

REGISTERED NUMBER: 02126697 (England and Wales)

Directors' Report and
Unaudited Financial Statements for the Year Ended 31 December 2020
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

National Westminster Bank plc
41 Greengate Street
Stafford
ST16 2JA

Instem LSS (North America) Limited

Directors' Report

For the year ended 31 December 2020

The directors present their report with the financial statements of Instem LSS (North America) Limited (the "Company") for the year ended 31 December 2020.

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 the 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 strongly to \$20,724,000 (2019: \$15,084,000), due to higher revenue from technology enabled outsourced services and Software as a Service (SaaS). Losses for the year were \$1,436,000 (2019: Profit of \$40,000), mainly due to higher foreign exchange losses.

DIVIDENDS

The directors do not recommend the payment of a dividend (2019: \$nil).

FUTURE DEVELOPMENTS

Over recent years the Group has invested significantly in a global infrastructure that has created a solid platform for future growth and has established long-term relationships with its blue-chip client base. The Company is well positioned to add new clients and generate increasing revenues from existing clients.

Increased revenue predictability and high retention rates provide a strong foundation from which the business can grow as it builds on the momentum achieved during 2020. The Company has remained very busy and the directors continue to have confidence in the longer-term outlook for the business.

DIRECTORS

The directors shown below have held office during the whole of the period from 1 January 2020 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 Company has purchased and maintains appropriate insurance cover against legal action brought against directors or officers.

Instem LSS (North America) Limited

Directors' Report

For the year ended 31 December 2020

CORONAVIRUS (COVID-19)

Like most businesses worldwide the Company is having to deal with the impact of COVID-19, with its primary concern being the safety and wellbeing of its staff and their families. The Company continues to follow and adhere to the advice of government authorities in each territory in which its staff are based.

The Company has the benefit of operating in a sector where significant worldwide focus is on identifying vaccines and therapies for COVID-19, with a number of its customers directly involved in this work. While the Company has experienced some disruption to demand for its products and services there has also been some increase in customer demand.

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 December 2022. 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 11.

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.

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


Nigel Goldsmith (Sep 29, 2021 15:00 GMT+1)

N J Goldsmith

Director

29 September 2021

Instem LSS (North America) Limited

Statement of Directors' Responsibilities

The directors are responsible for preparing the 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 Accounting Standards and applicable law (United Kingdom Generally Accepted Accounting Practice).

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

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

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and accounting estimates that are reasonable and prudent;
- c. 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 2020

	Notes	2020 \$000	2019 \$000
REVENUE	3	20,724	15,084
Staff costs	4	(7,469)	(6,825)
Depreciation and amortisation	10, 11	(156)	(271)
Other operating expenses		(13,317)	(7,395)
OPERATING (LOSS)/PROFIT		(218)	593
Interest receivable and similar income	5	10	40
Interest payable and similar expenses	6	(1,141)	(55)
Exceptional items	7	(115)	(142)
(LOSS)/PROFIT BEFORE TAXATION	8	(1,464)	436
Taxation	9	28	(396)
(LOSS)/PROFIT FOR THE YEAR		(1,436)	40
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 (EXPENSE)/INCOME FOR THE YEAR		(1,436)	40

The notes on pages 9 to 33 form part of these financial statements.

Instem LSS (North America) Limited

Statement of Financial Position

At 31 December 2020

		2020	2019
	Notes	\$000	\$000
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	10	-	13
Tangible assets	11	41	64
Right of use assets	12	384	487
Finance lease receivables	12	175	230
Deferred tax asset	18	4	86
TOTAL NON-CURRENT ASSETS		604	880
CURRENT ASSETS			
Trade and other receivables	13	17,215	17,708
Finance lease receivables	12	56	52
Tax receivable	17	66	-
Cash and cash equivalents		2,663	1,030
TOTAL CURRENT ASSETS		20,000	18,790
TOTAL ASSETS		20,604	19,670
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	14	10,985	11,224
Lease liabilities	12	192	182
Tax payable	17	-	170
Deferred income	15	7,235	5,456
TOTAL CURRENT LIABILITIES		18,412	17,032
NON-CURRENT LIABILITIES			
Financial liabilities	16	952	-
Lease liabilities	12	581	771
TOTAL NON-CURRENT LIABILITIES		1,533	771
TOTAL LIABILITIES		19,945	17,803
EQUITY			
Share capital	19	169	169
Capital contribution reserve		866	638
Retained earnings		(376)	1,060
TOTAL EQUITY		659	1,867
TOTAL EQUITY AND LIABILITIES		20,604	19,670

Company Registration No. 02126697

The notes on pages 9 to 33 form part of these financial statements.

