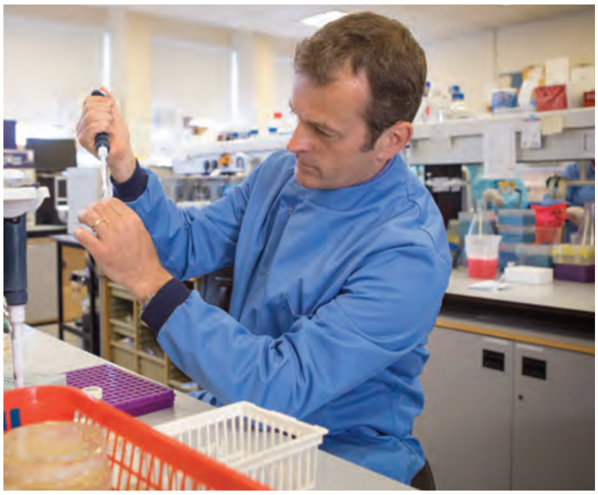
FRONTIER IP GROUP PLC

Commercialising IP from research

Annual Report & Financial Statements
Year ended 30 June 2018


Contents

Cover: clockwise from top left

Dr Alasdair Bremner (L) and Professor David Binns, Alusid

Professor Mathew Upton, Amprologix

Associate Professor Michael Jarvis, The Vaccine Group

Dr Martin Stoelen, Fieldwork Robotics

Professor Elvira Fortunato (L) and Professor Rodrigo Martins, NTPE

Registered number 06262177

Frontier IP develops and manages a portfolio of equity stakes and licence income interests founded on strong, commercially-focused Intellectual Property

"This year saw further good progress, reflecting the hard work put in by the team and our partners. We again materially increased the value of our portfolio, added three new spin outs and built on the strong relationships we enjoy with our partner institutions, academics and industry. In line with building a strong platform for future growth, we saw a decrease in profit before tax, primarily due to higher people and premises costs. Increased investment in these areas has allowed us to grow our level of activity and accelerate value creation in the portfolio. Two of our core portfolio companies succeeded in raising the capital needed to support their growth during the year, joined post-period end by a third."

Andrew Richmond
Chairman

Overview

Frontier IP's purpose is to unite science and commerce to generate sustainable, long-term value for our investors and other stakeholders. We aim to create a portfolio of strong businesses by finding, developing and commercialising intellectual property, mainly from universities, in partnership with industry.

We do this by establishing formal and informal relationships with universities and academics as sources of intellectual property and deal flow. We work closely with them to identify ideas with strong commercial potential and build businesses around them.

The Group aims to earn material equity stakes in portfolio companies in return for providing a range of strategic and commercial services. These include accelerating commercialisation, identifying industry partners, support for fundraising and services to promote the smooth running of the business. Although we are not a fund manager or venture capitalist, we work with a wide range of funding sources to support our portfolio companies. We may commit our own capital in an efficient manner to accelerate technology and business development.

Industry partnerships are a vital part of our business model. They help us to validate intellectual property, to scale up technology for volume production and to ensure our portfolio companies meet market needs or demands. In this way, we aim to reduce the risks inherent in early stage businesses before asking investors to commit large amounts of capital.

We're very pleased to say the past year showed our business gaining further strong momentum, delivering value to our shareholders and is set fair for the year to come.

OUR KEY STRENGTHS

Portfolio offers strong capital growth potential

Experienced management team

Proactive sourcing of potential spin-outs

Founder equity in return for support before capital raising

Strategic Report

The Directors have pleasure in presenting their Strategic Report for the year ended 30 June 2018.

"I am pleased to report on another year of progress as we continue to develop our portfolio and lay the foundations for future value creation."

Neil Crabb,
Chief Executive Officer

KEY POINTS

FINANCIAL

- Fair value of portfolio companies increased by 34% to £9,041,000 (2017: £6,729,000)
- Total revenue increased by 2% to £2,363,000 (2017: £2,309,000) – reflecting an unrealised profit on the revaluation of investments of £2,064,000 (2017: £2,045,000)
- Revenue from services increased by 13% to £299,000 (2017: £264,000)
- Profit before tax decreased by 27% to £902,000 (2017: £1,229,000)
- Basic earnings per share decreased to 2.36p (2017: 3.73p)
- Cash balances at 30 June 2018 of £1,111,000 (2017: £2,329,000)
- Net assets per share as at 30 June 2018 of 33.2p (2017: 30.7p)
- Post-period end, placing raised £2,488,000 (gross)

CORPORATE

- London office opened and team strengthened with appointment of communications and investor relations director, executive assistant and engineering and software development specialist. Post-period end, we announced Matthew White has joined as director of commercialisation from AB Sugar, where he was Head of Innovation
- Capital Markets Day at the British Ambassadors' residence in Lisbon attracted more than 70 investors, academics and business people to witness technology in action
- Post-period end, grew presence in Portugal through strategic partnership with the UK Department for International Trade
- Post-period end, the Group appointed Allenby Capital Limited as Nominated Adviser (Nomad) and sole broker to the Group

PORTFOLIO

- Key additions to the portfolio in the year include Cambridge Raman Imaging and Amprologix
- Post-period end we announced our first two Portuguese spin outs NTPE and Des Solutio
- Good commercial progress within the portfolio overall, reflected in the increase in fair value
- Exscientia secured a EUR15 million strategic investment from German pharmaceutical group Evotec and collaboration agreement with GSK
- Recent portfolio addition Molendotech, started work with Palintest, raised £500,000 and saw first commercial products based on its IP launched
- Increased stake in Fieldwork Robotics from 21 to 27.5 per cent. Post-period end, the company secured a collaboration agreement with leading soft fruit grower Hall Hunter Partnership
- Pulsiv Solar granted two US patents and post-period end awarded £130,000 by Innovate UK
- Post-period end, Alusid Limited successfully concluded further investment of £1.34 million and Tarsis Technology started work with a world-leading crop-protection group

Chairman's Statement

Performance

This year saw further good progress, reflecting the hard work put in by the team and our partners. We again materially increased the value of our portfolio, added three new spin outs and built on the strong relationships we enjoy with our partner institutions and academics. In line with building a strong platform for future growth, we saw a decrease in profit before tax, primarily due to higher people and premises costs. Increased investment in these areas has allowed us to grow our level of activity and accelerate value creation in the portfolio. Two of our core portfolio companies succeeded in raising the capital needed to support their growth during the year, joined post-period end by a third.

I was delighted to see growing evidence that our approach and strategy is gaining traction with industry.

For the time being, I'll draw your attention to Exscientia's success in striking deals with GSK and Evotec, and the commercial launch of water-testing kits based on Molendotech's intellectual property by Palintest, a subsidiary of FTSE 100 group Halma plc. Molendotech's product launch happened less than a year after we incorporated the company. After the year end, Tarsis Technology signed a collaboration agreement with a world-leading crop technology company and Fieldwork Robotics joined forces with Hall Hunter Partnership, the UK's biggest raspberry grower.

Another highlight post-year end was seeing the first results from our work in Portugal. We are now a strategic partner of the UK Department for International Trade, which will provide invaluable support for our work in the country, and we announced our first two Portuguese spin outs.

Value continues to grow in our core portfolio. We saw both the fair value and number of portfolio companies increase. Fair value rose significantly by 34 per cent to £9 million. Significant contributions came from successful agreements with industry and funding for Nandi, Molendotech and, post-year end, Alusid.

Of the three new companies added to our core portfolio in the year, we welcomed one from the University of Plymouth and two based in Cambridge. Post-period end, we added NTPE and Des Solutio, our first two spin outs from Portugal. We are hugely excited about the potential of all our new companies.

As these events show, we have strong formal and informal relationships with the universities and academics we work with. When you consider our portfolio company achievements it is clear that we have access to very high-quality intellectual property. In line with our strategy, we will be looking to add new portfolio companies and IP sources in the coming year.

Other developments included adding a London office and strengthening our team. These moves reflect growing demand for our services and a recognition that as our business grows, we need to step up our engagement with existing and new investors, and ensure we have the boots on the ground to properly support our portfolio businesses.

Most recently post-period end, we were very pleased to announce a successful placing, which raised £2,488,000 from new and existing shareholders.

All this is further evidence our strategy is creating value for our stakeholders and we are optimistic about the prospects of generating further value as the business continues to gain momentum.

Our Governance

Good governance is good business. We recognise it is vital for long-term sustainable growth. We also aim to achieve the highest standards we can for a company of our size.

We have adopted the Quoted Companies Alliance Corporate Governance Code (QCA Code) introduced in April 2018. To find out in more detail about how we apply the principles of good governance outlined in the QCA Code, see the Our Governance section.

Results

For the year to 30 June 2018, total revenue increased by 2% to £2,363,000 (2017: £2,309,000) as a result of booking an unrealised profit of £2,064,000 (2017: £2,045,000) on the revaluation of investments, principally due to the movement in fair value of Exscientia and Alusid. Revenue from services, principally board retainers, technical development services and licence income, increased by 13 per cent to £299,000 (2017: £264,000).

The fair value of our unquoted portfolio increased by 34% to £9,041,000 (2017: £6,729,000).

Profit before tax decreased by 27% to £902,000 (2017: £1,229,000). The fall reflected the rise in administrative expenses to £1,465,000 (2017: £1,082,000) – primarily due to increased investment in staff, salaries and the associated costs. The basic earnings per share were 2.36p (2017: 3.73p).

Outlook

We have seen a very encouraging start to the new financial year with a high level of activity. While technology development is an inherently uncertain process, we are optimistic our core portfolio will show another year of good progress and growth. We continue to develop further partnerships with industry.

We also expect to continue seeing strong, commercialisable IP arising from our formal partnership with the University of Plymouth, and our developing relationships in Cambridge and Portugal.

As we continue to build a solid platform for growth, we expect to see further strong progress in our maturing portfolio.

Andrew Richmond
Chairman

15 November 2018

FEATURED PORTFOLIO COMPANY

As at 30 June 2018
Frontier IP Group stake

10.0%

Cluster

Cell-based medicine and imaging

Source

University of Plymouth

Amprologix

Amprologix is a recent spin out from the Group's partnership with the University of Plymouth. The company has been established to introduce new antibiotics, helping to tackle antimicrobial resistance, a major threat to human health globally. It will develop and commercialise the work of Dr Mathew Upton, Professor in Medical Microbiology at the University's School of Biomedical Sciences.

No new classes of antibiotics have been introduced into clinical use for the past 30 years, and the company is aiming to meet a growing need for new antibiotics as harmful microbes become increasingly drug resistant.

Amprologix has already secured industry involvement through a partnership with world-leading industrial biotechnology and synthetic biology company Ingenza.

Strategy

Frontier IP's principal strategic objectives are to achieve revenue growth and create long-term value for its stakeholders.

Frontier IP's strategy is to pursue growth by:

> Generating value from its relationships through new spin outs, significant equity holdings, licensing income and realisations from existing spin outs

> Building a portfolio capable of commercial success

> Reviewing and extending its portfolio pipeline for sources of high-quality IP

> Using its expertise to assist portfolio companies to grow and achieve realisations

Business Model

Frontier IP's purpose is to unite science and commerce to generate sustainable, long-term value for our investors and other stakeholders. We aim to create a portfolio of strong businesses by finding, developing and commercialising intellectual property, mainly from universities, in partnership with industry.

We do this by establishing formal and informal relationships with universities and academics as sources of intellectual property and deal flow. We work closely with them to identify ideas with strong commercial potential and then build a business around them.

The company aims to earn material equity stakes in portfolio companies in return for providing a range of strategic and commercial services. These include identifying industry partners, support for fundraising and other services. We may commit Group capital in an efficient manner, at an early stage, to accelerate technological and business development.

There are several ways our model is different, but the most important is the emphasis we place on early industry involvement with the technology being developed. Industry validation is important for three main reasons:

1) We know the technology works. In some sectors, more than 70 per cent of research cannot be replicated by others, highlighting widely-acknowledged problems across science as a whole.

2) It shows the technology can be scaled up. Our industry partners need to know they can make products in large volumes to consistent standards before they will commit to doing so.

3) There is a market for the technology. It is impossible for us to develop a granular understanding of all the markets we could potentially reach through our portfolio companies. However, our industry partners do know, and ensure technology can be developed to meet real-world demands and needs.

Shareholders in our portfolio businesses are usually universities, academics, institutions, wealthy individuals and ourselves. Typically, no shareholder has a controlling stake, ensuring interests are aligned across all those involved in building the business.

The Group aims to be selective in its engagement with portfolio companies. Effort and resource on those companies where the Group holds a significant equity stake and where Frontier's expertise and access to capital can be applied to accelerate delivery and growth – the Group's current core portfolio. The make-up of this core portfolio will change over time as need and demand change.

Frontier IP's executive team works closely with its core portfolio companies helping them to build their business and deliver on milestones. The Group also generates additional revenue from its portfolio through board retainers and fees for bespoke business development, corporate and strategic advisory work, and fundraising.

Although the Group is not a fund manager or venture capitalist, it recognises the importance of access to sources of capital to finance early stage businesses as they develop. Frontier IP is building an extensive network of sources of capital ranging from institutions, industry investors through to private individuals. The Group's fundraising activity both enhances value in its portfolio and may also generate revenue for the Group.

FEATURED PORTFOLIO COMPANY

As at 30 June 2018
Frontier IP Group stake

27.5%

Cluster

Artificial Intelligence, big data and robotics

Source

University of Plymouth

Fieldwork Robotics

www.fieldworkrobotics.com

In April, we increased our stake in Fieldwork Robotics from 21 per cent to 27.5 per cent in return for providing engineering support to accelerate development of its agricultural robots. The move followed strong industry interest in its system to harvest soft fruit and vegetables.

