21 March 2018

MedaPhor Group plc
("MedaPhor" or the "Group" or the "Company")

Unaudited Preliminary Results

MedaPhor Group plc (AIM: MED), the intelligent ultrasound software and simulation company, announces its preliminary results for the year ended 31 December 2017, a pivotal year where the Company expanded into the larger clinical ultrasound software market.

Financial highlights

- Revenues increased 27% to £4.2m (2016: £3.3m)
  - North America sales double to £1.7m
  - Rest of World sales up 44% to £1.8m, with 83% growth for sales into China
- Raised £5.4m net of costs by way of placing of shares
- Year-end cash at £4.3m (2016: £1.8m)

Operational highlights

- Acquired Intelligent Ultrasound Limited bringing artificial intelligence expertise to the Group
- Won UK Government grant of £0.5m for NeedleGuide development

Post year-end events

- First pilot of artificial intelligence-based software in UK hospital
- Commenced NeedleGuide development
- Launched Bodyworks Eve, our third simulator platform, aimed at the Emergency Medicine market

Commenting on the results, Riccardo Pigliucci, Chairman of MedaPhor said:
"2017 has been an important year for the Group. We had encouraging growth in a number of important simulation markets and the acquisition of Intelligent Ultrasound and their artificial intelligence technology and know-how has expanded our business into machine learning software that has the potential to support and guide sonographers and doctors undertaking ultrasound scanning and clinical needling. We look forward to the year ahead with considerable enthusiasm."

This announcement contains inside information which is disclosed in accordance with the Market Abuse Regulations which came into effect on 3 July 2016.

A copy of this announcement is available on the Company's website: www.investors.medaphor.com

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About MedaPhor (www.investors.medaphor.com)

MedaPhor (AIM: MED), the intelligent ultrasound software and simulation company, develops artificial intelligence-based clinical image analysis software tools, augmented reality-based needle guidance software and advanced hi-fidelity haptic and manikin-based training simulators for medical practitioners.

Based in Cardiff and Oxford in the UK and Atlanta in the US and Hong Kong in Asia, MedaPhor operates two divisions:

Intelligent Ultrasound Simulation Division

Focuses on hi-fidelity ultrasound education and training through simulation. Its three main products are the ScanTrainer OBGYN and General Medical simulator training platform, the HeartWorks echocardiography simulator platform and the BodyWorks Eve Point of Care and Emergency Medicine Simulator. Over 500 MedaPhor simulators have been sold to over 300 medical institutions in over 30 countries around the world.

Intelligent Ultrasound Clinical Division

Focuses on augmented reality and deep-learning based algorithms to make ultrasound machines smarter and more accessible. Products in development include ScanNav which uses machine-learning based algorithms to automatically identify and grade ultrasound images to provide scan assessment and audit of obstetric scanning. NeedleGuide aims to simplify ultrasound-guided needling by using deep learning and augmented reality to provide the user with pathway guidance and automated tracking for a range of medical procedures.

Some products in the pipeline may require US FDA approval, as such this material should be considered informational only and does not constitute an offer to sell, or infer claims or benefits.

CHAIRMAN'S STATEMENT

I am pleased to present MedaPhor's results for the year ended 31 December 2017.

This has been a pivotal year for the Group: with the important fund raising and acquisition of Intelligent Ultrasound (IUL) that is enabling our expansion into the new area of clinical ultrasound image analysis using artificial intelligence; the successful integration of HeartWorks into the product range; the growth of sales in the key market of China; the settlement of the legal action in the US; and the recovery of our simulator sales in the key market of North America.

Financial performance

Summary financial results from continuing operations were:

	Unaudited 2017 £	Audited 2016 £
Revenue	4,180,630	3,286,147
Gross profit	2,522,865	2,112,082
Gross margin	*60%*	*64%*
Other income	28,225	-
Administrative expenses excluding exceptional costs	(5,228,211)	(3,897,652)
Operating loss before tax and exceptional items	(2,677,121)	(1,785,570)
Exceptional administrative items	(2,860,774)	(698,435)
Loss after exceptional items	(5,537,895)	(2,484,005)
Finance costs	(7,833)	(3,341)
Loss before tax	(5,545,728)	(2,487,346)
Income tax credit	127,609	73,201
Loss after tax	(5,418,119)	(2,414,145)
Cash at bank	4,250,198	1,765,863

Revenues increased by 27% to £4.2m (2016: £3.3m) and benefited from a full year's contribution from sales of HeartWorks, which was added to the Group's range of ultrasound training simulators with the acquisition of Inventive Medical Limited (IML) in August 2016. While the UK continued to suffer from NHS budgetary restraints, a number of markets showed encouraging growth, particularly North America and China, and we will look to continue to develop these markets in 2018.

The loss for the year, before tax and exceptional items, was £2.7m (2016: £1.8m) and reflected the fact that administrative expenses, excluding exceptional items, increased by £1.3m largely because of increased amortisation of intangibles and the consolidation of 12 months of IML's overheads versus 5 months last year and the addition of 3 months of post-acquisition overheads for IUL.

Exceptional items of £2.9m comprise:

- an impairment charge of £3.3m. The Company is required under International Accounting Standard 36 – Impairment of Assets (IAS 36) to test the carrying value of any goodwill for impairment annually. As the majority of the projected net revenues in the Group's development pipeline extend out beyond the limit allowed by this Standard, the Directors have concluded that the Company should record this impairment charge, which equals the total goodwill which arose on these acquisitions;
- acquisition costs relating to the purchase of Intelligent Ultrasound Limited (IUL) (see Key Events below) of £0.2m; and
- a credit of £0.6m in respect of a fair value adjustment on the settlement of contingent consideration in 2017 relating to the acquisition of IML in the prior year.

Key events
In October 2017 we completed the acquisition of IUL, an artificial intelligence based deep learning company that was spun out of the University of Oxford. At the same time we raised £5.4m of funds net of costs from new and existing shareholders with the placing of 44,125,324 new ordinary shares in the Company.

