579 (2017: £1,142,933) 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 has 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 £18,602 (2017: £17,067) 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 £)	18 months to 31 Dec 2018	12 months to 30 Jun 2017
(Loss)		
(Loss) attributable to equity holders of Company (basic)	(14,808,608)	(7,765,517)
Shares (number)		
Weighted average number of ordinary shares in issue during the period	90,390,078	60,017,322
Earnings per share		
Basic and diluted	(0.16)	(0.13)
Ordinary shares start of year	80,711,745	33,211,080
Issued in year		
Issue 1 – Ordinary	115,000	691,920
Issued with months remaining	12	9
Issue 2 – Ordinary	276,320	18,501,480
Issued with months remaining	11	7
Issue 3 – Ordinary	20,000	1,991,465
Issued with months remaining	8	7
Issue 4 – Ordinary	38,800,000	26,315,800
Issued with months remaining	4	7
Issue 5 – Ordinary	63,880	–
Issued with months remaining	1	–
Issue 6 – Ordinary	336,000	–
Issued with months remaining	1	–
Issue 7 – Ordinary	172,440	–
Issued with months remaining	1	–
Closing ordinary shares	120,495,385	80,711,745
Average ordinary shares	90,390,078	60,017,322
Basic EPS	**(0.16)**	**(0.13)**

Earnings per share has been calculated in accordance with IAS 33 – Earnings Per Share using 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 as 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 £)	18 months to 31 Dec 2018	12 months to 30 Jun 2017
(Loss)		
(Loss) attributable to equity holders of Company (basic)	(14,808,608)	(7,765,517)
Expenses of the initial public offering (non-recurring)	–	1,252,692
Adjusted operating loss	(14,808,608)	(6,512,825)
Shares (number)		
Weighted average number of ordinary shares in issue during the period	90,390,078	60,017,322
Earnings per share adjusted		
Basic and diluted	(0.16)	(0.11)

12. Intangible assets

(All figures £)	Computer software	Assets under construction	Total
Cost:			
At 1 July 2017	14,509	–	14,509
Additions	1,300	303,162	304,462
At 31 December 2018	15,809	303,162	318,971
Amortisation:			
At 1 July 2017	3,613	–	3,613
Charge for period	7,544	–	7,544
At 31 December 2018	11,157	–	11,157
Net book value at 31 December 2018	4,652	303,162	307,814
Net book value at 30 June 2017	10,896	–	10,896

Assets under construction in the year include the capitalisation of research and development costs of £150,000 and costs associated with the implementation of an Enterprise Resource Planning (ERP) system of £153,162.

Notes to the Financial Statements
continued

13. Property, plant and equipment

(All figures £)	Leasehold property	Office equipment	Fixtures and fittings	Motor vehicles	Plant and machinery	Assets under construction	Total
Cost:							
At 1 July 2017	16,664	403,568	70,661	10,000	244,499	56,298	801,690
Additions	414,838	83,840	–	–	566,376	18,338	1,083,392
Eliminated on disposal	–	(37,594)	–	–	–	–	(37,594)
Transferred	55,214	–	–	–	1,084	(56,298)	–
At 31 December 2018	486,716	449,814	70,661	10,000	811,959	18,338	1,847,488
Depreciation:							
At 1 July 2017	10,469	210,915	65,005	10,000	180,282	–	476,671
Charge for period	125,403	139,182	4,783	–	220,509	–	489,877
Eliminated on disposal	–	(25,316)		–	–	–	(25,316)
Transferred	–	–	–	–	–	–	–
At 31 December 2018	135,872	324,781	69,788	10,000	400,791	–	941,232
Net book value at 31 December 2018	350,844	125,033	873	–	411,168	18,338	906,256
Net book value at 30 June 2017	6,195	192,653	5,656	–	64,217	56,298	325,019

The Group leases production equipment under a number of finance leases. The leased equipment secures lease obligations. At 31 December 2018, the net carrying amount of leased equipment was £68,569 (2017: £19,143).

