GRAFT POLYMER

COMBINE INCOMPATIBLE

Annual Report & Financial Statements for the year ended 31 December 2022

Company Registration No. 10776788 (England and Wales)

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DIRECTORS
Roby Zomer
Victor Bolduev
Pavel Kobzev
Alex Brooks
Yifat Steuer

COMPANY SECRETARY
Anthony Eastman

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REGISTERED NUMBER
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SHARE REGISTRARS
Share Registrars
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Our first year as a London Stock Exchange listed company has been one of significant achievement as we continued to build foundations that will enable us to deliver excellent performance across our divisions – The Polymer Modification division for industrial applications, where we develop solutions for complex and challenging client problems, and the GraftBio division, launched in 2020, which is focused on providing solutions to the Bio/Pharma sector. There is an ever-increasing demand for polymer modifications across multiple industries and geographies, and as an established business with a six-year history and a management team with over 15 years experience, we are in a prime position to take advantage of this growth trend.

Having developed a proprietary set of polymer modification technologies, which use recycled raw materials and a closed loop system to reduce waste, our technology can improve existing products and processing methodologies by enhancing performance, simplifying manufacturing, reducing material consumption, widening the choice of feedstocks, and reducing costs. Our motto "*combine incompatible*" summarises the core of Graft Polymer's business: the use of a diverse range of modification technologies to combine otherwise incompatible molecular components into polymer composites.

During the period, the Company has made material progress at its state-of-the-art 1,300m^2 Slovenian production and R&D facility as outlined in its IPO prospectus, installing an additional production line, doubling its potential output to 6,000 tonnes per annum, and significantly increasing its storage capacity. This expansion is part of our long-term strategy, and it is critical as we focus on targeting larger clients and support businesses in the polymer sector that require backup production capability.

The Company won its first revenue generating commercial order for 50,000 units of MGC Pharmaceuticals' product, ArtemiC™ Rescue on 18 August 2022 which uses the Company's GraftBio proprietary drug delivery system. This drug has gone on to be listed as an over-the-counter drug on the US Food and Drug Administration's National Drug Code Database ('NDC'), enabling sales in the US.

Additionally, Graft Polymer has completed the expansion of its specialist bio-pharma facilities in Slovenia and was granted its HACCP certification during the year, a major milestone which enables Graft Polymer to commercialise its IP for bio/pharma applications, developing and supplying active pharmaceutical ingredients and drug delivery platforms for use in the food supplement market, thereby introducing a further revenue stream to our business.

The Slovenian facility has been granted ISO 14001 accreditation in recognition of the environmental management systems in place to reduce waste with the closed loop processing technique minimising waste to almost zero. The Board continues to place considerable emphasis on achieving the highest possible environmental and performance standards.

Review of Operations for the 12 months to 31 December 2022

Highlights

Corporate

- Successful IPO on the London Stock Exchange in January 2022
- Equity raising of £5 million on IPO to accelerate growth

Financial

- Cash and cash equivalents at Period end were £1.64 million
- Loss before taxation for the year was £2.705 million (incl. £858k share based payments - non cash)
- Net cash inflow for the period was £1.057 million
- The Group held net assets at Period end of £4.554 million

Operations

- Considerable progress at our state-of-the-art 1,300m^2 Slovenian R&D and production facility:
    - Installation of additional production line, doubling potential output to 6,000 tons per annum, and significantly increasing our storage capacity
    - Expansion is part of the strategy to focus on securing commercial orders from larger clients and supporting businesses in the polymer sector
    - With a two-fold increase in the physical footprint of the Slovenian facility, both in capacity and storage space, Graft Polymer remains well positioned to target larger, regular orders of multiple products from customers, at attractive margins
- Granted a Hazard Analysis and Critical Control Point ("HACCP") certification which enables Graft Polymer to commercialise its IP for bio/pharma applications, specifically to supply third-party active pharmaceutical ingredients and our proprietary drug delivery platforms for use in the food supplement market
- Grant of ISO 14001 accreditation for our Slovenian facility in recognition of the environmental management systems in place to reduce waste with the closed loop processing technique minimising waste to almost zero.

Commercial Progress

- Won first revenue generating commercial order for 50,000 units of MGC Pharmaceuticals product, ArtemiC™ Rescue on 18 August 2022, which uses the Company's GraftBio proprietary drug delivery system
- December 2022 saw the Group's strongest month of sales in the year which followed month-on-month sales growth in 2022. The pipeline for 2023 is looking healthy as the Company looks to capitalise on the enlargement of its operations with larger mandates
- Expansion into the cosmetics industry through the receipt of a small-scale commercial purchase order to the Group's GraftBio division, demonstrating our ability to meet rigorous cosmetic testing requirements.

Intellectual Property & R&D

- Seven patents awarded during the financial year including:
    - FIPO 2765946, covering supersaturated self-nano-emulsifying drug delivery system for slightly water-soluble pharmaceutical compositions and method for its preparation;
    - SIPO 26054, covering super-saturable oil-free self-nano-emulsifying drug delivery system for poorly water-soluble pharmaceuticals composition and procedure of preparation thereof;
    - SIPO 26056, covering self-emulsifying concentrate of cannabinoid-ionic complex and method for its preparation;
    - SIPO 26070, covering the method for industrial production of modified polymers and device for its realisation; and
    - SIPO 26071, covering the method for production of a modified polymer.
- Seeking patents for Graft Polymer proprietary products is in line with the Company's layered IP strategy.

Outlook

For the year ahead, we have several key initiatives that will contribute to our ambition of continued product and sales growth. We plan to expand our global reach by establishing new partnerships and distribution channels in emerging markets. We will also continue to invest in research and development to create innovative products that meet the evolving needs of our customers. Finally, we will maintain our commitment to sustainability by adopting eco-friendly practices and reducing our carbon footprint.

We have built long term foundations during the past year, enabling us to double our production capacity, positioning us to target larger customers in the industry. Our unique and proprietary product offering gives us a competitive edge in the market, and we are confident that we can continue to build on our success in the coming year.

In summary, during the period our Company has strengthened its positioning for future growth and is now in a position to take on larger orders, with higher margins, at a time when demand for polymer solutions is high. We are optimistic about the projected uplift in the polymer market and are confident in our ability to meet the demands of this growing market. With our unique offerings, strong leadership, and key initiatives, we are well-prepared to capitalise on opportunities and achieve continued success in the coming year and beyond.

I would like to express my gratitude to our shareholders for their support, and I look forward to sharing our progress with the market in what promises to be a positive year for the Company. With our continued focus on innovation and operational excellence, we are confident that we can achieve our growth objectives and deliver value for all stakeholders.

DocuSigned by:

R Zomer.

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Roby Zomer – Non-Executive Chair

26 April 2023

BOARD OF DIRECTORS

Roby Zomer – Non-executive Chair

Roby Zomer is the Non-Executive Chair of the Company, having been involved in the Group's business since its inception. Roby brings more than two decades of experience in science, leadership, business creation and operations and global development strategies, all in cutting-edge industries, and at the highest governmental levels. His career has spanned multiple disciplines and areas of expertise, beginning with medical training at leading Israeli medical institutions and shifting to technological development and logistics of personnel deployment during his military service in the Israel Defence Force.

Roby's first company, Green City, focussed on the idea of promoting fuel alternatives and clean water technology. Green City rapidly became a global ambassador company for Israel and was purchased by Rafael, Israel's government-owned military technology hub, as it was determined to be a strategically significant asset.

He joined MGC Pharmaceuticals Limited as co-founder and Chief Technical Officer, and now serves as its Managing Director and Chief Executive Officer. MGC Pharmaceuticals Limited is an emerging phyto-pharma company with a focus on phytocannabinoids, the therapeutic elements of the cannabis plant. This has led to a seven-year period where Roby broadened his understanding of technological development and pharmaceutical regulation and has led to a return for Roby to agroscience, on the path to shaping the company into a fully-fledged biopharmaceutical company with market-approved products.

Victor Bolduev – Chief Executive Officer and Chief Technical Officer

Victor is the founder, CEO and CTO of the Group, with more than 30 years' experience in industrial sectors, more than 20 years working in the polymer industry. Victor brings expert experience in the polymer industry, leadership, value creation and cutting-edge innovation.

During this time, Victor has worked in various polymer modification companies in Russia, Thailand and Slovenia.

Victor is a non-executive director for a number of companies, including Victor Bolduev IP and Polymer Innovations Inc. He is the author of 11 patents relating to polymer modification and drug delivery systems.

Victor graduated from St Petersburg University and Tashkent Military's University (in each case with Honours). He is known as a polymer chemist who has developed multiple innovative technologies and product brands in the polymer modification and bio sectors.

Yifat Steuer – Executive Director and Chief Financial Officer (CFO)

Yifat Steuer, qualified as a chartered accountant with Deloitte before moving into industry. She has over 20 years' experience as a well-versed CFO ranging from global blue-chip companies to hands-on implementation in SMEs and start-ups. She has worked internationally for the majority of her career at firms including Johnson & Johnson and GlaxoSmithKline. While at Marken, Yifat was the Chief Accounting Officer heading the global shared services accounting and payable teams. She led vendor due diligence for the sale of Marken to UPS. As part of her community contribution, Yifat took a 9-month assignment as the CFO and Treasurer of the British Transport Police Authority. She has a proven track record in pharmaceuticals, manufacturing, logistics, distribution, medical technology, and digital health industries.

Pavel Kobzev – Executive Director and Chief Marketing Officer (CMO)

Pavel Kobzev serves as the Chief Marketing Officer of the Group, with over 10 years' experience in project management and market analysis. He served in the Israeli Defence Forces Elite Intelligence 8200 unit as Managing Operations Leader and has expertise in the security solutions and design solutions and design industries.

Pavel began his career at Magal, an intelligent security company in Israel, where he served as a field engineer responsible for managing a team that designed innovative security solutions for products in the information technology and physics fields, while carrying out market analysis in connection with these solutions. The team was responsible for a number of multi-million-pound projects, including the implementation of the smart fence solution at the Israeli border, including software updates.

Alexander (Alex) Brooks – Independent Non-Executive Director

Alexander Brooks is an experienced capital markets professional, having worked in a range of roles primarily in public equity markets but also including exposure to private markets and to debt securities. Alexander has worked as a buy-side and sell-side analyst at a number of large financial institutions, including JPMorgan and UBS, and is currently a Senior Equity Analyst with Canaccord Genuity (UK). He focusses on industrial technology companies in several sectors, notably sustainability, energy and energy transition, and chemicals.

SENIOR MANAGEMENT

Anthony Eastman – Company Secretary

Anthony Eastman is a member of the CAANZ and ICAEW and a current Partner at Orana Corporate LLP. Anthony has a number of years' experience in financial management and corporate advisory services, primarily in the natural resources sector, along with extensive experience in the public company environment, having been a director and company secretary of a number of ASX and AIM junior mining and oil & gas focused companies.

He has relevant management experience having previously worked with Ernst & Young and CalEnergy Gas Ltd, a subsidiary of the Berkshire Hathaway Group of Companies in both Australia and the United Kingdom.

The Directors present their report with the audited financial statements of Graft Polymer (UK) plc ("the Company") and its subsidiaries together "the Group" for the year ended 31 December 2022. A commentary on the business for the period is included in the Chairman's Statement on pages 4 to 5. A review of the business is also included in the Strategic Report on pages 12 to 18.

Directors

The Directors of the Company during the period and their beneficial interest in the Ordinary shares of the Company as at 31 December 2022 were as follows:

Director	Position	Appointed	Ordinary shares	Options
Roby Zomer [1]	Non-Executive Chair	18-May-17	6,326,510	1,700,000
Victor Bolduev	CEO / CTO	18-Sep-17	30,454,613	2,200,000
Pavel Kobzev	CMO & Executive Director	25-May-19	1,356,886	1,600,000
Yifat Steuer	CFO & Executive Director	21-Dec-21	189,761	1,673,611
Alex Brooks	Non-Executive Director	21-Dec-21	418,605	1,000,000

[1] 4,576,163 Ordinary shares held by Roby Zomer were held by Chitta Lu Limited and 1,750,347 were held by Sputnik Enterprises Limited, entities in which Roby Zomer has a beneficial interest in.

