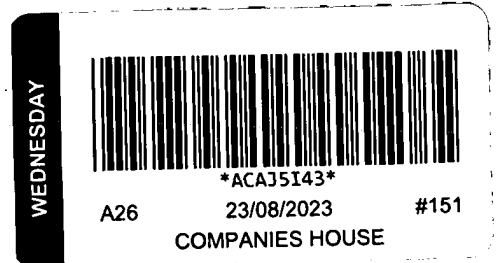


REGISTERED NUMBER: 09440594 (England and Wales)

ANNUAL REPORT AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
FOR
EVONETIX LTD



**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 FOR
EVONETIX LTD**

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**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 FOR
EVONETIX LTD**

COMPANY INFORMATION

DIRECTORS:

P V E Beastall
M Eapen
M J Hayes
N Markova
C McCracken
J Pontin
J Tananbaum

SECRETARY:

M D Gates

REGISTERED OFFICE:

9a Coldham's Business Park
Norman Way
Cambridge
CB1 3LH

REGISTERED NUMBER:

09440594 (England and Wales)

AUDITORS:

Grant Thornton UK LLP
Statutory Auditors
Chartered Accountants
Cambridge

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 FOR EVONETIX LTD

STRATEGIC REPORT

The directors present their strategic report on the company for the year ended 31 December 2022.

Principal activity

The principal activity of the business remains the continued development of a benchtop DNA writer to enable the parallel synthesis of DNA on silicon chips in a highly accurate manner. This will produce accurate, gene-length DNA faster than current methods to facilitate the fast-emerging field of synthetic biology.

With the increase in DNA sequence information available, there now exists the opportunity to prototype genes and metabolic pathways. The company sees the greatest early potential for use of its product in antibody development, vaccine development and protein engineering. Further applications range from improved industrial processes, engineering of genomes with new and improved traits and even the use of DNA as a medium for data storage.

Progress during the year

Progress continued apace during the year, including the granting of patents for technology that enables thermally controlled DNA synthesis and binary assembly. We have also demonstrated a novel enzymatic DNA synthesis method using our thermally controlled process.

We have continued to grow our team, reaching 102 employees at 31 December 2022, up from 85 at 31 December 2021. The company was delighted to recruit Colin McCracken as CEO, who brings significant commercial acumen and industry experience to the leadership of our people. We were also pleased that Paul Beastall took the role of non-executive Chair, bringing increased focus on our corporate growth and maturity.

The key financial measures of note are cash and cash burn (see financial risk below). At 31 December 2022, the Company had cash and investments of £7.1m (31 December 2021: £12.9m). All investments are readily convertible to cash as they are held in notice accounts albeit with an original maturity of over three months. Effective cash burn for the year was therefore £8.3m (2021: £8.0m, excluding receipts from new borrowings).

The company also substantially completed a Series B Extension equity fundraising in 2022, although funds were not received until the first quarter of 2023. Total funds raised were £19.9m.

The directors are pleased with the progress of the Company and the financial metrics. The Company's ability to continue as a going concern is discussed further in the Directors' Report below.

Principal risks and uncertainties

The principal risks facing the company are as follows:

- Technology risk – as with any company in the Research and Development space, there is a risk that planned technical milestones are not met. During the year, several internal milestones were met.
- Financial risk – the company currently has no revenue and as such is reliant principally on shareholder funding to continue operations, and costs are rising due to current inflationary pressures. Further discussion on the going concern status is in the Directors' Report. The company also receives funds from research and development tax credits and as such changes to that scheme could impact the company.
- Competition risk – there is a risk that others are able to gain traction in parts of our target market by getting products to potential partners and customers sooner than we do. We are constantly reviewing competitor progress and remain confident that our progress will be timely.
- Growth management – the company has grown significantly, and its continued success will depend on further growth, within the constraints of funding available. The company's ability to recruit, train and retain highly skilled staff is vital. The company believes it has the appropriate structures in place to do this and has scored well in employee surveys throughout the period.