Post-period end, Fieldwork announced a collaboration agreement, the company's first, with Hall Hunter Partnership, the UK's biggest raspberry grower to field-test a soft fruit harvesting system.

Chief Executive Officer's Statement

I am very pleased to report on a year of strong progress and underlying growth within the business.

Across our core portfolio, companies enjoyed significant commercial and technical progress, attracting active interest and engagement from industry.

Examples include Evotec's strategic investment in Exscientia and the commercial launch of water-testing kits based on Molendotech's intellectual property (IP) by Halma-subsidiary Palintest. More recently, Fieldwork Robotics entered into a collaboration agreement with a leading UK soft fruit farmer, Hall Hunter Partnership.

We continued to grow our portfolio, adding three spin outs during the year, and a further one after the period end. The latter was our first spin out in Portugal, a country alive with opportunity – it has a strong research and industrial base, and yet is under-served by IP commercialisation specialists.

Because of these developments, we are increasingly confident of delivering value to our shareholders through our distinctive approach to the business of turning the best ideas from universities into companies with exciting growth potential.

There is growing evidence our approach is gaining traction. Our formal relationship with the University of Plymouth continues to bear fruit with the addition of Amprologix to our core portfolio. We are also building strong links to departments and academics in the University of Cambridge, with two further spinouts based on IP developed at the university.

We are also seeing increased interest from industry: it wants to benefit from the strong research from academics in this country and elsewhere, but often struggles to find a way through the plethora of IP generated to find technology that works.

We are committed to building our business and have added offices in London to our bases in Cambridge and Edinburgh. We have increased the size and depth of our team, most recently post-period end with the appointment of Matthew White who leads the commercialisation team. Within the Group we continue to encourage innovation through our internship program.

For these reasons, we are excited by the prospects for next year and thank you for your continued support.

Neil Crabb,
Chief Executive Officer

15 November 2018

Key Performance Indicators

The Key Performance Indicators for the Group are:

KPI	Description	2018 Performance
Fair value of the portfolio	Movement in the value of equity in the portfolio	£9,041,000 (2017: £6,729,000)
Total revenue	Growth in the aggregate of revenue from services and change in fair value of the portfolio	£2,363,000 (2017: £2,309,000)
Profit	Profit before tax for the year	£902,000 (2017: £1,229,000)
Net assets per share	Value of the Group's assets less the value of its liabilities per share outstanding	33.2p (2017: 30.7p)
Total initial equity in new portfolio companies	Aggregate percentage equity earned from new portfolio companies during the year	67% (2017: 80%)

The Group achieved increases in three of its five Key Performance Indicators. Profit before tax is £327,000 below prior year due to greater administrative expenses. The increased investment in resources is not immediately reflected in the portfolio valuation during the current year. While total initial equity in new portfolio companies was less than achieved in 2017, since the year end there has been a significant pick up. The Chairman's Statement and Operational Review contain further information on progress in the business during the year.

The Group's services revenue for the year to 30 June 2018 increased to £299,000 (2017: £264,000) and, with administrative expenses of £1,465,000 (2017: £1,082,000), the Group continues to consume significant cash from operating activities. However, the Directors continue to pursue opportunities that will assist in reducing the gap.

Operational Review

Corporate

Frontier IP Group made significant progress over the year to further underpin the foundations of future growth and value creation. Following strong commercial progress, we opened an office in the City of London in April 2018 to be closer to investors and other stakeholders.

We also strengthened our team. Former Daily Express deputy City editor Andrew Johnson joined as director of communications and investor relations in March. Executive assistant Flavia Vessoni, a native Portuguese speaker, started in May to provide administrative support in London.

In Cambridge, we recruited Ignacio Requena to provide engineering and software development support to our portfolio companies. Ignacio is a graduate from the Group's internship programme and has a degree in computer science from the University of Granada, where he specialised in machine learning and computer vision.

Post-period end, we were delighted to appoint Matthew White as director of commercialisation. His immediate role before joining the Group was Head of Innovation for AB Sugar, one of the world's biggest sugar producers and a wholly-owned subsidiary of FTSE 100 multinational Associated British Foods. He has more than 23 years' experience in technology, product and service innovation, business development and marketing. He is based in our Cambridge office.

At the end of January, we held a very successful Capital Markets Day at the British Ambassadors' residence in Lisbon. More than 70 investors, academics and business people saw demonstrations of technology in action. We built on our strong relationship with the British Embassy in Portugal by announcing strategic partnership with the Department for International Trade in the country after the year end, followed by our first two spin outs.

Sources of IP

In line with our business model, our strategy is to seek to increase both the size of equity stakes we receive from our sources of IP and our portfolio pipeline for sources of high-quality IP. We continually review our partnerships, both formal and informal, for quality of deal flow and economic viability. This approach ensures that effort is focused where it is most effective and there is most potential value.

We continue to see a good flow of intellectual property with strong commercial potential from the University of Plymouth with the addition of Amprologix to our portfolio during the year.

Opening an office in Cambridge has allowed us to strengthen our relationships with the university's academics and departments, including the Group's first spin out from the world-leading Cambridge Graphene Centre, part of the University of Cambridge.

We're also developing very good relationships in Portugal. We announced the incorporation of NTPE and Des Solutio post-period end, a result of our formal relationship with the NOVA University Lisbon, NOVA School of Science and Technology. We continue to explore opportunities with the Universidade de Évora.

There is strong interest in Portugal in what we do from a number of Portuguese research-intensive institutions. Our strategic partnership with the UK Department for International Trade will help us continue to grow our business there.

Portfolio Review

Core portfolio

Frontier IP is focused on developing its core portfolio companies, which numbered 12 at the period end. Core portfolio companies must meet two out of three criteria:

> The Group holds at least 10 per cent of the company's equity

> Our shareholding is worth at least £500,000

> We see substantial opportunity for a favourable exit, either through trade sale or IPO.

The core portfolio enjoyed strong commercial progress during the year. We gained three new companies, two based on IP from the University of Cambridge and one from Plymouth University, completed two fundraisings and saw highly encouraging levels of interest from industry.

Since the period end, we were delighted to announce our first two spinouts in Portugal, NTPE and Des Solutio, both a result of our formal relationship with NOVA University Lisbon, NOVA School of Science and Technology.

We mutually agreed with Fylde Thermal Engineering Limited ("FTE") to end our joint venture in Cambridge Sensor Innovation Limited. FTE has acquired Frontier IP's shares in the company.

Portfolio Review (continued)

Alusid:
Frontier IP stake 39.2 per cent

Alusid took a significant step towards scaling up its patented technology that recycles ceramics and glass industrial waste into high-quality tiles and other surfaces, sold under the name SilicaStone. Post-period end, the University of Central Lancashire spin out completed a £1.34 million fundraising to support the design and planning of a new factory that will raise production capacity from 4,000m² a year to 30,000m² a month.

The move followed successful work with Italian ceramic-equipment maker Sacmi Group and a year when the company won both plaudits and orders. It won the distinguished Jonathan Hindle Prize for outstanding design in 2D materials awarded by The Furniture Makers' Company. SilicaStone buyers include Amazon, Four Seasons Hotels, Nando's and Wells Fargo bank, which is using the material in its prestigious new London HQ. The company has more than 100 projects in its pipeline.

Amprologix:
Frontier IP stake 10 per cent

Amprologix is a recent spin out from the Group's partnership with the University of Plymouth. The company has been established to introduce new antibiotics, helping to tackle antimicrobial resistance, a major threat to human health globally. It will develop and commercialise the work of Dr Mathew Upton, Professor in Medical Microbiology at the University's School of Biomedical Sciences.

No new classes of antibiotics have been introduced into clinical use for the past 30 years, and the company is aiming to meet a growing need for new antibiotics as harmful microbes become increasingly drug resistant.

The first product from the company is expected to be a cream containing epidermicin, one of the new antibiotics being developed to combat infections caused by antibiotic-resistant bacteria. Epidermicin can rapidly kill harmful bacteria including MRSA (methicillin resistant Staphylococcus aureus), Streptococcus and Enterococcus at very low doses, even if they are resistant to other antibiotics.

Amprologix has already secured industry involvement through a partnership with world-leading industrial biotechnology and synthetic biology company Ingenza.

Cambridge Raman Imaging:
Frontier IP stake 33.3 per cent

Cambridge Raman Imaging, the Group's first spin out from the world-leading Cambridge Graphene Centre, part of the University of Cambridge, has been created to develop and commercialise the work on ultra-fast lasers of professors Andrea Ferrari, head of the Cambridge Graphene Centre, and Giulio Cerullo of the Politecnico di Milano.

Cambridge Simulation Solutions:
Frontier IP stake 40 per cent

The company is developing advanced software to simulate and control complex, discontinuous processes, such as the way neural transmitters work in the brain. There is a huge range of potential industrial and medical applications for the University of Cambridge spin out to explore.

Exscientia:
Frontier IP stake 4.1 per cent

Exscientia, a spin out from the University of Dundee, now based in Oxford, is at the forefront of Artificial Intelligence drug discovery. It continued to go from strength to strength during the year. In July 2017, the company signed a strategic drug discovery collaboration agreement with GSK, a move followed by a €15 million investment from German pharmaceutical group Evotec AG in September. "Our investment in Exscientia represents Evotec's single biggest equity placement to date in what we feel is the world leading AI technology company," said chief executive Dr Werner Lanthaler at the time.

Fieldwork Robotics:
Frontier IP stake 27.5 per cent

In April, we increased our stake in Fieldwork Robotics from 21 per cent to 27.5 per cent in return for providing engineering support to accelerate development of its agricultural robots. The move followed strong industry interest in its system to harvest soft fruit and vegetables.

Post-period end, Fieldwork announced a collaboration agreement, the company's first, with Hall Hunter Partnership, the UK's biggest raspberry grower to field-test a soft fruit harvesting system.

Molendotech:
Frontier IP stake 17 per cent

Molendotech shows that university intellectual property commercialisation need not take years. The company, incorporated in June 2017, has developed patented methods to test for faecal matter in water. In January 2018, the company announced a collaboration agreement with Palintest, a subsidiary of FTSE 100 life protection and hazard protection group Halma plc to develop and licence water testing products.

The company raised £500,000 in February to support further development. In May, Palintest launched the first commercial kits to test for faecal matter in bathing water based on Molendotech's IP. The response from customers has been highly encouraging. After the year end, the company announced a collaboration agreement with fresh produce grower and supplier G's Group to develop tests for bacteria in irrigation and washing water, produce and in food contact areas.

Nandi Proteins:
Frontier IP stake 20.7 per cent

The spin out from Heriot Watt, Edinburgh, completed a £1 million fundraising from new and existing investors in July 2017 to further commercialise and scale up its patented protein technology designed to reduce sugar, fat and additive content in processed food.

Progress since then has been solid. Nandi has been working with Devro plc, a world-leading supplier of collagen casings for food, to create ingredients for lower-fat sausages and processed meats. Nandi has started to explore potential scale up in this market.

The company is also working closely with a major multinational food group to develop cakes and icing lower in fat, sugar and additives. Results to date have been highly encouraging.

Nandi is also in discussions with two other major companies about rice protein-based sports nutrition drinks. There are also potential applications in chocolate confectionery and Nandi plans to raise additional funding in the near future.

PoreXpert:
Frontier IP stake 15 per cent

PoreXpert's software and consultancy services provide highly accurate information about the void spaces in porous materials and how gases and liquids behave within them. Customers include a major player in the nuclear industry, but there are applications in the oil and gas sector too.

Pulsiv Solar:
Frontier IP stake 18.9 per cent

Pulsiv Solar gained two patents in the United States and one in Europe to protect its novel technology which improves the energy efficiency of photovoltaic cells and power converters used in laptops, mobile phones, televisions and many other devices.

Post-period end, Pulsiv Solar won a £130,000 Innovate UK grant towards a £290,000 project to complete the technological development of its solar technology. The aim is to have a solar micro-inverter ready for scale up and commercialisation providing energy efficiency improvements of at least 5 per cent over current market leaders. The technology and early results have attracted strong interest from major industrial and consumer groups.

Tarsis Technology:
Frontier IP stake 18 per cent

A spin out from the University of Cambridge, Tarsis Technology entered into a collaboration agreement with a world-leading manufacturer of crop-protection products after the year end. The collaboration will research the use of the company's patent-pending technology to deliver chemical pesticides and fungicides in a more precise and controlled way using particles called metal-organic frameworks.

We have agreed to lend Tarsis up to £150,000 to meet working capital requirements in return for equity options – an example of our efficient capital model in action.

Portfolio Review (continued)

The Vaccine Group:
Frontier IP stake 19.2 per cent

In August 2017, we announced the incorporation of The Vaccine Group, a spin out from the University of Plymouth. The company is developing a novel vaccine technology designed to prevent the spread of dangerous diseases, such as Ebola, Sars, Marburg viruses, swine and bird flu, and Lassa fever, from animals to humans. Initial work is focused on herpesvirus-based platforms for use in animals.

After the year end, the company announced it had received a grant from the global Bacterial Vaccinology Network, BactiVac, to run a proof-of-concept study on vaccines to combat E.coli, one of three main bacteria causing bovine mastitis.

Post-period end:
new portfolio companies

We announced two new core portfolio companies after the year end.

NTPE LDA:
Frontier IP stake 31.6 per cent

NTPE is our first spin out in Portugal. The company is developing novel technology called Paper-E to print electronic circuits, sensors and semiconductors onto any cellulose-based paper and is a result of the Group's formal relationship with the NOVA University Lisbon, NOVA School of Science and Technology (FCT NOVA).

Paper-E replaces the silicon used in electronics with eco-friendly metal oxides and cellulose. Applications include paper-based diagnostic kits, smart packaging, logistics and many others.