Substantial shareholders

As at 31 December 2022, the total number of issued Ordinary Shares with voting rights in the Company was 104,097,229. Details of the Company's capital structure and voting rights are set out in note 20 to the financial statements.

The Company has been notified of the following interests of 3 per cent or more in its issued share capital as at the date of approval of this report, noting total shares on issue as at the date of approval of this report being 21 April 2023:

Party Name	Number of Ordinary Shares	% of Share Capital
Victor Bolduev	30,454,612	29.26
Alba Capital Limited	13,935,020	13.39
JIM Nominees Ltd	11,508,254	11.06
Pershing Nominees Limited	9,794,310	9.41
Roby Zomer	6,326,510	6.08
Platypus Assets Pty Ltd	6,250,000	6.00
Vidacos Nominees Limited	3,879,490	3.73
Nortrust Nominees Limited	3,357,882	3.23

Financial instruments

Details of the use of the Company's financial risk management objectives and policies as well as exposure to financial risk are contained in the Accounting policies and note 22 of the financial statements.

Greenhouse Gas (GHG) Emissions

As the Group has begun manufacturing this year they have seen energy consumption increase significantly. In the year ended December 2022 the Slovenian subsidiary consumed approximately 160,000 kwh of energy relating to production of polymer products.

The Board are aware of the extended climate disclosures for listed entities specifically alluded to the in the listing rules however are yet to undertake any substantive planning or governance around the issue.

The Directors consider energy consumption and by-product waste from production to be the most significant factors affecting the environment and consequently the related reporting requirements. As the Group has relatively recently entered the production phase they are still in the gathering data as to the size of their environmental footprint.

As a result of this the Directors in conjunction with the in-country manufacturing team will review the energy consumption on a regular basis and look to implement strategies to optimise efficiency where possible.

Dividends

The Directors do not propose a dividend in respect of the period ended 31 December 2022.

Future developments and events subsequent to the year end

Further details of the Company's future developments and events subsequent to the period-end are set out in the Strategic Report.

Corporate Governance

The Governance report forms part of the Director's Report and is disclosed on pages 19 to 24.

Going Concern

The Directors, having made due and careful enquiry, are of the opinion that the Company and the newly formed Group have adequate working capital to execute its operations over the next 12 months. They have based this opinion primarily on the promising revenue trends and predictions seen in the 2022 financial year combined with realistic revenue goals for 2023. However given the uncertainty associated with future revenue and Group's reliance on generating funds from the market the auditors have made reference to going concern by way of a material uncertainty within their audit report. Further details are given in Note 2.3 to the Financial Statements and as a result, the Directors have adopted the going concern basis of accounting in the preparation of the annual financial statements.

Principal Activities

The principal activities of the Company and all of its subsidiaries collectively referred to as "the Group" are the research, development and polymer modification technologies and polymer modification techniques.

<u>Statement of directors' responsibilities</u>

The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with UK-adopted international accounting standards for the group and, as regards to the Parent Company Financial Statements, as applied in accordance with the Companies Act 2006. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and the profit and loss of the group for that period.

In preparing the financial statements the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- Ensure statements comply with UK-adopted international accounting standards , subject to any material departures disclosed and explained in the Financial Statements; and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

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

The financial statements are published on the Company's website www.graftpolymer.com. The work carried out by the Auditor does not involve consideration of the maintenance and integrity of this website and accordingly, the Auditor accepts no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom covering the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction.

Disclosure and Transparency Rules

Details of the Company's share capital and warrants are given in Notes 20 and 21 respectively. There are no restrictions on transfer or limitations on the holding of the ordinary shares. None of the shares carry any special rights with regard to the control of the Company. There are no known arrangements under which the financial rights are held by a person other than the holder and no known agreements or restrictions on share transfers and voting rights. As far as the Company is aware there are no persons with significant direct or indirect holdings other than the Directors and other significant shareholders as shown on page 9. The provisions covering the appointment and replacement of directors are contained in the Company's articles, any changes to which require shareholder approval. There are no significant agreements to which the Company is party that take effect, alter or terminate upon a change of control following a takeover bid and no agreements for compensation for loss of office or employment that become effective as a result of such a bid.

Requirements of the Listing Rules

Listing Rule 9.8.4 requires the Company to include certain information in a single identifiable section of the Annual Report or a cross reference table indicating where the information is set out. The Directors confirm that there are no disclosures required in relation to Listing Rule 9.8.4.

Auditor Information

PKF Littlejohn were appointed auditors to the Group and have expressed their willingness to remain in office. The Audit Committee will meet with the auditor at least twice a year to consider the results, internal procedures and controls and matters raised by the auditor. The Board considers auditor independence and objectivity and the effectiveness of the audit process. It also considers the nature and extent of the non-audit services supplied by the auditor reviewing the ratio of audit to non-audit fees and ensures that an appropriate relationship is maintained between the Group and its external auditor.

As part of the decision to recommend the appointment of the external auditor, the Board considers the tenure of the auditor in addition to the results of its review of the effectiveness of the external auditor and considers whether there should be a full tender process. There are no contractual obligations restricting the Board's choice of external auditor. The Group has a policy of controlling the provision of non-audit services by the external auditor in order that their objectivity and independence are safeguarded.

The Directors who held office at the date of approval of the Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's Auditor is unaware; and each Director has taken all the steps that he/she ought to have taken as a Director to make themself aware of any relevant audit information and to establish that the Group's Auditor is aware of that information.

Events after the reporting period

There were no events subsequent to period end requiring disclosure.

Directors' Indemnity Provisions

The Company has implemented Directors and Officers Liability Indemnity insurance.

Political Donations

The Group has not made any political donations during the period.

This directors' report was approved by the Board of Directors on 26 April 2023 and is signed on its behalf by:

DocuSigned by:

R Zomer.

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Roby Zomer – Non-Executive Chair

The Directors present the Strategic Report of the Company and the Group for the period ended 31 December 2022.

Operational Review

During the period under review, the Company successfully listed on the standard segment of the London Stock Exchange. The year saw the foundations set for both the Polymer Modification division for industrial applications, and the GraftBio division which focusses on providing solution and delivery methods to the Bio/Pharma sector. The Company received its first revenue generating commercial order during the period which, whilst moderate, is an indicator for potential future revenue generation.

Progress is being made at the Company's Slovenian manufacturing facility by installing an additional production line, doubling potential output to 6,000 tonnes per annum, and significantly increasing the Company's storage capacity. This expansion was part of the strategy when the Company listed and will be important when targeting larger clients and will support businesses in the polymer sector that require backup production lines.

The Company reported that December 2022 saw the Group's strongest month of sales in the year which followed month-on-month sales growth in 2022. The pipeline for 2023 is looking healthy and the Company expects this sales growth trend to continue.

The Group generated revenue of £542,000 during the year (7 months to 31 December 2021: £219,000) and incurred a loss after tax of £2,705,000 (7 months to 31 December 2021: £954,000).

Business Strategy

During the period under review, on 6 January 2022, the Company listed on the standard segment of the London Stock Exchange.

The Group has developed a proprietary set of polymer modification technologies which can improve existing products and processing methodologies by enhancing performance, simplifying manufacturing, reducing material consumption, widening the choice of feedstocks and reducing costs.

As set out at the time of admission, part of the Group's strategy was to invest in production and laboratory equipment to support growth, allowing the continued development of new technologies. This equipment has been delivered and installed in Slovenia. The equipment enables the Company to double its production capacity over time and decrease the goods delivery time as well. The delivery of these components will ensure Graft Polymer is well positioned to continue its pioneering and market leading research and technology commercialisation in the polymer modification, biological supplements, and drug delivery systems industry.

The Group was granted a Hazard Analysis and Critical Control Point ("HACCP") certificate at R&D facility in Slovenia. The grant of this certificate to the Group's GraftBio division is a major milestone for the Company which will enable Graft Polymer to enter the Business-to-Consumer ("B2C") market, thereby introducing a further revenue stream to its business. The grant of HACCP certificate represented the delivery of a key operational milestone as stipulated at the time of the IPO.

The Group received its first revenue generating commercial order during the period and progress is being made at the Company's Slovenian manufacturing facility by installing an additional production line, doubling potential output to 6,000 tonnes per annum, and significantly increasing the Company's storage capacity.

The Board expects the Group to continue to develop new and innovative polymer technologies both in-house and in conjunction with key industry players and customers.

Principal Risks and Uncertainties

The Group operates in an uncertain environment and is subject to a number of risk factors. The Directors consider the following risk factors are of particular relevance to the Group's activities although it should be noted that this list is not exhaustive and that other risk factors not presently known or currently deemed immaterial may apply.

The Group is in an early stage of its operations and there is no guarantee of future growth

Whilst the Group, having been formed in 2017, has made some commercial sales and undertaken research and development activities for a number of clients, the business remains at an early stage of development. A number of operational, strategic and financial risks are associated with early-stage companies. In particular, the Group's future growth and prospects will depend on its ability to continue to manufacture products for applications which have sufficient commercial appeal, to source the raw materials, manage growth and continue to improve manufacturing, operational, financial and management information and quality control systems on a timely basis, whilst at the same time maintaining effective cost controls.

Any failure to improve manufacturing, operational, financial and management information and quality control systems in line with the Group's growth could have a material adverse effect on its business, financial condition and results of operations.

Foreign currency risk

The Group operates in a global market with income and costs arising in a number of currencies and is exposed to foreign currency risk arising from commercial transactions, translation of assets and liabilities and net investment in foreign subsidiaries.

Exposure to commercial transactions arise from sales or purchases by operating companies in currencies other than the Group's functional currency. The functional currency of the primary operational subsidiary is the Euro and the majority of sales revenue and purchasing expenditure is conducted in the Euro which assist to limit foreign currency exposure.

Currency exposures risks are reviewed regularly and at this time the Directors do not believe it necessary to engage in additional hedging strategies.

Customer base and distribution channels

The Group has historically been reliant on maintaining a relationship with a small number of customers. In the event that the entities for whom the Group carries out research and development, and whose products the Group uses its technology to enhance, are unable to grow their revenue streams, suffer from supply chain disruptions or become subject to solvency or going concern issues, the volume of products supplied to and services carried out for such entities by the Group may be scaled back or cancelled and the Group may lose part of its revenue stream which would have a material adverse effect on the business, financial condition and prospects of the Group. The Group is looking to expand its customer base and is confident it will do so in the coming financial year. The management team has had robust conversations with a large array of new suppliers and are confident that the revenue base will be spread across a significantly larger group of customers in the coming year.

In addition to its direct sales to customers, the Group has secured distribution relationships with multiple partners globally, including distributors/agents in Europe, India, Mexico, USA and Russia. These distributors provide critical channels to market for the polymer modifier industry, providing quality assurance for potential customers as well as market volume. The Directors expect to be able to secure similar arrangements with distributors in North America and other international customers. However, if this does not arise either because of a lack of products or product functionality, or because the Group is unable to agree commercial terms, the ability of the Group to capture market share and grow revenue may be materially impacted which could materially and adversely affect the business, financial condition and prospects of the Group.

Competition

The Group's business focusses on specialty chemicals and involves developing modified polymer solutions based on proprietary production methods. The development of new products and solutions can take a significant amount of time and resource. The Group may face significant competition from organisations which have greater capital resources than it and/or which have a product offering competitive to that of the Group, to the detriment of the Group. The polymer industry contains a number of companies with manufacturing capabilities that are using alternative production approaches and they may outpace the Group. There is no assurance that the Group will be able to compete successfully in the marketplaces in which it currently operates, or those it wishes to expand into and, should it fail to do so, the business, financial condition and prospects of the Group could be materially and adversely affected.

Prices of raw materials may fluctuate

Prices of raw materials such as plastics, which are used in the manufacture of polymer modifiers, are likely to fluctuate and therefore may have a variable impact on profitability. Inflation is also a significant issue affecting world trade currently and the business of the Group is likely to feel the impacts of this in prices of raw materials and potentially labour in the future. The Directors will monitor the impact that inflation has on the business by looking closely at gross profit margins as well as other key financial indicators.

