

REGISTERED NUMBER: 02126697 (England and Wales)

Directors' Report and
Unaudited Financial Statements for the Year Ended 31 December 2021
for
Instem LSS (North America) Limited

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Instem LSS (North America) Limited

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Instem LSS (North America) Limited

Company Information

DIRECTORS

D Gare
N J Goldsmith
P J Reason
D M Sherwin

SECRETARY

Oakwood Corporate Secretary Limited

REGISTERED NUMBER

02126697 (England and Wales)

REGISTERED OFFICE

Diamond Way
Stone Business Park
Stone
Staffordshire
ST15 0SD

BANKER

HSBC UK Bank Plc
9th Floor, Liver Building
Pier Head
Liverpool L3 1JH

Instem LSS (North America) Limited

Strategic Report

For the year ended 31 December 2021

The directors present their strategic report for the year ended 31 December 2021.

REVIEW OF BUSINESS

The results for the Company show a pre-tax profit of \$3,194,000 (2020: loss \$1,464,000) and revenue of \$23,475,000 (2020: \$20,724,000).

The Company has total assets of \$23,064,000 (2020: \$20,604,000) of which \$17,447,000 (2020: \$13,897,000) is owed by Instem group companies.

Instem's revenue model consists of perpetual licence income, annual support and maintenance contracts, professional fees, technology enabled outsourced services fees and SaaS subscriptions.

Total revenue for the year to 31 December 2021 increased by 13% to \$23,475,000 (2020: \$20,724,000), with strong growth in SaaS subscription sales and professional services from funded development projects.

The Company had cash reserves of \$1,125,000 at 31 December 2021, compared with \$2,663,000 as at 31 December 2020. The decrease in the year is mainly due to changes in the working capital.

PRINCIPAL RISKS AND UNCERTAINTIES

The directors consider that the global pharmaceutical market is likely to continue to provide growth opportunities for the business. The combination of the high level of annual support renewals and low levels of customer attrition provides revenue visibility to underpin the Company strategy on product and market development. However, the Company's products may be adversely affected if economic and market conditions are unfavourable and revenue may be affected from by impact of accounting or regulatory changes.

The Company seeks to mitigate exposure to all forms of risk through a combination of regular performance review and a comprehensive insurance programme. Additionally, the Company benefits from a level of recurring revenue for its products and services.

Foreign currency risk

The Company operates internationally and is exposed to foreign currency risk on transactions denominated in a currency other than the functional. The Company continually assesses the most appropriate approach to managing its currency exposure in line with the overall goal of achieving predictable earnings growth.

Credit risk

Management aims to minimise the risk of credit losses.

The Group's financial assets are bank balances and cash and trade and other receivables, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Company's credit risk is primarily attributable to its trade receivables and the Company has policies in place to ensure that sales of products and services are made to customers with appropriate creditworthiness.

Liquidity risk

The Company manages liquidity risk through regular cash flow forecasting and monitoring of cash flows, management review and regular review of working capital and costs.

The wider group regularly monitors its available headroom under its borrowing facilities. The Group signed a new financing arrangement on 8 April 2022, which consists of a committed facility of £10.0m with HSBC UK Bank plc, to support the Group's working capital needs and its acquisition strategy. The facility can also be extended up to £20.0m, if needed, subject to additional bank approval. The financial covenants have been considered in the cash forecast to ensure compliance.

At 31 December 2021, the Group £0.5m net bank facility was undrawn (2020: £0.5m undrawn).

Instem LSS (North America) Limited

Strategic Report

For the year ended 31 December 2021

Cyber risk

The Company handles much data electronically and is therefore extremely aware of the risks that a cyber-attack could have on its business. It has robust standards in place for establishing and maintaining systems and processes to ensure that the highest standards of data protection are in place. This also applies to any third party who is handling data on behalf of the Group and its customers, such as third-party hosting providers. All staff are trained in identifying and responding to any perceived, or actual, cyber attacks. The wider group maintains separate insurance cover to protect against the financial implications of any cyber threat.

Technology risk

Due to the evolving nature of technology platforms there is a risk of obsolescence. The Company's future performance depends on software development, by introducing new and enhancing new products to meet customer demand. If the Company does not respond effectively to technological changes, changes in client requirements and regulatory industry changes then its business may be negatively affected.

The Company monitors this risk and develops strategic development plans to ensure it remains compliant with technological advances. Additionally, the Company produces roadmaps for its key software products through its close relationships with clients and partners. In addition, the Company reviews forthcoming regulations to identify any need to change existing products and to identify opportunities for developing new products and services.

Recruitment and retention risk

As its people are the Company's major asset, it is critical to ensure that it recruits the best staff possible and that these individuals are rewarded and developed appropriately. If the Company is unable to attract and retain qualified personnel it is unlikely to meet its growth objectives and stakeholder expectations. The Company has an HR team that manages the process of ensuring the staff benefit and reward packages are incentivising for both recruitment and retention purposes. This includes benchmarking against peers and industry norms and considering staff feedback through regular performance review. During 2020 the Group implemented an all-staff share scheme for the first time and further all-staff share awards were made in 2021.

Coronavirus (COVID-19)

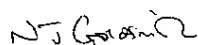
The risk to the Company, as for any business, is that the COVID-19 pandemic impacts new and existing business activities as clients and suppliers focus on short term priorities arising from the pandemic, or struggle to remain in business.

The Instem group, including Instem LSS (North America) Limited, remains well placed and has seen minimal impact from COVID-19, with working from home practices implemented and the majority of its business relatively unaffected. The market dynamics were highlighted further by the ongoing COVID-19 pandemic, which presented a number of new opportunities as R&D increased with all the major companies focusing on developing vaccines or therapies.

Conflict in Ukraine

The Company has no clients or operations located in either Ukraine or Russia. The Board is actively monitoring the developing situation and is mindful of the potential for escalation. The Company is also assessing contingency plans should such a situation arise.

By order of the board



N J Goldsmith
31 August 2022

Instem LSS (North America) Limited

Directors' Report

For the year ended 31 December 2021

The directors present their report with the financial statements of Instem LSS (North America) Limited (the "Company") for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

The Company is part of the Instem plc group (the 'Group'), which is a leading supplier of IT applications to the life sciences healthcare market, delivering compelling solutions for data collection, management and analysis across the R&D continuum. The principal activity of Instem LSS (North America) Limited is the provision of world-class IT solutions to the early development healthcare market. The Company's pre-clinical study management solutions accelerate drug and chemical development by increasing productivity, automating processes and enhancing practices that lead to safer and more effective drugs.

REVIEW OF THE BUSINESS

The Company's revenue increased to \$23,475,000 (2020: \$20,724,000), due to strong growth in SaaS subscription sales and professional services from funded development projects. Profit for the year was \$2,526,000 (2020: Loss of \$1,436,000).