By the year end we had completed the integration of IUL and re-organised the Group into two divisions – Simulation, based in Cardiff, and Clinical, based in Oxford. As well as working on the Group's new deep learning software for ultrasound image analysis (ScanNav), the Clinical Division will also develop the new augmented reality-based ultrasound needle guidance software (NeedleGuide). This development was bolstered by winning an Innovate UK Digital Healthcare grant award announced in November 2017. In February 2018 we announced the commencement of the first pilot of the ScanNav ultrasound image analysis software in St George's Hospital NHS Trust in London. Working with this expert group of sonographers will help shape the development of this new technology. We also announced the launch of our new BodyWorks Eve simulator platform, an ultra-realistic manikin-based simulator to train medical professionals practising Point-of-Care Ultrasound (PoCUS) across emergency medicine and critical care.

Summary
2017 has been an important year for the Group and I would like to thank all our shareholders for their continued support, as well as extending the Board's gratitude to all our staff and customers around the world.

We had encouraging growth in a number of important simulation markets although the UK market is proving difficult to predict. We now therefore expect our simulation business to grow at rates similar to those achieved in previous years. The acquisition of IUL and their artificial intelligence technology and know-how has expanded our business into machine learning software. Although this AI software is not expected to provide material revenue in the current year, the Board believes that it has the potential to generate future revenues through supporting and guiding sonographers and doctors undertaking ultrasound scanning and clinical needling. The development work required will need further funding during the next 12 months and the Group intends to pursue a number of fund raising options in the second half of 2018. As such the Board has a reasonable expectation that the Group will be able to continue to be solvent as we expand into these new and exciting artificial intelligence markets.

We look forward to the year ahead with considerable enthusiasm.

Riccardo Pigliucci
Chairman
20 March 2018

STRATEGIC REPORT – OPERATIONS

2017 has been a year of transition in which we took the significant step of expanding our business from ultrasound simulation-based training into the larger clinical ultrasound software market.

There are approximately 50 million medical professionals in the world, yet it is estimated that fewer than 2% of these have the ability to use ultrasound, despite it being one of the fastest, cheapest and safest imaging modalities available in medicine.

However, it's a difficult skill to learn and requires a high level of on-going competence and we believe this is why ultrasound is predominantly carried out only by specialist practitioners.

Although there is a growing market for cheaper, more portable ultrasound machines, we believe that this alone is not sufficient to open up the potential for ultrasound to become a mass-market diagnostic tool that can also be used by unskilled medical practitioners. To achieve this, ultrasound needs to become simpler to use by making ultrasound machines 'smarter', supporting users both in their scanning and with automated decision-making. This will involve integrating image analysis using Artificial Intelligence (AI).

Our expansion into clinical ultrasound software demonstrates our belief that this technology has the potential to support, guide and speed up ultrasound scanning to make ultrasound accessible to more medical professionals. The technology embraces artificial intelligence and augmented reality and the Group aims to develop products and services that can take advantage of these technologies to open up new global ultrasound related imaging markets, whilst continuing to grow its high-fidelity simulation training markets for ultrasound specialists.

Simulation Division

Based in Cardiff (UK), Alpharetta (US) and Hong Kong (China), our Simulation Division designs, develops and sells some of the world's leading hi-fidelity ultrasound training simulators for teaching ultrasound scanning to medical professionals.

Research & Development

During the year, the Simulation R&D team focussed on developing the first female manikin-based simulator specifically developed to meet the educational needs of medical professionals practising Point of Care Ultrasound (PoCUS) across emergency medicine and critical care.

BodyWorks Eve combines the normal and pathological hearts from our HeartWorks simulator with the complete upper chest to pelvis real patient scans from our ScanTrainer platform to teach the requirements of the growing PoCUS skills training market, as outlined by the International Federation of Emergency Medicine (IFEM). Complete with over 100 real patient ultrasound cases and over 10,000 patient scenario combinations, BodyWorks Eve replicates learning in a real-life emergency or critical care setting, allowing the tutor to control and change the severity and pathology of the patient in real time.

Following its successful debut at the International Meeting on Simulation in Healthcare (IMSH) in Los Angeles, the BodyWorks Eve simulator platform was launched in all regions of the world in February 2018.

Territory review

Our Simulation Division sales grew by 27% to £4.2m in 2017 (2016: £3.3m), benefitting from a full year's contribution from sales of the HeartWorks echocardiography simulator range, which contributed £2.0m to Group revenues (2016, 5 months post-acquisition: £0.8m).

In the global ultrasound simulator market there were a number of encouraging signs that sales momentum is gathering.

North America

Revenue in 2017 increased to £1.71m (2016: £0.86m).

North America is a key market for medical simulation and we continue to sell into this territory through our direct sales force that now operates out of Alpharetta, Georgia. Following the settlement of the legal action in the US at the beginning of 2017, we expanded the sales and support team and during the year won a number of significant new medical teaching school accounts in the US and Canada for both the ScanTrainer and HeartWorks simulators.

Revenue in this key market increased by 98% to £1.7m (2016: £0.9m) of which HeartWorks contributed £1.0m to Group revenues (2016, 5 months post-acquisition: £0.3m).

The launch of the BodyWorks Eve simulator platform is expected to increase our presence in the Point of Care Ultrasound (PoCUS) and Emergency Medicine training market during 2018 and beyond.

United Kingdom

Revenues in 2017 was £0.72m (2016: £1.20m).

The UK has been a difficult market for our simulation sales team in 2017, with considerable budgetary restraint in the NHS affecting hospital and teaching schools during the year. Although sales in the second half of the year showed some signs of recovery, UK sales revenue for the year was down 40% to £0.7m of which HeartWorks contributed £0.1m to Group revenues (2016, 5 months post-acquisition: £0.1m).