Section 172(1) Statement - Promotion of the Company for the benefit of the members as a whole

The Directors believe they have acted in the way most likely to promote the success of the Company for the benefit of its members as a whole, as required by s172 of the Companies Act 2006.

The requirements of s172 are for the Directors to:

- Consider the likely consequences of any decision in the long term;
- Act fairly between the members of the Company;
- Maintain a reputation for high standards of business conduct;
- Consider the interests of the Company's employees;
- Foster the Company's relationships with suppliers, customers and others; and
- Consider the impact of the Company's operations on the community and the environment.

The Group has developed a proprietary set of polymer modification technologies, which can improve existing products and processing methodologies by enhancing performance, and introduced more than 50 products to the market. The Group is continuing to explore new and exciting areas including biological polymers that could add great value to the Group.

We aim to work responsibly with our stakeholders, including suppliers. The key Board decisions made in the year and post year end are set out below:

Significant events / decisions	Key s172 matter(s) affected	Actions and Consequences
Successful admission to the London Stock Exchange	Shareholders and Business Relationships	The admission to the London Stock Exchange in early January 2022 provided the Group with increased legitimacy and a great platform for increasing shareholder value
Significant investment in capital expenditure as per business model	Suppliers/customers	The increased investment in CAPEX has greatly increased the capacity of the Group to meet large orders and consequently increase revenues.

<u>Consider the likely consequences of any decision in the long term</u>

The Board takes due care in the decision making process regardless of what business unit it may relate to. When assessing the likely consequences of a decision the Directors weigh up both the costs and benefits of any decision as well as the potential impact in the different time horizons with the ultimate goal of maximising shareholder value in the long run.

Act fairly as between members of the Company

The Board takes feedback from a wide range of shareholders (large and small) and endeavours at every opportunity to pro-actively engage with all shareholders (via regular news reporting-RNS) and engage with any specific shareholders in response to particular queries they may have from time to time. The Board considers that its key decisions during the year have impacted equally on all members of the Company.

Maintain a reputation for high standards of business conduct

The Corporate Governance section of this Annual Report at page 18 sets out the Board and Committee structures and Board and Committee meetings held during the year, together with the experience of executive management and the Board and the Company's policies and procedures.

Consider the interest of the Company's employees

The Board strives to create an enjoyable and rewarding environment for all employees. The Board aims to create a workplace where employees can be proactive and look to add value to the Company by going over and above their specific roles. Ideally creating a bond between employees and the Company that leads to loyalty and productivity for all stakeholders.

Foster the Company's relationship with suppliers, customers and others

The Board act in good faith with all suppliers and customers with the aim of developing strong working relationships that will be beneficial to all parties. The strategy involves regular communication with business partners that will hopefully lead to strong working relationships and recurring business.

Consider the impact of the Company's operations on the community and the environment

The Company has increased production in the last calendar year and the Directors are aware of the need to include environmental impact in their considerations. The Directors intend to keep a close eye on the environmental impacts of increasing production in the coming period and will look to minimise any impacts where they can as it will be mutually beneficial to the Group and the environment. Increasing energy efficiency across the Group will be at the forefront of these considerations.

Significant progress was made during Q4 2022 to complete the installation of its new production facilities which will double existing production capacity and add new product lines that are critical to opening new large commercial markets for the Company globally and as a result, installation is expected to be completed shortly. This was a key part of the IPO fund raising to establish Graft Polymer's full production capability and therefore a material position in key customer markets to provide long term, reliable supply of its products to large industry partners.

Post period end, the Company updated shareholders on the status of the new production units installation with the first units of the modernised production equipment, incorporating Hot Ozone/Plasma Modification, Double Conical Vacuum Reactors and Pharma Emulsification Modules technologies, that will expand Graft Polymer's offered solutions to new companies and sectors and improve the production response time and capacities in both divisions.

The benefits of using Hot Ozone/Plasma Modification technologies include the expansion of Graft Polymer's product line with the production of Grafted Fluoropolymers with outstanding chemical and temperature resistance and crucially it is a clean and eco-friendly technique which minimizes waste.

The Slovenian facilities second production line equipment is almost complete with the technical team fully focused on completion of the installation process.

Once fully installed, the Company will double its production capacity, extend its product pipeline and increase the volume of products able to be produced for new sectors. In addition, the improvements made will make the Company's operations more efficient, reducing costs and delivery time to customers.

The Company reported that December 2022 saw the Group's strongest month of sales in the year which followed month-on-month sales growth in 2022. The pipeline for 2023 is looking healthy and the Company expects this sales growth trend to continue.

Following the Company's first commercial order from MGC Pharmaceuticals Ltd for 50,000 units of ArtemiC™ Rescue on 18 August 2022 (which uses the Company's GraftBio proprietary drug delivery system), it was announced on the 21 March 2023 that ArtemiC™ Rescue COVID 19 treatment drug was listed as an over-the-counter ('OTC') drug on the US Food and Drug Administration's National Drug Code Database ('NDC'), enabling sales of ArtemiC™ via US-based Pharmacy Benefit Management ('PBM') networks. Although small, this is revenue generating for the Company.

Corporate social responsibility

We aim to conduct our business with honesty, integrity and openness, respecting human rights and the interests of our shareholders and employees. We aim to provide timely, regular and reliable information on the business to all our shareholders and conduct our operations to the highest standards.

Approved by the Board of Directors on 26 April 2023 and is signed on its behalf by:

DocuSigned by:

R Zomer.

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Roby Zomer – Non-Executive Chair

Compliance with the QCA Code

As a Group listed on the standard segment of the official list, the Group is not required to comply with the provisions of the UK Corporate Governance Code. Nevertheless, the Directors are committed to ensuring that appropriate standards of corporate governance are maintained, so far as is appropriate given the Group's current stage of development, the size and composition of the Main Board and available resources. The Board will aim to comply with the QCA Guidelines on Corporate Governance ("QCA Guidelines").

The QCA Code has ten principles of corporate governance that the Group applies to establish the governance foundations of the business. These principles are:

1. Establish a strategy and business model which promote long-term value for shareholders;
2. Seek to understand and meet shareholder needs and expectations;
3. Take into account wider stakeholder and social responsibilities and their implications for long term success;
4. Embed effective risk management, considering both opportunities and threats, throughout the organisation;
5. Maintain the board as a well-functioning balanced team led by the Chair;
6. Ensure that between them the Directors have the necessary up to date experience, skills and capabilities;
7. Evaluate board performance based on clear and relevant objectives, seeking continuous improvement;
8. Promote a corporate culture that is based on ethical values and behaviours;
9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board; and
10. Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

Here follows a short explanation of how the Group applies each of the principles, including where applicable an explanation of why there is a deviation from those principles.

Principle One
Business Model and Strategy
The Group is pursuing a sound strategy of developing on proprietary technology to develop a range of products with specific and commercial applications. With its manufacturing hub now almost fully operational in Slovenia the Group is looking to capitalise on its investment in capital expenditure by significantly increase revenue in the 2023 calendar year. The Group is committed to broadening its area and scope of operations as appropriate as long as they comply with the risk parameters set out by the Directors.

Principle Two
Understanding Shareholder Needs and Expectations
The Board is committed to maintaining good communication and having constructive dialogue with its shareholders. They will be encouraged to attend the AGM and website and investor relations communications will be improved in the coming year.

Principle Three
Considering wider stakeholder and social responsibilities
The Board recognises that the long-term success of the Group is reliant upon open communication with its internal and external stakeholders: investee companies, shareholders, contractors, suppliers, regulators and other stakeholders. The Group has created close ongoing relationships with a broad range

of its stakeholders and will ensure that it provides them with regular opportunities to raise issues and provide feedback to the Group. The Group is committed to delivering lasting benefit to the local communities and environments where we work as well as to our shareholders, employees and contractors. As the Group evolves we anticipate that this aspect of community engagement will evolve further.

Principle Four

Risk Management

The Board is responsible for ensuring that procedures are in place and are being implemented effectively to identify, evaluate and manage the significant risks faced by the Group. It is in the process of establishing a framework of internal financial controls to address financial risk and regularly reviews the non-financial risks to ensure all exposures are adequately managed. The Group maintains appropriate insurance cover in respect of legal actions against the Directors as well as against material loss or claims against the Group. The principal risks and uncertainties are as set out in the Strategic Report.

Principle Five

A Well Functioning Board of Directors

The Board will maintain a balance of executives and non-executive directors. Currently there are 4 executives including the Chairman and 1 non-executive. There are no mandatory hours for directors to be available but all directors are available for any Group business when it may arise.

Further information about the directors can be found in the Key Personnel report on page 7 as well as the company website at www.graftpolymer.com. The Directors met 6 times throughout the year to discuss key issues and to monitor the overall performance of the Company. All Directors attended all meetings during the year.

Principle Six

Appropriate Skills and Experience of the Directors

The Group believes that the Directors have wide ranging experience and that each director brings their own area of expertise whether that be financial, operations or on an executive level. They also have an extensive network of relationships to reach key decision-makers to help achieve their strategy. The Board recognises that it currently has only one female Director and is aware, that as it grows, it will look to recruit and develop a diverse and more gender-balanced executive team.

Principle Seven

Evaluation of Board Performance

Internal evaluation of the Board, the Committees and individual Directors will be undertaken on an annual basis in the form of peer appraisal and discussions to determine the effectiveness and performance against targets and objectives. As a part of the appraisal the appropriateness and opportunity for continuing professional development whether formal or informal is discussed and assessed.

Principle Eight

Corporate Culture

The Board recognises that their decisions regarding strategy and risk will impact the corporate culture of the Group as a whole which in turn will impact the Group's performance. The Directors are very aware that the tone and culture set by the Board will greatly impact all aspects of the Group and the way that consultants or other representatives behave. The corporate governance arrangements that the Board has adopted are designed to instil a firm ethical code to be followed by Directors, consultants and representatives alike throughout the entire organisation. The Group strives to achieve and maintain an open and respectful dialogue with representatives, regulators, suppliers and other stakeholders. Therefore, the importance of sound ethical values and behaviours is crucial to the ability of the Group to successfully achieve its corporate objectives. The Board places great importance on this aspect of corporate life and seeks to ensure that this flows through everything that the Group does. The Directors are focused on ensuring that the Group maintains an open culture facilitating comprehensive dialogue and feedback and enabling positive and constructive challenge. The Group has adopted, a code for Directors' dealings in securities which is appropriate for a company whose securities are traded on this main market and is in accordance with the requirements of the Market Abuse Regulation which came into effect in 2016.

Issues of bribery and corruption are taken seriously. The Group has a zero-tolerance approach to bribery and corruption and has recently put an anti-bribery and corruption policy in place to protect the Group, its employees and those third parties to which the business engages with.

Principle Nine

Maintenance of Governance Structures and Processes

The Group's governance structures are appropriate for a company of its size. The Board also meets regularly and the Directors continuously maintain an informal dialogue between themselves. The Chairman is responsible for the effectiveness of the Board as well as primary contact with shareholders, while the execution of the Group's investment strategy is a matter reserved for the Chief Executive. The current Governance structure is outlined below:

Audit and Risk Committee

From admission on 6 January 2022 the Company put in place an audit committee comprising two members, being, Roby Zomer and Alex Brooks which will have primary responsibility for monitoring the quality of internal control and ensuring that the financial performance of the Group is properly measured and reported on and for reviewing reports from the Company's auditors relating to the Group's accounting and internal controls.

The committee is also responsible for making recommendations to the Board on the appointment of auditors and the audit fee and for ensuring that the financial performance of the Enlarged Group is properly monitored and reported. The audit committee will meet not less than two times a year.

Remuneration Committee

From admission on 6 January 2022 the Company has instituted a remuneration committee comprising two directors, Roby Zomer and Alex Brooks be responsible for determining and agreeing with the Board the framework or broad policy for the remuneration of the Executive Directors and such other members of the executive and the Senior Manager as it is designated to consider. The Remuneration Committee will also make recommendations to the Board on proposals for the granting of share options and other equity incentives pursuant to any employee share option scheme or equity incentive plans in operation from time to time. The Remuneration Committee will meet as and when necessary, but at least twice each year.

Nominations Committee

No nominations committee has been established will all matters to be considered by the Board as a whole.