During 2018, the Group acquired equipment with a carrying amount of £121,595 (2017: £nil) under a finance lease.

14. Inventories

(All figures £)	31 Dec 2018	30 Jun 2017
Raw materials & consumables	247,766	91,333
Finished goods	54,706	–
Total inventories	**302,472**	**91,333**

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

15. Trade and other receivables

(All figures £)	31 Dec 2018	30 Jun 2017
Current:		
Accrued other income	164,059	61,063
Other debtors	109,456	–
Prepayments	305,590	304,431
VAT	473,661	177,420
Total current	**1,052,766**	**542,914**
Non-current:		
Other debtors	8,400	14,853
Total trade and other receivables	**1,061,166**	**557,767**

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:

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

(All figures £)	31 Dec 2018	30 Jun 2017
Balances:		
Accelerated capital allowances	63,252	39,905
Tax losses offset (see below)	(63,252)	(39,905)
	–	–

There are unused trading losses at 31 December 2018 of £18,185,117 (30 June 2017: £11,272,469). A deferred tax asset of £3,056,913 (30 June 2017: £1,916,320) has not been recognised in respect of these tax losses due to uncertainty in respect of its recoverability.

Tax receivables at 31 December 2018 of £2,569,631 (30 June 2017: £1,449,976) 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 £)	31 Dec 2018	30 Jun 2017
Current:		
Trade payables	739,015	519,258
Social security and other taxes	114,595	87,884
Other payables	16,074	15,833
Deferred income	79,647	257,047
Accrued expenses	650,289	575,852
Total trade and other payables	**1,599,620**	**1,455,874**

18. Financial instruments

Carrying amount of financial instruments

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

(All figures £)	31 Dec 2018	30 Jun 2017
Foreign currency forward contracts:		
Assets	10,857	–

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 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.

Credit risk

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the Consolidated Statement of Financial Position.

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.

19. Interest bearing liabilities

(All figures £)	31 Dec 2018	30 Jun 2017
Current:		
Finance lease liabilities	40,591	13,773
Non-current:		
Finance lease liabilities	43,231	1,448
Bank borrowings	349,661	–
	433,483	**15,221**
Finance lease liabilities are payable as follows:		
Less than 1 year	40,591	13,773
Between 1 and 5 years	43,231	1,448
More than 5 years	–	–
	83,822	**15,221**
Bank borrowings are payable as follows:		
Less than 1 year	–	–
Between 1 and 5 years	349,661	–
More than 5 years	–	–
	349,661	**-**
	433,483	**15,221**

Notes to the Financial Statements
continued

20. Provisions

(All figures £)	31 Dec 2018	30 Jun 2017
Non-current:		
Lease dilapidations provision	19,500	23,735
	19,500	**23,735**

The dilapidations provision relates to potential rectification costs expected should the Group vacate its head office.

The movement in dilapidations is summarised below:

(All figures £)	31 Dec 2018	30 Jun 2017
At beginning of period	23,735	67,600
Released through profit and loss	(23,735)	(43,865)
Provisions made in period	19,500	–
At end of period	**19,500**	**23,735**

Provisions for dilapidations are inherently uncertain in terms of quantum and timing, not least because they involve negotiations with landlords at future dates. The figures provided in the financial statements represent management's best estimate of the likely outflows to the Group.

21. Share capital and reserves

(All figures £)	Share capital
Balance at start of period	80,712
Issue of share capital	
Number of shares	39,783,640
Price per share (£)	0.001
Share value (£)	39,784
Balance at 31 December 2018	120,495

On 2 August 2018 4,000,000 £0.001 ordinary shares were issued with a further 34,800,000 £0.001 ordinary shares being issued on 30 August 2018. During the period 983,640 share options were exercised. The total number of issues in the period was 39,783,640 £0.001 ordinary shares. The Group has a single class of share, ordinary shares £0.001.