DIVIDENDS

The directors do not recommend the payment of a dividend (2020: \$nil).

POLITICAL DONATIONS

The Group made no political donations in 2021 or 2020.

DIRECTORS' RESPONSIBILITY UNDER GREEN HOUSE GAS EMISSIONS AND ENERGY CONSUMPTION

The Company has reviewed the requirements of the Environmental Reporting guidelines. The Company does not qualify as a large Company and therefore the Company is not required to prepare an Energy and Carbon Report.

DISCLOSURE IN THE STRATEGIC REPORT

The Company has chosen, in accordance with Companies Act 2006, section 414C(11), to set out in the Company's strategic report on pages 2 and 3 information required to be contained in the directors' report by Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations, Sch. 7, where not already disclosed in the directors' report.

RESEARCH AND DEVELOPMENT

The Company continues its development programme of software for the global pharmaceutical market including the research and development of new products and enhancement to existing products. The directors consider the investment in research and development to be fundamental to the success of the business in the future.

FUTURE DEVELOPMENTS

The directors consider that the continued investment in product and market development will allow the business to grow organically in its core markets. Investment in business growth initiatives will also allow the business to move into new product and market areas.

Increased revenue predictability provides a strong foundation from which the business can grow as it builds on the momentum achieved during 2021. The Company has remained very active and the directors continue to have confidence in the longer-term outlook for the business.

The uncertainty as to the future impact on the Group of the COVID-19 outbreak and ongoing conflict between Ukraine and Russia has been considered as part of the Company's adoption of the going concern basis. Thus far we have not observed any material impact on our overall existing business, or in the level of new business opportunities that are being presented to us in the markets in which we operate.

Instem LSS (North America) Limited

Directors' Report

For the year ended 31 December 2021

EMPLOYEES

The Company's employees are critical to the success of the business and the Company focuses considerable attention on their positive engagement. This commences from their initial induction into the Group where new joiners are introduced to Group Values and Culture Handbook, which provide a framework for ensuring an alignment between Group and employee interests. There is frequent and open communication with employees, who are encouraged to share their opinions, informally and through regular surveys. Instem has consistently used the Gallup Q12 engagement questions in its surveys to identify trends and its survey questions have been expanded over recent years to align with those used by the Great Place to Work® organisation. Employee-led, location specific Action Groups propose and implement changes to address employee identified opportunities for improvement. Proposals are considered by the Executive management team and actioned accordingly.

STATEMENT ON ENGAGEMENT WITH SUPPLIERS, CUSTOMERS AND OTHERS IN A BUSINESS RELATIONSHIP WITH THE COMPANY

The directors acknowledge the importance of forming and retaining a constructive relationship with all stakeholder groups. Effective engagement with stakeholders enables the Board to ensure stakeholder interests are considered when making decisions and is crucial for achieving the long-term success of the Company.

DIRECTORS

The directors shown below have held office during the whole of the period from 1 January 2021 to the date of this report.

D Gare
N J Goldsmith
P J Reason
D M Sherwin

INDEMNITY OF DIRECTORS

Under the Company's Articles of Association and subject to the provisions of the Companies Act, the Company may and has indemnified all directors and other officers against liability incurred in the execution or discharge of their duties or the exercise of their powers, including but not limited to any liability for the costs of any legal proceedings. The Group has purchased and maintains appropriate insurance cover against legal action brought against directors or officers.

CORONAVIRUS (COVID-19)

The risk to the Company, as for any business, is that the COVID-19 pandemic impacts new and existing business activities as clients and suppliers focus on short term priorities arising from the pandemic, or struggle to remain in business.

The Instem group, including Instem LSS (North America) Limited, remains well placed and has seen minimal impact from COVID-19, with working from home practices implemented and the majority of its business relatively unaffected. The market dynamics were highlighted further by the ongoing COVID-19 pandemic, which presented a number of new opportunities as R&D increased with all the major companies focusing on developing vaccines or therapies.

GOING CONCERN

The Directors have assessed the Group's financial position and liquidity at the end of the reporting period and for the forecast period up to 31 August 2023. The going concern period covered the 12 months from the date of signing the Group's financial statements. For the going concern assessment please refer to page 14.

SECTION 479A OF THE COMPANIES ACT 2006

The Company has taken advantage of the exemption from audit of the financial statements under Section 479A of the Companies Act 2006. The Company's results are included in the audited, consolidated accounts of the parent company, Instem plc.

Instem LSS (North America) Limited

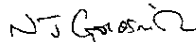
Directors' Report

For the year ended 31 December 2021

SUBSEQUENT EVENTS

Events occurring after the balance sheet date have been disclosed in accordance with IAS 10, 'Events after the reporting period'. Details are provided in note 23 to the Financial Statements.

By order of the board



N J Goldsmith

Director

31 August 2022

Instem LSS (North America) Limited

Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report, Directors' 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company for that year.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Instem LSS (North America) Limited

Statement of Comprehensive Income
For the year ended 31 December 2021

	Notes	2021 \$000	2020 \$000
REVENUE	3	23,475	20,724
Staff costs	4	(7,456)	(7,469)
Depreciation and amortisation	10, 11	(122)	(156)
Other operating expenses		(13,547)	(13,317)
OPERATING PROFIT/ (LOSS) BEFORE EXCEPTIONAL ITEMS		2,350	(218)
Exceptional costs	7	(646)	(115)
Exceptional income	7	954	-
OPERATING PROFIT/ (LOSS) AFTER EXCEPTIONAL ITEMS		2,658	(333)
Interest receivable and similar income	5	580	10
Interest payable and similar expenses	6	(44)	(1,141)
PROFIT/ (LOSS) BEFORE TAXATION	8	3,194	(1,464)
Taxation	9	(668)	28
PROFIT/ (LOSS) FOR THE YEAR		2,526	(1,436)
OTHER COMPREHENSIVE INCOME			
Item that will not be reclassified to profit or loss:			
Deferred tax on share options		-	-
OTHER COMPREHENSIVE INCOME FOR THE YEAR		-	-
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR		2,526	(1,436)

The notes on pages 12 to 37 form part of these financial statements.