Principle Ten

Shareholder Communication

The Board is committed to maintaining good communication and having constructive dialogue with its shareholders in compliance with regulations applicable to companies quoted on the LSE's Standard List. All shareholders are encouraged to attend the Company's Annual General Meeting where they will be given the opportunity to interact with the Directors. Investors also have access to current information on the Group through its website, (www.graftpolymer.com).

The Board takes feedback from a wide range of shareholders (large and small) and endeavours at every opportunity to pro-actively engage with all shareholders (via regular news reporting-RNS) and engage with any specific shareholders in response to particular queries they may have from time to time. The Board considers that its key decisions during the year have impacted equally on all members of the Company.

Impact of operations on the community and environment

Now that the Group is engaged in manufacturing activities it has a significantly increased impact on the environment mainly through its increased energy consumption. The Slovenian manufacturing operation will be looking to increase production throughout the 2023 calendar year and as a result energy consumption will increase.

As the Group is only in the infancy of manufacturing operations the board will be looking closely at where operations can be improved in order to increase efficiency and also decrease environmental footprint. This will become a key item of discussion for the Group as operations increase.

External Auditor

PKF Littlejohn were appointed auditors to the Company and have expressed their willingness to remain in office. The Audit Committee will meet with the auditor at least twice a year to consider the results, internal procedures and controls and matters raised by the auditor. The Board considers auditor independence and objectivity and the effectiveness of the audit process. It also considers the nature and extent of the non-audit services supplied by the auditor reviewing the ratio of audit to non-audit fees and ensures that an appropriate relationship is maintained between the Company and its external auditor.

As part of the decision to recommend the appointment of the external auditor, the Board considers the tenure of the auditor in addition to the results of its review of the effectiveness of the external auditor and considers whether there should be a full tender process. There are no contractual obligations restricting the Board's choice of external auditor. The Company has a policy of controlling the provision of non-audit services by the external auditor in order that their objectivity and independence are safeguarded.

Internal financial control

Financial controls have been established so as to provide safeguards against unauthorised use or disposition of the assets, to maintain proper accounting records and to provide reliable financial information for internal use.

Key financial controls include:

- a schedule of matters reserved for the approval of the Board;
- evaluation, approval procedures and risk assessment for acquisitions; and
- close involvement of the Directors in the day-to-day operational matters of the Company.

Shareholder Communications

The Company uses a regulatory news service and its corporate website (www.graftpolymer.com) to ensure that the latest announcements, press releases and published financial information are available to all shareholders and other interested parties.

The Annual General Meeting is used to communicate with both institutional shareholders and private investors and all shareholders are encouraged to participate. Separate resolutions are proposed on each issue so that they can be given proper consideration and there is a resolution to approve the Annual Report and Financial Statements. The Company counts all proxy votes and will indicate the level of proxies lodged on each resolution after it has been dealt with by a show of hands.

On behalf of the board

Approved on behalf of the Board of Directors by:

DocuSigned by:

R Zomer

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Roby Zomer – Non-Executive Chair

From admission to the LSE the Company implemented a remuneration committee that meets when necessary but at least twice a year. The Remuneration Committee comprises Roby Zomer and Independent Non-Executive Director Alex Brooks. The Remuneration Committee will be responsible for determining and agreeing with the Board the framework or broad policy for the remuneration of the Executive Directors and such other members of the executive and the Senior Manager as it is designated to consider. The Remuneration Committee will also make recommendations to the Board on proposals for the granting of share options and other equity incentives pursuant to any employee share option scheme or equity incentive plans in operation from time to time.

Remuneration Policy

The remuneration policy of the Company is that each director enter into a service agreement with the Group on a salary per annum, with Roby Zomer, Victor Bolduev and Pavel Kobzev also earning a salary under Graft Polymer d.o.o.. It is the responsibility of the remuneration committee to assess an appropriate level of Directors' remuneration and it is envisaged that the remuneration policy will assist to attract, retain and motivate Executive Directors and senior management of a high calibre with a view to encouraging commitment to the development of the Company and for long term enhancement of shareholder value. The Board believes that share ownership by Directors strengthens the link between their personal interests and those of shareholders.

The current Directors' remuneration comprises a basic fee, there was no bonus or long-term incentive plan in operation for Directors however payment of bonuses is as the discretion of the Board. This was the case in the period as a bonus was paid to reward the Directors for the successful completion of the IPO process.

On admission to the LSE, the directors were granted options over Ordinary Shares pursuant to a Share Option Scheme, of which are detailed below and can be further reference in Note 21:

Director	**Number of Ordinary Share under option**	**Weighted Average Exercise Price per Ordinary Share**
		£
Roby Zomer	1,700,000	£0.001
Victor Bolduev	2,200,000	£0.001
Pavel Kobzev	1,600,000	£0.001
Alex Brooks	1,000,000	£0.001
Yifat Steuer	1,673,611	£0.001

One third of the options will vest on satisfaction of the first milestone and two thirds will vest on the satisfaction of the second milestone. The milestones are as follows:

- first milestone*:
  - goof the Issue Price based on a 15-day volume weighted average price in the period 12 months from the date of Admission; and
  - the generation by the Group of revenue in a twelve-month period of EURO1,000,000 or more.
- second milestone:
  - the Company's share price reaching appreciation of 150 per cent. based on a 15-day volume weighted average price in the period 24 months from Admission; and
  - the generation by the Group of revenue in a twelve-month period of EURO5,000,000 or more.

**The vesting conditions applicable to milestone one have not been satisfied and hence the options have lapsed*

Directors' emoluments and compensation (audited)

Particulars of directors' remuneration, including directors' shares which, under the Companies Act 2006 are required to be audited, are given in Notes 5 and 7 and further referenced in the Directors' report.

Remuneration paid to the Directors' during the period ended 31 December 2022 was:

Director	Base salary £'000	Bonus £'000	Pension £'000	Service fees £'000	Options* £'000	Total £'000
Roby Zomer	41	1	-	-	110	152
Victor Bolduev	52	85	-	143	143	423
Pavel Kobzev	51	1	-	77	104	233
Alex Brooks	33	3	-	-	65	101
Yifat Steuer	142	13	1	-	97	253
	319	103	1	220	519	1,162

**Monetary value of options at issue date – Note 21*

Remuneration paid to the Directors' during the period ended 31 December 2021 was:

Director	Base salary £'000	Pension contribution £'000	Share based payments £'000	Total £'000
Roby Zomer	17	-	-	17
Victor Bolduev	71	-	-	71
Pavel Kobzev	32	-	-	32
Alex Brooks	1	-	-	1
Yifat Steuer	5	-	-	5
Anthony Eastman*	21	-	-	21
Tim Wise	7	-	-	7
	154	-	-	154

**Anthony Eastman resigned in previous period on 21 December 2021*

Pension contributions

The Company currently only pays a pension for Yifat Steuer as per the table above.

The Company has not paid out any excess retirement benefits to any Directors or past Directors.

Payments to past directors

In the period the Company has made payments to Anthony Eastman a past director who resigned on 21 December 2021. These payments relate to the provision of company secretarial services and do not relate to his previous responsibilities as a director.

Payments for loss of office (audited)

No payments were made for loss of office during the year.

UK 10-year performance graph

The Directors have considered the requirement for a UK 10-year performance graph comparing the Company's Total Shareholder Return with that of a comparable indicator. The Directors do not currently consider that including the graph will be meaningful because the Company has only been listed for just under 12 months and is not paying dividends and is currently incurring losses. During the year ended 31 December 2022 it has been focused on investing in capital infrastructure with the look to significantly increase revenue in the 2023 financial year. In addition, and as mentioned above, the remuneration of Directors was not linked to performance, and we therefore do not consider the inclusion of this graph to be useful to shareholders at the current time. The Directors will review the inclusion of this table for future reports.

UK 10-year CEO table and UK percentage change table

The Directors have considered the requirement for a UK 10-year CEO table. The Directors do not currently consider that including these tables would be meaningful given that the Directors were remunerated for their services however it is not material to be presented under a table. The Directors will review the inclusion of this table for future reports.

Percentage change in remuneration of director undertaking the role of chief executive officer

The percentage increase in total remuneration of Chief Executive Officer Victor Boludev is 501%. This figure is not necessarily representative of a regular increase in CEO salary as the Company has gone through significant change in the last year including listing on the London Stock Exchange and effectively beginning operations.

Relative importance of spend on pay

The Directors have considered the requirement to present information on the relative importance of spend on pay compared to shareholder dividends paid. Given that the Company does not currently pay dividends we have not considered it necessary to include such information.

UK Directors' shares (audited)

The interests of the Directors who served during the year in the share capital of the Company at 31 December 2022 and at the date of this report has been set out in the Directors' Report on page 9.

Other matters

The Company does not currently have any other annual or long-term incentive schemes in place for any of the Directors other than those issued subsequent to period end and detailed above and as such there are no further disclosures in this respect.

Approved on behalf of the Board of Directors by:

DocuSigned by:
R Zomer
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Roby Zomer – Non-Executive Chair

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GRAFT POLYMER (UK) PLC

Opinion

We have audited the financial statements of Graft Polymer (UK) Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2022 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Cashflows, the Consolidated and Parent Company Statements of Changes in Equity and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2022 and of the group's loss for the period then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with UK-adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 2.3 in the financial statements, which indicates that further funding will be required within the 12 months following the date of approval of the financial statements in order to meet working capital needs. This is due to the uncertainty associated with future revenue and the Group's reliance on generating funds from the market. As stated in note 2.3, these events or conditions, along with the other matters as set forth in note 2.3, indicate that a material uncertainty exists that may cast significant doubt on the group and parent company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- Reviewing cash flow forecasts for the period to December 2024 and challenging management on the key operating assumptions based on 2022 actual results;
- Testing the integrity of the forecast model by checking the accuracy and completeness of the model, including challenging the appropriateness of estimates and assumptions with reference to empirical data;
- Comparing budgets to actual figures achieved to assess the reliability of management's forecasts; and
- Evaluating management's sensitivity analysis and performing our own sensitivity analysis in respect of the key assumptions underpinning the forecasts.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Our application of materiality

The scope of our audit was influenced by our application of materiality. The quantitative and qualitative thresholds for materiality determine the scope of our audit and the nature, timing and extent of our audit procedures. The materiality applied to the group financial statements was set at £134,000 (2021: £42,600), with performance materiality set at £93,000 (2021: £29,820).

Materiality has been calculated as 7.5% of the benchmark of loss for the period, which we have determined, in our professional judgement, to be the principal benchmark within the financial statements relevant to shareholders of the group in assessing financial performance to the stage at which the Group is in its lifecycle. A benchmark of 70% performance materiality was applied during our audit of the group as we believed this would give sufficient coverage of significant and residual risks within the financial statements.

The materiality applied to the parent company financial statements was £107,000 (2021: £27,300). The performance materiality was £74,000 (2021: £19,110). Materiality has been calculated as 7.5% of the benchmark of loss for the period

For each component in the scope of our group audit, we allocated a materiality that was less than our overall group materiality. We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £6,000 at group level and above £5,000 at parent company level.

We applied the concept of materiality both in planning and performing the audit, and in evaluating the effect of misstatements.

Our approach to the audit

In designing our audit, we determined materiality, as above, and assessed the risk of material misstatement in the financial statements. We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the parent company. We looked at areas requiring the directors to make subjective judgements, for example in respect of the Valuation of intangible assets (identified as a key audit matter), the carrying value of investments and intragroup balances at parent company level (identified as a key audit matter), share based payments, selection of accounting policies, compliance with accounting policies and disclosure in accordance with UK-adopted international accounting standards, the Companies Act 2006, the Disclosure & Transparency Rules, the Listing Rules and the consideration of future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatements due to fraud. The parent company's key accounting function is based in the United Kingdom and our audit was performed by our team in London with specific experience of auditing publicly listed entities.