The company is developing and commercialising the work of a team of more than 65 researchers led by Professors Elvira Fortunato and Rodrigo Martins of FCT Nova.

Des Solutio LDA:
Frontier IP stake 25 per cent

Des Solutio develops safer and greener alternatives to the chemicals currently used in the personal care, pharmaceutical, personal care and food industries. It was established to develop and commercialise the research of Associate Professor Ana Rita Duarte and Dr Alexandre Pavia of Portugal's NOVA University Lisbon, NOVA School of Sience and Technology.

Portfolio Summary at 30th June 2018

Portfolio Company	% Issued Share Capital	About	Source
Alusid Limited	39.2%	Recycled materials	University of Central Lancashire
Amprologix Limited	10.0%	Novel antibiotics to tackle antimicrobial resistance	Universities of Plymouth and Manchester
Cambridge Raman Imaging Limited	33.3%	Ultra-fast lasers	University of Cambridge
Cambridge Simulation Solutions Limited	40.0%	Method to simulate and control complex chemical processes	University of Cambridge
Cambridge Material Testing Solutions Limited	24.0%	Mechanics and deformation of materials	University of Cambridge
Celerum Limited	10.0%	Planning and scheduling software, targeting the offshore oil and gas industry	Robert Gordon University
Exscientia Limited	4.1%	Novel informatics and experimental methods for drug discovery	University of Dundee
Fieldwork Robotics Limited	27.5%	Robotics technology for applications requiring fine motor skills	University of Plymouth
Glycobiochem Limited	5.0%	Molecular and chemical tool software in the treatment of human disease	University of Dundee
Kinetic Discovery Limited	5.0%	Biosensor-based drug discovery screening	University of Dundee
Molendotech Limited	17.0%	Screening water for faecal contamination	University of Plymouth
Nandi Proteins Limited	20.7%	Food protein technology	Heriot-Watt University, Edinburgh
PoreXpert Limited	15.0%	Analysis and modelling of porous materials	University of Plymouth
PulsiV Solar Limited	18.9%	Improved PV solar panel efficiency	University of Plymouth
Rapid Quality Systems Limited	5.0%	Software development support application	University of Dundee
Tarsis Technology Limited	18.0%	Controlled drug delivery using metal-organic frameworks	University of Cambridge
The Vaccine Group Limited	19.2%	Herpesvirus-based vaccines for the control of disease	University of Plymouth

Limited Partnership Funds

RGU Ventures Investment Fund LP ("RGU Fund")

In accordance with Frontier IP's accounting policies, the Group's 27.3% investment in the RGU Fund is included in the financial statements at fair value. At 30 June 2018, the carrying value was £19,000 (2017: £22,000), which is £147,000 below cost (2017: £144,000 below cost).

The RGU Fund has one investment in Hatton House Distribution Limited (formerly Counterweight Limited), holding 8.5% of the ordinary shares, and granted a convertible loan of £80,000 to Celerum Limited.

The term of the RGU Fund continues until the expiration of ten years from the First Closing Date, being 27 July 2019.

Financial Review

Key Highlights

The value of the Group's investments increased to £9,060,000 (2017: £6,751,000) with net assets increasing to £12,717,000 (2017: £11,759,000).

Profit after tax for the Group for the year to 30 June 2018 was £902,000 (2017: £1,229,000). This result includes a net unrealised profit on the revaluation of investments of £2,064,000 (2017: £2,045,000) and reflects an increase in services revenue to £299,000 (2017: £264,000) and greater administrative expenses of £1,465,000 (2017: £1,082,000) as the Group invested in people and premises. The additional administrative expenses was not offset by growth in unrealised profit on revaluation of investments.

Revenue

Total revenue for the year to 30 June 2018 increased 2% to £2,363,000 (2017: £2,309,000). Revenue from services increased 13% to £299,000 (2017: £264,000). The Group's net unrealised profit on the revaluation of investments increased 1% to £2,064,000 (2017: £2,045,000). Unrealised gains on revaluation of investments of £2,396,000 (2017: £2,069,000) were offset by impairments of £332,000 (2017: £24,000). £1,006,000 of the gain relates to Exscientia Limited and £691,000 to Alusid Limited.

Administrative Expenses

Administrative expenses increased by 35% to £1,465,000 (2017: £1,082,000). The increase is primarily due to increased staff, salaries and associated costs.

Earnings Per Share

Basic earnings per share was 2.36p (2017: 3.73p). Diluted earnings per share was 2.25p (2017: 3.63p)

Statement of Financial Position

The principal items in the statement of financial position at 30 June 2018 are goodwill £1,966,000 (2017: £1,966,000) and financial assets at fair value through profit and loss, principally holdings in portfolio companies, £9,060,000 (2017: £6,751,000). The carrying value of these items is determined by the Directors using their judgement when applying the Group's accounting policies. The considerations taken into account by the Directors when reviewing the carrying value of goodwill are detailed in Note 9. The matters taken into account when assessing the fair value of the portfolio companies are detailed in the accounting policy on investments.

The Group had net current assets at 30 June 2018 of £1,523,000 (2017: £2,716,000). The current assets at 30 June 2018 include trade receivables of £224,000 which are more than 90 days overdue, of which £34,000 is due from Nandi and £28,000 is due from Alusid. The non-current trade receivables of £161,000 comprise £71,000 due from Nandi and £90,000 due from Alusid. Other debtors include an unsecured interest free loan to Alusid of £378,000. After the year end, Alusid completed a fundraising at which the Group converted £338,000 of the loan into shares in Alusid and Alusid paid all overdue trade receivables. The directors are confident that Nandi will be able to raise sufficient funds to finance its business plan and commence payment of the debt.

Net assets of the Group increased to £12,717,000 at 30 June 2018 (30 June 2017: £11,759,000) resulting in net assets per share of 33.2p (2017: 30.7p).

Cash

The Group's cash balances decreased during the year by £1,218,000 to £1,111,000 at 30 June 2018. Operating activities consumed £970,000 (2017: £1,216,000) and financial assets at fair value were purchased at £245,000 (2017: £33,000).

Financial Review (continued)

Key Risks and Challenges affecting the Group

The specific financial risks of price risk, interest rate risk, credit risk and liquidity risk are discussed in the notes to the financial statements. The key broader risks – financial, operational, cash flow and personnel – are considered below.

The principal financial risks of the business are a fall in the value of the Group's portfolio, the impairment of the value of goodwill and recovery of the overdue debt from portfolio companies Nandi and Alusid. With regards to the value of the portfolio itself, the fair value of each portfolio company represents the best estimate at a point in time and may be impaired if the business does not perform as well as expected, directly impacting the Group's value and profitability. This risk is mitigated as the size of the portfolio increases. The value of goodwill is linked to the progress of the existing portfolio and to continued identification and acquisition of equity stakes in new portfolio companies.

After the year end, Alusid completed a fundraising. The Group converted most of its loan into Alusid shares, and Alusid repaid overdue trade receivables. The directors are confident that Nandi will be able to raise sufficient funds to finance its business plan and commence payment of the debt.

The principal operational risk of the business is management's ability to continue to identify spin out companies from its formal and informal university relationships, to increase the revenue streams that will generate cash in the short term, and achieve realisations from the portfolio.

Early-stage spin out companies are particularly sensitive to downturns in the economic environment. Any downturn would mean considerable uncertainty in the capital markets, resulting in a lower level of funding activity for such companies and a less favourable exit environment. The impact of this may be to constrain the growth and value of the Group's portfolio and to reduce the potential for revenue from funding advisory work. The Group seeks to mitigate these risks by maintaining relationships with co-investors, industry partners and financial institutions.

A reduction in public funding to the Higher Education sector may result in reduced research funding, universities changing their approach to research, which generates intellectual property, commercialisation or consolidation among Higher Education Institutions. Any uncertainty in the sector may have an impact on the operation of the Group's commercialisation partnerships in terms of lower levels of intellectual property generation and therefore commercialisation activity. The Group seeks to mitigate these risks by continuing to seek new sources of IP from a wide range of institutions both within and outside of the UK.

Brexit presents additional risks for the business: the unknown impact on funding for research and development in both the higher education sector as discussed above and for our portfolio companies; the uncertain economic conditions impacting the ability of our portfolio companies to grow and the specific risks to certain portfolio companies of potential tariffs, shipping delays and large foreign currency fluctuations. The general uncertainty surrounding Brexit makes it difficult to take any mitigating steps currently, but the Group will work closely with core portfolio companies to mitigate the impact of trading issues arising from Brexit when these are known.

Until the Group generates cash through an investment realisation it will rely on raising additional capital to fund the Group's operations. The uncertainty centres on the ability of management to increase its cash generating service revenue streams to reduce the Group's reliance on raising money from capital markets. In order to manage this risk, the Group continues to pursue its aim of growing service revenue to reduce the requirement for additional capital before taking account of any investment realisations.

The Group is dependent on its executive team for its success and there can be no assurance that it will be able to retain the services of these key personnel. Incentives for senior staff include share options and the Executive Directors hold direct interests in shares in the Company.

By order of the Board

Neil Crabb
Director
15 November 2018

FEATURED PORTFOLIO COMPANY

As at 30 June 2018
Frontier IP Group stake

39.2%

Cluster

Engineered particles and materials

Source

University of Central Lancashire

Alusid Limited

www.alusid.co.uk

Alusid took a significant step towards scaling up its patented technology that recycles ceramics and glass industrial waste into high-quality tiles and other surfaces, sold under the name SilicaStone. Post-period end, the University of Central Lancashire spin out completed a £1.34 million fundraising to support the design and planning of a new factory that will raise production capacity from 4,000m² a year to 30,000m² a month.

The move followed successful work with Italian ceramic-equipment maker Sacmi Group and a year when the company won both plaudits and orders. It won the distinguished Jonathan Hindle Prize for outstanding design in 2D materials awarded by The Furniture Makers' Company. SilicaStone buyers include Amazon, Four Seasons Hotels, Nando's and Wells Fargo bank, which is using the material in its prestigious new London HQ. The company has more than 100 projects in its pipeline.

Board of Directors

Our Board of Directors is responsible for setting the vision and performance objectives for the Group to deliver value to our shareholders through implementing our strategy and business model. The Board members are collectively responsible for defining corporate governance arrangements to achieve this purpose, under the leadership of the chair.

K Andrew Richmond
Non-executive Chairman
and Independent Director (Age 52)

Appointment Date:
December 2011

Experience:
Andrew Richmond has substantial experience of the healthcare, stockbroking and private equity industries. He is Chairman of Hub North Scotland and a Non-Executive Director of Scotland's Charity Air Ambulance.

Skills:
Finance, knowledge of the university sector at senior level and investment and broking expertise.

Role:
Andrew's appointment requires at least 12 full days per annum in his role as Non-executive Chairman. Additional duties include membership of the audit and remuneration committees, regular meetings with the Chief Executive Officer, Finance Director and Chief Operating Officer and assisting in relationships with the Group's Nomad and Stockbroker.

Committees:
Chairman of the Audit Committee and member of the Remuneration Committee.

Scheduled Board Meetings attended:
6 out of 6

Neil Crabb
Chief Executive Officer
(Age 50)

Appointment Date:
May 2009

Experience:
Neil has considerable investment management experience, particularly in technology and smaller companies. He co-founded Sigma Capital Group plc.

Skills:
Innovation, strategy, finance, knowledge of the university sector at senior level and investment and broking expertise.

Role:
In his full-time role as CEO Neil is responsible for setting the Group's strategy and vision; setting its culture, values and behavior; and building and leading the executive team.

Scheduled Board Meetings attended:
6 out of 6

Jacqueline McKay
Chief Operating Officer
(Age 58)

Appointment Date:
September 2010

Experience:
Jackie has substantial experience in private equity and of the university IP sector, including structuring and executing university partnership agreements and venture funds. Her previous experience includes Sigma Capital Group plc and Bank of Scotland.

Skills:
Sector knowledge and organisational skills.

Role:
Jackie performs her role at least 4 days per week, which combines helping set strategy as part of the executive director team and setting and overseeing an operations framework to ensure delivery to stakeholders in line with the Group's values and overall strategy.

Scheduled Board Meetings attended:
6 out of 6

James Fish
Finance Director and Company Secretary
(Age 60)

Appointment Date:
March 2014

Experience:
Jim is a chartered accountant with over 25 years' experience in senior financial positions and a wide range of commercial experience including venture capital funded small/medium-sized enterprises and start-up companies.

Skills:
Qualified CA and company growth expertise.

Role:
Jim's full-time role combines helping set strategy as part of the executive director team; planning, implementing, managing and controlling all financial-related activities and acting as outsourced finance director for selected portfolio companies.

Scheduled Board Meetings attended:
6 out of 6

Board of Directors (continued)

David Cairns
Portfolio Director
(Age 54)

Appointment Date:
September 2010

Experience:
David has experience of bringing technology to market.

Skills:
Company growth and technology commercialisation. He previously worked for Optos plc, the retinal imaging company, where he was instrumental in building the business from start-up, serving on the Board until its flotation.

Role:
David performs his role at least 3 days per week, providing technology commercialisation support and guidance to the Group's portfolio companies.

Scheduled Board Meetings attended:
5 out of 6

Michael Bourne
Non-executive director
and Independent Director (Age 59)

Appointment Date:
March 2014

Experience:
Mike has a background in investment management and expertise in technology, life sciences and clean technology. He is currently Partner of Accretion Capital LLP and a Director of Cloudfind Limited. He is also an Advisory Board Member of V2R, the US technology transfer venture company.

Skills:
Investment Management and venture.

Role:
Mike's appointment requires at least 12 full days a year in his role as Non-executive director. Additional duties include membership of the remuneration and audit committees.

Committees:
Chairman of the Remuneration Committee and member of the Audit Committee.