**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 FOR
EVONETIX LTD**

STRATEGIC REPORT

Future developments

The company remains focussed on meeting internal and external milestones related to both technological development and commercial milestones. We continue to cultivate our partner network as we prepare some initial products for sharing with external partners.

By order of the board

Malcolm Gates

M D Gates
Company Secretary
20 June 2023

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 FOR EVONETIX LTD**DIRECTORS' REPORT**

The directors present their report and the audited financial statements of the company for the year ended 31 December 2022.

Directors

The directors shown below have held office during the whole of the period from 1 January 2022 to the date of this report.

P V E Beasall
M J Hayes
J Pontin
J Tananbaum

Changes in directors during the period from 1 January 2022 to the date of this report are as follows:

N J McCooke - resigned 11 February 2022
M Eapen - appointed on 11 February 2022
C McCracken – appointed on 29 June 2022
V K Gulati – resigned on 15 December 2022
N Markova – appointed on 15 December 2022

Further, M D Gates replaced M Pettifer as Company Secretary on 11 February 2022.

Directors' indemnities

As permitted by the Companies Act 2006, the Company has indemnified the directors in respect of proceedings brought by third parties and qualifying third party indemnity insurance was in place throughout the year and up to the date of approval of the financial statements.

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, 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 prepared 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;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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.

**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 FOR
EVONETIX LTD****DIRECTORS' REPORT****Disclosure of information to the 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.

Principal activity, future developments and research and development activities

Principal activity, future developments and research and development activities are described in the Strategic Report.

Going Concern

The company meets its day-to-day working capital requirements through the cash it holds. The Company had cash and investments of £7.1m at 31 December 2022, but this was augmented by £19.9m of funding received when our Series B extension round completed in the first quarter of 2023. The company undertakes a regular review of forecasts and projections to ensure that it has adequate resources for its continued operation. On current plans, and with no further funding the company's cash and cash equivalents will be sufficient for the business until the second quarter of 2024.

Whilst there are mitigating actions that could extend that date without further funding, the directors are keen that the company continues to progress as projected. Accordingly, the directors are aware of the need for the company to raise additional funds to continue this progress. The form of this future funding is not committed at the date of signature of these accounts and as such there is material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. This is typical for venture-funded organisations at this stage of the company's development. Having considered both internal and external factors, the directors are confident that funding will be made available to the company to continue its progress and therefore the directors have a reasonable expectation that the company will have adequate resources to continue in operational existence for at least 12 months, such that the company continues to adopt the going concern basis in preparing its financial statements.

Auditor

The auditor, Grant Thornton UK LLP, will be proposed for re-appointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the Board on 20 June 2023 and signed on its behalf.

Malcolm Gates

M D Gates
Company Secretary

**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 FOR
EVONETIX LTD****INDEPENDENT AUDITORS REPORT****Independent auditor's report to the members of Evonetix Ltd****Opinion**

We have audited the financial statements of Evonetix Ltd (the 'company') for the year ended 31 December 2022, which comprise the Income statement, the Statement of financial position, the Statement of changes in equity, the Statement of cash flows 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 31 December 2022 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.

Material uncertainty related to going concern

We draw attention to note 2 in the financial statements, which indicates that the Company's ability to continue in operational existence for a period of at least 12 months from the date of signing these financial statements is dependent on the raising of further funding, which is not committed at the date of signing the financial statements. As stated in note 2, these events or conditions, along with the other matters as set forth in note 2, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities

We are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the company to cease to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report and financial statements, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information

**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 FOR
EVONETIX LTD****INDEPENDENT AUDITORS REPORT**

contained within the annual report and financial statements. 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.

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 themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

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 strategic report or 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.

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities, 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.