Key audit matters

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

Key Audit Matter	How our scope addressed this matter
Carrying Value of Intangible Assets (refer to note 11) **The Consolidated and Parent Company Statements of Financial Position as at 31 December 2022 include intangible assets with a carrying value of £2.1m in respect of capitalised costs relating to "process technology and know-how" under IAS 38 *Intangible Assets*.** **Intangible assets with indefinite useful lives are tested annually for impairment and whenever there is an indication of impairment. An impairment review requires management estimation and judgement in determining the future cash flows. For this reason, as well as the financial significance of the account balance, we have assessed this to be a key audit matter with the key risk surrounding the valuation of the asset.**	Our work in this area included: • Ensuring the reasonableness of the valuation of intangible assets; • Obtaining and reviewing the impairment assessment prepared by management; • Challenging the key assumptions used in the model by testing to supporting evidence; and • Reviewing the disclosures in the financial statements to ensure that they are in line with the requirements of IAS 38. We found the judgements used by directors in their impairment assessment were reasonable and no impairment indicators were noted from our review.
Carrying value of investments and intragroup balances (parent company only)	Our work in this area included:

(refer to notes 15 and 28) **Investments in subsidiaries and intragroup loans are significant assets in the parent company's financial statements. The parent company currently has outstanding receivables due of £1.7m from its 100% owned subsidiaries. Further the value of investments in subsidiaries is £1.3m at 31 December 2022.** **Given the continuing losses in the subsidiaries, there is a risk that the investment and receivable balances are to be impaired due to uncertainty over their recoverability.** **We consider this to be a Key Audit Matter given the significant judgements that are made within the impairment assessment carried out by management.**	• Confirming the ownership of investments. • Obtaining management's impairment assessment and reviewing and challenging key assumptions; • Considering the recoverability of investments and intragroup loans by reference to underlying net asset values and future income streams of the subsidiaries; and • Ensuring disclosures made in the financial statements in relation to critical accounting judgements are adequate. Based on the audit work performed, the carrying values of investments and intragroup balances are reasonable.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the group and parent company financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the group and parent company financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the group and parent company and the sector in which they operate to identify laws and regulations that could reasonably be expected to have a direct effect on the financial statements. We obtained our understanding in this regard through discussions with management and industry research.
- We determined the principal laws and regulations relevant to the group and parent company in this regard to be those arising from the Companies Act 2006, Listing Rules, Disclosure and Transparency Rules, Bribery Act 2010, Anti Money Laundering Regulations and local laws and regulations in Slovenia where company's subsidiary is based.
- We designed our audit procedures to ensure the audit team considered whether there were any indications of non-compliance by the group and parent company with those laws and regulations. These procedures included, but were not limited to:
    - Enquiries of management;
    - Review of board minutes;
    - Review of RNS publications; and
    - Review of legal expenses incurred in the period.
- We also identified the risks of material misstatement of the financial statements due to fraud. We considered, in addition to the non-rebuttable presumption of a risk of fraud arising from management override of controls, that the potential for management bias existed in relation to the carrying value of intangible assets, the carrying value of investments and intragroup balances (parent company) and share based payments. We addressed this by challenging the assumptions and judgements made by management when auditing these significant accounting estimates.
- As in all of our audits, we addressed the risk of fraud arising from management override of controls by performing audit procedures which included but were not limited to: the testing of journals; reviewing accounting estimates for

evidence of bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

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

Other matters which we are required to address

We were appointed by Board of Directors on 16 May 2022 to audit the financial statements for the period ending 31 December 2021 and subsequent financial periods. Our total uninterrupted period of engagement is two years, covering the period ending 31 December 2021 and 31 December 2022.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

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

PKF Littlejohn LLP

Joseph Archer (Senior Statutory Auditor)
For and on behalf of PKF Littlejohn LLP
Statutory Auditor

15 Westferry Circus
Canary Wharf
London E14 4HD

26 April 2023

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	Year ended 31 Dec 2022 £'000	7 months to 31 Dec 2021 £'000
Continuing operations			
Revenue	4	542	219
Cost of sales		(242)	(118)
Gross profit		300	101
Other revenue		17	1
Operational costs	5	(238)	(100)
Depreciation and amortisation	5	(113)	(48)
Administrative expenses	5	(2,667)	(900)
Operating loss		(2,701)	(946)
Finance costs	8	(4)	(8)
Loss before taxation		(2,705)	(954)
Income tax	9	-	-
Loss for the year from continuing operations		(2,705)	(954)
Total loss for the year attributable to equity holders of the parent			
Other comprehensive income		(4)	19
Total comprehensive loss for the year attributable to equity holders of the parent		(2,709)	(935)
Earnings per share (basic and diluted) - pence	10	(2.61)	(1.36)

The accompanying notes on pages 37 to 61 form part of the consolidated financial statements

GRAFT POLYMER (UK) PLC – COMPANY NUMBER 10776788
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Note	As at 31 Dec 2022 £'000	As at 31 Dec 2021 £'000
Non-current assets			
Property, plant and equipment	13	674	310
Right of use assets	12	27	-
Intangible assets	11	2,068	2,068
Other non-current assets		13	12
Total non-current assets		2,782	2,390
Current assets			
Cash and cash equivalents	17	1,640	598
Trade and other receivables	16	330	142
Inventory	14	187	-
Total current assets		2,157	740
TOTAL ASSETS		**4,939**	**3,130**
Non-Current liabilities			
Lease liability	12	18	-
Total non-current liabilities		18	-
Current liabilities			
Trade and other payables	18	322	1,360
Deferred income		41	-
Lease liability	12	4	-
Borrowings	19	-	958
Total current liabilities		367	2,318
Total liabilities		385	2,318
NET ASSETS		**4,554**	**812**
Equity			
Issued share capital	20	41	7
Share premium	20	7,001	942
Shares to be issued		-	500
Capital reduction reserve		2,500	2,500
Foreign exchange reserve		(1)	3
Share based payments reserve	21	858	-
Retained earnings		(5,845)	(3,140)
TOTAL EQUITY		**4,554**	**812**

The financial statements were approved by the board on 26 April 2023:

DocuSigned by:
…………………………………………………. Chief Financial Officer - Yifat Steuer
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The accompanying notes on pages 37 to 61 form part of the consolidated financial statements

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Note	As at 31 Dec 2022 £'000	As at 31 Dec 2021 £'000
Non-current assets			
Intangible assets	11	2,068	2,068
Investments	15	1,304	1,304
Intercompany receivable	28	1,714	302
Total non-current assets		5,086	3,674
Current assets			
Cash and cash equivalents	17	1,548	545
Trade and other receivables	16	45	112
Total current assets		1,593	657
TOTAL ASSETS		**6,679**	**4,331**
Non-Current liabilities			
Intercompany payable		29	29
Total non-current liabilities		**29**	**29**
Current liabilities			
Borrowings	19	-	958
Trade and other payables	18	148	918
Total current liabilities		148	1,876
Total liabilities		177	1,905
NET ASSETS		**6,502**	**2,426**
Equity			
Issued share capital	20	41	7
Share premium	20	7,001	942
Shares to be issued		-	500
Capital reduction reserve		2,500	2,500
Foreign exchange reserve		-	(3)
Share based payments reserve	21	858	-
Retained earnings		(3,898)	(1,520)
TOTAL EQUITY		**6,502**	**2,426**

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the parent company has not been separately presented in these accounts. The Company loss for the year was £2,377,737 (2021: loss of £669,233).

The financial statements were approved by the board on 26 April 2023:

DocuSigned by:
.... Chief Financial Officer - Yifat Steuer
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The accompanying notes on pages 37 to 61 form part of the consolidated financial statements

	Note	Year ended 31 December 2022 £'000	7 months ended 31 December 2021 £'000
Cash flow from operating activities			
Loss for the financial year		(2,705)	(954)
Adjustments for:			
Share based payments		858	-
Depreciation on fixed assets		108	46
Finance expenses		4	8
Foreign exchange movements		10	-
Amortization of right-of-use assets		5	-
Changes in working capital:			
Decrease / (increase) in trade and other receivables		43	(56)
Increase / (decrease) in trade and other payables		(496)	702
Increase in inventories		(187)	-
Net cash outflow from operating activities		**(2,360)**	**(254)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(718)	(1)
Net cash outflow from investing activities		**(718)**	**(1)**
Cash flows from financing activities			
Proceeds from Issue of Shares		4,475	500
Share Issue Costs		(340)	-
Net proceeds from borrowings		-	300
Net cash inflow from financing activities		**4,135**	**800**
Net increase in cash and cash equivalents		**1,057**	**545**
Cash and cash equivalents at beginning of the period		598	39
Foreign exchange effect on cash balance		(15)	14
Cash and cash equivalents at end of the year	17	**1,640**	**598**

During the period there were the following material non-cash transactions:

- £957,884 of convertible loan notes were converted to share capital on 10 January 2022

The accompanying notes on pages 37 to 61 form part of the consolidated financial statements

COMPANY STATEMENT OF CASHFLOWS
FOR THE PERIOD ENDED 31 DECEMBER 2022

	Note	Year ended 31 December 2022 £'000	7 months ended 31 December 2021 £'000
Cash flow from operating activities			
Loss for the financial year		(2,378)	(669)
Adjustments for:			
Share based payment reserves		858	-
Finance expenses		-	8
Foreign exchange movements		16	(20)
Changes in working capital:			
Decrease / (increase) in trade and other receivables		81	(90)
Increase / (decrease) in trade and other payables		(271)	668
Net cash outflow from operating activities		**(1,694)**	**(103)**
Cash flows from investing activities			
Net loans to subsidiary companies		(1,432)	(162)
Net cash flow from investing activities		**(1,432)**	**(162)**
Cash flows from financing activities			
Proceeds from Issue of Shares		4,475	500
Share Issue Costs		(340)	-
Net proceeds from borrowings		-	300
Net cash flow from financing activities		**4,135**	**800**
Net increase in cash and cash equivalents		**1,009**	**535**
Cash and cash equivalents at beginning of the period		545	10
Foreign exchange effect on cash balance		(6)	-
Cash and cash equivalents at end of the year	17	**1,548**	**545**

During the period there were the following material non-cash transactions:

- £957,884 of convertible loan notes were converted to share capital on 10 January 2022

The accompanying notes on pages 37 to 61 form part of the consolidated financial statements

GRAFT POLYMER (UK) PLC – COMPANY NUMBER 10776788
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2022

	Share capital	Shares to be issued	Share premium	Capital reduction reserve	SBP reserve	Foreign exchange Reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 May 2021	**7**	**-**	**942**	**2,500**	**-**	**(16)**	**(2,186)**	**1,247**
Loss for period	-	-	-	-	-	-	(954)	(954)
Other comprehensive income	-	-	-	-	-	19	-	19
Total comprehensive loss for period	-	-	-	-	-	19	(954)	(935)
Transactions with owners in own capacity								
Shares to be issued	-	500	-	-	-	-	-	500
Transactions with owners in own capacity	-	500	-	-	-	-	-	500
Balance at 31 December 2021	**7**	**500**	**942**	**2,500**	**-**	**3**	**(3,140)**	**812**
Loss for period	-	-	-	-	-	-	(2,705)	(2,705)
Other comprehensive income	-	-	-	-	-	(4)	-	(4)
Total comprehensive loss for year	-	-	-	-	-	(4)	(2,705)	(2,709)
Transactions with owners in own capacity								
Ordinary Shares issued in the period	34	(500)	6,399	-	-	-	-	5,933
Advisor warrants issued	-	-	-	-	143	-	-	143
Employee options issued	-	-	-	-	715	-	-	715
Share Issue Costs	-	-	(340)	-	-	-	-	(340)
Transactions with owners in own capacity	34	(500)	6,059	-	858	-	-	6,451
Balance at 31 December 2022	**41**	**-**	**7,001**	**2,500**	**858**	**(1)**	**(5,845)**	**4,554**

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2022

	Share capital	Shares to be issued	Share premium	Capital reduction reserve	SBP reserve	Foreign exchange Reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 May 2021	**7**	**-**	**942**	**2,500**	**-**	**(3)**	**(851)**	**2,595**
Loss for period	-	-	-	-	-	-	(669)	(669)
Total comprehensive income for period	-	-	-		-	-	(669)	(669)
Transactions with owners in own capacity								
Shares to be issued	-	500	-	-	-	-	-	500
Transactions with owners in own capacity	-	500	-	-	-	-	-	500
Balance at 31 December 2021	**7**	**500**	**942**	**2,500**	**-**	**(3)**	**(1,520)**	**2,426**
Loss for period	-	-	-	-	-	-	(2,378)	(2,378)
Other comprehensive income	-	-	-	-	-	3	-	3
Total comprehensive loss for year	-	-	-	-	-	3	(2,378)	(2,375)
Transactions with owners in own capacity								
Ordinary Shares issued in the period	34	(500)	6,399	-	-	-	-	5,933
Advisor warrants issued	-	-	-	-	143	-	-	143
Employee options issued	-	-	-	-	715	-	-	715
Share Issue Costs	-	-	(340)	-	-	-	-	(340)
Transactions with owners in own capacity	34	(500)	6,059	-	858	-	-	6,451
Balance at 31 December 2022	**41**	**-**	**7,001**	**2,500**	**858**	**-**	**(3,898)**	**6,502**

1 GENERAL INFORMATION

Graft Polymer (UK) Plc ("the Company" or "GPUK") was incorporated in England and Wales as a limited company on 18 May 2017 as Graft Polymer (UK) Limited and was re-registered as a public limited company on 1 July 2021. The Company is domiciled in England and Wales with its registered office at Eccleston Yards, 25 Eccleston Place, London, SW1W 9NF. The Company's registered number is 10776788.