Share capital
Is the amount of nominal value of share held by shareholders. At 31 December 2018 120,495,385 shares have been issued, each with the nominal value of £0.001 equalling a share capital for the Company of £120,495. 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.

22. Cash from share issue

(All figures £)	18 months to 31 Dec 2018	12 months to 30 Jun 2017
Share issue:		
Share options exercised	155,529	122,579
Advanced share subscription AIM listing 9 December 2016	–	1,400,000
Share subscription AIM listing 9 December 2016	–	20,000,008
Transaction costs AIM listing 9 December 2016	–	(1,510,358)
Share placing AIM 30 August 2018	48,500,000	–
Transaction costs AIM 30 August 2018	(2,590,584)	–
	46,064,945	**20,012,229**

23. Related party disclosures

Remuneration of Directors

Directors of the Company control 4.21% 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. There were no transactions in the period (12 months to 30 June 2017 £50,580). The balance payable at 31 December 2018 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 £nil (12 months to 30 June 2017 £439,571).

David Woods is President and CEO of PENTAX Americas and M&A Director of HOYA Group, PENTAX Medical. During the period the Group entered into an addendum to the distribution agreement entered into with HOYA Group, PENTAX Medical in August 2016. Pursuant to the addendum, PENTAX agreed to commence seeding certain markets in APAC and the Group agreed to extend the terms of the distribution agreement for a period of 5 years from the date on which the Group's products are registered in each respective territory. There were no financial transactions with HOYA Group, PENTAX Medical under these agreements.

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 £17,749 (12 months to 30 June 2017 £81,541), with the balance payable at 31 December 2018 being £nil. The fees paid in the period to Ling Chen totalled £53,200 (12 months to 30 June 2017 £25,125), with the balance payable at 31 December 2018 being £11,129.

Aggregate remuneration for the period for all key management totalled £2,172,466 (12 months to 30 June 2017 £494,373).

(All figures £)	18 months to 31 Dec 2018	12 months to 30 Jun 2017
Salary and taxable benefits:		
Professor Christopher Hancock	629,178	117,877
Craig Gulliford	802,026	149,534
Richard Rees	591,262	185,296
Charles Spicer	97,500	27,083
John Bradshaw	52,500	14,583
	2,172,466	**494,373**

24. Ultimate controlling party

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

25. 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 31 December 2018 £333,140 was recognised as an expense in the Statement of Profit and Loss in respect of operating leases (12 months to June 2017: £181,199).

(All figures £)	31 Dec 2018	30 Jun 2017
Land and buildings:		
Less than 1 year	161,000	165,716
Between 1 and 5 years	328,417	569,917
Total	**489,417**	**735,633**
Other:		
Less than 1 year	17,818	45,708
Between 1 and 5 years	3,680	2,959
Total	**21,498**	**48,667**

The Group's current building lease will expire on 30 August 2027.

On 30 August 2017, the Group entered into a new lease for a term of 10 years commencing 31 August 2017. The new lease includes a tenant's break option by which the Group will have the ability to terminate the lease on or after 30 August 2022 subject to providing the landlord with 9 months written notice.

As at 31 December 2018, the building lease has 8 years and 8 months to run.

Notes to the Financial Statements continued

26. Capital commitments

The amounts contracted for but not provided for as at 31 December 2018 in relation to Software and the Group's new Enterprise Resource Planning (ERP) system are £153,162 (30 June 2017 £nil). The total capital commitment in the period in relation to the ERP system was £186,312.

27. Subsequent events

On the 16th January 2019, the Company announced that its Speedboat device powered by its CROMA Advanced Energy platform had been successfully used by 2 US gastrointestinal surgeons to treat patients.

The Group signed a framework agreement on 7th February 2019 with PENTAX Europe GmbH (a member of HOYA Group) in respect of the initial market seeding and establishing a clinical education programme in each of Germany, France and Italy.

Creo Medical (Ireland) Ltd was incorporated in Ireland on 21 March 2019 and is a wholly owned subsidiary of Creo Medical Limited.