Rest of the World

Revenue in 2017 increased to £1.76m (2016: £1.22m).

Revenue in the Rest of the World is mainly generated by 31 resellers. During the year sales increased by 44% to £1.8m (2016: £1.2m), of which HeartWorks contributed £0.8m to Group revenues (2016, 5 months post-acquisition: £0.4m), with the important market of China growing by 83% to £0.8m (2016: £0.4m), of which HeartWorks contributed £0.3m to Group revenues (2016, 5 months post-acquisition: £0.2m).

These channel sales are supported by two UK based MedaPhor sales support staff. In February 2018 this was increased to three sales support staff, with the opening of an office in Hong Kong and the appointment of a local Channel Support Manager to support the growing Asia-Pacific (APAC) simulation market.

As with the North American market, the launch of the BodyWorks Eve simulator is expected to open up new medical simulator markets in Europe, APAC and the Gulf States.

In addition, our recently launched French curriculum ScanTrainer system for obstetrics and gynaecology scanning is expected to enhance our presence in the French speaking markets.

Clinical Division

In October 2017 the Company issued new Ordinary Shares to raise £5.4m after costs and at the same time announced the acquisition of Intelligent Ultrasound Limited (IUL), for a total consideration of £3.0m, satisfied by the issue of new Ordinary Shares and warrants in the Company and the payment of £72,000 in cash.

IUL is a University of Oxford artificial intelligence spin-out company founded by world leading academic, Professor Alison Noble OBE FREng FRS. IUL develops image analysis software for ultrasound through the development of deep-learning software, based on sophisticated computer algorithms and researched insights into patient, clinician and healthcare provider needs.

The acquisition has enabled MedaPhor to expand its existing ultrasound simulator business into the larger clinical ultrasound related software market including the development of IUL's ScanNav artificial intelligence-based image analysis software; and the development the Group's NeedleGuide augmented reality ultrasound needle guiding assistant.

ScanNav
In February 2018, the first pilot of the ScanNav real-time audit image analysis system software was undertaken at the Fetal Medicine Department of St George's University Hospitals NHS Trust, London, UK.

ScanNav is believed to be the first artificially intelligent system to carry out an automated, real-time "peer review" of obstetric ultrasound images as the patient is scanned.

Monitoring performance by retrospectively auditing images manually is very time consuming, so ScanNav supports clinical staff by instantly confirming that the images they save conform to protocol, meaning that sub-standard images can be re-scanned and replaced straight away if required.

ScanNav evaluates each scan by comparing it to over 50 individual criteria to verify that the views required by the NHS Fetal Anomaly Screening Programme (undertaken after 20 weeks of pregnancy) are complete and fit for purpose.

The ScanNav software uses deep learning technology to assess the same features that sonographers look for in ultrasound images and has been 'taught' using over 350,000 images that were audited by a panel of experienced sonographers. Initial validation studies have shown that ScanNav's artificial intelligence system is as good as an expert sonographer in assessing scan images and the pilot at St George's is expected to help better understand how our proposed range of ScanNav products could fit into the workflow of a busy fetal medicine department and support sonographers and doctors in ultrasound scanning.

NeedleGuide
Having secured Innovate UK grant funding in November 2017, the first phase of the development of NeedleGuide commenced in February 2018. The grant of £466,000 will part-fund this development, which the Company believes has the potential to revolutionise interventional ultrasound-guided needling.

Doctors use interventional needling in a variety of medical procedures including tissue biopsy, cannula insertion and administering regional anaesthesia, in a procedure known as peripheral nerve block (PNB). For many of these procedures, including PNB, the National Institute for Health and Care Excellence recommends that ultrasound guidance should always be used.

NeedleGuide aims to combine existing technology developed by MedaPhor, with expertise brought to the Group by the IUL team. The augmented reality headset projects the ultrasound view on to the patient's anatomy, highlighting the pathway the needle needs to follow to the target and then uses artificial intelligence to automatically track the needle tip to ensure that the operator is always aware of the needle's position in relation to the key anatomical structures. This minimises the potential for user error and offers the opportunity for considerable savings to hospitals.

STRATEGIC REPORT – FINANCE

Revenue

Revenues for the Group increased 27% to £4.2m (2016: £3.3m) and benefited from a full year's contribution to sales from the HeartWorks simulator, which contributed £2.0m to Group revenues in 2017 (2016, 5 months post-acquisition: £0.8m).

Gross profit

The gross margin in the year was 60% compared to 64% in 2016. The reduced margin largely reflects the higher proportion of distributor sales in 2017, at 42% (2016: 26%).

Administrative expenses

Administrative expenses, excluding exceptional costs, increased by £1.3m during the year to £5.2m (2016: £3.9m) as we absorbed the first full year of overheads relating to IML acquired in 2016, compared to 5 months post-acquisition overheads which were consolidated in 2016. The increase also included 3 months of post-acquisition overheads relating to IUL and the amortisation of intangibles arising on the acquisitions of IML and IUL.

Increase in administrative expenses excluding exceptional items:

	£m
Amortisation of intangibles arising on the acquisitions of IML and IUL	0.2
Other amortisation and depreciation increase	0.2
Increase in IML overheads (acquired 8 August 2016)	0.5
IUL overheads (acquired 6 October 2017)	0.2
Movement in exchange differences	0.1
Other	0.1
Total increase in administrative overheads excluding exceptional costs	1.3

Research and development costs

During the year the Group expensed through the income statement £0.6m (2016: £0.4m) in relation to research and development costs. In addition, development costs amounting to £0.5m (2016: £0.5m) were capitalised within intangible assets and an amortisation charge of £0.4m (2016: £0.3m) has been recognised against cumulative capitalised development costs.

Loss before taxation and exceptional items

The loss for the year before tax and exceptional items was £2.7m (2016: Loss £1.8m).