**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 FOR
EVONETIX LTD****INDEPENDENT AUDITORS REPORT**

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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are most applicable to the company and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks (FRS 102, the Companies Act 2006 and UK tax legislation);
- We obtained an understanding of how the company is complying with those legal and regulatory frameworks by making inquiries of management and other personnel within the organisation. We corroborated inquiries through our review of Board minutes;
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur. Audit procedures included:
 - Identifying and assessing the design effectiveness of management's controls designed to prevent and detect irregularities;
 - Challenging assumptions and judgements made by management in its evaluation of accounting estimates;
 - Identifying and testing those journal entries matching certain risk criteria.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it;
- It is the engagement leader's assessment that the audit team collectively had the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.
- We communicated relevant laws and regulations and potential fraud risks to all engagement team members, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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.



Stephen Wyborn
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge
20/6/2023

**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 FOR
EVONETIX LTD**

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 £000	2021 £000
TURNOVER		-	-
Operating expenses		(12,750)	(9,062)
Other operating income		-	116
OPERATING LOSS	3	(12,750)	(8,946)
Interest receivable and similar income		108	118
Interest payable and similar expenses		(240)	(62)
LOSS BEFORE TAXATION		(12,882)	(8,890)
Tax on loss	5	2,684	1,536
LOSS FOR THE FINANCIAL YEAR		<u>(10,198)</u>	<u>(7,354)</u>

The loss for each year is equal to the total comprehensive loss for that year.

The notes on pages 15 to 24 are an integral part of these financial statements.

**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 FOR
EVONETIX LTD**

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

	Notes	2022 £000	2021 £000
FIXED ASSETS			
Tangible assets	6	621	526
CURRENT ASSETS			
Debtors	7	3,053	3,283
Investments	8	4,049	10,496
Cash and cash equivalents		<u>3,029</u>	<u>2,420</u>
		10,131	16,199
CREDITORS			
Amounts falling due within one year	9	<u>(4,104)</u>	<u>(1,392)</u>
NET CURRENT ASSETS		<u>6,027</u>	<u>14,807</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		6,648	15,333
CREDITORS			
Amounts falling due after more than one year	10	<u>(1,728)</u>	<u>(1,163)</u>
NET ASSETS		<u>4,920</u>	<u>14,170</u>
CAPITAL AND RESERVES			
Called up share capital	12	36	36
Share premium		35,464	35,464
Share-based payments reserve		948	-
Capital redemption reserve		426	426
Other reserves		737	737
Retained earnings		<u>(32,691)</u>	<u>(22,493)</u>
SHAREHOLDERS' FUNDS		<u>4,920</u>	<u>14,170</u>

The notes on pages 15 to 24 are an integral part of these financial statements.

The financial statements were approved and authorised for issue by the board on were signed on its behalf on 20 June 2023:

Colin McCracken

.....
C McCracken - Director

**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 FOR
EVONETIX LTD**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

	Share capital	Share premium	Share-based payments reserve	Capital redemption reserve	Other reserves	Retained earnings	Total
	£000	£000	£000	£000	£000	£000	£000
At 1 January 2021	35	35,464	-	426	322	(15,139)	21,108
Loss for year	-	-	-	-	-	(7,354)	(7,354)
Issue of shares for cash	1	-	-	-	-	-	1
Issue of warrants	-	-	-	-	415	-	415
At 1 January 2022	36	35,464	-	426	737	(22,493)	14,170
Loss for year	-	-	-	-	-	(10,198)	(10,198)
Issue of shares for cash	-	-	-	-	-	-	-
Share-based payments	-	-	948	-	-	-	948
AT 31 DECEMBER 2022	36	35,464	948	426	737	(32,691)	4,920

