

REGISTERED NUMBER: 09440594 (England and Wales)

ANNUAL REPORT AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
FOR
EVONETIX LTD

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**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 FOR
EVONETIX LTD**

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**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 FOR
EVONETIX LTD**

COMPANY INFORMATION

DIRECTORS:

P V E Beastall
A S Diston
M Eapen
M J Hayes
N Markova
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 2023 FOR EVONETIX LTD

STRATEGIC REPORT

The directors present their strategic report on the company for the year ended 31 December 2023.

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

Significant progress was made this year building our patent portfolio with further grants relating to our thermally controlled DNA synthesis and binary assembly in core territories including the USA, China and Japan. Additional protection for our development programme was sought during the year with 4 new GB priority filings addressing improvements to our chemistry, control of the DNA assembly process, enzymatic DNA synthesis and a new market application of our technology.

The key financial measures of note are cash and cash burn (see financial risk below). At 31 December 2023, the Company had cash and investments of £11.9m (31 December 2022: £7.1m). All investments are readily convertible to cash as they are held in notice accounts albeit with an original maturity of over three months. The company also received £19.9m from a Series B Extension equity fundraise in the first quarter of 2023. Effective cash burn for the year was therefore £15.0m (2022: £8.3m, excluding receipt of bank borrowings of £2.5m).

The Company's ability to continue as a going concern is discussed further in the Directors' Report below.

After a review of internal and external factors, the Board made the decision to restructure the company and focus the company's resources on scientific derisking. This included the difficult decision to reduce the size of the company. This has involved reducing the company's headcount to around 30 people, a process that has been substantially completed in the first quarter of 2024.

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, and the Board believes that the restructure will help ensure technical progress is maintained.
- Financial risk – the company currently has no revenue and as such is reliant principally on shareholder funding to continue operations. 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 grew significantly, and its continued success will depend on managing future growth. It is believed that the restructure will address this risk. The company's ability to recruit, train and retain highly skilled staff remains vital.

Future developments

The company has refocussed on meeting technological milestones. We believe this enhanced focus on scientific derisking will enhance the company's value.

**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 FOR
EVONETIX LTD**

STRATEGIC REPORT

By order of the board

Malcolm Gates

M D Gates
Company Secretary
21 May 2024

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 FOR EVONETIX LTD

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the company for the year ended 31 December 2023.

Directors

The directors shown below have held office during the whole of the period from 1 January 2023 to the date of this report.

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

Changes in directors during the period from 1 January 2023 to the date of this report are as follows:

C McCracken – resigned 5 December 2023
A S Diston – appointed 21 March 2024

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, comprising FRS 102, 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 2023 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.

Post balance sheet event

Are described in the Strategic Report and also in note 17.

Financial instruments

The key financial objective of the company is to maintain sufficient liquidity to enable technological progress. The company does not use hedging or other complex financial instruments. The company is financed through equity and bank borrowing. The bank borrowing is on a fixed repayment schedule with interest based on the underlying Bank of England rate. The company invests cash not required in the immediate term in deposit accounts with between immediate and 95 days' notice periods. The bank borrowings and investments mean that the company is exposed to interest rate risk, but the net impact is not material. Given the nature of the company's financing and operations, it is not exposed to pricing or credit risks.

Going Concern

The company meets its day-to-day working capital requirements through the cash it holds. The Company had cash and investments of £11.9m at 31 December 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 end of the first quarter of 2025.

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 that the company will need to raise additional funds by the second quarter of 2025 to continue this progress as planned and budgeted. The form of these additional funds 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.

Independent auditor

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

By order of the board

Malcolm Gates

M D Gates
Company Secretary
21 May 2024

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 FOR EVONETIX LTD

INDEPENDENT AUDITORS REPORT

Independent auditor's report to the members of Evonetix Limited

Opinion

We have audited the financial statements of Evonetix Limited (the 'company') for the year ended 31 December 2023, 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 2023 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements 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 would be dependent on receiving additional funding, which has not been raised 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 contained

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 FOR EVONETIX LTD

INDEPENDENT AUDITORS REPORT

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 set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 FOR EVONETIX LTD