Instem LSS (North America) Limited

Statement of Financial Position

At 31 December 2020

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 2020.

The members have not required the Company to obtain an audit of its financial statements for the year ended 31 December 2020 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 have been prepared in accordance with the provisions applicable to companies subject to the small companies regime.

The financial statements on pages 5 to 33 were approved by the board of directors and authorised for issue on 29 September 2021 and are signed on its behalf by:

Nigel Goldsmith

Nigel Goldsmith (Sep 29, 2021 15:00 GMT+1)

N J Goldsmith

Director

Company Registration No. 02126697

The notes on pages 9 to 33 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 2019		169	579	1,020	1,768
Profit for the financial year		-	-	40	40
Share based payment	4	-	59	-	59
Balance as at 31 December 2019		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

The notes on pages 9 to 33 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.

2. ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

The financial statements of the Company have been prepared in accordance with 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. Refer to the Going Concern note for further details.

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;
- 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 2020. 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 2020. The most significant of these are as follows:

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Definition of Material)
- IFRS 3 Business Combinations (Amendment – Definition of Business)
- Revised Conceptual Framework for Financial Reporting
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

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

The practical expedient for COVID-19 Rent Related Concessions (Amendments to IFRS 16) have not been applied in the current reporting period.

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 2020:

- References to the Conceptual Framework
- Proceeds before Intended Use (Amendments to IAS 16)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41)
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

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 by Instem plc (Group). A letter of support was provided by Instem plc and if the Company is in a difficult cash position, then the Group would become responsible for the going concern of the subsidiary.

Background

The Directors have assessed the Group financial position and liquidity at the end of the reporting period and for the forecast period up to 31 December 2022, including sensitivity analysis. The going concern period covers the 12 months from the date of signing the financial statements. The process and key judgements in coming to this conclusion are set out below.

Current trading and liquidity

The Instem Group's trading performance for the year ended 31 December 2020 has been strong with Revenues of £28.2m and Adjusted EBITDA of £5.9m. The Group is fully operational, with all staff in all territories working from home in accordance with governmental guidelines, no staff have been furloughed and there is no intention of curtailing any business activities. The company has continued to recruit staff across its geographic footprint.

The Group's financing arrangements consist of a net overdraft facility of £0.5m and a gross limit of £9.0m with NatWest Bank plc to support the Group's working capital needs. As of 31 December 2020, the net facility was undrawn (2019: undrawn). There are no material covenants associated with the facility.

Following the announcement of the 2019 preliminary results Instem Group undertook an oversubscribed equity fund raise in July 2020, raising gross funds of £15.75m, £15.0m net of expenses. A further six prestigious institutions were added to the list of shareholders. The Group spent £4.0m initially funding the acquisition of The Edge Software Consultancy Ltd ('The Edge') on 1st March 2021 and \$13m on the initial funding of d-Wise Technologies, Inc ('d-wise') on 1st April 2021. The Group remains in a strong financial position as both of these acquisitions are expected to be accretive and cash generative.

During 2020, the Group received US government support loans of \$1.1m (£0.8m). Since the year end the Group has received forgiveness for repayment of both these loans.

The Group acquired the earnings enhancing, cash generative business of Leadscope Inc. in November 2019, which has been steadily integrated within the Group during 2020. The only financial obligation associated with this acquisition during 2021 is a deferred consideration payment of \$0.3m due in November 2021.

Other than the initial consideration paid for The Edge and d-wise there are no further financial obligations payable associated with the acquisitions until 2022, when deferred and contingent consideration will be due.

