

Registered number: 06077026

VERTICAL PHARMA RESOURCES LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 28 FEBRUARY 2019

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VERTICAL PHARMA RESOURCES LIMITED

COMPANY INFORMATION

Directors	A D Patel S T Dutta V Patani J Parker
Company secretary	A D Patel
Registered number	06077026
Registered office	41 Central Avenue West Molesey Surrey KT8 2QZ
Independent auditor	Grant Thornton UK LLP Chartered Accountants & Statutory Auditor 1020 Eskdale Road Wokingham Berkshire RG41 5TS

VERTICAL PHARMA RESOURCES LIMITED

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VERTICAL PHARMA RESOURCES LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 28 FEBRUARY 2019

The directors present their report and the financial statements for the year ended 28 February 2019.

Business review

At the start of the year, the company lost a significant customer for reasons outside its control. This led to the decline in revenue and profits.

Despite these challenging conditions, the company was successful in entering into a long term exclusive supply agreement with a new customer that will significantly increase turnover and profit from the year ended 28 February 2020 and onwards. The contract commenced from 1st February 2019.

To drive more revenue and profit for the long term, the company has implemented a strategic plan to maximise opportunities outside of the current specials market. It has identified clinical trials as one opportunity and has an IMP certification granted by the MHRA. The company is also looking at Internationalisation and has identified certain key regions in Europe to sell into.

The company has also looked at opportunities in the Medicinal Cannabis sector. Subsequent to the year end, the company and Grow Biotech Plc formed a new joint venture, forming a new company to offer the only complete medicinal cannabis licensed market access proposition in the UK, in a bid to revolutionise medical cannabis access in The UK and Europe. The Joint Venture will combine the company's market leading capabilities as a licensed pharmaceutical importer with Grow Biotech's unparalleled medical cannabis expertise.

Results for the current year to date as at October 2019 shows the company's revenue is £7.7m and is on course to achieve a strong positive EBITDA for the year ended February 2020.

Directors

The directors who served during the year were:

A D Patel
J M Penfold (resigned 10 May 2019)
S T Dutta (appointed 27 September 2018)
V Patani (appointed 27 September 2018)

J Parker was appointed on 1 May 2019

VERTICAL PHARMA RESOURCES LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 28 FEBRUARY 2019

Directors' responsibilities statement

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 Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'). 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 period. 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;
- 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.

Going concern

Following a restructuring of the group's debt the directors have reviewed the group profit and loss and cash flow forecasts for the foreseeable future, the available financial resources, the recurring income stream from customers, other contracted income and whether there is headroom on covenants.

The Group was successful in entering into a long term exclusive supply agreement with a new customer that will significantly increase the Group's turnover and performance from the year ended 28 February 2020 and onwards. The contract commenced from 1st February 2019.

To drive more revenue and profit for the long term, the Group has implemented a strategic plan to maximise opportunities outside of the current specials market. It has identified clinical trials as one opportunity and has an IMP certification granted by the MHRA. The Group is also looking at Internationalisation and has identified certain key regions in Europe to sell into.

The Group has also looked at opportunities in the Medicinal Cannabis sector. Subsequent to the year end, the Group and Grow Biotech Plc formed a new joint venture company to offer the only complete medicinal cannabis licensed market access proposition in the UK, in a bid to revolutionise medical cannabis access in The UK and Europe. The Joint Venture will combine the Group's market leading capabilities as a licensed pharmaceutical importer with Grow Biotech's unparalleled medical cannabis expertise.

As a result of the above the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, being a period of not less than twelve months from the date of approval of these financial statements, and continue to adopt the going concern basis of accounting in preparing the financial statements.

VERTICAL PHARMA RESOURCES LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 28 FEBRUARY 2019**

Disclosure of information to auditor

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Under section 487(2) of the Companies Act 2006, Grant Thornton UK LLP will be deemed to have been reappointed as auditor 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

Small companies note

In preparing this report, the directors have taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006.

This report was approved by the board on 18 Dec 2019 and signed on its behalf.



A D Patel
Director



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VERTICAL PHARMA RESOURCES LIMITED

Opinion

We have audited the financial statements of Vertical Pharma Resources Limited (the 'Company') for the year ended 28 February 2019, which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 28 February 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VERTICAL PHARMA RESOURCES
LIMITED (CONTINUED)**

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' report.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the Directors' report and from the requirement to prepare a strategic report.