Scheduled Board Meetings attended:
6 out of 6

Dr. Campbell Wilson
Non-executive director
(Age 63)

Appointment Date:
May 2014

Experience:
Campbell has a background in the pharmaceutical sector. He is a member and former Chair of the UK Pharmaceutical Licensing Group. In his role at AstraZeneca he was latterly Executive Business Development Director within the company's central Business Development function. He led strategic collaboration and licensing activities at the unit, driving multiple technology and oncology therapy area collaborations and product licensing deals, including high profile and innovative agreements.

Role:
Campbell's appointment requires at least 12 full days a year in his role as Non-executive director. He is a member of the remuneration and audit committees. Additional duties include advising on the Group's life sciences portfolio.

Committees:
Member of the Remuneration Committee and the Audit Committee.

Scheduled Board Meetings attended:
6 out of 6

Committees of the Board

Remuneration Committee Report

The goal of our remuneration policy is to incentivise and reward appropriately in order to attract and retain the best people in support of the Group's strategy.

This is achieved through our Remuneration Committee whose main role and responsibilities are to:

> determine and agree with the Board the remuneration of the Group's Chief Executive, Executive Directors and senior members of the executive team;

> review the on-going appropriateness and relevance of the remuneration policy;

> approve any performance related pay schemes and approve the total annual payments made under such schemes; and

> review share incentive plans and determine each year whether awards will be made, and if so, the overall amount of such awards, the individual awards to Executive Directors and other senior executives and the performance targets to be used.

Full details of terms of reference for the Remuneration Committee are available on our website.

Our remuneration framework includes: annual salary and associated benefits such as paid holiday, medical and life insurance; employer's contributions to a defined contribution pension scheme and participation in the Group's Employee Share Option Scheme.

The Remuneration Committee met formally once during the year, with all committee members in attendance.

During the year, as a result of a review of incentive and reward schemes, certain key changes were made to the Share Option Scheme:

> the limit on the number of shares that may be subject to options in any ten year period was increased to a maximum of 15% of share capital;

> options may be granted at nominal cost;

> new malus provisions were included.

The Remuneration Committee consulted with its largest shareholders prior to finalising the proposed amendments to the scheme. The Remuneration Committee is grateful for the significant degree of engagement with the Company shown by those shareholders consulted throughout the consultation process, and for their comments and feedback. Approval for the amended scheme was sought from and granted by shareholders at our 2017 AGM.

The Committee remains focused on delivering shareholder value, through the reward and incentivisation of its team and to attract the resources we need to grow and meet demand.

Directors' remuneration

An analysis of remuneration by director is given in Note 5 of these financial statements.

Contracts of service

Neil Crabb's, Jacqueline McKay's, David Cairns' and James Fish's service agreements are subject to a three-month notice period.

Share options

The Company has two share option schemes, the Frontier IP Group plc Employee Share Option Scheme 2011 which is an Enterprise Management Incentive (EMI) share option scheme, and the Frontier IP Group plc Unapproved Share Option Scheme 2011. No unapproved options have been granted in the year and none are held at 30 June 2018. No EMI share options were granted in the year.

Details of EMI share options held by Directors who were in office at 30 June 2018 are set out below:

Director	Grant date	Number of options	Exercise price			Exercise date	Expiry date
Neil Crabb	15.01.2013	456,825	15.00p	15.01.2016	-	14.01.2023	14.01.2023
Neil Crabb	01.04.2014	128,175	26.88p	01.04.2017	-	31.03.2024	31.03.2024
Neil Crabb	07.04.2016	350,000	26.63p	07.04.2019	-	06.04.2026	06.04.2026
Neil Crabb	11.05.2017	124,000	40.00p	11.05.2020	-	10.05.2027	10.05.2027
Jacqueline McKay	15.01.2013	195,782	15.00p	15.01.2016	-	14.01.2023	14.01.2023
Jacqueline McKay	01.04.2014	54,218	26.88p	01.04.2017	-	31.03.2024	31.03.2024
Jacqueline McKay	07.04.2016	150,000	26.63p	07.04.2019	-	06.04.2026	06.04.2026
Jacqueline McKay	11.05.2017	95,000	40.00p	11.05.2020	-	10.05.2027	10.05.2027
David Cairns	15.01.2013	195,782	15.00p	15.01.2016	-	14.01.2023	14.01.2023
David Cairns	01.04.2014	54,218	26.88p	01.04.2017	-	31.03.2024	31.03.2024
David Cairns	07.04.2016	75,000	26.63p	07.04.2019	-	06.04.2026	06.04.2026
David Cairns	11.05.2017	40,000	40.00p	11.05.2020	-	10.05.2027	10.05.2027
James Fish	01.04.2014	250,000	26.88p	01.04.2017	-	31.03.2024	31.03.2024
James Fish	07.04.2016	150,000	26.63p	07.04.2019	-	06.04.2026	06.04.2026
James Fish	11.05.2017	95,000	40.00p	11.05.2020	-	10.05.2027	10.05.2027

The market price of the Company's shares at 30 June 2018 was 76.00p. The range of prices during the year was 41.50p to 94.00p.

Directors' interests in shares

The Directors in office at 30 June 2018 had the following interests in the ordinary shares of 10p each in the Company at the year end.

	2018 Number	2017 Number
Neil Crabb	**2,834,168**	2,834,168
David Cairns	**840,238**	840,238
Jacqueline McKay	**12,855**	12,855
Andrew Richmond	**1,000,000**	1,000,000
Michael Bourne	**270,238**	270,238
James Fish	**100,000**	100,000

All of the above interests are beneficial.

Michael Bourne
Chairman of the
Remuneration Committee

15 November 2018

Audit Committee Report

Key Responsibilities

The Committee's terms of reference are available on the Group's website. The Committee is required, amongst other things, to:

> monitor the integrity of the financial statements of the Group, reviewing significant financial reporting issues and the judgements they contain;

> review and challenge where necessary the accounting policies used, the application of accounting standards and the clarity of disclosure in the financial statements;

> keep under review the effectiveness of the Group's internal controls and risk management systems;

> oversee the relationship with the external auditor, reviewing their performance and advising the Board on their appointment and remuneration.

Committee Governance

The Committee comprises the three non-executive directors and was chaired during the year by Andrew Richmond. It meets a minimum of two times per year with the external auditors present. In addition, executive directors are asked to attend.

Activities of the Audit Committee during the year

The Committee met on two occasions during the year under review and up to the date of this Annual Report with all members present and the external auditors in attendance. The main areas covered by the Committee are outlined below:

Internal controls and risk management

The Board has overall responsibility for internal controls and risk management. As the Board's three non-executive directors were also the Committee members during the year, the Group's risk analysis and controls policy was reviewed and updated by the Board. Further details of business risks identified can be found on pages 32 to 33. The risk management process is continually being developed and improved.

Significant estimates and judgements

The focus at the Committee meetings was on the significant estimates, assumptions and judgements used in the financial statements in arriving at the value of investments, reviewing goodwill for impairment and assessing the recoverability of amounts owed to the Group by portfolio companies. The Committee was satisfied that such estimates, assumptions and judgements used were reasonable and appropriate. Details of critical accounting estimates and assumptions and of critical accounting judgements can be found on page 54.

External audit

The external auditor reports to the Committee on actions taken to comply with professional and regulatory requirements and is required to rotate the lead audit partner every five years. Moore Stephens LLP were first appointed as external auditor in FY15 following their merger with Chantrey Vellacott DFK LLP who were first appointed in FY08 and Timothy West was appointed lead partner in FY17. The Board has confirmed it is satisfied with the independence, objectivity and effectiveness of Moore Stephens LLP and has recommended to the Board that the auditors be reappointed, and there will be a resolution to this effect at the forthcoming Annual General Meeting. In addition to their statutory duties, Moore Stephens LLP are also engaged to provide non-audit services where it is felt their knowledge of the business best places them to provide those services, such as tax advice and review of the interim results.

Andrew Richmond
Chairman of the Audit Committee

15 November 2018

Corporate Governance

Corporate Governance

We have adopted the QCA Code introduced in 2018, which outlines 10 principles we must adhere to and requires us to make additional disclosures on our website and in this annual report. Our Corporate Governance Statement of Compliance with the QCA Corporate Governance Code is available on our website.

Delivering Growth

Strategy and Business Model

The nature of our business, supporting university spin-outs and start-up businesses over several years is geared towards generating long-term value. Our strategy and business model is set out in Strategy and Business Model sections.

Communicating with our Shareholders

The Group communicates with shareholders and the market through the annual report and accounts, full-year and half-year announcements, the annual general meeting and one-to-one meetings with existing and potential institutional investors. We communicate openly, clearly and directly to ensure our strategy, business model and performance are clearly understood.

Shareholder feedback, support and agreement with our strategic objectives are critically important to developing our business, so we actively solicit their views. The Board is kept informed of the views and concerns of major shareholders.

We maintain regular contact and dialogue through the annual general meeting, roadshows, correspondence and digital channels, including our website www.frontierip.co.uk, social media and email. Earlier this year, we held our first Capital Markets Day in Portugal where investors were among more than 70 guests.

Information about the company is also disclosed in a timely manner through the RNS and RNS Reach services of the London Stock Exchange and our website. Our brokers are also in regular contact with institutional investors. Our Notice of AGM is sent to all shareholders with our published accounts.

To improve investor communications further, we appointed Andrew Johnson as director of communications and investor relations in March this year. His contact details are: andrew.johnson@frontierip.co.uk or on 07464 546 025. This information is clearly displayed in Company announcements and on the website.

Our Stakeholders

We are committed to meeting the needs of all our stakeholders. Aside from shareholders, stakeholders are key to our success and include employees, portfolio companies, universities, industry partners, suppliers and regulators. We maintain a regular dialogue with all our partners through a range of communication channels and actively solicit feedback. Engagement strengthens relationships and leads to better business decisions.

Frontier IP employs 13 people across offices in Cambridge, Edinburgh and London. They are actively encouraged to provide feedback and express their needs, interests and expectations through frequent formal and informal conversations.

We believe in treating our people well and keeping their interests aligned with the business through share options awards. Interns are engaged through the European Student Placement Agency (ESPA). We pay ESPA to cover the interns' cost of accommodation and travel to work. The intern receives a grant for living expenses.

Currently, we operate a flat structure, so issues tend to be raised and dealt with by an executive director, usually the Chief Executive Officer. We believe this is appropriate for a company of our size. However, because the company is growing we are now actively looking to put in place further formal processes. We expect to provide an update in our next annual report.

Universities supply us with intellectual property. They are critical to our success. We work with them through informal and formal relationships and maintain constant contact with them, our portfolio businesses, the academics and industry partners involved. When negotiating with our partners, from industry as well as universities, we strive to strike agreements where benefits are shared fairly among all.

Corporate Governance (continued)

We aim to pay suppliers promptly and regularly review contracts with service providers, such as IT and our lawyers, to ensure a good service. Our contact with regulators is mediated and guided by our Nominated Adviser and other professional advisers.

Many of our portfolio companies have demonstrable social as well as potential economic, commercial and shareholder value. They include:

> Pulsiv Solar: developing micro-inverters to make photovoltaic solar cells and power converters much more energy efficient

> The Vaccine Group: novel vaccine technology to create more effective vaccines to treat a wide range of animal ailments and reduce the risk of a catastrophic pandemic resulting from a disease which has jumped from animals to humans

> Nandi Proteins: striving to tackle the obesity crisis through technology reducing the amount of sugar, fat and additives in processed food

> Alusid: recycling industrial waste ceramics and glass otherwise destined for landfill to create high-quality tiles, tabletops and other surfaces

> Tarsis Technology: working with a world-leading crop protection company on novel ways to deliver pesticides and fungicides in a more precise and controlled way, reducing environmental run off

> Molendotech: tests for faecal matter in water already commercially available to allow the speedier assessment of bathing water – potential applications also include tests for drinking water

> Fieldwork Robotics: its unique robot technology could support Britain's farmers struggling to recruit seasonal labour to pick soft fruit and vegetables

When assessing intellectual property for potential spin outs, we are very aware of potential environmental, social and reputational risks and seek to mitigate them.

Effective Risk Management

The Group has an established framework of risk analysis and controls for which the Board is ultimately responsible and which it regularly reviews. There is also a clearly-defined set of key performance indicators which the Board uses to monitor the Group's progress towards meeting its strategic aims and objectives.

The Board is responsible for reviewing and approving the Group's strategy, objectives and business plans. It is also responsible for ensuring any necessary corrective action is taken should performance materially vary from plans and forecasts.

Financial controls:

> As the Group is a small business with few personnel and limited opportunity for segregation of duties, Board oversight provides the main overriding control

> The Board receives and reviews detailed reports on financial performance and position against budget and forecast, use of cash, cash forecasts and detailed analysis of portfolio movements. Any material capital or unbudgeted overhead expenditure must be approved by the Board

> The Board approves treasury and dividend policies and significant changes in accounting policies

> The Annual Report and Financial Statements, the half-yearly report, interim management statements and any other reporting required by the AIM Rules is approved by the Board

> The Audit Committee supports the board in discharging its financial control duties

Non-financial controls:

Maintaining sound controls and discipline is critical to managing the risks of the business. Although we believe our capital-efficient business model mitigates many of the risks associated with start-up and early-stage companies, they are by their nature inherently riskier than more established businesses.

We believe the internal controls we have in place are appropriate for our size, complexity and risk profile. They include:

> Close management of the everyday activities of the Group by the Executive Directors

> Established processes in place, overseen by the Chief Executive Officer, to rigorously assess university intellectual property and its commercial potential

> Executive Directors approving entry into strategic partnerships and collaborations with universities, other research institutions, and industry, and other material contracts

> Board review and approval of the Group's risk appetite, the effectiveness of its risk and control processes, and procedures for preventing fraud and bribery in line with the Group's policies

> Board review and approval of the Group's clearly-defined key performance indicators to ensure adherence to strategic aims and objectives

The Group is supported by its Nominated Adviser and other professional advisors to ensure compliance with all relevant regulations and laws in the countries in which it operates.