Sensitivity Analysis

The Group has considered three scenarios the (a) Base Case Scenario, (b) Sensitised Scenario and (c) Extreme downside Scenario which are also linked to the company's risks when modelling the forecast results and cash flow. The sensitivity assessment includes the trading performance and cash flows of the Edge and d-wise from the date of the acquisitions.

Instem LSS (North America) Limited

Notes to the Financial Statements

2. ACCOUNTING POLICIES – continued

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 extreme downside scenario sensitivity analysis throughout the forecast period to 31 December 2022, by taking sufficient remedial action.

Conclusion and Going Concern Statement

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

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.

Instem LSS (North America) Limited

Notes to the Financial Statements

2. ACCOUNTING POLICIES - continued

SaaS subscription and support

Customers typically enter into a SaaS contract for a period of twelve months and pay a fixed amount in exchange for the usage of software on a hosted server over a specified period of time along with access to maintenance and support. Initial SaaS contracts may also include some installation or customisation of the software and training for staff. The promises in this contract 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.

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 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.

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

Contract costs

The incremental costs associated with obtaining a contract are recognised as an asset if the Company expects to recover the costs. Costs that are not incremental to a contract are expensed as incurred. Management determine which costs are incremental and meet the criteria for capitalisation.

Costs to fulfil a contract, which are not in the scope of another standard, are recognised separately as a contract fulfilment asset to the extent that they relate directly to a contract which can be specifically identified; the costs generate or enhance resources that will be used to satisfy the performance obligation and the costs are expected to be recovered. Management applies judgement to determine which contract fulfilment costs meet the recognition criteria, and in particular if the costs generate or enhance resources used to satisfy the performance obligation. Costs to fulfil a contract which do not meet the criteria above are expensed as incurred.

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).

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.

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.

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 has adopted 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 2020 was \$1.3659 (2019: \$1.3159).

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.

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 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.

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

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.

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.

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.

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.

Instem LSS (North America) Limited

Notes to the Financial Statements

2. ACCOUNTING POLICIES - continued

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 and 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, 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.

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 and 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.*

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:

	2020 \$000	2019 \$000
United Kingdom	4,160	720
Rest of Europe	148	62
USA and Canada	16,378	14,262
Rest of the World	38	40
	<u>20,724</u>	<u>15,084</u>

Revenue from contracts with customers

a. Contract Balances

	2020 £000	2019 £000
Amounts recoverable on contracts	868	910
Deferred income	(7,235)	(5,456)
	<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.

b. Remaining performance obligations

The vast majority of the Company's contracts are for the delivery of software and services within the next 12 months for which the practical expedient in paragraph 121(a) of IFRS 15 applies. There are no bundled contracts which have been entered into for which both the original contract was greater than 12 months and the Company's right to consideration does not correspond directly with the performance.

Contract costs

The entity has applied the practical expedient available in paragraph 94 of IFRS 15 to recognise the incremental costs of obtaining a contract as an expense when incurred where the amortisation period of the asset that the entity otherwise would have recognised is one year or less.

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:

	2020 Number	2019 Number
Directors, administration and supervision	8	7
Customer service and sales	42	42
	<u>50</u>	<u>49</u>

Staff costs for the above persons:

	2020 \$000	2019 \$000
Wages and salaries	6,119	5,695
Social security costs	456	455
Other pension costs	286	222
	<u>6,861</u>	<u>6,372</u>

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

	2020 \$000	2019 \$000
Staff costs – see above	6,861	6,372
Share based payments	228	59
Health and life insurance	380	394
	<u>7,469</u>	<u>6,825</u>

Directors' remuneration was:

	2020 \$000	2019 \$000
Emoluments	315	293
Defined contribution pension contributions	40	39
	<u>355</u>	<u>332</u>

Number of directors to whom relevant benefits are accruing under:

	2020 Number	2019 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

	2020 \$000	2019 \$000
Foreign exchange gains	-	39
Right of use interest income	10	-
Other interest receivable	-	1
	<u>10</u>	<u>40</u>