There have been no other material events subsequent to the period end and up to 4 April 2019, the date of approval of the financial statements by the Board.

Parent Company Statement of Financial Position

(All figures £)	Note	31 Dec 2018	30 Jun 2016
Assets			
Non-current assets			
Investments in subsidiaries	30	1,455	1,455
Amount owed by subsidiary undertaking	31	23,906,610	5,984,639
		23,908,065	5,986,094
Current assets			
Trade and other receivables	31	67,992	120,000
Cash and cash equivalents		43,675,948	13,404,450
		43,743,940	13,524,450
Total assets		**67,652,005**	**19,510,544**
Shareholder equity			
Called up share capital	21	120,495	80,712
Share premium		65,835,555	19,810,394
Share option reserve		2,334,019	529,199
Retained earnings		(638,064)	(909,761)
		67,652,005	19,510,544
Total equity and liabilities		**67,652,005**	**19,510,544**

These financial statements were approved by the Board of Directors on 4 April 2019 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 30 June 2016		–	–	–	–	–
Total comprehensive income for the period						
Profit or loss		–	(909,761)	–	–	(909,761)
Other comprehensive income		–	–	–	–	–
Total comprehensive income		–	(909,761)	–	–	(909,761)
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 November 2016)		28,307		19,861,343		19,889,650
Equity settled share-based payment transactions	8		–	–	529,199	529,199
Balance at 30 June 2017		**80,712**	**(909,761)**	**19,810,393**	**529,199**	**19,510,543**
Total comprehensive income for the period						
Profit or loss		–	271,697	–	–	271,697
Other comprehensive income		–	–	–	–	–
Total comprehensive income		–	271,697	–	–	271,697
Transactions with owners, recorded directly in equity						
Issue of share capital		39,783	–	46,025,162	–	46,064,945
Equity settled share-based payment transactions	8		–	–	1,804,820	1,804,820
Balance at 31 December 2018		**120,495**	**(638,064)**	**65,835,555**	**2,334,019**	**67,652,005**

Notes to the Parent Company Financial Statements

28. 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 profit for the period ended 31 December 2018 is £271,697 (30 June 2017: loss £909,761).

29. 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;
- Disclosures of transactions with a management entity that provides key management personnel services to the Company; and
- Certain disclosures required by IFRS 7 Financial Instrument Disclosers.

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.

Judgements 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.

Investments in subsidiaries are carried at cost less impairment.

Notes to the Parent Company Financial Statements
continued

30. Investments

(All figures £)	Investment in subsidiary company
Cost:	
As at 31 December 2018	1,455

The Company has the following investments in subsidiary companies:

(All figures £)	Aggregate of capital and reserves	Profit or loss for the period	Registered Office address	Class of shares held	Ownership 2017
Cost:					
Creo Medical Limited	(19,950,371)	(15,093,940)	Unit 2, Creo House Beaufort Park Beaufort Park Way Chepstow Wales NP16 5UH	Ordinary	100%

The Company has the following investments in subsidiary companies:

(All figures £)	Aggregate of capital and reserves	Profit or loss for the period	Registered Office address	Class of shares held	Ownership 2017
Cost:					
Creo Medical, Inc.	–	–	251 Little Falls Drive Wilmington New Castle Delaware 19808 USA	Ordinary	100%
Creo Medical Innovations Limited	–	–	Unit 2 Riverside Court 12 Lower Bristol Road Bath BA2 3DZ	Ordinary	100%

31. Parent Company trade and other receivables

(All figures £)	31 Dec 2018	30 Jun 2017
Current:		
Research grant receivable	–	–
Other debtors	67,992	120,000
VAT	–	–
Total current	**67,992**	**120,000**
Non-current:		
Other debtors	–	–
Amount owed by subsidiary undertaking	23,906,610	5,984,639
Total non-current	**23,906,610**	**5,984,639**
Total trade and other receivables	**23,974,602**	**6,104,639**


ANYTHING IS POSSIBLE WITH THE RIGHT APPROACH

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