**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 FOR
EVONETIX LTD**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 £000	2021 £000
Net cash from operating activities	15	(10,810)	(7,693)
Taxation received		<u>3,248</u>	<u>-</u>
NET CASH USED IN OPERATING ACTIVITIES		(7,562)	(7,693)
Cash flows from investing activities:			
Cash withdrawn from investments	15	6,447	4,827
Purchase of tangible assets		(346)	(392)
Interest received		<u>107</u>	<u>98</u>
NET CASH GENERATED FROM INVESTING ACTIVITIES		6,208	4,533
Cash flows from financing activities:			
Proceeds from issue of shares		-	1
Receipt of bank borrowings		2,500	-
Repayment of bank borrowings		(360)	-
Repayment of finance lease funding		(50)	-
Interest paid		<u>(127)</u>	<u>(30)</u>
NET CASH GENERATED FROM/ (USED IN) FINANCING ACTIVITIES		1,963	(29)
NET INCREASE/ (DECREASE) IN CASH		<u>609</u>	<u>(3,189)</u>
Cash and cash equivalents at the beginning of the year		2,420	5,609
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		<u>3,029</u>	<u>2,420</u>

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 FOR EVONETIX LTD**NOTES TO THE FINANCIAL STATEMENTS****1. STATUTORY INFORMATION**

Evonetix Ltd is a private company, limited by shares, registered in England and Wales. The company's registered number and registered office address can be found on the Company Information page.

These financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the United Kingdom and Ireland' ('FRS 102') and the Companies Act 2006. The company has one dormant subsidiary, Evaleo Limited, which is not consolidated into these accounts. Evaleo Limited is a 100% owned subsidiary registered in England and Wales, and at the same address as the Company.

The presentation currency of the financial statements is thousands of Pounds Sterling (£000).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of accounting**

These financial statements have been prepared on a going concern basis, under the historical cost convention.

Going concern

The company meets its day-to-day working capital requirements through the cash it holds. The Company had cash and investments of £7.1m at 31 December 2022, but this was augmented by £19.9m of funding received when our Series B extension round completed in the first quarter of 2023. The company undertakes a regular review of forecasts and projections to ensure that it has adequate resources for its continued operation. On current plans, and with no further funding the company's cash and cash equivalents will be sufficient for the business until the second quarter of 2024.

Whilst there are mitigating actions that could extend that date without further funding, the directors are keen that the company continues to progress as projected. Accordingly, the directors are aware of the need for the company to raise additional funds to continue this progress. The form of this future funding is not committed at the date of signature of these accounts and as such there is material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. This is typical for venture-funded organisations at this stage of the company's development. Having considered both internal and external factors, the directors are confident that funding will be made available to the company to continue its progress and therefore the directors have a reasonable expectation that the company will have adequate resources to continue in operational existence for at least 12 months, such that the company continues to adopt the going concern basis in preparing its financial statements.

Significant judgements and estimates

In preparing these financial statements estimates and judgements are regularly evaluated based on historical experience. The main estimates are as follows:

- o Estimate of the Research and Development tax credit earned during the year. Estimate is based on volume and type of spend and historical recovery.
- o Estimate of share based payments charge. Estimate is based on estimates of company value and employee retention.
- o Estimate of progress of major supply contracts and comparison of that estimates to amounts billed, resulting in an estimated prepayment or accrual. Estimate is based on overall value of contract and progress to date – usually on a time to completion basis.

However, the directors do not consider there to be any critical estimates

Research and development

Research and development expenditure is written off to the Income Statement in the year in which it is incurred.

Government grants

Government grants are recognised at the sum receivable when there is reasonable assurance that the grant conditions will be met and the grants will be received, using the accrual model. A grant received before the recognition criteria are satisfied is recognised as a liability. Income recognised from such grants are recorded as other operating income within the income statement.

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 FOR EVONETIX LTD**NOTES TO THE FINANCIAL STATEMENTS****SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Taxation**

The current income tax credit/charge is calculated on the basis of tax rates and laws that have been enacted or substantially enacted by the statement of financial position date. The Small Companies R&D Credit is estimated at year-end and subsequently claimed as part of the tax return in the following year. The company does not currently recognise a deferred tax asset.

Future tax charges and credits will be principally impacted by future rates of taxation and details of schemes which incentivise research and development through tax credits.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Cost includes the original purchase price as well as costs directly attributable to bringing the asset to its working condition for intended use.

Depreciation is provided over an asset's estimated useful life. For 2022 and 2021 all assets had a deemed useful life of three years.