Exceptional items

Goodwill of £3.3m arose on the acquisition of IML and IUL and the Company is required under International Accounting Standard 36 – Impairment of Assets (IAS 36) to test the carrying value of this goodwill for impairment annually, using base cash flow projections that should not extend beyond five years and must exclude net revenues from pipeline products. As the majority of the Group's projected net revenues arise from its on-going research and development activities which are forecast to contribute more to revenue in later years, the directors have concluded that, while they believe the investments in both IML and IUL will be monetised and yield returns in future years, the goodwill arising on these acquisitions should be treated as impaired under the strict requirements of IAS 36. Consequently, an impairment charge equal to the total goodwill which arose on these acquisitions of £3.3m has been made to the Income Statement and included in Exceptional Items.

Exceptional Items also include acquisition costs relating to the purchase of IUL of £0.2m and a credit of £0.6m in respect of a fair value adjustment on the settlement of contingent consideration relating to the acquisition of IML in the prior year (see note 10 below).

Taxation

The Group claims each year for research and development tax credits and, since it is loss-making, elects to surrender these tax credits for a cash rebate. The amount included within the consolidated income statement in respect of amounts received and receivable for the surrender of research and development expenditure was £55,310 (2016: £45,534). As at 31 December 2017, the Group has cumulative tax losses of approximately £10.8m (2016: £7.5m). The tax credit for the year also includes deferred tax of £72,229 (2016: £27,667) on the fair value of intangible fixed assets acquired with IML and IUL which is being recognised over the life of those assets.

Placing and acquisition of IUL

On 6 October 2017 the Company placed 44,125,324 newly issued shares of 1 pence each in the capital of the Company at a price of 12.5 pence per share which raised £5,515,665 before costs of the share issue and £5,390,784 after costs. The share issue costs of £124,881 have been netted off against the share premium arising on the new share issue.

On the same day the Company acquired the entire share capital of IUL for a total consideration of £3,039,694.

IUL is a University of Oxford spin-out company that develops image analysis software for ultrasound through the development of artificial intelligence/deep-learning software. Acquiring IUL has allowed MedaPhor to expand its existing ultrasound simulator business into the larger ultrasound related software market. The assets and liabilities of IUL as at the date of acquisition are set out in note 10 to the preliminary results below.

The £3.0m consideration comprised of the payment of cash of £72,000 plus the issue of 18,527,936 new Ordinary Shares ("the Consideration Shares") and 1,256,692 warrants ("the Consideration Warrants") in MedaPhor Group plc with a combined fair value of £2,967,694 based on the market price of the shares at the time of the completion of the transaction. Two thirds of the Consideration Shares (12,351,961 shares) were admitted to trading and two thirds of the warrants (837,795 warrants) were issued upon completion. The issue of the remaining third of the Consideration Shares and Consideration Warrants was deferred for 12 months from completion as the issue of these shares and warrants is contingent on no seller warranty or indemnity breaches (as specified in the Sale and Purchase Agreement) arising during that 12 month period. The issued warrants at their fair value of £125,669 along with the retained shares at their fair value of £926,396 and the retained warrants at their fair value of £62,835, have been included in creditors due within one year.

Balance sheet

Consolidated net assets increased to £7.1m (2016: £4.8m). Cash at £4.3m was up £2.5m on the prior year (2016: £1.8m). Trade and other payables of £2.4m at 31 December 2017 (2016: £2.6m) include £1.0m in respect of retained consideration relating to the acquisition of IUL and £0.1m of warrants issued as part of that consideration (2016, retained consideration relating to the acquisition of IML: £1m).

Cash flow and going concern

Cash at 31 December 2017 stood at £4.3m (2016: £1.8m), with cash flow in the year boosted by the placing of new ordinary shares in the Company which raised £5.4m net of costs (2016: placing raised £3m net of costs). Net cash used in operating activities was £2.2m (2016: £2.2m) and net cash outflows arising from investment activities (excluding cash used or acquired on the acquisition of subsidiaries was £0.7m (2016: £0.6m).

In the second half of the current year the Company will commence the process to secure a further round of funds to take the Group through the next stage of growth. Subject to this, the Board has a reasonable expectation that the Group will continue to be solvent for the foreseeable future.

Events since the end of the financial year

Other than as disclosed above, there are no events to report that have occurred since the end of the financial year.

STRATEGIC REPORT – SUMMARY

The extension of the Group business, from simulation-based ultrasound training, into artificial intelligence based software for clinical ultrasound is an exciting development for MedaPhor. The Intelligent Ultrasound AI technology has the potential to develop new products that could provide sonographers and doctors with ultrasound support, guidance and audit tools, as well as in the long-term, opening up new markets for automated ultrasound scanning for all medical professionals. The combination of the new AI clinical support software and our existing revenue generating simulation business enables us to look forward with considerable confidence.

This Strategic Report was approved by the Board on 20 March 2018 and signed on its behalf by:

Stuart Gall

Chief Executive

MedaPhor Group plc

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2017

	Note	Unaudited 2017	Audited 2016
		£	£
REVENUE	3	4,180,630	3,286,147
Cost of sales		(1,657,765)	(1,174,065)
Gross profit		2,522,865	2,112,082
Other income		28,225	-
Administrative expenses excluding exceptional costs		(5,228,211)	(3,897,652)
Exceptional administrative costs	4	(2,860,774)	(698,435)
Total administrative costs		(8,060,760)	(4,596,087)
OPERATING LOSS		(5,537,895)	(2,484,005)
Finance costs		(7,833)	(3,341)
LOSS BEFORE INCOME TAX		(5,545,728)	(2,487,346)
Income tax credit	5	127,609	73,201
LOSS ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE PARENT		(5,418,119)	(2,414,145)
OTHER COMPREHENSIVE INCOME			
Items that will or may be reclassified to profit or loss:			
Exchange gain/(loss) arising on translation of foreign operations		31,171	(6,996)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		31,171	(6,996)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE PARENT		(5,386,948)	(2,421,141)
LOSS PER ORDINARY SHARE (PENCE) ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE PARENT			
Basic and diluted	6	(11.70)p	(8.826)p