Key risk areas are regularly reviewed and reported on in the annual report and further consideration of risk areas are set out in the Risk Management section of in the Group's Annual Report and Accounts on page 53.

Maintaining a Dynamic Management Framework

Our Board

The Group Board comprises the Non-Executive Chairman, two Non-Executive Directors and four Executive Directors – an appropriate balance for the Group's size and complexity. The Board considers, after careful review, that the Chairman and one Non-Executive Director are independent. They have served for fewer than nine years, are considered to be independent in character and judgement and receive no additional remuneration from the Group apart from a director's fee.

The Board is satisfied it has the right balance of independence, knowledge and expertise to fulfil its duties and responsibilities effectively.

Six Board meetings are scheduled each year and a number of ad-hoc Boards to approve specific issues such as the interim and annual accounts are held. Each Directors' attendance record at scheduled Board meetings will be disclosed in the annual report and accounts for the Company.

All Directors are encouraged to use their judgement and challenge all matters. In addition to regular communication with the Chief Executive Officer, the Chairman meets frequently with the Finance Director and Chief Operating Officer to ensure they are performing as required.

Board activities typically include:

> Discussing and reviewing the Group's business model, strategy, objectives and key performance indicators

> Reviewing the Group's portfolio companies and their performance, including plans, partnerships and forecasts

> Continuing to communicate regularly with existing and potential investors in the Group and its portfolio businesses

> Reviewing financial and non-financial policies, controls and stock market statements

> Attending the Group's Capital Markets Day

> Discussing the Group's capital structure and financial structure, including loans and investments

> Approving the recommendations of the Audit, Remuneration and Nominations committees

Corporate Governance (continued)

> Approval and monitoring of the Group's annual budget and approving extraordinary capital expenditure

> Governance

> Directors' interests, share dealings and related party matters

Details of matters reserved for the board are available on our website:

http://www.frontierip.co.uk/investors/corporate-governance/board-and-committees

Conflicts of interest:

The Group has systems in place to monitor and deal with conflicts of interests. Considering and, where appropriate, approving Directors' conflicts of interest (in relation to the public company and its subsidiaries) is a matter reserved for the Board. Each Director has a statutory duty under the Companies Act 2006 to avoid a situation in which he or she has, or can have, a direct or indirect interest that conflicts or may potentially conflict with the interests of the Group. This duty is in addition to the continuing duty that a director owes to the Group to disclose to the Board any transaction or arrangement under consideration by the Company in which he or she is interested.

The Board is aware of the other commitments and interests of its directors and any material changes are reported to and where appropriate agreed with the rest of the Board.

Our Directors

The Board considers it has an effective and appropriate balance of skills and experience, including in the areas of fund management, private equity, university spinouts and small-to-medium-sized businesses, science, innovation and technology. All Directors receive regular and timely information on the operational and financial performance of the Group and its portfolio companies. Information is circulated to the Board before meetings.

During the year, in line with the Group's aim to maintain an effective reward system, the Board sought external advice in relation to revising the Group's Employee Share Option Scheme, which was subsequently approved at the Group's annual general meeting.

The Board decides the appointment and removal of Directors and there is a rigorous and transparent process in place. The Group's Articles of Association demand that one-third of the Board must stand for re-election by shareholders annually in rotation and that all Directors must stand for re-election at least once every three years. Any new Directors appointed during the year must stand for election at the annual general meeting immediately following their appointment.

We are an equal opportunities Company and ensure we recruit, develop, promote, support and retain skilled and motivated people regardless of disability, race, religion or belief, sex, sexual orientation, gender identification, marital status or age. The Board acknowledges that certain groups are currently under-represented, and we remain vigilant in ensuring equal opportunities for current and potential members of our team.

All Directors can take independent professional advice to further their duties and are encouraged to engage in activities which further their professional development. Directors can also access the advice and services of the Group's Company Secretary and Finance Director.

Board Performance

Board performance is closely linked to the performance of the Group. There are clearly defined and relevant key performance indicators, aligned with long-term value creation, which are:

> Fair value of the portfolio: movement in the equity value in the portfolio

> Total revenue: growth in the aggregate of revenue from services and change in the fair value of the portfolio

> Profit: profit before tax for the year

> Net assets per share: value of the group's assets less the value of its liabilities per share outstanding Total initial equity in new portfolio companies: aggregate percentage equity earned from new portfolio companies during the year

How we performed in terms of these metrics is set out on page 13.

In addition, the performance of our committees and individual Directors is reviewed and assessed on an ongoing basis by the Chairman and Chief Executive Officer.

We believe these measures are appropriate for a Company of our size and complexity. However, as the business grows, we will continue to the adapt the process to ensure it is appropriate for the organisation and Board structure.

Our Culture

Frontier IP is a small company with a very flat structure. The Board is expected to set an example and act in the best interests of the Group and its stakeholders – shareholders, employees, universities, industry partners, suppliers and our portfolio companies. The corporate culture aims to be open and fair in dealings with all stakeholders, working in partnerships to ensure mutual benefit. Ethical values and behaviours are recognised and respected.

It is central to our business model that we work equitably with universities, investors and industry partners. Our corporate values reflect that need.

Governance Framework

The Board is satisfied it has the appropriate structures and processes for a company of its size.

Scheduled Board meetings are held six times a year to set and review the Group's direction, spread throughout the year and aligned as far as possible with its financial and operational calendar. Further meetings are held when necessary. Board meetings are held at the Group's various office locations to give the Non-Executive Directors a better understanding of our team's work.

The Board and its Committees receive relevant and timely information, including Board papers and presentations, before each meeting, which is run to a formal agenda. All Directors are encouraged to challenge proposals, and decisions are taken on a vote after discussion and debate. Any concerns can be noted in the minutes of the meeting, which are then circulated to directors. Specific actions are agreed and followed up, as appropriate.

Senior executives below Board level attend Board meetings where appropriate to present business updates.

The Board is supported in its decision-making by the Audit, Remuneration and Nomination Committees, and the Company's Nominated Adviser and other professional advisers when appropriate. The terms of reference for the Board committees can be found on our website:

http://www.frontierip.co.uk/investors/corporate-governance/board-and-committees

There is a clear separation of responsibilities at the top. The Chairman, Andrew Richmond, is responsible for running the business of the Board, including meetings, and ensuring strategic focus and direction. The Chief Executive Officer, Neil Crabb, is responsible for setting strategy and ensuring it is executed.

The other Executive Directors, James Fish (Finance Director), Jacqueline McKay (Chief Operating Officer) and David Cairns (Portfolio Director), support and challenge the Chief Executive Officer in formulating and executing the Group's strategy, including setting and managing budgets, risk management and compliance with relevant regulations and laws.

While this is appropriate for a company of our size, the Board will review regularly as the Group grows.

Building Trust

Good Communication

Frontier IP holds a continuing dialogue with shareholders and other relevant stakeholders through regular updates, frequent conversations, the annual report and accounts, full-year and half-year announcements, the annual general meeting and one-to-one meetings with existing and potential institutional investors. Investors and other stakeholders are encouraged to provide feedback. There are regular meetings and conversations between the Chief Executive Officer communications and investor relations director and investors. Board Directors are appraised of investor feedback.

Shareholders can vote at the annual general meeting. Group Directors stand down in rotation for re-election.

The Group aims to be transparent, clear and direct in communications with investors and stakeholders, including its employees, and university and industry partners.

Corporate Governance (continued)

Information about the company is disclosed in a timely manner through the RNS and RNS Reach services of the London Stock Exchange and our website: www.frontierip.co.uk. Our Nomad and Broker is also in regular contact with investors.

In addition, the Company uses several digital channels, including the website, social media and email. The Chief Executive Officer, Neil Crabb, is regularly interviewed by specialist investor website Proactive Investors. Earlier this year, we held our first Capital Markets Day in Portugal where investors were among more than 70 guests.

Group corporate notices, including those for annual general meetings can be found here:

http://www.frontierip.co.uk/investors/shareholder-information/notices-and-circulars

Notices of the result of each AGM can be found here:

http://www.frontierip.co.uk/investors/regulatory-news

The result of voting in the 2018 annual general meeting will be presented on the company website after the AGM has been completed.

Our annual and half-yearly reports can be found here:

http://www.frontierip.co.uk/investors/results-centre

Advisers

Registrars

Share Registrars Limited
The Courtyard
17 West Street
Farnham
Surrey GU9 7DR

Auditor

Moore Stephens LLP
150 Aldersgate Street
London
EC1A 4AB

Solicitors

CMS Cameron McKenna Nabarro Olswang LLP
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EN

Nominated Adviser and Broker

Allenby Capital Limited
5 St. Helen's Place
London EC3A 6AB

Secretary & Registered office

James Fish
c/o CMS Cameron McKenna Nabarro Olswang LLP
78 Cannon Street
London EC4N 6AF

Main trading address

Frontier IP Group plc
93 George Street
Edinburgh
EH2 3ES

Directors' Report

The Directors present their annual report on the affairs of the Group, together with the audited financial statements, for the year ended 30 June 2018.

Strategic report

The Group's Strategic Report on pages 5 to 22 covers the business review, key risks and outlook.

Results and dividends

The Group made a profit for the year of £902,000 (2017: £1,229,000). The Directors do not recommend the payment of a dividend (2017: nil). The Directors are confident of the prospects for the Group for the current year.

Directors

The Directors who held office during the year and the current Directors of the Company are listed on pages 24 to 27. Details of Directors' interests in share options and in shares are given in the Remuneration Committee Report.

Employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort will be made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Risk factors

Information on the Group's financial risk management objectives and policies relating to market risk, credit risk and liquidity risk is provided in Note 1 to the financial statements. The broader risks of the business are considered in the Strategic Report.

Treasury activities and financial instruments

The Group's financial instruments comprise cash, equity investments and other items such as trade debtors and trade creditors that arise directly from its operations. The Group has no borrowings. At 30 June 2018, the Group had positive cash balances of £1,111,000 (2017: £2,329,000). The Group's policy is to keep surplus funds on instant access and short-term deposit to earn the prevailing market rate of interest. It is the Group's policy not to speculate in derivative financial instruments. The Group's exposure to foreign exchange risks is minimal due to the low value of its transactions in foreign currency during the year.

Directors' indemnity insurance

The Company had a Directors and Officers insurance policy and a Professional Indemnity Insurance policy in place throughout the year and at the date of these financial statements.

Subsequent events and going concern

Subsequent events and going concern are disclosed in note 20 to the Financial Statements.

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, an as regards the parent, as applied by 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 Company and Group and of the profit or loss of the Group for that period.

In preparing those financial statements, the Directors are required to:

> Select suitable accounting policies and then apply them consistently;

> Make judgements and estimates that are reasonable and prudent;

> State that the financial statements comply with International Financial Reporting Standards as adopted by the European Union; and

> Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group or Company will continue in business.

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

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

Awareness of relevant audit information

At the date of signing of this report and insofar as each of the Directors is aware:

> There is no relevant audit information of which the auditor is unaware.

> The Directors have taken all steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditor

A resolution to appoint Moore Stephens LLP as auditor will be proposed at the Annual General Meeting.

By order of the Board

James Fish
Company Secretary

15 November 2018

Independent Auditor's Report

to the shareholders of Frontier IP Group plc

Opinion

We have audited the financial statements of Frontier IP Group Plc for the year ended 30 June 2018 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Statements of Cash Flows, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union and, as regards the 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 the parent Company's affairs as at 30 June 2018 and of the Group's profit for the year then ended;

> the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;

> the parent company financial statements have been prepared in accordance with IFRS, as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and

> the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our 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 audit opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

> the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate, or

> the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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.

Valuation of unquoted equity investments

70% of the Group's total assets (by value) is held in investments where no quoted market price is available. Unquoted investments are measured at fair value, which is determined by management with reference to the International Private Equity and Venture Capital Valuation Guidelines ("IPEV Guidelines") and by using a valuation matrix to categorise the investments within the portfolio.

For 54% of investments (by value) the measurement of value is based on the price of recent investment and for a further 37% the value is based on the expected price of an imminent funding round. Due to the relatively low number of investors partaking in funding rounds, there is a risk that recent investments on which fair value is based are not sufficiently at arm's length to ensure an independent market valuation representative of fair value. Whether it remains appropriate to use the price of the recent funding rounds depends on the specific circumstances of the investment, the stability of the external environment and the period since the last funding round.

For the remainder of investments, the valuation approach reflects the stage of development of the investee entity. When IP is transferred into the investee the valuation is adjusted by using a comparable company approach and this is reassessed when the investee commences trading.

Given the need for judgement in determining the investment values this is considered to be an area of significant risk and this is one of the key areas that our audit focused on.

In this area our audit procedures included:

> For a selection of investments, assessing whether the price of recent investment is an appropriate basis for the measurement of the fair value at the time, by evaluating the independence of the funding rounds on which this valuation is based. This assessment included consideration of whether external investors were allowed to take up significant investments at the same rates and the number of external investors included within the funding round.

> For a selection of investments where the valuation is based on a funding round that was concluded or expected to be concluded post-year end, obtaining evidence of the expected price and stage of completion of the funding round, and assessing whether there was evidence that the price differed significantly from that agreed in principle at the year end.

> Conducting independent research into publicly available information for indicators of fair value changes, for example since the last funding round or since the last milestone used as a basis for assessing valuation. and considering the valuation techniques applied against IPEV Guidelines and agreeing key elements to appropriate support including contractual agreements.