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VERTICAL PHARMA RESOURCES
LIMITED (CONTINUED)**

Responsibilities of directors for the financial statements

As explained more fully in the Directors' responsibilities statement on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Grant Thornton UK LLP

Amrith Shah BSc FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Reading
Date: 19 December 2019

VERTICAL PHARMA RESOURCES LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 28 FEBRUARY 2019**

	2019	2018
	£000	£000
Turnover	5,585	9,111
Cost of sales	(2,668)	(4,397)
Gross profit	2,917	4,714
Administrative expenses	(4,336)	(4,464)
Operating (loss)/profit	(1,419)	250
Interest payable and similar expenses	(1)	-
(Loss)/profit before tax	(1,420)	250
Tax on (loss)/profit	40	23
(Loss)/profit for the financial year	(1,380)	273

There were no recognised gains and losses for 2019 or 2018 other than those included in the Statement of comprehensive income.

There was no other comprehensive income for 2019 (2018: £Nil).

The notes on pages 10 to 24 form part of these financial statements.

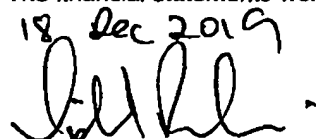
VERTICAL PHARMA RESOURCES LIMITED
REGISTERED NUMBER:06077026

STATEMENT OF FINANCIAL POSITION
AS AT 28 FEBRUARY 2019

	Note	2019 £000	2018 £000
Fixed assets			
Intangible assets	7	67	94
Tangible assets	8	331	605
		<u>398</u>	<u>699</u>
Current assets			
Stocks	9	540	715
Debtors: amounts falling due within one year	10	2,377	2,231
Cash at bank and in hand	11	732	1,041
		<u>3,649</u>	<u>3,987</u>
Creditors: amounts falling due within one year	12	(3,045)	(2,304)
Net current assets		<u>604</u>	<u>1,683</u>
Total assets less current liabilities		<u>1,002</u>	<u>2,382</u>
Net assets		<u>1,002</u>	<u>2,382</u>
Capital and reserves			
Called up share capital		1,000	1,000
Profit and loss account		2	1,382
		<u>1,002</u>	<u>2,382</u>

The Company's financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime and in accordance with the provisions of FRS 102 Section 1A - small entities.

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

18 Dec 2019


V Patani
Director

The notes on pages 10 to 24 form part of these financial statements.

VERTICAL PHARMA RESOURCES LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 28 FEBRUARY 2019**

	Called up share capital	Profit and loss account	Total equity
	£000	£000	£000
At 1 March 2018	1,000	1,382	2,382
Loss for the year	-	(1,380)	(1,380)
At 28 February 2019	<u>1,000</u>	<u>2</u>	<u>1,002</u>

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 28 FEBRUARY 2018**

	Called up share capital	Profit and loss account	Total equity
	£000	£000	£000
At 1 March 2017	1,000	20,520	21,520
Profit for the year	-	273	273
Dividends: Equity capital	-	(19,411)	(19,411)
At 28 February 2018	<u>1,000</u>	<u>1,382</u>	<u>2,382</u>

The notes on pages 10 to 24 form part of these financial statements.

VERTICAL PHARMA RESOURCES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 2019

1. General information

Vertical Pharma Resources Limited is a private company limited by shares and incorporated in England and Wales, registered number 06077026. Its registered head office is located at 41 Central Avenue, West Molesey, Surrey, KT8 2QZ.

The principal activity of the Company is the manufacture and supply of special pharmaceutical products.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Section 1A of Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Going concern

Following a restructuring of the group's debt the directors have reviewed the group profit and loss and cash flow forecasts for the foreseeable future, the available financial resources, the recurring income stream from customers, other contracted income and whether there is headroom on covenants.

The Group was successful in entering into a long term exclusive supply agreement with a new customer that will significantly increase the Group's turnover and performance from the year ended 28 February 2020 and onwards. The contract commenced from 1st February 2019.

To drive more revenue and profit for the long term, the Group has implemented a strategic plan to maximise opportunities outside of the current specials market. It has identified clinical trials as one opportunity and has an IMP certification granted by the MHRA. The Group is also looking at internationalisation and has identified certain key regions in Europe to sell into.

The Group has also looked at opportunities in the Medicinal Cannabis sector. Subsequent to the year end, the Group and Grow Biotech Plc formed a new joint venture company to offer the only complete medicinal cannabis licensed market access proposition in the UK, in a bid to revolutionise medical cannabis access in The UK and Europe. The Joint Venture will combine the Group's market leading capabilities as a licensed pharmaceutical importer with Grow Biotech's unparalleled medical cannabis expertise.

As a result of the above the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, being a period of not less than twelve months from the date of approval of these financial statements, and continue to adopt the going concern basis of accounting in preparing the financial statements.