MedaPhor Group plc

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

	Ordinary share capital	Share premium	Accumulated losses	Share-based payment reserve	Merger Reserve	Foreign exchange reserve	Total equity attributable to shareholders
	£	£	£	£	£	£	£
BALANCE AS AT 1 JANUARY 2016	201,363	4,322,067	(4,591,667)	251,000	1,990,187	(3,984)	2,168,966
COMPREHENSIVE INCOME FOR THE YEAR							
Loss for the year and total comprehensive income	-	-	(2,414,145)	-	-	(6,996)	(2,421,141)
CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS							
Shares issued for cash	71,111	3,128,889	-	-	-	-	3,200,000
Cost of raising finance	-	(183,817)	-	-	-	-	(183,817)
Shares issued on acquisition of IML	46,512	-	-	-	1,953,488	-	2,000,000
Cost of share-based awards	-	-	-	70,600	-	-	70,600
Total contributions by and distributions to owners	117,623	2,945,072	-	70,600	1,953,488	-	5,086,783
BALANCE AS AT 31 DECEMBER 2016	318,986	7,267,139	(7,005,812)	321,600	3,943,675	(10,980)	4,834,608
COMPREHENSIVE INCOME FOR THE YEAR							
Loss for the year and total comprehensive income	-	-	(5,418,119)	-	-	31,171	(5,386,948)
CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS							
Shares issued for cash	441,253	5,074,412	-	-	-	-	5,515,665
Cost of raising finance	-	(124,881)	-	-	-	-	(124,881)
Retention shares issued further to acquisition of IML	23,256	-	-	-	340,116	-	363,372
Shares issued on acquisition of IUL	123,520	-	-	-	1,729,274	-	1,852,794
Cost of share-based awards	-	-	-	92,000	-	-	92,000
Total contributions by and distributions to owners	588,029	4,949,531	-	92,000	2,069,390	-	7,698,950
BALANCE AT 31 DECEMBER 2017	907,015	12,216,670	(12,423,931)	413,600	6,013,065	20,191	7,146,610

MedaPhor Group plc
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2017

	Note	Unaudited 2017 £	Audited 2016 £
NON CURRENT ASSETS			
Intangible assets	7	3,366,477	3,572,284
Property, plant and equipment		312,506	366,541
		3,678,983	3,938,825
CURRENT ASSETS			
Inventories		413,244	482,338
Trade and other receivables		1,709,436	1,614,538
Current tax assets		-	45,534
Cash and cash equivalents		4,250,198	1,765,863
		6,372,878	3,908,273
TOTAL ASSETS		10,051,861	7,847,098
CURRENT LIABILITIES			
Trade and other payables	8	(2,356,702)	(2,635,327)
Provisions		(80,555)	(72,830)
		(2,437,257)	(2,708,157)
NON CURRENT LIABILITIES			
Deferred taxation		(467,994)	(304,333)
TOTAL LIABILITIES		(2,905,251)	(3,012,490)
NET ASSETS		7,146,610	4,834,608

EQUITY			
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Ordinary share capital	9	907,015	318,986
Share premium		12,216,670	7,267,139
Accumulated losses		(12,423,931)	(7,005,812)
Share-based payment reserve		413,600	321,600
Merger reserve		6,013,065	3,943,675
Foreign exchange reserve		20,191	(10,980)
TOTAL EQUITY		7,146,610	4,834,608

MedaPhor Group plc
CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2017

	Unaudited 2017 £	Audited 2016 £
CASH FLOW FROM CONTINUING OPERATING ACTIVITIES		
Loss before tax	(5,545,728)	(2,487,346)
Depreciation	232,369	154,123
Amortisation of intangible assets	793,543	408,890
Impairment of goodwill	3,328,166	-
Fair value adjustment on contingent consideration	(636,628)	-
Finance costs/(income)	7,833	3,341
Share-based payments	92,000	70,600
Operating cash flows before movement in working capital	(1,728,445)	(1,850,392)
Movement in inventories	69,094	(82,913)
Movement in trade and other receivables	(61,351)	(350,911)
Movement in trade and other payables	(575,798)	96,722
Cash used in operations	(2,296,500)	(2,187,494)
Income taxes received	100,844	-
NET CASH USED IN OPERATING ACTIVITIES	(2,195,656)	(2,187,494)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(183,012)	(156,800)
Disposal of property, plant and equipment	11,440	16,209
Internally generated intangible assets	(492,118)	(472,452)
Cash used on acquisition of subsidiaries	(72,000)	-
Cash acquired on acquisition of subsidiaries	1,559	272,787
NET CASH USED IN INVESTING ACTIVITIES	(734,131)	(340,256)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of new shares	5,515,665	3,200,000
Share issue costs	(124,881)	(183,817)
Finance (costs paid)/income received	(7,833)	(3,341)
NET CASH GENERATED FROM FINANCING ACTIVITIES	5,382,951	3,012,842
Exchange gains/(losses) on cash and cash equivalents	31,171	(6,996)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,484,335	478,096
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,765,863	1,287,767
CASH AND CASH EQUIVALENTS AT END OF YEAR	4,250,198	1,765,863

MedaPhor Group plc
NOTES TO THE PRELIMINARY RESULTS
for the year ended 31 December 2017

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, IFRIC interpretations, the AIM Rules, and the Companies Act 2006.

Going concern

The financial statements have been prepared on the going concern basis. The Board receives rolling cash flow projections on a monthly basis and monitors these against the Group's long term projections. These projections indicate that the Group will need to raise further funds within the next 12 months.