> Considering the valuation techniques applied against IPEV Guidelines and for a selection of investments agreeing key elements of management's valuation assessment to appropriate support including evidence of contractual agreements and grants awarded, and assessing the reasonableness of management's assessment of comparable stage company values.

Carrying value of goodwill

The Group's impairment review of goodwill involved the calculation of value-in-use through a discounted cash flow model and fair value less costs to sell, and comparison of these amounts to the carrying value of goodwill and other assets recognised in the accounts. The discounted cash flow model contained significant levels of judgement over the assumptions used including the discount rate and over the assumptions of the cash flow forecasts which included the gains on future investments, the annual investment rate and the weighted average holding period of the Group's investments. Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which are included within the models used, and the irregular nature of the UK university spin-out company market, this is one of the key judgemental areas that our audit is concentrated on.

In this area our audit procedures included:

> Critically assessing the principles and integrity of the discounted cash flow model.

> Critically assessing the assumptions around exit valuations.

> Considering the sensitivity of the valuation model to the key assumptions through a sensitivity analysis to assess the impact of each assumption on the value in use.

> Assessing whether the Group's disclosures of the sensitivity of the outcome of the impairment reviews to changes in key assumptions were adequate and reasonable

Our application of materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

We determined the materiality for the Group financial statements as a whole to be £129,000, calculated with reference to a benchmark of Group total assets, of which it represents 1%. This is the threshold above which missing or incorrect information in the financial statements is considered to have an impact on the decision making of users.

We reported to the Audit Committee all potential adjustments in excess of £6,450 being 5% of the materiality for the financial statements as a whole.

Independent Auditor's Report (continued)

An overview of the scope of our audit

We considered the risk of the financial statements being misstated or not prepared in accordance with the underlying legislation or standards. We then directed our work toward areas of the financial statements which we assessed as having the highest risk of containing material misstatements.

We tested and examined information using both analytical procedures and tests of detail, to the extent necessary to provide us with a reasonable basis to draw conclusions. These procedures gave us the evidence that we need for our opinion on the financial statements as a whole and, in particular, helped mitigate the risks of material misstatement mentioned above.

We also documented and reviewed the systems, primarily to confirm that they form an adequate basis for the preparation of the financial statements, but also to identify the controls operated to ensure the completeness and accuracy of the data.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities on page 39, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the 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.

Timothy West
Senior Statutory Auditor
for and on behalf of Moore Stephens LLP
Statutory Auditor
Moore Stephens LLP
150 Aldersgate Street
London, EC1A 4AB

15 November 2018

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2018

	Notes	2018 £'000	2017 £'000
Revenue			
Revenue from services		**299**	264
Other operating income			
Unrealised profit on the revaluation of investments	11	**2,064**	2,045
Total revenue		**2,363**	2,309
Administrative expenses	4	**(1,465)**	(1,082)
Profit from operations		**898**	1,227
Interest income on short term deposits		**4**	2
Profit from operations and before tax		**902**	1,229
Taxation	6	**-**	-
Profit and total comprehensive income attributable to the equity holders of the Company		**902**	1,229
Profit per share attributable to the equity holders of the Company:			
Basic earnings per share	7	**2.36p**	3.73p
Diluted earnings per share	7	**2.25p**	3.63p

All of the Group's activities are classed as continuing.

There is no other comprehensive income in the year (2017: nil).

Consolidated Statement of Financial Position

At 30 June 2018

	Notes	2018 £'000	2017 £'000
ASSETS			
Non-current assets			
Tangible fixed assets	8	**7**	5
Goodwill	9	**1,966**	1,966
Financial assets at fair value through profit and loss	11	**9,060**	6,751
Trade receivables	12	**161**	321
		11,194	9,043
Current assets			
Trade receivables and other current assets	12	**617**	537
Cash and cash equivalents		**1,111**	2,329
		1,728	2,866
Total assets		**12,922**	11,909
LIABILITIES			
Current liabilities			
Trade and other payables	13	**(205)**	(150)
		(205)	(150)
Net assets		**12,717**	11,759
Equity			
Called up share capital	14	**3,828**	3,828
Share premium account	14	**7,789**	7,789
Reverse acquisition reserve	15	**(1,667)**	(1,667)
Share based payment reserve	15	**186**	130
Retained earnings	15	**2,581**	1,679
Total equity		**12,717**	11,759

Company Statement of Financial Position

At 30 June 2018

	Notes	2018 £'000	2017 £'000
ASSETS			
Non-current assets			
Investment in subsidiaries	10	**2,383**	2,383
Financial assets at fair value through profit and loss	11	**3,441**	2,347
Trade receivables	12	**3,270**	1,630
		9,094	6,360
Current assets			
Trade receivables and other current assets	12	**489**	408
Cash and cash equivalents		**1,070**	2,316
		1,559	2,724
Total assets		**10,653**	9,084
LIABILITIES			
Current liabilities			
Trade and other payables	13	**(71)**	(57)
		(71)	(57)
Net assets		**10,582**	9,027
Equity attributable to equity holders of the Company			
Called up share capital	14	**3,828**	3,828
Share premium account	14	**7,789**	7,789
Share-based payment reserve	15	**186**	130
Retained earnings	15	**(1,221)**	(2,720)
Total equity		**10,582**	**9,027**

The Company has elected to take the exemption under section 408 of the Companies Act 2006 to not present the Company statement of comprehensive income. The total profit of the Company for the year was £1,499,000 (2017: loss £108,000)

The financial statements on pages 44 to 67 were approved by the Board of Directors and authorised for issue on 15 November 2018 and were signed on its behalf by:

James Fish
Finance Director

15 November 2018

Registered number: 06262177

Consolidated and Company Statements of Changes in Equity

For the year ended 30 June 2018

Group	Share capital £'000	Share premium account £'000	Reverse acquisition reserve £'000	Share-based payment reserve £'000	Retained earnings £'000	Total equity attributable to equity holders of the Company £'000
At 1 July 2016	3,078	5,729	(1,667)	78	450	7,668
Issue of shares	750	2,060	-	-	-	2,810
Share-based payments	-	-	-	52	-	52
Profit/total comprehensive income for the year	-	-	-	-	1,229	1,229
At 30 June 2017	3,828	7,789	(1,667)	130	1,679	11,759
Share-based payments	-	-	-	56	-	56
Profit/total comprehensive income for the year	-	-	-	-	902	902
At 30 June 2018	**3,828**	**7,789**	**(1,667)**	**186**	**2,581**	**12,717**

Company	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Retained earnings £'000	Total equity attributable to equity holders of the Company £'000
At 1 July 2016	3,078	5,729	78	(2,612)	6,273
Issue of shares	750	2,060	-	-	2,810
Share-based payments	-	-	52	-	52
Loss/total comprehensive expense for the year	-	-	-	(108)	(108)
At 30 June 2017	3,828	7,789	130	(2,720)	9,027
Share-based payments	-	-	56	-	56
Profit/total comprehensive income for the year	-	-	-	1,499	1,499
At 30 June 2018	**3,828**	**7,789**	**186**	**(1,221)**	**10,582**

Consolidated and Company Statements of Cash Flows

For the year ended 30 June 2018

	Notes	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Cash flows from operating activities					
Cash used in operations	18	**(970)**	(1,216)	**(1,282)**	(1,278)
Taxation paid	6	**-**	-	**-**	-
Net cash used in operating activities		**(970)**	(1,216)	**(1,282)**	(1,278)
Cash flows from investing activities					
Purchase of tangible fixed assets	8	**(7)**	(5)	**-**	-
Purchase of financial assets at fair value through profit and loss	11	**(245)**	(33)	**(41)**	(30)
Interest received		**4**	2	**77**	60
Net cash used in investing activities		**(248)**	(36)	**36**	30
Cash flows from financing activities					
Proceeds from issue of equity shares		**-**	3,000	**-**	3,000
Costs of share issue		**-**	(190)	**-**	(190)
Net cash generated from financing activities		**-**	2,810	**-**	2,810
Net (decrease) / increase in cash and cash equivalents		**(1,218)**	1,558	**(1,246)**	1,562
Cash and cash equivalents at beginning of year		**2,329**	771	**2,316**	754
Cash and cash equivalents at end of year		**1,111**	2,329	**1,070**	2,316

Accounting Policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of accounting

The financial statements of the Group and the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and in accordance with the Companies Act 2006.

The financial statements have been prepared on the historical cost basis, except where IFRS requires an alternative treatment. The principal variations from historical cost relate to financial instruments.

Basis of consolidation

The Group financial statements consolidate the financial statements of Frontier IP Group Plc and its subsidiary undertakings. Subsidiary undertakings are consolidated using acquisition accounting from the date of control. An entity is classed as under the control of the Group when all three of the following elements are present: power over the entity, exposure, or rights to, variable returns from its involvement with the entity and the ability of the Group to use its power over the entity to affect the amount of those variable returns.

The Group acts as general partner to the limited partnership RGU Ventures Investment Fund LP in which it holds a 27% interest. The Directors consider that the minority limited partnership interest does not create an exposure of such significance to the variability of returns from those interests that it indicates that the Group acts as anything other than an agent for the other limited partner in the arrangement. This is further supported by the inability of the general partner to change the terms of the investment policy other than with agreement of the other limited partner.

Segmental reporting

The Group operates in one market sector, the commercialisation of university Intellectual Property, and primarily within the UK. The Group has commenced developing business in Portugal, but transactions during the year were immaterial. Therefore, revenue, profit on ordinary activities before tax and net assets do not need to be analysed by segment.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment annually. Goodwill arising on acquisition is allocated to cash-generating units. The recoverable amount of the cash-generating unit to which goodwill has been allocated is tested for impairment annually, or on such other occasions that events or changes in circumstances indicate that it might be impaired. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Property and equipment

Property and equipment is stated at cost less depreciation and any provision for impairment.

Depreciation

Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis over its expected useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. The rates of depreciation are as follows:

Fixtures and office equipment	50% per annum

Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position at fair value when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less an allowance for doubtful debts.

Accounting Policies (continued)

Cash

Cash and cash equivalents comprise cash at bank and in hand and short term deposits and is measured at fair value.

Investments

Investments are held with a view to the ultimate realisation of capital gains and are recognised and derecognised on the trade date. They are classified as financial assets at fair value through profit and loss and are initially measured at fair value and any gains and losses arising from subsequent changes in fair value are presented in the statement of comprehensive income in the period in which they arise. Investments are classified as non-current assets.

The Group has interests of over 20% but these are not accounted for as associates as the Group elects to hold such investments at fair value in the statement of financial position. IAS28 Investments in Associates and Joint Ventures permits investments held by entities which are similar to venture capital organisations to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit and loss.

The fair value of unquoted equity investments is established in accordance with International and Private Equity and Venture Capital Valuation Guidelines ("IPEV Guidelines"). The Group uses valuation techniques that management consider appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs taking into account any discounts required for non-marketability and other risks inherent in early stage businesses. The Group's investments are primarily in seed, start-up and early-stage companies often with no short term earnings, revenue or positive cash flow making it difficult to assess the value of its activities and to reliably forecast cash flows. Consequently the Group considers that the price of a recent third party funding provides the best estimate of fair value. The Group normally receives its initial equity prior to any third party funding and some companies progress without third party funding. In selecting the most appropriate valuation technique in estimating fair value the Group uses a standard valuation matrix to categorise companies. The valuation matrix is as follows:

1. When the Group has received its initial equity prior to transfer of IP to the company, the company is valued at a notional £50,000 derived from the transaction price at which the Group has recently received equity stakes from its university partnerships and which the Group considers to be a materially correct representation of fair value. This notional value may therefore change over time.
2. Once the IP is transferred to the company, the valuation is increased by between £50,000 and £950,000 depending on the value attributed to the IP. The valuation technique used is the comparable company valuation, specifically comparing the entry price at which investors would typically invest in investor-ready pre-revenue companies with IP and adjusting for management's assessment of the company's IP. The range of values may therefore change over time.
3. When the company commences trading, the Group considers if this indicates a change in fair value. If there is evidence of value creation the Group may consider increasing the value and would seek comparable company valuations to estimate fair value.
4. If the company receives third party funding, the price of that investment will provide the basis for the valuation, the valuation technique being the transaction price paid for an identical instrument. The period of time for which it remains appropriate to continue to use the price of the third party funding round depends on the specific circumstances of the investment. The Group considers whether any changes or events subsequent to the investment would indicate a change in fair value. Any adjustment made is, whenever possible, based on objective data from the company in addition to management's judgement.
5. As the company develops and generates predictable cash flows a combination of valuation techniques are applied as appropriate, such as discounted cash flow, industry specific valuation models and comparable company valuation multiples.

Investment in subsidiary companies is stated at cost less provision for any impairment in value. If the recoverable amount of an investment in a subsidiary is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately in the statement of comprehensive income. Where an impairment loss subsequently reverses, the carrying amount of the investment in subsidiary is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years.

Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations rather than the financial instrument's legal form. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Trade payables

Trade payables are not interest bearing and are stated at their fair value.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Current and deferred tax

The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is accounted for using the statement of financial position liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

Deferred tax is calculated at the rates that are expected to apply when the asset or liability is settled.

Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority, the Group intends to settle its current tax assets and liabilities on a net basis and there is a legally enforceable right to set off.

Share options

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares or options that will eventually vest. Fair value is measured using the Black-Scholes-Merton pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Revenue recognition

Fees for services provided by the Group are measured at the fair value of the consideration received or receivable, net of value added tax.

Fund management fees, directors' fees and retainers are recognised when the service is provided. Fees for corporate finance work are recognised when the service is provided and the respective transaction has completed.

Where the consideration for services is equity in companies spun out by a university, the Group values the company on initial spin-out at £50,000.