The Group successfully completed an IPO and admission to the standard segment of the London Stock Exchange on 6 January 2022.

The principal activities of the Company and all of its subsidiaries collectively referred to as "the Group" are the research, development and polymer modification technologies and polymer modification techniques.

The consolidated financial statements were approved for issue by the Board of Directors on 25 April 2023.

2 ACCOUNTING POLICIES

IAS 8 requires that management shall use its judgement in developing and applying accounting policies that result in information which is relevant to the economic decision-making needs of users, that are reliable, free from bias, prudent, complete and represent faithfully the financial position, financial performance and cash flows of the entity.

2.1 Basis of preparation

The financial Statements have been prepared in accordance with UK-adopted international accounting standards in conformity with the Companies Act 2006.

The financial statement have been prepared under the historical cost convention unless stated otherwise. The principal accounting policies are set out below and have, unless otherwise stated, been applied consistently for all periods presented in these Financial Statements. The Financial Statements have been prepared in £GBP and presented to the nearest £'000.

The functional currency for each entity in the Group is determined as the currency of the primary economic environment in which it operates. The functional currency of the Company is Pounds Sterling (£) as this is the currency that finance was raised in.

The functional currency of the operating subsidiary in Slovenia is the Euro (€) as this is the currency that mainly influences labour, material and other costs of providing services. The presentational currency of the Group is Pounds Sterling (£). Foreign operations are translated in accordance with the policies set out below.

The Group presents its financial statements for the year ended 31 December 2022 and presents comparatives for the 7 month period ending 31 December 2021.

2.2 New standards, amendments and interpretations

At the date of approval of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases have not yet been adopted by the UK):

Standard	Impact on initial application	Effective date
Annual Improvements	2018-2020 Cycle	1 January 2023
IAS 1	Classification of liabilities Current	1 January 2023
IAS 8	Accounting estimates	1 January 2023
IAS 12	Deferred tax arising from a single transaction	1 January 2023

The effect of these amended Standards and Interpretations which are in issue but not yet mandatorily effective is not expected to be material.

The Directors have evaluated the impact that these amendments would have on the financial statements and concluded that the impact is negligible.

2.3 Going concern

The financial statements have been prepared on a going concern basis, which assumes that the Group will continue in operational existence for the foreseeable future.

The Directors, having made due and careful enquiry, and are of the opinion that the Company and the newly formed Group have adequate working capital to execute its operations over the next 12 months. They have based this opinion primarily on the promising revenue trends and predictions seen in the 2022 financial year combined with realistic revenue goals for 2023. However given the uncertainty associated with future revenue and Group's reliance on generating funds from the market the auditors have made reference to going concern by way of a material uncertainty within their audit report.

Taking these matters into consideration, the Directors consider that the continued adoption of the going concern basis is appropriate having reviewed the forecasts for the coming 18 months and the financial statements do not reflect any adjustments that would be required if they were to be prepared other than on a going concern basis.

2.4 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Per IFRS 10, control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affects its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. When the Company has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

2.5 Foreign currency translation

i. Functional and presentation currency

Items included in the financial statements for each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements is presented in £ Sterling, which is the Company's presentation and functional currency. The individual financial statements of each of the Company's wholly owned subsidiaries are prepared in the currency of the primary economic environment in which it operates (its functional currency). IAS 21 The Effects of Changes in Foreign Exchange Rates requires that assets and liabilities be translated using the exchange rate at period end, and income, expenses and cash flow items are translated using the rate that approximates the exchange rates at the dates of the transactions (i.e. the average rate for the period). The foreign exchange differences on translation is recognised in other comprehensive income (loss).

ii. Transactions and balances

Transactions denominated in a foreign currency are translated into the functional currency at the exchange rate at the date of the transaction. Assets and liabilities in foreign currencies are translated to the functional currency at rates of exchange ruling at balance date. Gains or losses arising from settlement of transactions and from translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement for the period.

iii. Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;
- income and expenses for each income statement are translated at the average exchange rate; and all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is partially disposed or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

2.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers. The chief operating decision maker, who are responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive Board of Directors.

2.7 Impairment of non-financial assets

Non-financial assets and intangible assets not subject to amortisation are tested annually for impairment at each reporting date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment review is based on forecasted future cash flows. If the expected discounted future cash flow from the use of the assets and their eventual disposal is less than the carrying amount of the assets, an impairment loss is recognised in profit or loss and not subsequently reversed.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash flows (cash generating units or 'CGUs').

2.8 Inventory

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

2.9 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, and demand deposits with banks and other financial institutions and bank overdrafts.

2.10 Financial instruments

IFRS 9 requires an entity to address the classification, measurement and recognition of financial assets and liabilities.

a) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured at amortised cost; and
- those to be measured subsequently at fair value through profit or loss.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

The Group classifies financial assets as at amortised cost only if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise to cash flows that are solely payment of principal and interest.

b) Recognition

Purchases and sales of financial assets are recognised on trade date (that is, the date on which the Group commits to purchase or sell the asset). Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset.

Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments

Amortised cost: Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of profit or loss.

d) Impairment

The Group assesses, on a forward looking basis, the expected credit losses associated with any debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

2.11 Leases

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. In all instances the leases were discounted using the incremental borrowing rate.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period. Right-of-use assets are measured at cost which comprises the following:

- The amount of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Payments associated with short-term leases (term less than 12 months) and all leases of low-value assets (generally less than £5k) are recognised on a straight-line basis as an expense in profit or loss.

2.12 Convertible loan notes, borrowings and borrowing costs

Convertible loan notes classified as financial liabilities and borrowings are recognised initially at fair value, net of transaction costs. After initial recognition, loans are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are capitalised as a prepayment for liquidity services and amortised over the period of the loan to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability or at least 12 months after the end of the reporting period.

2.13 Equity

Share capital is determined using the nominal value of shares that have been issued.

Share to be issued relates to monies received in advance ahead of the issue of shares that was completed post period end following the admission to the London Stock Exchange. Upon the issue of these shares this reserve will be split between share capital and share premium reserves.

The Share premium account includes any premiums received on the initial issuing of the share capital. Any transaction costs associated with the issuing of shares are deducted from the Share premium account, net of any related income tax benefits.

For the purposes of presenting consolidated financial statements, the assets and liabilities of group's foreign operations are translated at the exchange rates prevailing at the balance sheet date and items of income and expenditure are translated at the average exchange rate for the period. Exchange differences arising are recognised in other comprehensive income and accumulated in the Foreign Currency Reserve within equity.

Equity-settled share-based payments are credited to a share-based payment reserve as a component of equity until related options or warrants are exercised or lapse.

The foreign exchange reserve policy is set out in note 2.5.

Capital reduction reserve represents funds sent from the parent company to subsidiary that on the approval of Directors was reclassified from a loan in the subsidiary to an investment.

Retained losses includes all current and prior period results as disclosed in the income statement.

2.14 Share based payments

The Group has made awards of warrants and options on its unissued share capital to certain parties in return for services provided to the Group. The valuation of these warrants involved making a number of critical estimates relating to price volatility, future dividend yields, expected life of the options and interest rates. These assumptions have been integrated into the Black Scholes Option Pricing model and the Monte Carlo valuation model to derive a value for any share-based payments. These assumptions are described in more detail in note 21.

2.15 Earnings per share

The Group presents basic and diluted earnings per share data for its Ordinary Shares.

Basic earnings per Ordinary Share is calculated by dividing the profit or loss attributable to Shareholders by the weighted average number of Ordinary Shares outstanding during the period.

Diluted earnings per Ordinary Share is calculated by adjusting the earnings and number of Ordinary Shares for the effects of dilutive potential Ordinary Shares.

2.16 Revenue

Under IFRS 15, Revenue from Contracts with Customers, five key points to recognise revenue have been assessed:

Step 1: Identity the contract(s) with a customer;

Step 2: Identity the performance obligations in the contract;

Step 3: Determine the transaction price;

Step 4: Allocate the transaction price to the performance obligations in the contract; and

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Revenue is reduced for estimated customer returns, rebates and other similar allowances. Sales of goods are recognised when the control of the goods is transferred to the buyer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods. Control is considered to have transferred generally on despatch as most items are sold on a cost includes freight basis; or on delivery where Delivered Duty Paid (“DDP”) Incoterms are used. The normal credit terms are 30 to 60 days upon delivery. Invoices that are issued before the transfer of control has occurred are allocated as deferred income and then recognised as revenue when the performance obligation has been satisfied.

The Group also derives revenue from the rendering of services, whereby revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract;

- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

In arrangements where fees are invoiced ahead of revenue being recognized, deferred income is recorded.

2.17 Taxation

Tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is proved in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statement. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised of the deferred tax liability is settled.

2.18 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

When the Company acquires any plant and equipment it is stated in the accounts at its cost of acquisition less a provision.

Depreciation is charged to write off the costs less estimated residual value of plant and equipment on a straight basis over their estimated useful lives being:

- Plant and equipment: 5 – 7 years
- Buildings and leasehold improvements: 20 years

Estimated useful lives and residual values are reviewed each year and amended as required.

2.19 Intangible assets

Intangible assets acquired are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. The gains and losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset.

Intangible asset impairment reviews are undertaken annually, or more frequently if events or changes in circumstances indicate a potential impairment. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

2.20 Investments in Subsidiaries

Investments in Group undertakings are stated at cost.

2.21 Financial liabilities

Other financial liabilities are initially recognised at fair values less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

2.22 Critical accounting judgements and key sources of estimation uncertainty

The preparation of the consolidated financial statements requires management to make estimates and judgements and form assumptions that affects the reported amounts of the assets, liabilities, revenue and costs during the periods presented therein, and the disclosure of contingent liabilities at the date of the financial information. Estimates and judgements are continually evaluated and based on management's historical experience and other factors, including future expectations and events that are believed to be reasonable.

Know-how as an intangible asset (note 11)

The estimates and assumptions in relation to the carrying value of the know-how intangible assets are considered to have the most significant effect on the carrying amounts of the financial statements. Management have made a judgement in respect of the carrying value of the knowhow that was acquired as part of the acquisition of the subsidiary, using a 24 month 3-way forecast ending at December 2024. In the current period these intangible assets were not impaired.

Recoverability of the investment in subsidiary and intercompany receivable (note 15)

As at 31 December 2022 the carrying value of the Company's investment in its subsidiary Graft Polymer d.o.o. was £1,304k and net loans to subsidiaries are £1,685k. The recoverable value of this investment is not considered to be less than it is carrying value as at 31 December 2022 and therefore no impairment has been recognised. The Directors have made this assessment through reviewing forecasts, other available financial information available and developments during the period and post period-end. The key inputs within the forecast include revenue growth, gross profit margins and overheads. The directors can now also take a greater level of assurance from the fact that the majority of capital expenditure has been incurred giving customers and management greater certainty over placing orders.

Valuation of share based payments (note 21)

The Group issues options and warrants to its employees, directors, investors and advisors. These are valued in accordance with IFRS 2 "Share-based payments". In calculating the related charge on issuing shares and warrants the Group will use a variety of estimates and judgements in respect of inputs used including share price volatility, risk free rate, and expected life. Changes to these inputs may impact the related charge.