6. INTEREST PAYABLE AND SIMILAR EXPENSES

	2020 \$000	2019 \$000
Bank interest and fees	22	16
Right of use finance costs	34	39
Foreign exchange losses	1,085	-
	<u>1,141</u>	<u>55</u>

7. EXCEPTIONAL ITEMS

	2020 \$000	2019 \$000
Acquisition costs	115	142

8. PROFIT BEFORE TAXATION

	2020 \$000	2019 \$000
Profit before taxation is stated after charging/(crediting):		
Depreciation - owned assets (note 11)	41	46
Depreciation – right of use assets (note 11)	102	158
Software amortisation (note 10)	13	67

Instem LSS (North America) Limited

Notes to the Financial Statements

9. TAXATION

	2020 \$000	2019 \$000
Income taxes recognised in profit or loss		
Current tax:		
Foreign tax	-	(170)
Foreign tax in respect of previous years	110	(231)
Total current tax	110	(401)
Deferred tax:		
Current year (charge)/credit	(91)	5
Adjustment in respect of previous years	9	-
Total deferred tax	(82)	5
Total income credit/(charge) recognised in the current year	28	(396)
	2020 \$000	2019 \$000
The income tax charge can be reconciled to the accounting profit as follows:		
(Loss)/Profit before tax	(1,464)	436
(Loss)/Profit multiplied by standard rate of corporation tax in the UK 19.0% (2019: 19.0%)	278	(83)
Effects of:		
Expenses not allowable for tax purposes	111	-
Group loss relief	(507)	-
Double tax relief	-	(112)
Impact of change in tax rate	13	-
Adjustments in respect of prior years	133	(201)
Total income tax credit/(charge) recognised in statement of comprehensive income	28	(396)

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 Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. Since the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would not have a material impact.

Instem LSS (North America) Limited

Notes to the Financial Statements

10. INTANGIBLE FIXED ASSETS

	Acquired software \$000
Cost	
At 1 January 2020	
and 31 December	291
Amortisation	
At 1 January 2020	278
Charge for year	13
At 31 December 2020	291
Net book value	
At 31 December 2020	-
At 31 December 2019	13

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 2020	645	23	98	171	937
Additions	-	-	-	19	19
Disposals	-	-	-	(3)	(3)
At 31 December 2020	645	23	98	187	953
Depreciation					
At 1 January 2020	158	23	82	123	386
Charge for year	103	-	15	27	145
Disposals	-	-	-	(3)	(3)
At 31 December 2020	261	23	97	147	528
Net book value					
At 31 December 2020	384	-	1	40	425
At 31 December 2019	487	-	16	48	551

The net book value of tangible fixed assets at 31 December 2020, excluding the right of use assets, is \$41,000 (2019: \$64,000).

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, leases of low value underlying assets, with less than twelve months remaining on the lease as at 31 December 2020, 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	3.8 years
Right of use assets		\$000
Cost		
At 1 January 2020		645
Additions		-
		<hr/>
At 31 December 2020		645
		<hr/>
Depreciation		
At 1 January 2020		158
Charge for year		103
		<hr/>
At 31 December 2020		261
		<hr/>
Net book value		
At 31 December 2020		384
		<hr/>
At 31 December 2019		487
		<hr/>

Instem LSS (North America) Limited

Notes to the Financial Statements

12. LEASES - continued

Lease Liabilities

	2020 \$000	2019 \$000
At 1 January	953	1,122
Interest expense	34	41
Lease payments	(214)	(210)
At 31 December	<u>773</u>	<u>953</u>

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

	2020 \$000	2019 \$000
Current liability	192	182
Non-current liability	<u>581</u>	<u>771</u>

Lease liability maturity analysis

As at 31 December 2020	1 year or less \$000	2 to 5 years \$000	After 5 years \$000	Total \$000
Lease liabilities	<u>27</u>	<u>746</u>	<u>-</u>	<u>773</u>
As at 31 December 2019	1 year or less \$000	2 to 5 years \$000	After 5 years \$000	Total \$000
Lease liabilities	<u>182</u>	<u>771</u>	<u>-</u>	<u>953</u>

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

	2020 \$000	2019 \$000
Interest expense	34	41
Amortisation of right of use assets	<u>103</u>	<u>158</u>

The total cash outflow for leases in 2020 was \$214,000 (2019: \$210,000)

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.