Retirement benefit costs

The Group operates a defined contribution retirement benefit scheme. The amount charged to the income statement in respect of retirement benefit costs are the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either prepayments or accruals in the statement of financial position.

Net assets per share

Net assets per share represents the net assets at the year-end divided by the number of ordinary shares in issue at the year end.

Accounting Policies (continued)

New standards

A number of new standards and amendments to existing standards have been published which are mandatory, but are not effective for the year ended 30 June 2018. The Directors do not anticipate that the adoption of these revised standards and interpretations will have a significant impact on the figures included in the financial statements in the period of initial application other than the following:

IFRS 9 Financial Instruments

The standard is effective for periods beginning on or after 1 January 2018.

The standard makes substantial changes to the measurement of financial assets and financial liabilities. There will only be three categories of financial assets whereby financial assets are recognised at either fair value through profit and loss, fair value through other comprehensive income or measured at amortised cost. On adoption of the standard, the Group will have to re-determine the classification of its financial assets based on the business model for each category of financial asset. This is not considered likely to give rise to any significant adjustments other than reclassifications.

Most financial liabilities will continue to be carried at amortised cost, however, some financial liabilities will be required to be measured at fair value through profit or loss, for example derivative financial instruments, with changes in the liabilities' credit risk recognised in other comprehensive income.

IFRS 15 – Revenue from contracts with customers

The standard has been developed to provide a comprehensive set of principles in presenting the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is based around the following steps in recognising revenue:

1. Identify the contract with the customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price; and
5. Recognise revenue when a performance obligation is satisfied.

On application of the standard the disclosures are likely to increase. The standard includes principles on disclosing the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, by providing qualitative and quantitative information.

We have carried out an impact assessment and have concluded that the standard will not have a material impact. The standard is effective for periods beginning on or after 1 January 2018.

IFRS 16 – Leases

The standard is effective for periods beginning on or after 1 January 2019, (and can be applied before that date if the Company also applies IFRS 15 revenue from Contracts with Customers) although it is yet to be endorsed for application by the EU. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases applying IAS 17. Leases are 'capitalised' by recognising the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments. IFRS 16 replaces the typical straight-line operating lease expense for those leases applying IAS 17 with a depreciation charge for lease assets (included within operating costs) and an interest expense on lease liabilities (included within finance costs).

We have carried out an impact assessment and the impact on non-current assets will be an increase of approximately £150,000.

Notes to the Financial Statements

1. Financial risk management

Financial risk factors

The Group's business activities are set out in the Strategic Report. These activities expose the Group to a number of financial risks. The following describes the Group's objectives, policies and processes for managing these risks and the methods used to measure them. The Group operates primarily in the UK and although it has started to develop business in Portugal, transactions in foreign currency were minimal during the year. It has therefore not been exposed to any material foreign exchange risk.

(a) Market risk

Interest rate risk

As the Group has no borrowings it only has limited interest rate risk. The impact is on income and operating cash flow and arises from changes in market interest rates. Cash resources are held in floating rate accounts.

Price risk

The Group is exposed to equity securities price risk because of equity investments classified on the consolidated statement of financial position as financial assets at fair value through profit and loss. The maximum exposure is the fair value of these assets which is £9,060,000 (2017: £6,751,000).

(b) Credit risk

The Group's credit risk is primarily attributable to its trade receivables, other debtors and cash equivalents. The Group's current cash and cash equivalents are held with two UK financial institution, the Bank of Scotland plc and Barclays Bank plc, both of which have a credit rating of "P1" from credit agency Moody's, indicating that Moody's consider that these banks have a "superior" ability to repay short-term debt obligations. The concentration of credit risk from trade receivables and other debtors varies throughout the year depending on the timing of transactions and invoicing of fees. Details of major customers to the Group are set out in Note 3. Details of trade receivables and other current assets are set out in note 12. The Group's customers are primarily early stage and start-up companies and Group management determine impairment of trade receivables and other debtors through taking into account both trading and fundraising prospects in addition to the financial position and other factors. Management's assessment of impairment is aided through representation on the Board and/or through providing advisory services.

The maximum exposure to credit risk for cash equivalents, trade receivables and other current assets is represented by their carrying amount.

(c) Capital risk management

The Group is funded by equity finance only. Total capital is calculated as 'total equity' as shown in the consolidated statement of financial position. The Group's objectives for managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to manage the cost of capital. In order to maintain the capital structure the Group may issue new shares as required. The Group currently has no debt. There were no changes in the Group's approach to capital management during the year.

(d) Liquidity risk

The Group seeks to manage liquidity risk to ensure sufficient liquidity is available to meet the requirements of the business in the context of a continuing planned net cash outflow and to invest cash assets safely and profitably. The Board reviews available cash to ensure there are sufficient resources for working capital requirements. At 30 June 2018 and 30 June 2017 all amounts shown in the consolidated statement of financial position under current assets and current liabilities mature for payment within one year except where stated in Note 12.

Notes to the Financial Statements (continued)

2. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates and judgements.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

(i) Valuation of unquoted equity investments

In applying valuation techniques to determine the fair value of unquoted equity investments the Group makes estimates and assumptions regarding the future potential of the investments. As the Group's investments are in seed, start-up and early stage businesses it can be difficult to assess the outcome of their activities and to make reliable forecasts. Given the difficulty of producing reliable cash flow projections for use in discounted cash flow valuations, this technique is applied with caution. Adjustments made to fair value are, by their very nature, subjective and determining the fair value is a critical accounting estimate. Reasonable possible shifts, which themselves are estimates, are included in Note 11.

(ii) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the stated accounting policy. The recoverable amount is determined using value in use models which require a number of estimations and assumptions about the timing and amount of future cash flows. As future cash inflows relate primarily to capital gains on the sale of unquoted equity investments, these estimates and assumptions are subject to a high degree of uncertainty. Note 9 describes the key assumptions and sensitivity applied.

(iii) Allowance for doubtful debts

The Group estimates an allowance for doubtful debts when the collectability of trade receivables is in doubt. As the Group's trade receivables arise from services to a concentrated number of seed, start-up and early stage businesses the estimates made are subject to a high degree of uncertainty. The allowance for doubtful debts is disclosed in Note 12.

Critical accounting judgements

The Group believes that the most significant judgement areas in the application of its accounting policies are establishing the fair value of its unquoted equity investments and the consideration of any impairment to goodwill. The matters taken into account by the Directors when assessing the fair value of the unquoted equity investments are detailed in the accounting policy on investments.

The considerations taken into account by the Directors when reviewing goodwill are detailed in Note 9. In addition, the Directors judge that the Group is exempt from applying the equity method of accounting for associates in which it has interests of over 20% as they consider the Group to be similar to a venture capital organization and elects to hold such investments at fair value in the statement of financial position.

IAS28 Investments in Associates and Joint Ventures permits investments held by entities which are similar to venture capital organisations to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit and loss.

3. Major customers

During the year the Group had four major customers that accounted for 80% of its revenue from services (2017: four customers accounted for 91%). The revenues generated from each customer were as follows:

	2018 £'000	2017 £'000
Customer 1	**102**	102
Customer 2	**48**	48
Customer 3	**48**	48
Customer 4	**42**	42
	240	240

4. Administration expenses

Expenses included in administrative expenses are analysed below.

	2018 £'000	2017 £'000
Employee costs	**879**	690
Share-based payments	**56**	52
Consultant	**29**	8
Travel and entertainment	**54**	32
Depreciation	**5**	2
Bad and doubtful debts	**16**	2
Audit services:		
- audit of the Company and consolidated accounts	**32**	34
- audit of the Company's subsidiaries pursuant to legislation	**5**	2
Non-audit services:		
- tax services	**6**	6
- consultancy services	**5**	-
Legal, professional and financial costs	**253**	186
Premises operating lease	**89**	37
Administration costs	**36**	31
	1,465	1,082

Notes to the Financial Statements (continued)

5. Directors and employees

The average number of people employed by the Group during the year was:

	2018 Number	2017 Number
Business and corporate development	**9**	7

	2018 £'000	2017 £'000
Wages and salaries	**632**	477
Social security	**87**	66
Pension costs – defined contribution plans	**49**	41
Non-executive directors' fees	**89**	88
Other benefits	**23**	18
Share option expense	**55**	52
	935	742

The key management of the Group comprises the Frontier IP Group Plc Board of Directors. The remuneration of the individual Board members is shown below.

Remuneration comprises basic salary, pension contributions and benefits in kind, being private health insurance and life assurance. The type of remuneration is constant from year to year. Ad hoc bonuses may be paid to reward exceptional performance. Such bonuses are decided by the Remuneration Committee on the recommendation of the Chief Executive Officer. Share options are also awarded to employees from time to time. The granting of share options to individual employees is determined taking into account seniority, commitment to the business and recent performance.

The total remuneration for each director is shown below.

	Salary		Other benefits		Total		Pension	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Executive								
N Crabb	**123**	105	**4**	4	**127**	109	**12**	10
J McKay	**92**	76	**4**	4	**96**	80	**9**	7
D Cairns	**69**	58	**-**	-	**69**	58	**7**	6
J Fish	**97**	89	**2**	2	**99**	91	**10**	9
Non-executive								
A Richmond	**41**	40	**-**	-	**41**	40	**-**	-
M Bourne	**24**	24	**-**	-	**24**	24	**-**	-
C Wilson	**24**	24	**-**	-	**24**	24	**-**	-
	470	416	**10**	10	**480**	426	**38**	32

6. Taxation

A reconciliation from the reported profit before tax to the total tax charge is shown below:

	2018 £'000	2017 £'000
Profit before tax	**902**	1,229
Profit before tax at the effective rate of corporation tax in the UK of 19% (2017: 20%)	**171**	246
Effects of:		
Non-taxable income	**(392)**	(409)
Expenses not deductible for tax purposes	**13**	16
Trading losses carried forward	**207**	148
Other adjustments	**1**	(1)
Tax charge for the year	**-**	-

The tax asset relating to the Group losses is not recognised, in accordance with Group policy. The Group has a tax asset for cumulative unrelieved management expenses and other tax losses of £940,000 (2017: £751,000) available for use to offset future profits. These amounts are stated using a corporation tax rate of 17% of total losses of £5,527,000 (2017: 17% of total losses of £4,416,000).

There is a deferred tax liability on the difference between base cost and fair value of certain financial assets at fair value through profit and loss which are not exempt from tax through substantial shareholder exemption. There are excess management expenses and trading losses carried forward in the Group and there is the ability to transfer gains arising which would be offset by excess management expenses and no tax liability would be expected to arise.

7. Earnings per share

a) Basic

Basic earnings per share is calculated by dividing the profit attributable to the shareholders of Frontier IP Group Plc by the weighted average number of shares in issue during the year.

	Profit attributable to shareholders £'000	Weighted average number of shares	Basic earnings per share amount in pence
Year ended 30 June 2018	**902**	**38,278,520**	**2.36**
Year ended 30 June 2017	1,229	32,983,190	3.73

b) Diluted

Diluted earnings per share is calculated by adjusting the weighted number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has only one category of dilutive potential ordinary shares: share options. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market value share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Profit attributable to shareholders £'000	Weighted average number of shares adjusted for share options	Diluted earnings per share amount in pence
Year ended 30 June 2018	**902**	**40,114,559**	**2.25**
Year ended 30 June 2017	1,229	33,897,226	3.63

Notes to the Financial Statements (continued)

8. Tangible fixed assets

Fixtures and equipment

	£'000
Cost	
At 1 July 2016	5
Additions	5
Disposals	-
At 30 June 2017	10
Additions	7
Disposals	-
At 30 June 2018	17
Depreciation	
Accumulated depreciation at 1 July 2016	3
Charge for the year to 30 June 2017	2
Disposals	-
Accumulated depreciation at 30 June 2017	5
Charge for the year to 30 June 2018	5
Disposals	-
Accumulated depreciation at 30 June 2018	10
Net book value	
At 30 June 2018	**7**
At 30 June 2017	5

9. Goodwill

	Group £'000	Company £'000
Cost		
At 1 July 2016, 30 June 2017 and at 30 June 2018	**1,966**	-
Impairment		
At 1 July 2016, 30 June 2017 and at 30 June 2018	**-**	-
Carrying value		
At 30 June 2018	**1,966**	-
At 30 June 2017	1,966	-

The Group conducts an annual impairment test on the carrying value of goodwill based on the recoverable amount of the Group as one cash generating operating unit. The net present value of projected cash flows is compared with the carrying value of the Group's investments and goodwill. In arriving at a net present value of projected cash flows, two value-in-use models were considered – a weighted distribution of outcomes and values and an individual company dilution model – and within each model assumptions were used for future spin-outs and for the existing portfolio.

The assumptions used in the models are set out below:

	2018 Future Spin-Outs	2018 Existing Portfolio	2017 Future Spin-Outs	2017 Existing Portfolio
Initial spin-out equity, being the product of the number of spin-outs and initial equity acquired.	**75%-125%**	**-**	75%	-
Equity in existing portfolio	**-**	**4%-40%***	-	4%-40% *
Failure rate	**40%**	**Average of 35%**	40%	Average of 34%
Dilution	**35%**	**Average of 30%**	35%	Average of 32%
Years to exit	**6**	**6 (minimum of 2 years from measurement date)**	5	5 (minimum of 3 years from measurement date)
Rate of return	**23%**	**23%**	23%	23%
Discount rate (pre tax)	**12%**	**12%**	12%	12%
Range of exit values applied to low, medium, high outcomes	**£6m-£30m**	**£6m-£628m****	£6m-£30m	£6m-£300m
Value at first/next funding round in individual company dilution model	**£1.5m**	**Carrying values of individual companies at 30 June 2018 or £1.5m, whichever is higher. Average of £9.2m**	£1.5m	Carrying values of individual companies at 30 June 2017. Average of £4.8m

* Actual range of equity at 30 June 2018.