Instem LSS (North America) Limited

Statement of Financial Position

At 31 December 2021

		2021		2020	
	Notes	\$000	\$000	\$000	\$000
ASSETS					
NON-CURRENT ASSETS					
Intangible assets	10	-	-	-	-
Tangible assets	11	35	41	41	41
Right of use assets	12	282	384	384	384
Finance lease receivables	12	115	175	175	175
Deferred tax asset	18	-	4	4	4
TOTAL NON-CURRENT ASSETS			432		604
CURRENT ASSETS					
Trade and other receivables	13	21,447	17,215	17,215	17,215
Finance lease receivables	12	60	56	56	56
Tax receivable	17	-	66	66	66
Cash and cash equivalents		1,125	2,663	2,663	2,663
TOTAL CURRENT ASSETS			22,632		20,000
TOTAL ASSETS			23,064		20,604
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	14	13,059	10,985	10,985	10,985
Lease liabilities	12	204	192	192	192
Tax payable	17	595	-	-	-
Deferred income	15	5,010	7,235	7,235	7,235
TOTAL CURRENT LIABILITIES			18,868		18,412
NON-CURRENT LIABILITIES					
Financial liabilities	16	-	952	952	952
Lease liabilities	12	377	581	581	581
TOTAL NON-CURRENT LIABILITIES			377		1,533
TOTAL LIABILITIES			19,245		19,945
EQUITY					
Share capital	19	169	169	169	169
Capital contribution reserve		1,500	866	866	866
Retained earnings		2,151	(376)	(376)	(376)
TOTAL EQUITY			3,819		659
TOTAL EQUITY AND LIABILITIES			23,064		20,604

Company Registration No. 02126697

The notes on pages 12 to 37 form part of these financial statements.

Instem LSS (North America) Limited

Statement of Financial Position

At 31 December 2021

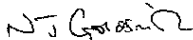
The Company is entitled to exemption from audit under Section 479A of the Companies Act 2006 relating to subsidiary companies for the year ended 31 December 2021.

The members have not required the Company to obtain an audit of its financial statements for the year ended 31 December 2021 in accordance with Section 476 of the Companies Act 2006.

The directors acknowledge their responsibilities for:

- (a) ensuring that the Company keeps accounting records which comply with Sections 386 and 387 of the Companies Act 2006 and
- (b) preparing financial statements which give a true and fair view of the state of affairs of the company as at the end of each financial year and of its profit or loss for each financial year in accordance with the requirements of Sections 394 and 395 and which otherwise comply with the requirements of the Companies Act 2006 relating to financial statements, so far as applicable to the company.

The financial statements on pages 8 to 37 were approved by the board of directors and authorised for issue on 31 August 2022 and are signed on its behalf by:



N J Goldsmith
Director

Company Registration No. 02126697

The notes on pages 12 to 37 form part of these financial statements

Instem LSS (North America) Limited

Statement of Changes in Equity

	Notes	Share capital \$000	Capital contribution reserve \$000	Retained earnings \$000	Total \$000
Balance as at 1 January 2020		169	638	1,060	1,867
Loss for the financial year		-		(1,436)	(1,436)
Share based payment	4	-	228	-	228
Balance as at 31 December 2020		169	866	(376)	659
Profit for the financial year		-	-	2,526	2,526
Share based payment	4, 7	-	634	-	634
Balance as at 31 December 2021		169	1,500	2,150	3,819

The notes on pages 12 to 37 form part of these financial statements

Instem LSS (North America) Limited

Notes to the Financial Statements

1. STATUTORY INFORMATION

Instem LSS (North America) Limited ("the Company") is a private company limited by shares and is registered, domiciled and incorporated in England and Wales. The principal activity and nature of operations of the Company is the development, sales and marketing of software and services that connect, harmonise, align and visualise intelligence in data, including the provision of solutions in respect of SEND (Standard for Exchange of Nonclinical Data).

The address of the Company's registered office is Diamond Way, Stone Business Park, Stone, Staffordshire, ST15 0SD, UK.

2. ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

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

BASIS OF PREPARATION

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) 'Application of Financial Reporting Requirements' issued by the Financial Reporting Council (FRC).

These financial statements of Instem LSS (North America) Limited have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). This framework is issued by the FRC incorporating 'The Amendments to FRS 101' issued by the FRC in July 2015 other than those relating to legal changes and has not applied the amendments to company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 that are effective for accounting periods beginning on or after 1 January 2016.

The financial statements have been prepared on a going concern basis and prepared on the historical cost basis. Further details are contained in the Going Concern section of the Accounting Policies.

The Company has taken advantage of the exemption from audit of the financial statements under Section 479A of the Companies Act 2006. The Company's results are included in the parent company's consolidated accounts.

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 101 "Reduced Disclosure Framework":

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment;
- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases;
- the requirements of paragraph 58 of IFRS 16;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
 - paragraph 118(e) of IAS 38 Intangible Assets;

Instem LSS (North America) Limited

Notes to the Financial Statements

2. ACCOUNTING POLICIES - continued

- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D and 111 of IAS 1 Presentation of Financial Statements;
- the requirements of paragraphs 134 to 136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- the requirements of paragraphs 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairments of Assets.

ADOPTION OF IFRS

The Company financial statements have been prepared in accordance with IFRS, IAS and International Financial Reporting Interpretations Committee (IFRICs) effective as at 31 December 2021. The Group and Company have chosen not to adopt any amendments or revised standards early.

IFRSs ADOPTED IN THE YEAR

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB which are all effective from 1 January 2021. The most significant of these are as follows:

- Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

Those standards, amendments to standards, and interpretations have been adopted and did not have a material impact on the accounting policies of the Company.

IFRSs ISSUED BUT NOT YET EFFECTIVE

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early. The most significant of these are as follows, which are all effective for the period beginning 1 January 2022:

- Amendments to IAS 1, 'Presentation of financial statements', on classification of liabilities
- Amendments to IAS12 'Deferred tax' on deferred tax related to assets and liabilities arising from a single transaction
- IFRS 3 'Business combination', reference to the Conceptual Framework and IAS 37, 'Provisions', on onerous contracts
- A number of narrow-scope amendments to IFRS1, IAS 8, IAS16 and IAS17
- A number of annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16

These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Instem LSS (North America) Limited

Notes to the Financial Statements

2. ACCOUNTING POLICIES - continued

GOING CONCERN

The Company's assessment for going concern relies on the financial position of Instem plc (Group). A letter of support was provided by Instem plc such that, if the Company found itself in a difficult financial position, the Group would become responsible for the going concern of the subsidiary.

Background

The Directors have adopted the going concern basis in preparing these financial statements after careful assessment of identified principal risks and the possible adverse impact on financial performance. The Directors have assessed the financial position and liquidity at the end of the reporting period and for the forecast period up to 31 August 2023, including sensitivity analysis. The going concern period covers the 12 months from the date of signing the financial statements. The process and key judgments in coming to this conclusion are set out below.

Current trading and liquidity

The Group's trading performance for the year ended 31 December 2021 has been strong with Revenues of £46.0m and Adjusted EBITDA of £8.3m. Instem is fully operational, with all staff in all territories working from home in accordance with governmental guidelines, no staff were furloughed and there is no intention of curtailing any business activities. The company has continued to recruit staff across its geographic footprint.

The Group signed a new financing arrangement on 8 April 2022, which consists of a committed facility of £10.0m with HSBC UK Bank plc to support the Group's working capital needs and its acquisition strategy, which can be extended up to £20.0m if needed, subject to further bank approval. The financial covenants have been considered in the forecast to ensure compliance. As of 31 December 2021, the Group had a net overdraft facility of £0.5m and a gross facility of £9.0m with NatWest Bank plc. As of 31 December 2021, the net overdraft facility with NatWest Bank plc was undrawn (2020: undrawn).