In the period the Group has utilised both the Black Scholes and Monte Carlo methods of valuation. In respect of employee options with different vesting conditions the Directors have applied a probability percentage against the value of the options. Specifically the Directors have concluded that there is a 75% probability that the Group will satisfy the revenue targets detailed in Note 21.

3. SEGMENT REPORTING

The following information is given about the Group's reportable segments:

The Chief Operating Decision Maker is the Board of Directors. The Board reviews the Group's internal reporting in order to assess performance of the Group. Management has determined the operating segment based on the reports reviewed by the Board.

The Board considers that during the year ended 31 December 2022 the Group operated in the single business segment of polymer development and production.

4. REVENUE

	Year ended 31 Dec 2022 £'000	7 mths to 31 Dec 2021 £'000
Product Sales Revenue		
Slovenia	41	-
Europe	415	131
Rest of the world	-	50
	456	181
Services Sales Revenue		
Slovenia	86	9
Europe	-	29
	86	38
Total Sales Revenue	542	219

5. OPERATING COSTS AND ADMINISTRATIVE EXPENDITURE

	Year ended 31 Dec 2022 £'000	7 mths to 31 Dec 2021 £'000
Operating costs		
Depreciation	(113)	(46)
Operating costs	(238)	(102)
	(351)	(148)
Administrative costs		
Directors remuneration	(1,162)	(154)
Salary and wages	(111)	(52)
Professional and consulting fees	(703)	(656)
Travel expenses	(6)	(2)
Foreign exchange	(10)	-
Other expenses	(336)	(36)
Share based payments*	(339)	-
	(2,667)	(900)

**£519,000 of share based payments are shown in directors remuneration to reconcile to the remuneration report on page 23*

6. AUDITORS REMUNERATION

	Year ended 31 Dec 2022 £'000	Year ended 31 Dec 2021 £'000
Fees payable to the Group's auditor for the audit of parent company and consolidated financial statements	(46)	(37)
Reporting accountant services for IPO	-	(90)
	(46)	**(127)**

7. STAFF COSTS AND DIRECTORS' EMOLUMENTS

Directors' remuneration and employee costs for the Group are set out below and as per Directors Remuneration report beginning on page 22:

	Year ended 31 Dec 2022 £'000	7 mths to 31 Dec 2021 £'000
Directors salaries	319	154
Directors bonus	103	-
Directors pension	1	-
Directors fees	220	-
Share based payments	519	-
Employee costs	111	52
	1,273	206

On average, excluding non-executive directors, the Group employed 6 technical staff members (31 December 2021:6) and 3 administration staff members (31 December 2021: 3).

On average, excluding non-executive directors, the Company employed 1 technical staff member (31 December 2021: 2) and 1 administration staff member (31 December 2021: 2).

The highest paid director received remuneration of £454k (31 December 2021: £71k).

8. FINANCE COSTS

	Year ended 31 Dec 2022 £'000	7 months ended 31 Dec 2021 £'000
Finance charge on leased assets	(4)	(8)
Finance costs – net	**(4)**	**(8)**

9. TAXATION

No liability to income taxes arise in the period.

The current tax for the year differs from the loss before tax at a standard rate of corporation tax in the UK.

The differences are explained below:

	Year ended 31 Dec 2022 £'000	7 months ended 31 Dec 2021 £'000
The charge for year is made up as follows:		
Corporation tax on the results for the year/period	-	-
A reconciliation of the tax charge appearing in the income statement to the tax that would result from applying the standard rate of tax to the results for the year is:		
Loss per the financial statements	(2,705)	(954)
Tax credit at the weighted average of the standard rate of corporation tax in Slovenia of 19% and UK of 19% - being 19% (31 Dec 2021: 19%)	(514)	(181)
Non-deductible expenses	163	9
Current year losses for which no deferred tax asset is recognised	(351)	(172)
Income tax charge for the year/period	-	-

Deferred tax assets carried forward have not been recognised in the accounts because there is currently insufficient evidence of the timing of suitable future taxable profits against which they can be recovered. The accumulated tax losses are estimated to amount to £4,229k (31 Dec 2021: £1,524k) and the carried forward deferred tax asset is estimated to amount to £803k. No deferred tax assets in respect of tax losses have not been recognised in the accounts because there is currently insufficient evidence of the timing of suitable future taxable profits against which they can be recovered.

On 15 March 2023 it was announced that from 1 April 2023 the UK corporation tax rate would increase from 19% to 25% for profits over £250,000. Profits made under the £250,000 threshold will continue to be taxed at a rate of 19%. The Company will continue to calculate the effective tax rate at 19%.

10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is calculated by dividing the profit or loss for the year by the weighted average number of ordinary shares in issue during the period.

	Year ended 31 Dec 2022	Period ended 31 Dec 2021
Loss for the year/period from continuing operations – £'000	(2,705)	(954)
Weighted number of ordinary shares in issue	103,589,479	70,000,000
Basic earnings per share from continuing operations – pence	(2.61)	(1.36)

There is no difference between the diluted loss per share and the basic loss per share presented. Share options and warrants could potentially dilute basic earnings per share in the future but were not included in the calculation of diluted earnings per share as they are anti-dilutive for the year presented. See note 21 for further details.

11. INTANGIBLE ASSETS

Group and Company

	31 Dec 2022 £'000	31 Dec 2021 £'000
Opening balance	2,068	2,068
Additions	-	-
	2,068	2,068

The additions in 2018 relates to the issue of 22,500,000 shares to founding director Victor Bolduev on the acquisition of his Know-how. At each period end, the Directors assess the intangible assets for any indicators of impairment and have concluded no presence of such indicators and based on the 24 month cashflow forecast and there being no presence of any impairment indicators the Directors have concluded that no impairment charge was necessary during the period.

12. LEASES

Group

	31 Dec 2022 £'000	31 Dec 2021 £'000
Right-of-use assets		
Motor vehicles	27	-
	27	**-**
Lease liabilities		
Current	4	-
Non-current	18	-
	22	**-**

Right of use assets

A reconciliation of the carrying amount of the right-of-use asset is as follows:

	31 Dec 2022 £'000	31 Dec 2021 £'000
Motor vehicles		
Opening balance	-	-
Additions	32	-
Depreciation	(5)	-
	27	**-**

Lease liabilities

A reconciliation of the carrying amount of the lease liabilities is as follows:

	31 Dec 2022 £'000	31 Dec 2021 £'000
Opening balance	-	-
Additions	28	-
Finance charge	2	-
Repayments	(8)	-
	22	**-**

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvements £'000	Plant & Equipment £'000	Total £'000
Cost			
At 31 May 2021	-	550	550
Additions	-	1	1
Exchange impact	-	(14)	(14)
At 31 December 2021	-	537	537
Additions	85	352	437
Exchange impact	4	48	52
At 31 December 2022	89	937	1,026

Depreciation			
At 31 May 2021	-	(186)	(186)
Charge for the period	-	(46)	(46)
Exchange impact	-	5	5
At 31 December 2021	-	(227)	(227)
Charge for the year	(27)	(81)	(108)
Exchange impact	(2)	(15)	(17)
At 31 December 2022	(29)	(323)	(352)
Net book value at 31 December 2021	-	310	310
Net book value at 31 December 2022	**60**	**614**	**674**

14. INVENTORY

GROUP	**31 Dec 2022 £'000**	**31 Dec 2021 £'000**
Raw materials	123	-
WIP	-	-
Finished goods	64	-
	187	-

A £nil amount of inventory was expensed during the period.

15. INVESTMENTS

COMPANY	**31 Dec 2022 £'000**	**31 Dec 2021 £'000**
Investment in Graft Polymer d.o.o	1,304	1,304
	1,304	1,304

**Immaterial investment in GraftBio Limited of £1*

Company subsidiary undertakings

The Group owned interests in the following subsidiary undertakings, which are included in the consolidated financial statements:

Name	Business Activity	Country of Incorporation	Registered Address	Percentage Holding
Graft Polymer d.o.o.	Polymer development and production	Slovenia	Emonska Cesta 8, 1000, Ljubljana, Slovenia	100%
Graft Polymer IP Limited	Intellectual property	England and Wales	Eccleston Yards, 25 Eccleston Place, London, SW1W 9NF	100%
GRAFTBIO Limited	Bio-Polymer development and production	England and Wales	Eccleston Yards, 25 Eccleston Place, London, SW1W 9NF	100%

16. TRADE AND OTHER RECEIVABLES

GROUP	31 Dec 2022 £’000	31 Dec 2021 £’000
Trade receivables	35	20
Other taxes and social security	55	99
Prepayments	232	-
Other receivables	8	23
	330	142

The carrying amounts of the Group’s trade and other receivables are denominated in the following currencies:

	31 Dec 2022 £’000	31 Dec 2021 £’000
UK Pounds	45	112
Euros	285	30
	330	142

COMPANY	31 Dec 2022 £'000	31 Dec 2021 £'000
Other taxes and social security	21	88
Other receivables	24	24
	45	112

As at 31 December 2022 all trade and other receivables were fully performing and hence no provision has been processed. Trade receivables have the following aging:

	31 Dec 2022 £'000	31 Dec 2021 £'000
Current	39	20
1 – 3 months	-	-
3 – 6 months	-	-
> 6 months	6	-
	45	20

17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and short term deposits held with banks with a A-1+ rating. The carrying value of these approximates to their fair value. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts.

GROUP	31 Dec 2022 £'000	31 Dec 2021 £'000
Cash and cash equivalents	1,640	598
	1,640	598

COMPANY	31 Dec 2022 £'000	31 Dec 2021 £'000
Cash and cash equivalents	1,548	545
	1,548	545

18. TRADE AND OTHER PAYABLES

GROUP	31 Dec 2022 £'000	31 Dec 2021 £'000
Trade payables	185	841
Accruals	114	480
VAT payable	23	39
	322	1,360

COMPANY	31 Dec 2022 £'000	31 Dec 2021 £'000
Trade payables	34	479
Accruals	114	439
	148	918

19. BORROWINGS

	31 Dec 2022 £'000	31 Dec 2021 £'000
Convertible note borrowings	-	950
Convertible note accrued interest	-	8
	-	958

	31 Dec 2022 £'000	31 Dec 2021 £'000
Opening balance	958	653
Convertible loans issued	-	300
Exchange impact	-	(3)
Interest accrued	-	8
Loans converted equity	(958)	-
Closing balance	-	958

On admission to the London Stock Exchange on 6 January 2022, 3 separate tranches of convertible loan notes were converted to equity as per below:

a) Tranche A: converted to 5,155,150 ordinary shares issued at £0.085
b) Tranche B: converted to 1,145,349 ordinary shares issued at £0.172
c) Tranche C:
    a. converted to 872,092 ordinary shares issued at £0.172
    b. converted to 775,194 ordinary shares issued at £0.172

20. SHARE CAPITAL

	31 Dec 2022 £'000	31 Dec 2021 £'000
Issued and fully paid ordinary shares with a nominal value of 0.1p (31 Dec 2021: 0.1p)		
Number of shares	104,097,299	70,000,000
Nominal value (£'000)	41	7

Change in issued Share Capital and Share Premium:

	Number of shares	Share capital	Share premium	Total
Ordinary shares		**£'000**	**£'000**	**£'000**
Balance at 31 December 2021	70,000,000	7	942	1,449
Shares issued on IPO [1]	23,255,813	23	4,977	5,000
Shares issued on conversion of convertible[2] loan notes	5,155150	5	433	438
Shares issued on conversion of convertible[3] loan notes	2,792,635	3	494	497
Shares issued in lieu of services rendered[4]	2,893,701	3	495	498
Share issue costs	-	-	(340)	(340)
Balance at 31 December 2021	70,000,000	7	942	1,449
Balance at 31 December 2022	**104,097,229**	**41**	**7,001**	**7,042**

[1] As part of the IPO a placement of 23,255,813 shares was issued at a placement price of £0.215

[2] On admission to the LSE £438,188 of convertible loan notes were converted to equity resulting in the issue of 5,115,150 ordinary shares at £0.085.