VERTICAL PHARMA RESOURCES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 2019

2. Accounting policies (continued)

2.3 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Company has transferred the significant risks and rewards of ownership to the buyer;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

2.4 Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed five years, and this is the life used.

2.5 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Fixtures, fittings & equipment	- 20% - 33% on a straight line basis
Laboratory improvements	- 20% on a straight line basis

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of comprehensive income.

VERTICAL PHARMA RESOURCES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 FEBRUARY 2019**

2. Accounting policies (continued)

2.6 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

2.7 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.8 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

VERTICAL PHARMA RESOURCES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 2019

2. Accounting policies (continued)

2.9 Financial Instruments

The Company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in the case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of comprehensive income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the Company would receive for the asset if it were to be sold at the reporting date.

2.10 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

VERTICAL PHARMA RESOURCES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 2019

2. Accounting policies (continued)

2.11 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is British pounds.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of comprehensive income except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Statement of comprehensive income within 'other operating income'.

2.12 Finance costs

Finance costs are charged to the Statement of comprehensive income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.13 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

2.14 Operating leases: the Company as lessee

Rentals paid under operating leases are charged to the Statement of comprehensive income on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

VERTICAL PHARMA RESOURCES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 FEBRUARY 2019**

2. Accounting policies (continued)

2.15 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Statement of comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of financial position. The assets of the plan are held separately from the Company in independently administered funds.

2.16 Borrowing costs

All borrowing costs are recognised in the Statement of comprehensive income in the year in which they are incurred.

2.17 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Statement of comprehensive income in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Statement of financial position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Statement of financial position.

VERTICAL PHARMA RESOURCES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 2019

2. Accounting policies (continued)

2.18 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of comprehensive income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of financial position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

2.19 Research and development

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives, which range from 3 to 6 years.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

VERTICAL PHARMA RESOURCES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 FEBRUARY 2019**

3. Judgements in applying accounting policies and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Estimates are based on historical experience and other assumptions that are considered reasonable in the circumstances. The actual amount or values may vary in certain instances from the assumptions and estimates made. Changes will be recorded, with corresponding effect in profit or loss, when, and if, better information is obtained.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment within the next financial year are included below.

Critical judgements that management have made in the process of applying accounting policies disclosed herein and that have a significant effect on the amounts recognised in the financial statements relate to the following:

Provisions

In recognising provisions, the company evaluates the extent to which it is probable that it has incurred a legal or constructive obligation in respect of past events and the probability that there will be an outflow of benefits as a result. The judgements used to recognise provisions are based on currently known factors which may vary over time, resulting in changes in the measurement of recorded amounts as compared to initial estimates.

Deferred tax assets

The recognition of deferred tax assets is based on forecasts of future taxable profit. The measurement of future taxable profit for the purposes of determining whether or not to recognise deferred tax assets depends on many factors, including the Company's ability to generate such profits and the implementation of effective tax planning strategies.

Going concern

In preparing these financial statements the directors have adopted the going concern basis. As set out in the accounting policies this is reliant on a number of new revenue streams being successful and assumptions have been made in forecasting revenues and resultant cash flows. The actual results achieved may be significantly different to the forecasts at this stage.

4. Employees

The average monthly number of employees, including directors, during the year was as follows:

	2019 No.	2018 No.
Laboratory and administration staff	59	72

VERTICAL PHARMA RESOURCES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 FEBRUARY 2019**

5. Directors' remuneration

During the year the directors received remuneration of £196,000 (2018: £140,000).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £Nil (2018: £Nil).

6. Auditor's remuneration

Fees payable to the Company's auditor for the audit of the Company's annual financial statements totalled £ (2018 -).

During the year the auditor's remuneration for audit services in respect to the IPSCO group of £50,000 (2018: £23,000) and for non-audit services of £58,750 (2018: £20,000) were all borne by this company.

7. Intangible assets

	Software £000
Cost	
At 1 March 2018	874
Additions	14
At 28 February 2019	<u>888</u>
Amortisation	
At 1 March 2018	780
Charge for the year	41
At 28 February 2019	<u>821</u>
Net book value	
At 28 February 2019	<u>67</u>
At 28 February 2018	<u>94</u>

VERTICAL PHARMA RESOURCES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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8. Tangible fixed assets

	Fixtures, fittings & equipment £000	Laboratory improvements £000	Total £000
Cost			
At 1 March 2018	580	1,113	1,693
Additions	32	17	49
At 28 February 2019	612	1,130	1,742
Depreciation			
At 1 March 2018	440	648	1,088
Charge for the year on owned assets	102	221	323
At 28 February 2019	542	869	1,411
Net book value			
At 28 February 2019	70	261	331
At 28 February 2018	140	465	605

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9. Stocks

	2019	2018
	£000	£000
Finished goods and goods for resale	540	715

The amount of inventory included within cost of sales during the year was £2,299K (2018: £3,805k).