Sensitivity Analysis

The Company has considered two scenarios the (a) Base Case Scenario and (b) Sensitised Scenario which are also linked to the company's risks when modelling the forecast results and cash flow.

Despite the negative impact of these sensitivities the model demonstrated that the Group remained viable, even though profitability and cash over the next twelve months was reduced. Finally, the Group is expected to remain a going concern even applying the downside scenario sensitivity analysis throughout the forecast period to 31 August 2023, by taking sufficient remedial action.

Conclusion and Going Concern Statement

After considering the uncertainties described above, the directors have a reasonable expectation that the Group and consequently the Company have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the Instem LSS (North America) Limited annual report and accounts as a letter of support was provided by Instem plc, the Company's parent company.

Instem LSS (North America) Limited

Notes to the Financial Statements

2. ACCOUNTING POLICIES – continued

REVENUE RECOGNITION

The Company generates revenue from the provision of software licences, annual support, SaaS subscriptions, professional services and technology enabled outsourced services.

At contract inception, an assessment is completed to identify the performance obligations in each contract. Performance obligations in a contract are either goods or services that are distinct or part of a series of goods or services that are substantially the same and have the same pattern of transfer to the customer. Promises that are not distinct are combined with other promised goods or services in the contract, until a performance obligation is satisfied.

At contract inception, the transaction price is determined, being the amount that the Company expects to receive for transferring the promised goods or services. The transaction price is allocated to the performance obligations in the contract based on their relative standalone selling prices. The Company has determined that the contractually stated price represents the standalone selling price for each performance obligation.

Revenue is recognised when a performance obligation has been satisfied by transferring the promised product or service to the customer.

Software licences

Licence revenue comprises the sale of software licences by the Company. The revenue from software licences is recognised when the customer takes possession of the software which is usually when the licence key is provided to the customer. This is because the software is functional at the time the licence transfers to the customer and the Company is not required or expected to undertake activities that significantly affect the utility of the intellectual property by the customer.

Annual support

Customers typically enter into a support contract for a period of twelve months. This contract provides the customer with access to technical support and software upgrades. The promises in these contracts are a single performance obligation, which is satisfied over time as the customer consumes the benefits of the service. Revenue in respect of the single performance obligation is recognised evenly over the contract term.

SaaS subscription and support

Customers typically enter into a Subscription contract for an agreed period and pay a fixed amount in exchange for the usage of software on a hosted server, computer based version or customer server version (in customer premises) over a specified period of time along with access to maintenance and support. In some cases the initial subscription contracts may also include some installation services. The promises in these contracts are considered to be a single performance obligation as the subscription and support are highly interdependent on one another given that the customers are required to take the full package of both the software and support services i.e Instem would not be able to provide the support services without the provision of the software nor provide the software without the support services.

The revenue is recognised over the period of the contract on a straight-line basis as the customer simultaneously receives and consumes the benefits of the software and services provided by the Company consistently over the contract term.

Instem LSS (North America) Limited

Notes to the Financial Statements

2. ACCOUNTING POLICIES – continued

Professional services and technology enabled outsourced services

Customers typically enter into a service contract to provide distinct service work based on clear statements of work. Service work includes, but is not limited to, implementation services, training and outsourced services work. The promises in this contract are considered to be a single performance obligation given the services are interdependent and the revenue is recognised on a percentage completion basis for fixed price contracts or as services are provided in respect of time and materials contracts.

The Company has elected to take the practical expedient to apply this policy to its portfolio distinct service contracts given the similar characteristics in these types of contracts.

Professional services include the revenue from funded development projects where customers typically enter into a service contract to accelerate product development. Revenue for funded development work is recognised on a percentage completed basis. The percentage completed is determined with reference to time required to complete the development.

Bundled contracts

Software licences, professional services - and annual support are often bundled together in a contract.

Where the contract assessment identifies that the sale does not meet the criteria to be a distinct performance obligation, due to a lack of interdependence between performance obligations, promises that are not distinct are combined with other promised goods or services in the contract, until a performance obligation is satisfied. Revenue in respect of this bundled performance obligation is recognised over the period of the contracted obligation on a straight-line basis.

Amounts recoverable on contracts and deferred income

In most cases, customers are invoiced and payment is received in advance of revenue being recognised in the income statement. Amounts recoverable on contracts and deferred income is the difference between amounts invoiced to customers and revenue recognised under the policy described above.

For professional services, technology enabled outsourced services and consultancy services the group will raise an invoice to the customer only if the performance obligation based on the agreement would be met.

Consequently, if the amount of revenue recognised exceeds the amounts invoiced the excess amount is included within amounts recoverable on contracts.

In comparison, if customers are invoiced and payment is received in advance of revenue being recognised in the income statement then deferred income is recognised.

Instem LSS (North America) Limited

Notes to the Financial Statements

2. ACCOUNTING POLICIES – continued

Contract fulfilment asset

Contract fulfilment assets are amortised over the expected contract period on a systematic basis representing the pattern in which control of the associated service is transferred to the customer.

Practical exemptions

The Company has taken advantage of the following practical exemptions:

- not to account for significant financing components where the time difference between receiving consideration and transferring control of goods (or services) to its customer is one year or less;
- expense the incremental costs of obtaining a contract when the amortisation period of the asset otherwise recognised would have been one year or less; and
- to not disclose information relating to performance obligations for contracts that had an original expected duration of one year or less or where the right to consideration from a customer is an amount that corresponds directly with the value of the completed performance obligations.

INTEREST RECEIVABLE AND SIMILAR INCOME

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Finance income includes exchange gains (including exchange gains on the translation of intra-group funding balances).

EXCEPTIONAL ITEMS

Exceptional items are gains or losses which are infrequent or abnormal and are not part of the ongoing operations of the business. Exceptional items may include restructuring costs, legal fees, M&A costs and other unusual gains or losses.

GRANT

Grants from the US government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with the appropriate conditions.

INTEREST PAYABLE AND SIMILAR EXPENSES

Net finance costs include interest payable, arrangement and service fees, exchange losses (including exchange losses on the translation of inter-company funding balances), unwinding discount from future deferred consideration payments, finance charges on leases and net interest on pension scheme liabilities. Interest payable is recognised in the statement of comprehensive income as it accrues, using the effective interest method.

FOREIGN CURRENCIES

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

FINANCIAL INSTRUMENTS

The Company complies with IFRS 9 Financial Instruments. IFRS 9 specifies how an entity should classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items. IFRS 9 requires an entity to recognise a financial asset or a financial liability in its statement of financial position when it becomes party to the contractual provisions of the instrument and requires entities to recognise expected credit losses for all financial assets held at amortised cost, including most intercompany loans from the perspective of the lender.