Finance leases

Leases are classified as finance leases when substantially all the risks and rewards of ownership are transferred to the company. Assets held under finance leases are recognised at the present value of the minimum lease payments at the inception of the lease. The corresponding liability is recognised as 'obligations under finance leases' on the statement of financial position. Lease payments are apportioned between capital repayments and interest charges, using the effective interest rate. Assets held under finance leases are included in tangible fixed assets and depreciated in the same way as owned assets.

Operating leases

Rentals paid under operating leases are charged to the Income Statement on a straight-line basis over the lease term.

Cash and cash equivalents

Cash at bank and in hand are basic financial assets and include cash in hand, deposits held at call with banks, and other short-term liquid investments with original maturities of three months or less.

Investments

Deposits with an initial maturity of three months or more, as well as mutual fund investments are classified as current asset investments.

Share-based payments charge

The fair value of the options is determined at the date of grant and charged to the Income Statement over the vesting period, with the credit entry recorded in the share-based payments reserve within equity. The fair value is based on the Black-Scholes model. Estimates of the amount of equity instruments expected to vest are revised at each Statement of Financial Position date so that the cumulative amount recognised over the vesting period is based on the number of options that eventually vest.

**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 FOR
EVONETIX LTD**

NOTES TO THE FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

The company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

Financial assets

Basic financial assets including receivables, bank balances and investments are initially recognised at the transaction price and subsequently carried at the amortised cost. Such assets are assessed for impairment at the end of each reporting period, and any impairment would be charged to the income statement. There are no such impairments in either of the years presented.

Financial liabilities

Basic financial liabilities, including trade and other payables and bank loans are initially recognised at transaction price. Final repayment fees related to bank loans are expensed over the course of the related loan at an effective interest rate.

The company had no non-basic financial instruments in either of the years presented.

3. OPERATING LOSS

The operating loss is stated after charging:

	2022	2021
	£000	£000
Operating lease charges	306	227
Depreciation of owned assets	367	237
Depreciation of assets held under finance lease	52	-
Research & development	7,667	6,027
Auditors' remuneration	42	37

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 FOR EVONETIX LTD

NOTES TO THE FINANCIAL STATEMENTS

4. EMPLOYEES AND DIRECTORS

The average number of employees during the year was 101 (2021 - 75). All employees are engaged in research and development with the exception of 4 administrative employees (2021 – 2).

Total employment costs were as follows:

	2022	2021
	£000	£000
Wages and salaries	5,662	3,816
Social security costs	600	400
Pension costs	198	141
Share-based payments	948	-
	<u>7,408</u>	<u>4,357</u>

The directors' emoluments were as follows:

	2022	2021
	£000	£000
Aggregate remuneration	572	197
Compensation for loss of office	-	88
	<u>572</u>	<u>285</u>

One director (2021: one) held benefits under the Company's defined contribution Group Pension Plan. Contributions were £8,000 (2021: £5,000). Three directors (2021: two) accrued share options through the year, and none (2021: one) exercised share options in the year.

The highest paid Director's emoluments were as follows:

	2022	2021
	£000	£000
Total emoluments and amounts (excluding shares) receivable under long-term incentive schemes	270	155

The highest paid director did not accrue benefits under the Company's defined contribution Group Pension Plan. The highest paid director accrued share options through the year, and in 2021 exercised share options.

Key Management Personnel is defined as the Board of Directors and the Leadership Team of the Company. Key Management Personnel compensation for the year is shown below:

	2022	2021
	£000	£000
Salaries and other short term benefits	972	624
Employer social security costs	118	68
Post-employment benefits	23	18
Share-based payments	559	-
	<u>1,672</u>	<u>710</u>

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NOTES TO THE FINANCIAL STATEMENTS

5. TAXATION

Analysis of the tax credit

The tax credit on the loss for the year was as follows:

	2022	2021
	£000	£000
Current tax:		
UK corporation tax	2,310	1,536
Prior year adjustment	374	-
	<u>2,684</u>	<u>1,536</u>

UK corporation tax has been charged at 19% (2021 - 19%).