The Group meets its day-to-day working capital requirements from its cash reserves. The Group expects that it will need to raise additional funds through either equity-based investor funding or debt finance within the next 12 months. Subject to this, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements. However, in the absence of binding agreements, there can be no guarantee that additional funds will be made available as required. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Company and the Group to continue as going concerns. These financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

While the financial information included in this preliminary announcement has been computed in accordance with IFRS, this announcement does not itself contain sufficient information to comply with IFRS. The accounting policies used in the preparation of this preliminary announcement have been applied consistently to all periods presented. They are also consistent with those in the Group's statutory financial statements for the year ended 31 December 2017 which have yet to be published. The preliminary results for the year ended 31 December 2017 were approved by the Board of Directors on 20 March 2018.

The financial information set out in this preliminary announcement does not constitute the Group's statutory financial statements for the year ended 31 December 2017 and the year ended 31 December 2016. The statutory accounts for the year ended 31 December 2016 have been delivered to the Registrar of Companies. The auditors' report on those statutory financial statements was unqualified and did not contain a statement under section 498 (2) or 498 (3) Companies Act 2006. The auditor's report on the 31 December 2016 financial statements contained an emphasis of matter statement with respect to going concern, given the dependence of the Group on raising further funds within the next 12 months and an emphasis of matter statement in relation to the carrying value of intangible assets, given the uncertainties around achieving forecast cashflows.

The financial information for the year ended 31 December 2017 is unaudited. The auditor's report on the 31 December 2017 financial statements is expected to contain a material uncertainty paragraph with respect to going concern, given the dependence of the Group on raising further funds within the next 12 months. The statutory financial statements for the year ended 31 December 2017 will be delivered to the Registrar of Companies in due course.

The Company is a limited liability company incorporated and domiciled in England & Wales and whose shares are quoted on AIM, a market operated by The London Stock Exchange. The Group financial statements are presented in pounds Sterling.

2. BASIS OF CONSOLIDATION

The consolidated preliminary results incorporate the results of the Company and its subsidiary undertakings.

3. SEGMENTAL ANALYSIS

The following table provides an analysis of the Group's revenue arising from the Group's Simulation Division by type (Distribution or Direct Sales) and geography based upon the location of the Group's customers. The Group's Clinical Division which develops image analysis software for ultrasound through the development of deep-learning software was established in October 2017 with the acquisition of IUL and has not made any sales to date.

Unaudited Year ended 31 December 2017	Distribution £	Direct Sales £	Total £
United Kingdom	-	715,531	715,531
North America	-	1,708,984	1,708,984
Rest of World	1,756,115	-	1,756,115
	1,756,115	2,424,515	4,180,630

Audited Year ended 31 December 2016	Distribution £	Direct Sales £	Total £
United Kingdom	-	1,198,457	1,198,457
North America	-	864,366	864,366
Rest of World	848,292	375,032	1,223,324
	848,292	2,437,855	3,286,147

Included within non-UK revenues are sales to the following countries which accounted for more than 10% of the Group's total revenue for the year:

	Unaudited 2017 £	Audited 2016 £
USA	1,166,292	646,309
China	766,147	418,604
Canada	542,693	71,364

4. EXCEPTIONAL ITEMS

	Unaudited 2017 £	Audited 2016 £
Goodwill impairment (see note 7)	3,328,166	-
Fair value adjustments on contingent consideration (see note 10)	(636,628)	-
Acquisition costs	169,236	139,435
Integration costs	-	26,000
Litigation costs	-	533,000
	2,860,774	698,435

The acquisition costs in 2017 related to the purchase of Intelligent Ultrasound Limited (IUL) in October 2017 (see note 10).

The acquisition costs in 2016 related to the purchase of Inventive Medical Limited (IML) in August 2016 along with legal and professional costs incurred in relation to other potential acquisitions which were reviewed in the year but not taken forward. The integration costs related to the reorganisation of management following the acquisition of IML. The litigation costs related to the defence and settlement of the patent infringement claim brought against the Group in the United States of America.

5. TAXATION ON ORDINARY ACTIVITIES

	Unaudited 2017 £	Audited 2016 £
R&D tax credit	(55,310)	(45,534)
Deferred tax credit	(72,299)	(27,667)
	(127,609)	(73,201)

6. LOSS PER SHARE

The earnings per ordinary share has been calculated using the loss for the year and the weighted average number of ordinary shares in issue during the year as follows:

	Unaudited 2017 £	Audited 2016 £
Loss for the year after taxation	(5,418,119)	(2,414,145)
	2017	2016
Number of ordinary shares of 1p each	No.	No.
Basic and diluted weighted average number of ordinary shares	46,290,518	27,354,160
Basic loss pence per share	(11.70)p	(8.826)p

At 31 December 2017 and 2016 there were share options outstanding which could potentially have a dilutive impact but were anti-dilutive in both years.

7. INTANGIBLE ASSETS

	Goodwill	Intellectual property	Brand	Develop-ment Costs	Other (software licences)	Total
	£	£	£	£	£	£
COST						
As at 1 January 2016	-	-	-	986,325	25,000	1,011,325
Additions	-	-	-	472,452	-	472,452
Acquisition of IML	1,292,382	1,650,000	133,000	-	-	3,075,382
As at 31 December 2016	1,292,382	1,650,000	133,000	1,458,777	25,000	4,559,159
Additions	-	-	-	492,118	-	492,118
Acquisition of IUL	2,035,784	1,388,000	-	-	-	3,423,784
As at 31 December 2017	3,328,166	3,038,000	133,000	1,950,895	25,000	8,475,061
AMORTISATION						
As at 1 January 2016	-	-	-	552,985	25,000	577,985
Charge for year	-	137,500	11,083	260,307	-	408,890
As at 31 December 2016	-	137,500	11,083	813,292	25,000	986,875
Charge for year	-	364,700	26,600	402,243	-	793,543
Goodwill impairment	3,328,166	-	-	-	-	3,328,166
As at 31 December 2017	3,328,166	502,200	37,683	1,215,535	25,000	5,108,584
NET BOOK VALUE						
As at 31 December 2017	-	2,535,800	95,317	735,360	-	3,366,477
As at 31 December 2016	1,292,382	1,512,500	121,917	645,485	-	3,572,284
As at 1 January 2016	-	-	-	433,340	-	433,340