FUNCTIONAL CURRENCY

The Company's functional and presentational currency is the US \$. The closing rate of exchange to GBP at 31 December 2021 was \$1.3497 (2020: \$1.3659). The average rate for year ended 31 December 2021 was \$1.3744 (2020: \$1.2852).

Instem LSS (North America) Limited

Notes to the Financial Statements

2. ACCOUNTING POLICIES - continued

OPERATING PROFIT AND LOSS BEFORE INTEREST RECEIVABLE AND PAYABLE

Operating profit and loss before interest receivable and payable is profit and losses arising from the Company's normal trading activities, after charges for depreciation of tangible and right of use assets and amortisation of intangibles.

SHARE-BASED PAYMENT TRANSACTIONS

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 by reference to the fair value of the equity instruments granted. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the estimate of the number of instruments that will eventually vest with a corresponding adjustment to equity. Fair values are measured by use of the Binomial, Monte Carlo or Black Scholes models. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions, and behavioural considerations.

Non-vesting and market vesting conditions are taken into account when estimating the fair value of the option at grant date. Service and non-market vesting conditions are taken into account by adjusting the number of options expected to vest at each reporting date. Market vesting conditions are linked to the Group's share price performance. Non-market vesting conditions are linked to trading performance and service over defined time periods.

Cancelled or settled options are accounted for as an acceleration of vesting. The unrecognised grant date fair value is recognised in profit or loss in the year that the options are cancelled or settled. Where the terms of the options are modified and the modification increases the fair value or number of equity instruments granted, measured immediately before and after the modification, the incremental fair value is spread over the remaining vesting period.

Options over the Group's shares granted to employees of subsidiaries are recognised by the Company as a capital contribution.

TAXATION

Taxation expense includes the amount of current income tax payable and the charge for the year in respect of deferred taxation.

The income tax payable is based on an estimation of the amount due on the taxable profit for the year. Taxable profit is different from profit before tax as reported in the statement of comprehensive income because it excludes items of income or expenditure which are not taxable or deductible in the year as a result of either the nature of the item or the fact that it is taxable or deductible in another year. The Company's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the reporting date.

Income tax credits for research and development activities are recognised on a cash basis or when their receipt is reasonably certain.

Deferred tax is accounted for on the basis of temporary differences arising from the differences between the tax base and accounting base of assets and liabilities.

Instem LSS (North America) Limited

Notes to the Financial Statements

2. ACCOUNTING POLICIES – continued

Deferred tax is recognised for all taxable temporary differences, except to the extent where it arises from the initial recognition of an asset or liability in a transaction that is not a business combination. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

Deferred tax is charged or credited to the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case it is dealt with within equity. It is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

INTANGIBLE ASSETS

Computer Software

Computer software is carried at cost less accumulated amortisation and any impairment loss. Externally acquired computer software and software licences are capitalised and amortised on a straight-line basis over their useful economic lives of three years. Costs relating to development of computer software for internal use are capitalised once the recognition criteria of IAS 38 “Intangible Assets” are met. When the software is available for its use, these costs are amortised over the estimated useful life of the software.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

TANGIBLE FIXED ASSETS

Tangible fixed assets are stated in the statement of financial position at cost less accumulated depreciation and provision for impairments.

Depreciation is provided on all assets so as to write off the cost less estimated residual value on a straight line basis as follows:

Leasehold property improvements	- over the life of the lease
Fixtures and fittings	- 25% per annum
Computer equipment	- 25% per annum

The expected useful lives and residual values of tangible fixed assets are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of comprehensive income.

FINANCIAL INSTRUMENTS

Financial assets

The Company classifies its financial assets at amortised cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at amortised cost

These assets arise principally from the provision of goods and services to customers (for example, trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost, less provision for impairment.

Instem LSS (North America) Limited

Notes to the Financial Statements

2. ACCOUNTING POLICIES - continued

The Company's financial assets measured at amortised cost comprise trade and other receivables and cash and cash equivalents in the consolidated statement of financial position.

Trade debtors

Trade and other receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business, if longer) they are classified as current assets, if not, they are presented as non-current assets. Trade and other receivables are measured at the transaction price in accordance with IFRS 15.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a *lifetime expected loss allowance for all trade receivables and contract assets*. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 5 years before 31 December 2021 (2020: 31 December 2020) and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The contract assets relate to unbilled revenue, which have performance obligations to be completed. The contract assets have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

At each reporting date management assesses whether any events have occurred which have had a detrimental effect on the estimated future cash flows of the asset causing a financial asset to become credit-impaired. If the credit risk is significant a provision is posted based on the recoverable amount the Company is expected to receive per management's assessment. Specific provisions of this nature are excluded from the simplified credit loss calculation using the provision matrix.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and cash deposits which are readily convertible to a known amount of cash. Cash and cash equivalents in the statement of financial position include bank overdrafts. An offset position is reported as the Company has a legal right to set off and any settlement would be on a net basis. For the purposes of the cash flow statement, cash and cash equivalents include bank overdrafts which are repayable on demand and are an integral part of Company cash management.

Intercompany receivables

Impairment provisions for receivables from related parties and loans to related parties are recognised based on a forward looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those where the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised. The amount of any provision is recognised in the income statement within other operating expense.

Instem LSS (North America) Limited

Notes to the Financial Statements

2. ACCOUNTING POLICIES - continued

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Interest-bearing government loans are recorded initially at their fair value, net of direct transaction costs. Such loans are subsequently carried at their amortised cost and finance charges are recognised in the statement of comprehensive income over the term of the instrument using an effective rate of interest.

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Trade and other payables

Trade and other payables are not interest bearing and are initially recognised at fair value and subsequently at amortised cost.

Ordinary share capital

For ordinary share capital, the par value is recognised in share capital and the premium in the share premium reserve.

Bank borrowings and loan notes

Interest-bearing loan notes and bank overdrafts are recorded initially at their fair value, net of direct transaction costs. Such instruments are subsequently carried at their amortised cost and finance charges are recognised in the statement of comprehensive income over the term of the instrument using an effective rate of interest.

Finance charges are accounted for on an accruals basis to the statement of comprehensive income. Overdrafts are offset against cash and cash equivalents when the Company has a legal right of off-set.

LEASES

The Company as a Lessee

The Company makes use of leasing arrangements principally for the provision of office space. The Company does not enter into sale and leaseback arrangements.

The Company assesses whether a contract is a lease or contains a lease at inception of the contract. A lease conveys the right to direct the use and obtain substantially all of the economic benefits of an identified asset for a period of time in exchange for consideration.

Some lease contracts contain both lease and non-lease components. These non-lease components are usually associated with facilities management services at offices. The Company has elected to not separate its leases for offices into lease and non-lease components and instead accounts for these contracts as a single lease component.