Reconciliation of total tax credit included in profit and loss

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The difference is explained below:

	2022	2021
	£000	£000
Loss before tax	<u>(12,882)</u>	<u>(8,890)</u>
Loss multiplied by the standard rate of corporation tax in the UK of 19% (2021 - 19%)	2,448	1,689
Effects of:		
Income not subject to tax	20	22
Expenses not deductible for tax purposes	(17)	(81)
Deferred tax not recognised	(1,945)	(1,205)
Prior year adjustment	374	-
R&D tax credit adjustment	<u>1,804</u>	<u>1,111</u>
Total tax credit	<u>2,684</u>	<u>1,536</u>

The Company has £13,443k of accumulated tax losses which have not been recognised as there is no certainty of future profits to utilise these losses. From 1 April 2023, The UK government has announced a change in the standard rate of corporation tax, to 25% for companies that report profits of £250,000 or more. Whilst not having an immediate impact on the company, this potentially changes the effective value of these losses.

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NOTES TO THE FINANCIAL STATEMENTS

6. TANGIBLE FIXED ASSETS

	Plant and Machinery £000
COST	
At 1 January 2022	1,362
Additions	<u>514</u>
At 31 December 2022	<u>1,876</u>
DEPRECIATION	
At 1 January 2022	836
Charge for the year	<u>419</u>
At 31 December 2022	<u>1,255</u>
NET BOOK VALUE	
At 31 December 2022	<u><u>621</u></u>
At 31 December 2021	<u><u>526</u></u>

Plant and machinery with a net carrying value of £117,000 is held under finance leases.

7. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2022 £000	2021 £000
Prepayments	332	164
Research and development tax credits	2,310	2,874
Other debtors	<u>411</u>	<u>245</u>
	<u>3,053</u>	<u>3,283</u>

8. CURRENT ASSET INVESTMENTS

	2022 £000	2021 £000
Short term deposits	3,948	10,396
Mutual fund investments	<u>101</u>	<u>100</u>
	<u>4,049</u>	<u>10,496</u>

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NOTES TO THE FINANCIAL STATEMENTS

9. CREDITORS: FALLING DUE WITHIN ONE YEAR

	2022	2021
	£000	£000
Bank loans	2,126	375
Trade creditors	445	378
Taxation and social security	252	123
Obligations under finance leases	56	-
Other creditors	1,225	516
	<u>4,104</u>	<u>1,392</u>

10. CREDITORS: FALLING DUE AFTER MORE THAN ONE YEAR

	2022	2021
	£000	£000
Bank loans	1,665	1,163
Obligations under finance leases	63	-
	<u>1,728</u>	<u>1,163</u>

The Bank loan is secured by a fixed and floating charge over all assets of the company. It is in two tranches, which bear interest at 2.0% (on £1,291,000) and 5.5% (on £2,500,000).

11. LEASING AGREEMENTS

The Group's future minimum lease payments under finance lease are as follows:

	2022	2021
	£000	£000
Within one year	60	-
Between one and five years	64	-
	<u>124</u>	<u>-</u>
Future finance charges	(5)	-
	<u>119</u>	<u>-</u>

Finance leases relate to plant and machinery (see note 6). Finance lease agreements are for a maximum of three years.

Minimum lease payments under non-cancellable operating leases fall due as follows:

	2022	2021
	£000	£000
Within one year	367	243
Between one and five years	2,200	973
In more than five years	917	102
	<u>3,484</u>	<u>1,318</u>

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NOTES TO THE FINANCIAL STATEMENTS

12. CALLED UP SHARE CAPITAL

Allotted, issued, and fully paid:

Number:	Class:	Nominal value:	2022 £	2021 £
202,455	£0.01 Ordinary	1p	2,025	1,922
900,000	£0.01 Preferred Ordinary	1p	9,000	9,000
1,054,878	A Preferred	1p	10,549	10,549
1,299,214	B1 Preferred	1p	12,992	12,992
146,739	B2 Preferred	1p	1,467	1,467
			<u>36,033</u>	<u>35,930</u>