** The range applied is £6m - £30m for all but two of the existing portfolio companies. The value of these two companies at 30 June 2018 exceeded the weighted exit value and therefore high outcomes of £66m and £628m were applied, resulting in weighted exit values of £16m and £132m respectively.

Notes to the Financial Statements (continued)

9. Goodwill (continued)

Projected cash flows are based upon management approved budgets for service income and overheads for a period of three years and key assumptions over potential investment outcomes in the future. When determining the key assumptions, management has used both past experience and management judgement. In particular, the Group has no history of exits as the Group's portfolio comprises primarily early stage businesses. No increase or growth has been factored into the model with regard to the key assumptions, or for the projected cash flows after the 3 year budgeted period.

The percentage change required in each assumption in order to cause the recoverable amount to equal the carrying amount in at least one of the models is shown below:

Assumption	Change Required
Initial spin-out equity, being the product of the number of spin-outs and initial equity acquired.	-27%
Failure rate	+26%
Dilution	+39%
Years to exit	+33%
Rate of return	-41%
Discount rate (pre tax)	+27%
Range of exit values applied to low, medium, high outcomes	-25%
Value at first funding round in individual company dilution mode	-55%

The Board considers that a reasonably possible change in initial spin-out equity, failure rate, discout rate or range of exit values would cause the carrying amount of the cash generating unit to exceed its recoverable amount. The amount by which the recoverable amount exceeds the carrying amount in the portfolio model is £4.6m and a 27% decrease in initial equity from 75% to 55%, a 26% increase in the failure rate from 40% to 50%, a 27% increase in the discount rate from 12% to 15% or a 25% decrease in the range of exit values would cause the recoverable amount to equal the carrying amount. The amount by which the recoverable amount exceeds the carrying amount in the individual company dilution model is £11.3m.

The Board considers that the net present value of cash flow from the Group's one cash generating unit is greater than its carrying value.

10. Investment in subsidiaries

	Company 2018 £'000	Company 2017 £'000
At 1 July	**2,383**	2,383
Provision for impairment	**-**	-
At 30 June	**2,383**	2,383

Group Investments

The Company has investments in the following subsidiary undertakings.

	Country of incorporation	Proportion of ordinary shares directly held by the Company	Proportion of ordinary shares held by the Group
Frontier IP Limited -principal activity is commercialisation of IP	Scotland	100%	
Frontier IP Investments Limited -principal activity is investment in RGU Ventures Investment Fund	Scotland	100%	
Frontier IP Founder Partners Limited -principal activity is founder partner in RGU Ventures Investment Fund	Scotland	100%	
Frontier IP Management Limited - principal activity is an intermediate holding company	Scotland	100%	
Frontier IP GP RG Limited - principal activity is the general partner of the RGU Ventures Investment Fund	Scotland		100%

11. Financial assets at fair value through profit and loss

	Group 2018 £'000	Group 2017 £'000	**Company 2018 £'000**	Company 2017 £'000
At 1 July	**6,751**	4,673	**2,347**	1,877
Additions	**245**	33	**41**	30
Fair value increase	**2,064**	2,045	**1,053**	440
At 30 June	**9,060**	6,751	**3,441**	2,347

The investments held are valued individually at fair value in accordance with the Group's accounting policy on investments and have been categorised as being level 3, that is, valued using unobservable inputs. All gains and losses relate to assets held at the year end, and the fair value movement has been shown in the income statement as other operating income.

Notes to the Financial Statements (continued)

11. Financial assets at fair value through profit and loss (continued)

Financial assets at fair value through profit and loss comprise the following:

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Limited partnership interests	**19**	22	**-**	-
Unquoted equity investments	**9,041**	6,729	**3,441**	2,347
	9,060	6,751	**3,441**	2,347

The movement during the year is set out below:

Limited Partnership Interests	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
At 1 July	**22**	22	**-**	-
Additions during the year	**4**	2	**-**	-
Fair value decreases during the year	**(7)**	(2)	**-**	-
At 30 June	**19**	22	**-**	-

Unquoted Equity Investments	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
At 1 July	**6,729**	4,651	**2,347**	1,877
Additions during the year	**241**	31	**41**	30
Fair value increases during the year	**2,396**	2,069	**1,353**	440
Fair value decreases during the year	**(325)**	(22)	**(300)**	-
At 30 June	**9,041**	6,729	**3,441**	2,347

The table below sets out the movement in the value of unquoted equity investments by valuation matrix stage during the year:

			Valuation matrix stage			
Unquoted Equity Investments	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Stage 4 £'000	Stage 5 £'000	Total £'000
1 July 2017	36	620	185	5,888	-	6,729
Transfers between stages	(20)	10	2,174	(2,164)	-	-
Fair value increase through other operating income	29	(71)	1,108	1,005	-	2,071
Additions	5	36	-	200	-	241
30 June 2017	**50**	**595**	**3,467**	**4,929**	**-**	**9,041**

The table below provides information about unquoted equity investment fair value measurements.

(See the accounting policy on investments for a description of the valuation matrix stages)

Valuation matrix stage	No of Investments	Fair value £'000	Unobservable inputs	Reasonable possible shift %	+/- £000
Stage 1	5	50	Initial valuation of new spin-outs at £50,000	20%	10
Stage 2	3	595	Management's assessment of the value of IP transferred.	25%	149
Stage 3	9	3,467	Management's assessment of performance against milestones, discussions of likely imminent fundraising and considerations of impairment.	30%	1,040
Stage 4	4	4,929	The price of latest funding round provides unobservable input into the valuation of any individual investment. However, subsequent to the funding round, management are required to re-assess the carrying value of investments at each period end, including assessment of any impairment indicators, which result in unobservable inputs into the valuation methodology. The main unobservable input relates to the assessment of impairment.	10%	493
Stage 5	0	0	Discounted comparable public company valuation. Unobservable inputs into discounted cash flow are forecasts of future cash flows, probabilities of project failure and evaluation of the time cost of money.	30%	0
30 June 2018		**9,041**			**1,692**

Significant unobservable inputs:

The price of third party funding for Alusid in September 2018 and trading and funding prospects for Exscientia provided significant unobservable inputs into the valuation of the Group's investment in these companies at 30 June 2018 of £1,382,000 and £3,180,000 respectively.

Notes to the Financial Statements (continued)

12. Trade receivables and other current assets

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Trade receivables	**318**	476	**179**	111
Receivables from Group undertakings	**-**	-	**3,180**	1,577
VAT	**8**	8	**2**	4
Prepayments and accrued income	**46**	31	**15**	14
Other debtors	**406**	343	**383**	332
	778	858	**3,759**	2,038
Less trade receivables – non current	**(161)**	(321)	**(90)**	(53)
Less receivables from Group undertakings – non current	**-**	-	**(3,180)**	(1,577)
Current portion	**617**	537	**489**	408

Trade receivables

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Trade receivables not due	**33**	26	**22**	14
Trade receivables past due 1–30 days	**23**	11	**13**	3
Trade receivables past due 31–60 days	**21**	11	**11**	3
Trade receivables past due 61–90 days	**26**	11	**15**	4
Trade receivables past due over 90 days	**224**	431	**118**	87
Gross trade receivables at 30 June	**327**	490	**179**	111
Allowance for doubtful debt at 1 July	**14**	12	**-**	-
Debts provided for in the year	**5**	2	**-**	-
Debts written off in the year	**(10)**	-	**-**	-
Allowance for doubtful debt at 30 June	**9**	14	**-**	-
Net trade receivables at 30 June	**318**	476	**179**	111

The allowance for doubtful debt relates entirely to trade receivables which are past due. £133,000 of trade receivables are due from Alusid and £378,000 of other debtors is an unsecured interest-free loan to Alusid. Subsequent to the year end, Alusid completed a fundraising and the Group converted £348,000 of the loan into shares in Alusid at the fundraising and Alusid paid all overdue trade receivables. £147,000 of trade receivables are due from Nandi of which £71,000 is non-current. The directors are confident that Nandi will be able to raise sufficient funds to finance its business plan and continue to pay its debt.

Receivables from Group undertakings carries interest of 2.5% (2017: 2.5%).

13. Trade and other payables

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Trade payables	**57**	40	**26**	27
Social security and other taxes	**33**	20	**-**	-
Accruals and deferred income	**115**	90	**45**	30
At 30 June	**205**	150	**71**	57

14. Share capital and share premium

	Number of shares issued and fully paid	Ordinary shares of 10p £'000	Share premium £'000	Total £'000
At 1 July 2017 and 30 June 2018	**38,278,520**	**3,828**	**7,789**	**11,617**

The allotted share capital of the company at 30 June 2018 is 38,278,520 ordinary shares of 10p each.

15. Reserves

The reverse acquisition reserve was created on the reverse takeover of Frontier IP Group Plc. The fair value of equity-settled share-based payments is expensed on a straight line basis over the vesting period and the amount expensed in each year is transferred to the share-based payment reserve. The movement in reserves for the years ended 30 June 2018 and 2017 is set out in the Consolidated and Company Statement of Changes in Equity on page 47.

16. Share options

Frontier IP has two option schemes, the Frontier IP Group Plc Employee Share Option Scheme 2011 and the Frontier IP Group Plc Unapproved Share Option Scheme 2011. The first is an enterprise management incentive scheme and the second an unapproved share scheme. Under the schemes, options are granted at no less than market value of the shares at the date of grant. No payment is required from option holders on the grant of an option. The options are exercisable starting three years from the date of the grant with no performance conditions. The schemes run for a period of ten years.

Movements in the number of share options outstanding and their related weighted average exercise prices were as follows:

	2018 Weighted average exercise price Pence per share	2018 Options	2017 Weighted average exercise price Pence per share	2017 Options
At 1 July	**25.52**	**2,806,000**	22.41	2,310,000
Granted	**-**	**-**	40.00	496,000
At 30 June	**25.52**	**2,806,000**	25.52	2,806,000

Notes to the Financial Statements (continued)

16. Share options (continued)

Of the 2,806,000 outstanding options (2017: 2,806,000) 1,335,000 had vested at 30 June 2018 (2017: 1,335,000).

Share options outstanding at the end of the year have the following expiry date and exercise prices:

	Exercise price Pence per share	2018 Number	2017 Number
2023	15.00	**848,389**	848,389
2024	26.88	**486,611**	486,611
2026	26.63	**975,000**	975,000
2027	40.00	**496,000**	496,000

No options were granted during the year.

17. Operating Lease Commitments

	2018 Land & Buildings £'000	2017 Land & Buildings £'000
Commitments under non-cancellable operating leases expiring:		
Within one year	**123**	38
Within two to five years	**44**	4
After five years	**-**	-
	167	**42**

18. Cash used in operations

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Profit/(Loss) before tax	**902**	1,229	**1,499**	(108)
Adjustments for:				
Share-based payments	**56**	52	**56**	52
Depreciation	**5**	2	**-**	-
Interest received	**(4)**	(2)	**(77)**	(60)
Fair value (gain) on financial assets through profit and loss	**(2,064)**	(2,045)	**(1,053)**	(440)
Changes in working capital:				
Trade and other receivables	**80**	(491)	**(1,721)**	(747)
Trade and other payables	**55**	39	**14**	25
Cash flows from operating activities	**(970)**	(1,216)	**(1,282)**	(1,278)

The movements in liabilities from financing cashflows are nil.

19. Related party transactions

Neil Crabb is a director of PoreXpert Limited, PulsiV Solar Limited, Celerum Limited, Nandi Proteins Limited and Alusid Limited. Neil Crabb was a director of Hatton House Distribution Limited (formerly Counterweight Limited) during the year. Campbell Wilson is a director of Tarsis Technology Limited. All these companies are portfolio companies of the Group. The Group charged fees to these companies and was owed amounts from these companies as follows:

	Fees charged 2018 £'000	Fees charged 2017 £'000	**Amounts owed 2018 £'000**	Amounts owed 2017 £'000
Nandi Proteins Limited	**122**	114	**147**	526
Hatton House Distribution Limited (formerly Counterweight Limited)	**15**	18	**-**	18
PulsiV Solar Limited	**58**	58	**10**	10
Alusid Limited	**42**	42	**496**	255
Tarsis Technology Limited	**-**	-	**1**	-

20. Subsequent events

In September 2018 the Group's portfolio company, Alusid Limited, completed a fundraising. The price of the fundraising was consistent with the valuation of the Group's investment in the company at 30 June 2018 and supports the valuation uplift recognised in the year of £691,000.

On 15 November 2018, the Company conducted a placing of 3,827,852 new ordinary shares of 10p for cash at a price of 65p per share raising £2,488,000 before expenses of £153,000. As a consequence, the Directors believe that the Group will have sufficient funds to fund its activities for the next 12 months. After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the forseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Five Year Record

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Total revenue	**2,363**	2,309	2,030	1,591	786
Profit from operations	**898**	1,227	1,130	646	27
Net finance income	**4**	2	1	1	-
Profit from operations and before tax	**902**	1,229	1,131	647	27
Taxation	**-**	-	-	-	-
Profit after tax	**902**	1,229	1,131	647	27
Attributable to:					
Equity holders of the Company	**902**	1,229	1,131	647	27
Net assets employed	**12,717**	11,759	7,668	5,557	4,069
Basic earnings/(loss) per ordinary share (pence)	**2.36**	3.73	4.08	2.76	0.13

Frontier IP Group plc

EDINBURGH

93 George Street
Edinburgh
EH2 3ES

CAMBRIDGE

Wellington House
East Road
Cambridge
CB1 1BH

LONDON

18 King William Street
London
EC4N 7BP

www.frontierip.co.uk