Goodwill of £3,328,166 arose on the Company's acquisition of the entire share capital of IML in August 2016 (goodwill: £1,292,382) and the acquisition of the entire share capital of IUL in October 2017 (goodwill: £2,035,784). Accounting standard IAS 36 - 'Impairment of assets' requires goodwill to be tested for impairment annually. The goodwill arising on the acquisition of IML relates to the Group's Simulation business and the goodwill arising on the acquisition of IUL relates to the Group's Clinical business. Since the acquisitions, IML and IUL have been incorporated into the MedaPhor business and the Group shares its resources. The combined businesses have therefore been assessed as one cash-generating unit for an impairment test on goodwill.

7. INTANGIBLE ASSETS (continued)

In performing this impairment test, IAS 36 requires, *inter alia*, that:

(i) the base cash flow projections should not cover a period of more than five years unless management are confident that these projections are reliable and;

(ii) any 'terminal' growth rate beyond the base cash flow period should be steady or declining unless an increase in the rate matches objective information about patterns over a product or industry life cycle and;

(iii) cash flow projections for the cash-generating unit shall exclude any estimated future cash inflows or outflows expected to arise from improving or enhancing the assets performance.

In respect of the impairment test on goodwill relating to the Group's Clinical business, the directors believe that a forecast horizon beyond five years is needed to reflect the time it will take to develop products for the Clinical market and to obtain the necessary regulatory approvals for their use, but because the development of artificial intelligence software in a clinical environment is at such an early stage, the directors have decided that, under IAS 36, it would not be appropriate to extend the Group's base cash flow projections beyond five years or apply a high terminal growth rate for subsequent years in the projections used to test impairment of goodwill. In addition, the growth anticipated in both the Clinical and Simulation businesses is dependent on continued research and development of the Group's products; however, under IAS 36, the net revenues arising from these pipeline products cannot be included in the projections used to test impairment of goodwill.

An impairment review has been done using the value in use calculation based on the Group's budgets for 2018 to 2022 excluding cash inflows and outflows expected to arise from pipeline products of the cash generating unit which have been approved by the Board. These budgets assume average annual revenue growth of 21% and overhead growth of 2%. Forecasts for subsequent years have been produced based upon 2% growth rates in each year. A net present value has been calculated using a pre-tax discount rate of 13.2% taking into account the Group's cost of funds and an extra element for risk.

Management have determined the values attached to each of the key assumptions above as:

Revenue growth – Average annual revenue growth over a five-year period in line with the Directors expectation of performance.
Terminal growth – Expected long-term growth rate beyond the five-year period.
Overhead growth – Average annual overhead growth over a five-year period in line with the Directors expectation of performance.
Discount rate – based on specific risks attached to existing products.

In addition, a sensitivity analysis has been undertaken by making the following changes:

1. Reduction in annual growth rates for 2018 and 2022
2. Increase in the discount rate

The conclusion of this review is that, there is an impairment of goodwill if the base cash projections are not extended beyond this five year time horizon and cash flows from pipeline products are excluded. The directors have concluded that the goodwill arising on the acquisition of IML and IUL should be treated as impaired under IAS 36 and consequently an impairment charge of £3,328,166 has been made to the Consolidated Statement of Comprehensive Income. If the forecast annual growth rate for 2018 to 2022 is adjusted below 19.5%, then the remaining intangibles above with a carrying value of £3,366,477 would also be fully impaired.

8. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Unaudited 2017 £	Audited 2016 £
Trade payables	389,911	357,559
Taxation and social security	80,319	76,761
Accruals	454,490	906,134
Deferred income	298,065	294,873
Share warrants	125,669	-
Retention consideration shares	926,396	1,000,000
Retention consideration warrants	62,835	-
Other	19,017	-
	2,356,702	2,635,327

9. SHARE CAPITAL

	Unaudited 2017		Audited	Audit
	No.	£	No.	£
Authorised	Unlimited	Unlimited	Unlimited	Unlimited
Allotted, issued and fully paid				
Ordinary shares of 1p each				
Balance at 1 January	31,898,576	318,986	20,136,300	201,363
Shares issued for cash	44,125,324	441,253	7,111,112	71,111
Shares issued on acquisition of IML	2,325,582	23,256	4,651,164	46,512
Shares issued on acquisition of IUL	12,351,961	123,520	-	-
Balance at 31 December	90,701,443	907,015	31,898,576	318,986

The fair values and premium arising on shares issued during the year are as follows:

Date	Description	Shares number	Fair value £	Premium £
16/08/17	Retention shares issued to the vendors of IML	2,325,582	363,372	340,116
06/10/17	Shares issued in connection with capital raising	44,125,324	5,515,665	5,074,412
06/10/17	Completion shares issued to the vendors of IUL	12,351,961	1,852,794	1,729,274
		58,802,867	7,731,831	7,143,802

One third of the consideration payable in respect of the acquisition of IML in 2016 was deferred for 12 months from completion with the actual number of retained shares to be issued dependent on any vendor warranty or indemnity breaches (as specified in the Sale and Purchase Agreement) arising during that 12 month period.

The Company was not aware of any vendor warranty or indemnity breaches and so the 2,325,582 deferred consideration shares (with a fair value of £363,372 at 15.625 pence per share) were admitted to trading on 16 August 2017. The share premium arising was subject to merger relief and has been taken to merger reserve.

On 6 October 2017 the Company placed 44,125,324 newly issued shares of 1 pence each in the capital of the Company at a price of 12.5 pence per share. Share issue costs of £124,881 have been netted off against the share premium arising on the new share issue.