All leases are accounted for by recognising a right of use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a term of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, discounted using the Group's incremental borrowing rate because as the lease contracts are negotiated with third parties it is not possible to determine the interest rate that is implicit in the lease. The incremental borrowing rate is the estimated rate that the Group could have to pay to borrow the same amount over a similar term and with similar security to obtain an asset of equivalent value. This rate is adjusted should the lessee entity have a different risk profile to that of the Group.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed) and variable payments based on an index or rate.

Instem LSS (North America) Limited

Notes to the Financial Statements

2. ACCOUNTING POLICIES - continued

In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Company if it is reasonably certain to assess that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Company is contractually required to dismantle, remove or restore the leased asset (typically leasehold dilapidations).

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right of use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Company revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right of use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

When the Company renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy
- in all other cases where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right of use asset being adjusted by the same amount
- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right of use asset are reduced by the same proportion to reflect the partial of full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right of use asset is adjusted by the same amount.

In determining the lease term, the Company assesses whether it is reasonably certain to exercise, or not to exercise, options to extend or terminate a lease. This assessment is made at the start of the lease and is re-assessed if significant events or changes in circumstances occur that are within the lessee's control.

Instem LSS (North America) Limited

Notes to the Financial Statements

2. ACCOUNTING POLICIES - continued

The Company applies judgement in determining whether individual leases can be accounted for as a portfolio. The judgements include an assessment of whether the leases share similar characteristics and whether the financial statements would be materially different if each lease was accounted for individually.

Where rental agreements include market rate escalations, the lease liability is re-measured when the change in cash payments takes effect.

The Company has elected to account for short-term leases assets using practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

The Company as a lessor

The Company acts as a lessor in relation to a sublease of part of one of the properties it leases. As a lessor the Company classifies its leases as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset and classified as an operating lease if it does not.

As the lease term is for the major part of the economic life of the underlying right of use asset this has been treated as a finance lease. The right of use asset has therefore been derecognised and a net investment in the lease recognised instead. Interest income is recognised on the lease receivable.

IMPAIRMENT OF ASSETS

The carrying value of property, plant and equipment and intangible assets (excluding goodwill) is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

At each reporting date the Group reviews the carrying value of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the assets 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 for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

Instem LSS (North America) Limited

Notes to the Financial Statements

2. ACCOUNTING POLICIES - continued

RETIREMENT BENEFITS

The Company does not operate a pension scheme but makes contributions to employees' 401K pension scheme arrangements in the United States of America. The amount charged to the profit and loss account in respect of pension costs and other post retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

CAPITAL CONTRIBUTION RESERVE

The Company contributes towards equity-settled share-based payments to certain employees, made by its parent company, Instem plc. Equity-settled share-based payments are measured at fair value at the date of grant by reference to the fair value of the equity instruments granted. A cost is recognised in the Company relating to the employees of the Company who hold these instruments and an equivalent amount is recognised as a movement in the capital contribution reserve.

RETAINED EARNINGS

The retained earnings reserve includes the accumulated profits and losses arising from the 'Statement of Comprehensive Income' and certain items from 'Other Comprehensive Income' attributable to equity shareholders net of distributions to shareholders.

SIGNIFICANT JUDGEMENTS AND ESTIMATES

In the process of applying the Company's accounting policies, which are described above, management have made judgements and estimations about the future that have the most significant effect on the amounts recognised in the financial statements. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Significant judgements

The following judgement has the most significant effect on the financial statements.

Revenue Recognition

The Company generates revenue from the provision of software licences, annual support, SaaS subscriptions, subscription and support, professional services, technology enabled outsourced services. Software licences, professional services and annual support are often bundled together in a contract which do not meet the criteria to be distinct performance obligation.

Even though, the promise to transfer services to the customer are separately identifiable, the nature in the context of the contract, is to transfer combined services. The goods or services are highly interdependent, interrelated and the Company would not be able to fulfil its promise by transferring each of the goods or services independently.

Judgement is applied in determining how many performance obligations there are within each contract and the period in which these obligations will be fulfilled and recognised as revenue, based on the Company's accounting policies. For SaaS subscription, subscription and support and annual support the Company determines for each contract whether the promise is considered to be a single performance obligation as the subscription and support are highly interdependent on one another given that the customers are required to take the full package of both the software and support services i.e Instem would not be able to provide the support services without the provision of the software nor provide the software without the support services.

Instem LSS (North America) Limited

Notes to the Financial Statements

2. ACCOUNTING POLICIES - continued

Estimation uncertainty

Information about estimations and assumptions that may have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Revenue Recognition

For Professional services and technology enabled outsourced services revenue recognition there is a significant estimation of the planned project hours, which determines the percentage of completion of service revenue contracts. Before the project is started, the project manager estimates the budgeted hours needed for the agreed services. If the project is expected to overrun then the project manager will amend the expected budgeted hours in accordance with the new available information which also mitigates the risk of early revenue recognition.

Instem LSS (North America) Limited

Notes to the Financial Statements

3. REVENUE

The revenue and profit before taxation of the Company is attributable to three operating segments - Study Management, Regulatory Solutions and In Silico Solutions. Segmental reporting analysis is included within the Consolidated Financial Statements of Instem plc as it is not a requirement for the Company.

An analysis of revenue by geographical market is given below:

	2021 \$000	2020 \$000
United Kingdom	1,864	4,160
Rest of Europe	71	148
USA	19,973	14,556
Rest of the World	1,567	1,860
	<u>23,475</u>	<u>20,724</u>

Revenue from contracts with customers

a. Contract Balances

	2020 £000	2020 £000
Amounts recoverable on contracts	1,081	868
Deferred income	(5,010)	(7,235)
	<u></u>	<u></u>

Amounts recoverable on contracts and deferred income are included within "trade and other receivables" and "deferred income" respectively on the face of the statement of financial position.

Amounts recoverable on contracts predominately relate to fulfilled obligations on service contracts where billing is in arrears. At the point where completed work is invoiced, the contract asset is derecognised and a corresponding receivable recognised.

Deferred income relates to consideration received from customers in advance of work being completed plus maintenance and support which is invoiced in advance.

Instem LSS (North America) Limited

Notes to the Financial Statements

4. EMPLOYEES AND DIRECTORS

The average monthly number of persons (including directors) employed by the Company during the year was:

	2021 Number	2020 Number
Directors, administration and supervision	8	8
Customer service and sales	40	42
	<u>48</u>	<u>50</u>

Staff costs for the above persons:

	2021 \$000	2020 \$000
Wages and salaries	5,941	6,119
Social security costs	426	456
Other pension costs	251	286
	<u>6,618</u>	<u>6,861</u>

The following table provides staff costs and related employee benefit expenses recognised in the income statement.