Rights attached to shares are briefly described as follows:

- Voting: all shares rank pari passu with the exception of ordinary shares issued to employees or directors and former employees or directors. These shares have no voting rights except immediately before an exit event.
- Dividends: all shares rank pari passu.
- Anti-dilution: Series B Preferred shares and Series A Preferred shares benefit from anti-dilution provisions.
- Liquidation preference: in case of liquidation, B Preferred, A Preferred and Preferred Ordinary Shares have preferential rights to repayment in that order,

10,311 £0.01 Ordinary shares were issued during the year at their nominal value of 1p.

13. RESERVES

The Company's reserves are as follows:

	2022 £000	2021 £000
Share premium	35,464	35,464
Share-based payments reserve	948	-
Capital redemption reserve	426	426
Other Reserves	737	737
Retained earnings	(32,691)	(22,493)

Share premium represents amounts paid for shares above the nominal value of the shares.

The share-based payments reserve represents the cumulative cost of the Company's share-based payments scheme to date (see note 14).

The Capital Redemption Reserve was created when the Company repurchased 42,570,000 Deferred shares of one penny each in 2020.

The Company has issued warrants to subscribe for 49,860 Series B shares exercisable at \$20.056 in relation to provision of services from a supplier. All warrants are exercisable at the holder's discretion. The cumulative charge for warrants is represented by 'Other Reserves' within equity.

Retained earnings represents the Company's cumulative losses to date.

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NOTES TO THE FINANCIAL STATEMENTS

14. SHARE-BASED PAYMENT TRANSACTIONS

The Company has a share option scheme for employees and other relevant parties. For employees, vesting is based on their period of employment, with a maximum period of four years. All options are priced at 1p each, and are over ordinary shares.

The movements in share options are as follows:

	2022	2021
	Number	Number
At 1 January	319,941	336,091
Granted	280,950	131,850
Exercised	(10,311)	(115,510)
Forfeited	(15,189)	(32,490)
	<u>575,391</u>	<u>319,941</u>
At 31 December		

At 31 December 2022, 224,665 share options had vested (31 December 2021: 159,245)

The share-based payment charge for the year was £948,000.

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NOTES TO THE FINANCIAL STATEMENTS

15. NOTES TO THE CASH FLOW STATEMENT

Net cash from operating activities:

	2022	2021
	£000	£000
Operating loss	(12,750)	(8,946)
Depreciation of tangible assets	419	237
Share-based payments charge	948	-
Charge to warrants reserve	-	415
Working capital movements:		
(Increase)/ decrease in receivables	(332)	173
Increase in payables	905	428
NET CASH FROM OPERATING ACTIVITIES	<u>(10,810)</u>	<u>(7,693)</u>

Non-cash transactions:

In 2021, services with a value of £415,000 were paid for by the issue of warrants to the service provider.

Analysis of changes in net funds/ (debt):

	At 1 January	Cash	Non-cash	At 31 December
	2022	flows	changes	2022
	£000	£000	£000	£000
Cash at bank	2,420	609	-	3,029
Investments	10,496	(6,447)	-	4,049
Bank loans	(1,538)	(2,140)	(113)	(3,791)
Finance leases	-	(119)	-	(119)
TOTAL NET FUNDS/ (DEBT)	<u>11,378</u>	<u>(8,097)</u>	<u>(113)</u>	<u>3,168</u>

Non-cash changes represent the accrual of final repayment fees.

16. RELATED PARTY DISCLOSURES

Key Management Personnel is disclosed in note 4.

There were no other related party transactions.

17. POST BALANCE SHEET EVENTS

In the first quarter of 2023, the Company raised £19,882,000 through the issue of 1,062,093 B1 Preferred shares and 259,340 B2 Preferred Shares to existing investors.

18. ULTIMATE CONTROLLING PARTY

There is no ultimate controlling party.