A further 12,351,961 shares were admitted to trading on 6 October 2017 upon completion of the acquisition of IUL (see note 25) and 837,795 warrants were issued, which represented two thirds of the total share consideration payable at a fair value price of 15 pence per share/warrant. The issue of the remaining 6,175,975 shares and 418,897 warrants was deferred for 12 months from completion with the actual number of retention shares to be issued dependent on any vendor warranty or indemnity breaches (as specified in the Sale and Purchase Agreement) arising during that 12 month period. Currently, the Company is not aware of any such breaches and so the deferred consideration has been provided for in full. Consequently, the value of the deferred shares and deferred warrants along with the issued warrants at their fair value is included under creditors due within 12 months. The share premium arising on the shares issued on completion was subject to merger relief and has been taken to the merger reserve.

10. BUSINESS COMBINATIONS

Business combinations during the period - Intelligent Ultrasound Limited

On 6 October 2017 the Company acquired the entire share capital of Intelligent Ultrasound Limited ("IUL") for a total consideration of £3,039,694.

IUL is a University of Oxford spin-out company that develops image analysis software for ultrasound through the development of artificial intelligence/deep-learning software. Acquiring IUL will allow MedaPhor to expand its existing ultrasound simulator business into the larger ultrasound related software market.

The assets and liabilities of IUL as at the date of acquisition were as follows:

	Fair Value
	£
Intangible assets	1,388,000
Property and equipment	6,763
Prepayments and other debtors	33,547
Bank and cash	1,559
Trade and other payables	(189,999)
Deferred tax	(235,960)
Net assets acquired	1,003,910
Goodwill	2,035,784
Total consideration	3,039,694

Satisfied by:

Cash	72,000
Fair value of shares and warrants issued in the Company	1,978,463
Fair value of shares and warrants to be issued in the Company	989,231
	3,039,694

The £3.0m consideration will be satisfied by the payment of cash of £72,000 plus the issue of 18,527,936 new Ordinary Shares ("the Consideration Shares") and 1,256,692 warrants ("the Consideration Warrants) in MedaPhor Group plc with a combined fair value of £2,967,694 based on the market price of the shares at the time of the completion of the transaction. Two thirds of the Consideration Shares (12,351,961 shares) were admitted to trading and two thirds of the warrants (837,795 warrants) were issued upon completion. The issue of the remaining third of the Consideration Shares and Consideration Warrants (together "the Deferred Consideration") was deferred for 12 months from completion as the issue of these shares and warrants is contingent on no seller warranty or indemnity breaches (as specified in the Sale and Purchase Agreement) arising during that 12 month period. The issued warrants at their fair value of £125,669 along with the

Deferred Consideration (retained shares at their fair value of £926,396 and the retained warrants at their fair value of £62,835), have been included in creditors due within one year. The value of the Deferred Consideration will be reduced by the value of any seller warranty or indemnity breaches (as Specified in the Sale and Purchase Agreement). If there are no seller warranty and indemnity breaches, the full value of the Deferred Consideration in shares and warrants (total: £989,231) becomes payable by the Company. If the value of any seller warranty and indemnity breaches is at least as much as the deferred consideration, then the Deferred Consideration will not be payable by the Company. Merger relief has been applied to the shares that were issued on completion, leading to the addition of £1,729,274 to the merger reserve rather than share premium.

The revenue included in the Consolidated Statement of Comprehensive Income since 6 October 2017 contributed by IUL was £Nil. IUL made an operating loss of £171,090 over the same period. Had IUL been consolidated from 1 January 2017, the Consolidated Statement of Comprehensive Income would show revenue of £Nil and operating loss of £547,220 in relation to this entity.

Acquisition costs amounting to £169,236 have been recognised as exceptional administrative expenses in the Consolidated Statement of Comprehensive Income. The goodwill arising on the acquisition represents the value of intangible assets that do not qualify for separate recognition.

10. BUSINESS COMBINATIONS (continued)

Business combinations completed in prior periods - Inventive Medical Limited

On 8 August 2016, the Company acquired the entire share capital of Inventive Medical Limited ("IML") and its sister company, IML Finance Limited which was satisfied by the issue of 6,976,745 new Ordinary Shares in the Company. The fair value of the consideration was based on the market price of the shares in the Company at the time of completion of the transaction which was 43 pence and equated to a total fair value of £3,000,000. One third of the Consideration Shares was deferred for 12 months from completion as the issue of these shares was contingent on no seller warranty or indemnity breaches (as specified in the Sale and Purchase Agreement) arising during that 12 month period ("the Contingent Consideration").

This Contingent Consideration was included in creditors due within one year at 31 December 2016 at its original fair value of £1,000,000 The Company was not aware of any vendor warranty or indemnity breaches and so the 2,325,582 Contingent Consideration shares were admitted to trading on 16 August 2017. The difference between the original fair value of the Contingent Consideration and the fair value of the Contingent Consideration at the settlement date of £636,628 has been recognised in the Consolidated Statement of Comprehensive Income as a fair value adjustment on contingent consideration and included within exceptional items (see note 4).

The share premium arising on the settlement of the Contingent Consideration was subject to merger relief and has been taken to merger reserve. Consequently, the value of these shares at their fair value, is now included within the share capital of the Company (£23,256) and merger reserve (£340,116).

The revenue included in the 2016 Consolidated Statement of Comprehensive Income contributed by IML was £821,150. IML made an operating loss of £59,283 over the same period. Had IML been consolidated from 1 January 2016, the Consolidated Statement of Comprehensive Income for 2016 would have shown revenue of £2,316,969 and operating loss before exceptional amortisation charge of £337,452 in relation to this entity.

Acquisition costs amounting to £165,435 were recognised as exceptional administrative expenses in the Consolidated Statement of Comprehensive Income for the year ended 31 December 2016.

The goodwill arising on the acquisition represents the value of intangible assets that do not qualify for separate recognition.