[3] On admission to the LSE £497,000 of convertible loan notes were converted to equity resulting in the issue of 2,792,635 ordinary shares at £0.172.

[4] On 6 January the Company issued 2,893,701 ordinary shares at £0.172 in respect of services provided.

The share premium represents the difference between the nominal value of the shares issued and the actual amount subscribed less; the cost of issue of the shares, the value of the bonus share issue, or any bonus warrant issue.

21. SHARE BASED PAYMENTS RESERVE

	31 Dec 2022 £'000	31 Dec 2021 £'000
Advisor warrants issued[1]	143	-
Employee options issued[2]	715	-
	858	-

[1]On 6 January 2022, 1,255,814 warrants were issued to advisors and have been fair valued in accordance with IFRS 2 at the fair value of the services received. The warrants have an exercise price of £0.215 and a time to expiry of 3 years from grant.

[1]On 6 January 2022, 775,194 warrants were issued to advisors and have been fair valued in accordance with IFRS 2 at the fair value of the services received. The warrants have an exercise price of £0.215 and a time to expiry of 2 years from grant.

[2]On 6 January 2022, 11,173,611 employee options were granted to a number of employees within the Group. These options have different vesting conditions based on performance milestones that can be viewed below.

Share based payments valuation

The following tables summarise the valuation techniques and inputs used to calculate the values of share based payments in the period:

Warrants

Grant date	Number	Share price £	Exercise price £	Volatility %	RF Rate %	Technique
06/01/2022	1,255,814	0.215	0.215	47.7	1.75	Black Scholes
06/01/2022	775,194	0.215	0.215	47.7	1.75	Black Scholes

Options

Grant date	Number	Share price £	Volatility %	RF Rate %	Technique
06/01/2022	11,173,611	0.215	47.7	1.75	Monte Carlo

	As at 31 December 2022	
	Weighted average exercise price	Number of warrants
Brought forward at 1 January 2022	-	-
Granted in period	22p	2,031,008
Vested in period	22p	2,031,008
Outstanding at 31 December 2022	22p	2,031,008
Exercisable at 31 December 2022	22p	2,031,008

The weighted average time to expiry of the warrants as at 31 December 2022 is 1.64 years.

Options

On 6 January 2022 11,173,611 employee options were granted. The option vesting details are listed below:

Vesting Event	Trigger for Vesting	Number of options vested on date of vesting
1	- Company's share price reaching appreciation of 125% of the issue price based on a 15 day volume weighted average price in the 12 months from admissions and; - Group revenue exceeding 1m Euro in a 12 month period	One third of the total options issued
2	- Company's share price reaching appreciation of 150% of the issue price based on a 15 day volume weighted average price in the 24 months from admissions and; - Group revenue exceeding 5m Euro in a 12 month period*	Two thirds of the total options issued

*The Directors have assessed that there is the following probabilities of each revenue milestone being satisfied:

1) Group revenue exceeding €1 million in any 12 month period within the 10 year option life: 75%

2) Group revenue exceeding €5 million in any 24 month period within the 10 year option life: 75%

	As at 31 December 2022	
	Weighted average exercise price	**Number of options**
Brought forward at 1 January 2022	-	-
Granted in period	0.1p	11,173,611
Vested in period	-	-
Lapsed in period	-	(173,611)
Outstanding at 31 December 2022	0.1p	11,000,000
Exercisable at 31 December 2022	0.1p	-

The weighted average time to expiry of the warrants as at 31 December 2022 is 1.02 years.

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Capital Risk Management

The Company manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders. The overall strategy of the Company and the Group is to minimise costs and liquidity risk.

The capital structure of the Group consists of equity attributable to equity holders of the parent, comprising issued share capital, foreign exchange reserves and retained earnings as disclosed in the Consolidated Statement of Changes of Equity.

The Group is exposed to a number of risks through its normal operations, the most significant of which are interest, credit, foreign exchange, commodity and liquidity risks. The management of these risks is vested to the Board of Directors.

The sensitivity has been prepared assuming the liability outstanding was outstanding for the whole period. In all cases presented, a negative number in profit and loss represents an increase in finance expense / decrease in interest income.

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers. Indicators that there is no reasonable expectation of recovery include, amongst others, failure to make contractual payments for a period of greater than 120 days past due.

The carrying amount of financial assets represents the maximum credit exposure.

The principal financial assets of the Company and Group are bank balances and trade receivables. The Group deposits surplus liquid funds with counterparty banks that have high credit ratings and the Directors consider the credit risk to be minimal.

The Group's maximum exposure to credit by class of individual financial instrument is shown in the table below:

	31 Dec 2022	31 Dec 2022	31 Dec 2021	31 Dec 2021
	Carrying Value	Maximum Exposure	Carrying Value	Maximum Exposure
	£'000	£'000	£'000	£'000
Cash and cash equivalents	1,640	1,640	598	598
Trade receivables	35	35	20	20
	1,675	1,675	618	618

Currency Risk

The Group operates in a global market with income and costs possibly arising in a number of currencies and is exposed to foreign currency risk arising from commercial transactions, translation of assets and liabilities and net investment in foreign subsidiaries. Exposure to commercial transactions arise from sales or purchases by operating companies in currencies other than the Companies' functional currency. Currency exposures are reviewed regularly.

The Group has a limited level of exposure to foreign exchange risk through their foreign currency denominated cash balances and a portion of the Group's costs being incurred in US Dollars and Euros. Accordingly, movements in the Sterling exchange rate against these currencies could have a detrimental effect on the Group's results and financial condition. Such changes are not considered likely to have a material effect on the Group's financial position at 31 December 2022. The majority of the Groups funds are held with HSBC which has the following credit ratings (Fitch: A+, Stable, Moody's A3, Stable, S&P A-, stable)

Currency risk is managed by maintaining some cash deposits in currencies other than Sterling. The table below shows the currency profiles of cash and cash equivalents:

	31 Dec 2022 £'000	31 Dec 2021 £'000
Cash and cash equivalents		
Sterling	1,548	540
Euro	92	58
	1,640	598

The table below shows an analysis of the currency of the net monetary asset and liabilities in the Sterling functional currency of the Group:

	31 Dec 2022 £'000	31 Dec 2021 £'000
Balance denominated in		
Sterling	1,520	459
Euro	(60)	(319)
	(1,460)	(140)

Liquidity Risk

Liquidity risk is the risk that the group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation.

The Group seeks to manage liquidity risk by regularly reviewing cash flow budgets and forecasts to ensure that sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Group deems there is sufficient liquidity for the foreseeable future.

The Group had cash and cash equivalents at period end as below:

	31 Dec 2022 £'000	31 Dec 2021 £'000
Cash and cash equivalents	1,640	598
	1,640	598

The table below sets out the maturity profile of the financial liabilities at 31 December:

	31 Dec 2022 £'000	31 Dec 2021 £'000
Due in less than one month	(56)	(880)
Due between one and three months	(129)	-
Due between three months and one year	-	-
	(185)	(880)

Interest Rate Risk

The Group is exposed to interest rate risk whereby the risk can be a reduction of interest received on cash surpluses held and an increase in interest on borrowings the Group may have. The maximum exposure to interest rate risk at the reporting date by class of financial asset was:

	31 Dec 2022 £'000	31 Dec 2021 £'000
Bank balances	1,640	598
	1,640	598

The Group is not materially reliant on interest revenue on cash and cash equivalents and therefore represents a low volume of risk.

23. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

GROUP 31 Dec 2022	Financial assets at amortised cost	Financial liabilities at amortised cost	Total
Financial assets / (liabilities)	**£'000**	**£'000**	**£'000**
Trade and other receivables[1]	90	-	90
Cash and cash equivalents	1,640	-	1,640
Trade and other payables[2]	-	(203)	(203)
	1,730	(203)	1,527

[1] *Trade and other receivables excludes prepayments*
[2] *Trade and other payables excludes accruals, taxes and social security*

GROUP 31 Dec 2021	Financial assets at amortised cost	Financial liabilities at amortised cost	Total
Financial assets / (liabilities)	**£'000**	**£'000**	**£'000**
Trade and other receivables[1]	142	-	142
Cash and cash equivalents	598	-	598
Trade and other payables[2]	-	(880)	(880)
	740	(880)	(140)

COMPANY 31 Dec 2022	Financial assets at amortised cost	Financial liabilities at amortised cost	Total
Financial assets / (liabilities)	**£'000**	**£'000**	**£'000**
Trade and other receivables[1]	45	-	45
Cash and cash equivalents	1,548	-	1,548
Trade and other payables[2]	-	(34)	(34)
	1,593	(34)	1,559

COMPANY 31 Dec 2021	Financial assets at amortised cost	Financial liabilities at amortised cost	Total
Financial assets / (liabilities)	**£'000**	**£'000**	**£'000**
Trade and other receivables[1]	112	-	112
Cash and cash equivalents	545	-	545
Trade and other payables[2]	-	(479)	(479)
	657	(479)	178

24. RECONCILATION OF MOVEMENT OF NET DEBT

31 December 2022	At 31 December 2021	Non-cash changes	Cashflow	At 31 December 2022
	£'000	**£'000**	**£'000**	**£'000**
Cash at bank	598	-	1,042	1,640
Borrowings - current	(958)	958	-	-
Borrowings – non-current	-	-	-	-
Net Debt	(360)	958	1,042	1,640

31 December 2021	At 1 May 2021	Non-cash changes	Cashflow	At 31 December 2021
	£'000	**£'000**	**£'000**	**£'000**
Cash at bank	39	14	545	598
Borrowings - current	(653)	(5)	(300)	(958)
Borrowings – non-current	-	-	-	-
Net Debt	(614)	9	245	(360)

25. CAPITAL COMMITMENTS

There were no capital commitments at 31 December 2022.

26. CONTINGENT LIABILITIES

In December 2021 the Company entered a royalty agreement with Victor was replaced by a Profit Share Agreement, whereby Victor is due 7% of the Company's annual operating profit that accrues on a monthly basis, up to an aggregate amount of €3,500,000, which will commence upon the Company achieving monthly operating profit of €20,000.

Other than above, there were no further contingent liabilities at 31 December 2022.

27. COMMITMENTS UNDER OPERATING LEASES

There were no commitments under operating leases at 31 December 2022.

28. RELATED PARTY TRANSACTIONS

The Group's investments in subsidiaries have been disclosed in note 15.

During the year the Company entered into the following transactions with other Group companies:

	Amounts owed by / (to) group companies			
	Opening Balance £'000	Movement in year £'000	Provisions in year £'000	Closing Balance £'000
Graft Polymer d.o.o. – 31 Dec 2021	91	211	-	302
Graft Polymer d.o.o. – 31 Dec 2022	302	1,412	-	1,714
Graft Polymer IP Limited – 31 Dec 2021	-	(29)	-	(29)
Graft Polymer IP Limited – 31 Dec 2022	(29)	-	-	(29)

The Directors conducted an impairment review and are satisfied that the carrying value of intergroup loans is reasonable and no impairment is necessary

At 31 December 2022 the Company had an outstanding amount receivable from Graft Polymer d.o.o. of £1,713,649 (31 Dec 2021 £257,000) and owed Graft Polymer IP Limited £29,000 (31 Dec 2021: £29,000). The Company has applied the expected credit loss model as required under IFRS 9 and are comfortable that there are no impairment indications. The amount owed is unsecured, interest free, and has no fixed terms of repayment. The balance will be settled in cash. No guarantees have been given or received.

Details of directors' emoluments are set out in the directors remuneration report beginning on page 22.

Transactions with related parties

Chitta Lu Limited
During the period the Group paid a total of 66,000 Eur to Chitta Lu Limited for corporate finance services related to the IPO in January 2022. Roby Zomer is a director of both Graft Polymer (UK) Plc and Chitta Lu.

MGC Pharmaceuticals Limited
During the period the Group received €48,125 of revenue from MGC Pharmaceuticals. Roby Zomer is a director of both Graft Polymer (UK) Plc and MGC Pharmaceuticals Limited.

29. EVENTS SUBSEQUENT TO PERIOD END

There have been no material events post period end that require disclosure.

30. CONTROL

In the opinion of the Directors as at the year end and the date of these financial statements there is no single ultimate controlling party.