During the year £18k was provided against inventory (2018: £39k).

10. Debtors

	2019	2018
	£000	£000
Trade debtors	2,138	2,086
Other debtors	131	77
Deferred taxation	108	68
	2,377	2,231

A provision for bad debt of £54k (2018: £100k) was recognised against trade debtors.

11. Cash and cash equivalents

	2019	2018
	£000	£000
Cash at bank and in hand	732	1,041

12. Creditors: Amounts falling due within one year

	2019	2018
	£000	£000
Amounts owed to group undertakings	700	-
Trade creditors	1,371	1,686
Other taxation and social security	191	223
Accruals and deferred income	783	395
	3,045	2,304

VERTICAL PHARMA RESOURCES LIMITED

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13. Financial instruments

	2019 £000	2018 £000
Financial assets		
Financial assets measured at fair value through profit or loss	732	1,041
Financial assets that are debt instruments measured at amortised cost	2,269	2,163
	3,001	3,204
Financial liabilities		
Financial liabilities measured at amortised cost	2,071	1,686

Financial assets measured at fair value through profit or loss comprise cash and cash equivalents.

Financial assets measured at amortised cost comprise trade debtors, amounts owed by group undertakings and other debtors.

Financial liabilities measured at amortised cost comprise trade creditors, accruals and deferred income.

The Company has taxable losses available for offset against future taxable profits. These have not been recognised due to uncertainty over the timing of their use.

14. Deferred taxation

	2019 £000	2018 £000
At beginning of year	68	45
Credited to the profit or loss	40	23
At end of year	108	68

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14. Deferred taxation (continued)

The deferred tax asset is made up as follows:

	2019	2018
	£000	£000
Accelerated capital allowances	103	54
Tax losses carried forward	-	4
Short term timing differences	5	10

The Company has taxable losses of £1.2m available for offset against future taxable profits. These have not been recognised due to uncertainty over the timing of their use.

15. Capital commitments

At 28 February 2019, the Company had amounts contracted for but not provided in these financial statements of £Nil (2018: £Nil).

16. Pension commitments

The Company operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £31k (2018: £37k). Contributions totalling £7k (2018: £4k) were payable to the fund at the reporting date.

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17. Commitments under operating leases

At 28 February 2019 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2019 £000	2018 £000
Land and buildings		
Not later than 1 year	124	124
Later than 1 year and not later than 5 years	496	496
Later than 5 years	-	124
	<u>620</u>	<u>744</u>
	2019 £000	2018 £000
Other		
Not later than 1 year	26	14
	<u>26</u>	<u>14</u>

18. Related party transactions

At the year end, the amount due from Herisse Limited was £11,274 (2018: £5,346). A D Patel is a director of Herisse Limited. During the year, rentals of £124,000 (2018: £111,600) were paid to Herisse Limited in addition to sales made of £42,642 (2018: £38,323). Furthermore additional purchases were made to Herisse Limited in the amount of £15,401 (2018: £9,306) leaving an amount due to Herisse Limited, at the year end date of £9,643 (2018: £Nil).

At the year end, the amount due from Elite Pharma (Surrey) Limited was £4,803 (2018: £1,358) A D Patel is a director and shareholder of Elite Pharma (Surrey) Limited. During the year, sales made on an arm's length basis by the company to Elite Pharma (Surrey) Limited amounted to £24,406 (2018: £81,090). Furthermore, £16,053 (2018: £28,777) of additional purchases were made to Elite Pharma (Surrey) Limited leaving an amount due to Elite Pharma (Surrey) Limited of £3,709 (2018: £1,910) at the year end.

The cost of remunerating key management remuneration inclusive of employers NIC came to £406,942 (2018: £450,443).

19. Post balance sheet events

Subsequent to the year end the Group (through Vertical Pharma Resources Limited) and Grow Biotech Plc formed a new joint venture company to offer medicinal cannabis licenced market access in the UK. The cost of investment amounted to £1.

VERTICAL PHARMA RESOURCES LIMITED

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20. Controlling party

The company's immediate parent undertaking is Integrated Pharmaceutical Services (IPS) Limited. The company's ultimate parent undertaking is IPSCO Limited. Both are registered in England and Wales. The smallest and largest group to consolidate these financial statements is IPSCO Limited. Copies of the financial statements are available at Companies House.