Movement in net investment in leases in relation to sub lease during the year ended 31 December 2020 and 31 December 2019 are as follows:

	2020 \$000	2019 \$000
At 1 January	282	-
Addition	-	290
Interest earned	10	2
Less: Rental income	(61)	(10)
At 31 December	<u>231</u>	<u>282</u>

Minimum undiscounted lease payments receivable are as follows:

	2020 \$000	2019 \$000
Within 1 year	63	62
Between 1 and 2 years	66	63
Between 2 and 3 years	67	66
Between 3 and 4 years	52	67
Later than 5 years	-	52
	<u>248</u>	<u>310</u>

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

	2020 \$000	2019 \$000
Total minimum undiscounted lease payments receivable	248	310
Unearned finance income	(17)	(28)
	<u>231</u>	<u>282</u>

Instem LSS (North America) Limited

Notes to the Financial Statements

12. LEASES - continued

Finance lease receivable maturity analysis:

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>56</u>	<u>175</u>	<u>-</u>	<u>231</u>
As at 31 December 2019	1 year or less \$000	2 to 5 years \$000	After 5 years \$000	Total \$000
Finance lease receivable	52	230	-	282
	<u>52</u>	<u>230</u>	<u>-</u>	<u>282</u>

13. TRADE AND OTHER RECEIVABLES

	2020 \$000	2019 \$000
Trade receivables	1,913	1,430
Amounts owed by group undertakings	13,897	14,827
Amounts recoverable on contracts	868	910
Prepayments and accrued income	537	536
Other debtors	-	5
	<u>17,215</u>	<u>17,708</u>

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 \$152,000 (2019: \$729,000).

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

Instem LSS (North America) Limited

Notes to the Financial Statements

14. TRADE AND OTHER PAYABLES

	2020 \$000	2019 \$000
Trade payables	199	460
Amounts owed to group undertakings	9,966	10,396
Other taxation and social security costs	115	(32)
Accrued expenses	705	400
	<u>10,985</u>	<u>11,224</u>

Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

15. DEFERRED INCOME

	2020 \$000	2019 \$000
Deferred income	<u>7,235</u>	<u>5,456</u>

Consideration received from customers in advance of work being completed plus maintenance and support, which is invoiced in advance.

16. FINANCIAL LIABILITIES

	2020 \$000	2019 \$000
Non current borrowings	<u>952</u>	<u>-</u>

A US government Paycheck Protection Program loan of \$1.0m was received during the year. This loan was forgiven in April 2021.

17. CURRENT TAXATION

The current tax receivable is \$66,000 (2019: payable of \$170,00) 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

	2020 \$000	2019 \$000
Deferred tax asset		
Amounts due to be recovered after 12 months	4	86
	<u>4</u>	<u>86</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 2020	86
(Charge)/credit to profit or loss for the year	(82)
	<u>4</u>
At 31 December 2020	<u>4</u>

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

19. SHARE CAPITAL

	2020 \$000	2019 \$000
<i>Allotted, called-up and fully paid:</i>		
100,000 Ordinary shares of £1 each	169	169
	<u>169</u>	<u>169</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 \$286,000 (2019: \$222,000). Contributions totalling \$nil (2019: \$54,000) were payable to the fund at the balance sheet date and are included in creditors.

21. CONTINGENT LIABILITY

The assets of the Company are used as security for the borrowings of Instem Life Science Systems Limited, a fellow subsidiary of Instem plc.

Instem LSS (North America) Limited

Notes to the Financial Statements

22. ULTIMATE PARENT COMPANY

The immediate parent company of Instem LSS (North America) Limited is Instem LSS Limited. The ultimate parent company is Instem plc, a company 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 2020 reporting date and the date of approval of these financial statements.

In April 2021, the Company has successfully been forgiven for a US government Paycheck Protection Program loan of £1.0m.