INDEPENDENT AUDITORS REPORT

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

21/5/2024

**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 FOR
EVONETIX LTD**

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	2023 £000	2022 £000
TURNOVER		-	-
Operating expenses		<u>(16,557)</u>	<u>(12,750)</u>
OPERATING LOSS	3	(16,557)	(12,750)
Interest receivable and similar income		597	108
Interest payable and similar expenses		<u>(358)</u>	<u>(240)</u>
LOSS BEFORE TAXATION		(16,318)	(12,882)
Tax on loss	5	<u>2,721</u>	<u>2,684</u>
LOSS FOR THE FINANCIAL YEAR		<u>(13,597)</u>	<u>(10,198)</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 2023 FOR
EVONETIX LTD**

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023

	Notes	2023 £000	2022 £000
FIXED ASSETS			
Tangible assets	6	1,136	621
CURRENT ASSETS			
Debtors	7	3,698	3,053
Investments	8	4,092	4,049
Cash and cash equivalents		<u>7,849</u>	<u>3,029</u>
		15,639	10,131
CREDITORS			
Amounts falling due within one year	9	<u>(4,158)</u>	<u>(4,104)</u>
NET CURRENT ASSETS		<u>11,481</u>	<u>6,027</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		12,617	6,648
CREDITORS			
Amounts falling due after more than one year	10	<u>(5)</u>	<u>(1,728)</u>
NET ASSETS		<u>12,612</u>	<u>4,920</u>
CAPITAL AND RESERVES			
Called up share capital	12	49	36
Share premium	13	55,333	35,464
Share-based payments reserve	13	2,355	948
Capital redemption reserve	13	426	426
Other reserves	13	737	737
Retained earnings	13	<u>(46,288)</u>	<u>(32,691)</u>
TOTAL EQUITY		<u>12,612</u>	<u>4,920</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 and were signed on its behalf on 21 May 2024:

Matthew Hayes

.....
M J Hayes - Director

**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 FOR
EVONETIX LTD**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2023

	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 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 1 January 2023	36	35,464	948	426	737	(32,691)	4,920
Loss for year	-	-	-	-	-	(13,597)	(13,597)
Issue of shares for cash	13	19,869	-	-	-	-	19,882
Share-based payments	-	-	1,407	-	-	-	1,407
AT 31 DECEMBER 2023	49	55,333	2,355	426	737	(46,288)	12,612

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 2023 FOR
EVONETIX LTD**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	2023 £000	2022 £000
Net cash from operating activities	15	(14,606)	(10,810)
Taxation received		<u>2,519</u>	<u>3,248</u>
NET CASH USED IN OPERATING ACTIVITIES		(12,087)	(7,562)
Cash flows from investing activities:			
Investments disposal	15	3,819	6,447
Investments acquired	15	(3,862)	-
Purchase of tangible assets		(1,044)	(346)
Interest received		<u>552</u>	<u>107</u>
NET CASH GENERATED FROM INVESTING ACTIVITIES		(535)	6,208
Cash flows from financing activities:			
Proceeds from issue of shares		19,882	-
Receipt of bank borrowings		-	2,500
Repayment of bank borrowings		(2,126)	(360)
Repayment of finance lease funding		(56)	(50)
Interest paid		<u>(258)</u>	<u>(127)</u>
NET CASH GENERATED FROM/ (USED IN) FINANCING ACTIVITIES		17,442	1,963
NET INCREASE/ (DECREASE) IN CASH		<u>4,820</u>	<u>609</u>
Cash and cash equivalents at the beginning of the year		3,029	2,420
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		<u>7,849</u>	<u>3,029</u>

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 2023 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, as it has no transactions or balances aside from share capital issued and amounts owed in relation thereto. 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 £11.9m at 31 December 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 end of the first quarter of 2025.

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 that the company will need to raise additional funds by the second quarter of 2025 to continue this progress as planned and budgeted. The form of these additional funds 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:

- Estimate of the Research and Development tax credit earned during the year. Estimate is based on volume and type of spend and historical recovery.
- Estimate of share based payments charge. Estimate is based on estimates of company value and employee retention.
- 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.

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 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 R&D Tax 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 using the straight-line method. For 2023 and 2022 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 and held at cost.

Share-based payments charge

The fair value of the of 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 2023 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:

	2023	2022
	£000	£000
Operating lease charges	498	306
Depreciation of owned assets	451	367
Depreciation of assets held under finance lease	58	52
Loss on disposal of assets	20	-
Research & development	8,782	7,667
Auditors' remuneration - audit	44	42
Auditors' remuneration – other services	5	-

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 FOR EVONETIX LTD

NOTES TO THE FINANCIAL STATEMENTS

4. EMPLOYEES AND DIRECTORS

The average number of employees during the year was 107 (2022 - 101). All employees are engaged in research and development with the exception of 7 administrative employees (2022 – 4).