	2021 \$000	2020 \$000
Staff costs – see above	6,618	6,861
Share based payments	404	228
Health and life insurance	434	380
	<u>7,456</u>	<u>7,469</u>

Directors' remuneration was:

	2021 \$000	2020 \$000
Emoluments	355	315
Defined contribution pension contributions	29	40
	<u>384</u>	<u>355</u>

Number of directors to whom relevant benefits are accruing under:

	2021 Number	2020 Number
Defined contribution schemes	<u>1</u>	<u>1</u>

Instem LSS (North America) Limited

Notes to the Financial Statements

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2021 \$000	2020 \$000
Foreign exchange gains	572	-
Right of use interest income	8	10
	<u>580</u>	<u>10</u>

6. INTEREST PAYABLE AND SIMILAR EXPENSES

	2021 \$000	2020 \$000
Bank interest and fees	17	22
Right of use finance costs	27	34
Foreign exchange losses	-	1,085
	<u>44</u>	<u>1,141</u>

7. EXCEPTIONAL ITEMS

	2021 \$000	2020 \$000
<i>Exceptional costs</i>		
Acquisition costs	416	115
Share based payments	230	-
	<u>646</u>	<u>115</u>

	2021 \$000	2020 \$000
<i>Exceptional income</i>		
US government loans forgiven	954	-

Non recurring costs in the year include acquisition costs of \$416,000 relating to the acquisitions of The Edge, d-wise and PDS. The share based payments charge of \$230,000 relate to options that were re-issued in 2021 and vested immediately.

The non recurring income of \$954,000 relates to US federal government COVID-19 support loan which was forgiven during 2021 and there are no unfulfilled conditions or contingencies related to this income.

8. PROFIT/LOSS BEFORE TAXATION

	2021 \$000	2020 \$000
Profit before taxation is stated after charging/(crediting):		
Depreciation - owned assets (note 11)	20	41
Depreciation – right of use assets (note 11)	102	102
Software amortisation (note 10)	-	13

Instem LSS (North America) Limited

Notes to the Financial Statements

9. TAXATION

	2021 \$000	2020 \$000
Income taxes recognised in profit or loss		
Current tax:		
Foreign tax	(770)	-
Foreign tax in respect of previous years	106	110
Total current tax	(664)	110
Deferred tax:		
Current year charge	(18)	(91)
Adjustment in respect of previous years	14	9
Total deferred tax	(4)	(82)
Total income (charge)/ credit recognised in the current year	(668)	28
	2021 \$000	2020 \$000
The income tax charge can be reconciled to the accounting profit as follows:		
Profit/ (Loss) before tax	3,194	(1,464)
Profit/ (Loss) multiplied by standard rate of corporation tax in the UK 19.0% (2020: 19.0%)	(607)	278
Effects of:		
Expenses not allowable for tax purposes	(33)	111
Group loss relief	58	(507)
Difference in overseas tax rates	(206)	-
Double tax relief	-	-
Impact of change in tax rate	-	13
Adjustments in respect of prior years	120	133
Total income tax (charge)/ credit recognised in statement of comprehensive income	(668)	28

The UK corporation tax is calculated at the prevailing rate of 19%. Foreign tax liabilities are calculated at the prevailing tax rates applying in the overseas tax jurisdictions.

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. As the proposal to increase the rate to 25% had been substantively enacted at the balance sheet date, its effects are included in these financial statements as a change from 19% to 25% on deferred tax.

Instem LSS (North America) Limited

Notes to the Financial Statements

10. INTANGIBLE FIXED ASSETS

	Acquired software \$000
Cost	
At 1 January 2021 and 31 December	291
Amortisation	
At 1 January 2021	291
Charge for year	-
At 31 December 2021	291
Net book value	
At 31 December 2021	-
At 31 December 2020	-

11. TANGIBLE FIXED ASSETS

	Right of use assets \$000	Leasehold property improvements \$000	Fixtures and fittings \$000	Computer equipment \$000	Total \$000
Cost					
At 1 January 2021	645	23	98	187	953
Additions	-	-	-	14	14
At 31 December 2021	645	23	98	201	967
Depreciation					
At 1 January 2021	261	23	97	147	528
Charge for year	102	-	1	19	122
At 31 December 2021	363	23	98	166	650
Net book value					
At 31 December 2021	282	-	-	35	317
At 31 December 2020	384	-	1	40	425

The net book value of tangible fixed assets at 31 December 2021, excluding the right of use assets, is \$35,000 (2020: \$41,000).

Instem LSS (North America) Limited

Notes to the Financial Statements

12. LEASES

Nature of leasing activities in the capacity of lessee

The Company lease one office in the jurisdiction from which it operates. In this jurisdiction the periodic rent is fixed over the lease term, with inflationary increases incorporated into the fixed payments stipulated in the lease agreements. Where rental agreements include market rate escalations, the lease liability is re-measured when the change in cash payments takes effect. With the exception of short-term leases ie, leases of low value underlying assets, with less than twelve months remaining on the lease as at 31 December 2021, each lease is reflected on the balance sheet as a right of use asset and a lease liability.

Each lease generally imposes a restriction that, unless there is a contractual right for the Company to sublet the asset to another party, the right of use asset can only be used by the Company. Leases are either non-cancellable or may only be cancelled by incurring a termination fee. Some leases contain an option to extend the lease for a further term. For the office lease the Company must keep that property in a good state of repair and return the property in its original condition at the end of the lease.

The table below describes the nature of the Company's leasing activities by type of right of use asset recognised on the balance sheet:

<u>Right of use assets</u>	<u>No of right of assets leased</u>	<u>Range of remaining term</u>
Office buildings	1	2.8 years
Right of use assets		\$000
Cost		
At 1 January 2021		645
Additions		-
		<hr/>
At 31 December 2021		645
		<hr/>
Depreciation		
At 1 January 2021		261
Charge for year		102
		<hr/>
At 31 December 2021		363
		<hr/>
Net book value		
At 31 December 2021		282
		<hr/>
At 31 December 2020		384
		<hr/>

Instem LSS (North America) Limited

Notes to the Financial Statements

12. LEASES - continued

Lease Liabilities

	2021 \$000	2020 \$000
At 1 January	773	953
Interest expense	27	34
Lease payments	(219)	(214)
At 31 December	<u>581</u>	<u>773</u>

Lease liabilities are presented in the statement of financial position as follows:

	2021 \$000	2020 \$000
Current liability	204	192
Non-current liability	<u>377</u>	<u>581</u>

Lease liability maturity analysis

As at 31 December 2021	1 year or less \$000	2 to 5 years \$000	After 5 years \$000	Total \$000
Lease liabilities	<u>204</u>	<u>377</u>	<u>-</u>	<u>581</u>
As at 31 December 2020	1 year or less \$000	2 to 5 years \$000	After 5 years \$000	Total \$000
Lease liabilities	<u>192</u>	<u>581</u>	<u>-</u>	<u>773</u>

The following amounts in respect of leases, where the Company is a lessee, have been recognised in the consolidated statement of comprehensive income:

	2021 \$000	2020 \$000
Interest expense	27	34
Amortisation of right of use assets	<u>102</u>	<u>103</u>

The total cash outflow for leases in 2021 was \$219,000 (2020: \$214,000)

Instem LSS (North America) Limited

Notes to the Financial Statements

12. LEASES - continued

Finance lease receivable

Nature of leasing activities in the capacity of lessor

The Company also acts as a lessor in relation to a sublease of part of a property rented. As the lease term is for the major part of the economic life of the underlying right of use asset this has been treated as a finance lease. The right of use asset has therefore been derecognised and a net investment in the lease recognised instead. Interest income is recognised on the lease receivable.

Movements in net investment in leases in relation to sub lease during the year ended 31 December 2021 and 31 December 2020 are as follows:

	2021 \$000	2020 \$000
At 1 January	231	282
Interest earned	8	10
Less: Rental income	(64)	(61)
At 31 December	<u>175</u>	<u>231</u>

Minimum undiscounted lease payments receivable are as follows:

	2021 \$000	2020 \$000
Within 1 year	66	63
Between 1 and 2 years	67	66
Between 2 and 3 years	52	67
Between 3 and 4 years	-	52
Later than 5 years	-	-
	<u>185</u>	<u>248</u>

Reconciliation of minimum undiscounted lease payments to net investment in the lease:

	2021 \$000	2020 \$000
Total minimum undiscounted lease payments receivable	185	248
Unearned finance income	(10)	(17)
	<u>175</u>	<u>231</u>

Instem LSS (North America) Limited

Notes to the Financial Statements

12. LEASES - continued

Finance lease receivable maturity analysis:

As at 31 December 2021	1 year or less \$000	2 to 5 years \$000	After 5 years \$000	Total \$000
Finance lease receivable	60	115	-	175
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
As at 31 December 2020	1 year or less \$000	2 to 5 years \$000	After 5 years \$000	Total \$000
Finance lease receivable	56	175	-	231
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

13. TRADE AND OTHER RECEIVABLES

	2021 \$000	2020 \$000
Trade receivables	2,204	1,913
Amounts owed by group undertakings	17,447	13,897
Amounts recoverable on contracts	1,081	868
Prepayments and other debtors	715	537
	<u>21,447</u>	<u>17,215</u>

Trade receivables of \$nil (2020: \$nil) fall due after more than one year.

Definition of default

A loss allowance on all financial assets is measured by considering the probability of default. Receivables are considered to be in default based on an assessment of past payment practices and the likelihood of such overdue amounts being recovered.

Impairment of trade receivables

The probability of default is determined at the year-end based on the ageing of the receivables, historical data about default rates. That data is adjusted if the Company determines that historical data is not reflective of expected future conditions due to changes in the nature of its customers and how they are affected by external factors such as economic and market conditions.

Impairment of group receivables

The Company assesses the expected credit loss in respect of group receivables based on their ability to repay and recover the balance. In the absence of agreed terms this consideration is given over the expected period of repayment and any expected credit loss. The Company is required to calculate expected credit losses on all financial assets, including intercompany receivables within the scope of IFRS 9, 'Financial Instruments'. Intercompany positions are eliminated in the Group consolidated financial statements. At the period end an allowance has been made for credit impairment of group receivables of \$134,000 (2020: \$152,000).

Amounts owed by group undertakings are unsecured, interest free have no fixed date of repayment and are repayable on demand.

Instem LSS (North America) Limited

Notes to the Financial Statements

14. TRADE AND OTHER PAYABLES

	2021 \$000	2020 \$000
Trade payables	231	199
Amounts owed to group undertakings	11,641	9,966
Other taxation and social security costs	45	115
Accrued expenses	1,142	705
	<u>13,059</u>	<u>10,985</u>

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

15. DEFERRED INCOME

	2021 \$000	2020 \$000
Deferred income	5,010	7,235

Deferred income represents consideration received from customers in advance of work being completed plus maintenance and support income, which is invoiced in advance.

16. FINANCIAL LIABILITIES

	2021 \$000	2020 \$000
Non current borrowings	-	952

The US federal government COVID-19 support loan of \$954,000, including interest, was forgiven during 2021 and there are no unfulfilled conditions or contingencies related to this income.

17. CURRENT TAXATION

The current tax payable is \$595,000 (2020: receivable of \$66,000) representing the amount of income tax receivable and payable in respect of the current and prior years.

Instem LSS (North America) Limited

Notes to the Financial Statements

18. DEFERRED TAX

	2021 \$000	2020 \$000
Deferred tax asset		
Amounts due to be recovered after 12 months	-	4
	<u> </u>	<u> </u>

The following are the major deferred tax assets and liabilities recognised by the Company and the movements thereon during the year:

<i>Deferred tax asset</i>	Other timing difference \$000
At 1 January 2021	4
Charge to profit or loss for the year	(4)
	<u> </u>
At 31 December 2021	-
	<u> </u>

The Company does not recognise deferred tax assets unless sufficient taxable profits to utilise the assets can be forecasted.

19. SHARE CAPITAL

	2021 \$000	2020 \$000
<i>Allotted, called-up and fully paid:</i>		
100,000 Ordinary shares of £1 each	169	169
	<u> </u>	<u> </u>

The Company's ordinary shares, which carry no right to fixed income, each carry the right to one vote at general meetings of the Company.

20. PENSION COMMITMENTS

The Company does not operate a pension scheme but makes contributions to employees' 401K pension scheme arrangements in the United States of America. The pension cost charge represents contributions payable by the Company and amounted to \$251,000 (2020: \$286,000). Contributions totalling \$nil (2020: \$nil) were payable to the fund at the balance sheet date and are included in creditors.

Instem LSS (North America) Limited

Notes to the Financial Statements

21. CONTINGENT LIABILITY

The assets of the Company were used as security for the borrowings of Instem Life Science Systems Limited, a fellow subsidiary of Instem plc, in 2021. During 2022, the bank overdraft has been repaid.

22. ULTIMATE PARENT COMPANY

The immediate parent company of Instem LSS (North America) Limited is Instem LSS Limited, a company incorporated and registered in England and Wales. The ultimate parent company is Instem plc, a company also incorporated and registered in England and Wales.

Instem plc is the smallest and largest group in which the results of the Company are consolidated. The consolidated financial statements of this company may be obtained from Diamond Way, Stone Business Park, Stone, Staffordshire, ST15 0SD, UK or at www.instem.com.

23. SUBSEQUENT EVENTS

No adjusting events have occurred between the 31 December 2021 reporting date and the date of approval of these financial statements.

On 8 April 2022, the Group signed a new financing arrangement which consists of a committed facility of £10.0m with HSBC UK Bank plc to support the Group's working capital needs and its acquisition strategy, which can be extended up to £20.0m if needed, subject to further bank approval. The financial covenants have been considered in the forecast to ensure compliance.