Total employment costs were as follows:

	2023	2022
	£000	£000
Wages and salaries	6,602	5,662
Social security costs	714	600
Pension costs	240	198
Share-based payments	1,407	948
	<u>8,962</u>	<u>7,408</u>

The directors' emoluments were as follows:

	2023	2022
	£000	£000
Aggregate remuneration	<u>864</u>	<u>572</u>
Total emoluments	<u>864</u>	<u>572</u>

One director (2022: one) held benefits under the Company's defined contribution Group Pension Plan. Contributions were £8,000 (2022: £8,000). Three directors (2022: three) accrued share options through the year, and none (2022: none) exercised share options in the year.

The highest paid Director's emoluments were as follows:

	2023	2022
	£000	£000
Total emoluments and amounts (excluding shares) receivable under long-term incentive schemes	580	270

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 (also in 2022).

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:

	2023	2022
	£000	£000
Salaries and other short term benefits	1,679	972
Employer social security costs	202	118
Post-employment benefits	41	23
Share-based payments	1,030	559
	<u>2,952</u>	<u>1,672</u>

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5. TAXATION

Analysis of the tax credit

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

	2023	2022
	£000	£000
Current tax:		
UK corporation tax	2,512	2,310
Prior year adjustment	209	374
	<u>2,721</u>	<u>2,684</u>

UK corporation tax has been charged at 19% (2022 - 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:

	2023	2022
	£000	£000
Loss before tax	<u>(16,318)</u>	<u>(12,882)</u>
Loss multiplied by the standard rate of corporation tax in the UK of 19% (2022 - 19%)	3,100	2,448
Effects of:		
Expenses not deductible for tax purposes	(279)	(17)
Deferred tax not recognised	(1,933)	(1,925)
Prior year adjustment	209	374
R&D tax credit adjustment	<u>1,624</u>	<u>1,804</u>
Total tax credit	<u>2,721</u>	<u>2,684</u>

The Company has £17,830k of accumulated tax losses which have not been recognised as there is no certainty of future profits to utilise these losses.

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6. TANGIBLE FIXED ASSETS

	Plant and Machinery £000
COST	
At 1 January 2023	1,876
Additions	1,044
Disposals	<u>(368)</u>
At 31 December 2023	<u>2,552</u>
DEPRECIATION	
At 1 January 2023	1,255
Charge for the year	509
Disposals	<u>(348)</u>
At 31 December 2023	<u>1,416</u>
NET BOOK VALUE	
At 31 December 2023	<u>1,136</u>
At 31 December 2022	<u>621</u>

Plant and machinery with a net carrying value of £61,000 is held under finance leases.

7. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2023 £000	2022 £000
Prepayments	684	332
Research and development tax credits	2,513	2,310
Other debtors	<u>501</u>	<u>411</u>
	<u>3,698</u>	<u>3,053</u>

8. CURRENT ASSET INVESTMENTS

	2023 £000	2022 £000
Short term deposits	129	3,948
Mutual fund investments	<u>3,963</u>	<u>101</u>
	<u>4,092</u>	<u>4,049</u>

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9. CREDITORS: FALLING DUE WITHIN ONE YEAR

	2023	2022
	£000	£000
Bank loans	1,765	2,126
Trade creditors	1,167	445
Taxation and social security	213	252
Obligations under finance leases	58	56
Other creditors	955	1,225
	<u>4,158</u>	<u>4,104</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 Bank of England base rate plus 1.9% (on £537,000) and Bank of England base rate plus 5.4% (on £1,228,000).

10. CREDITORS: FALLING DUE AFTER MORE THAN ONE YEAR

	2023	2022
	£000	£000
Bank loans	-	1,665
Obligations under finance leases	5	63
	<u>5</u>	<u>1,728</u>

11. LEASING AGREEMENTS

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

	2023	2022
	£000	£000
Within one year	60	60
Between one and five years	5	64
	<u>65</u>	<u>124</u>
Future finance charges	(2)	(5)
	<u>63</u>	<u>119</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:

	2023	2022
	£000	£000
Within one year	550	367
Between one and five years	2,200	2,100
In more than five years	367	917
	<u>3,117</u>	<u>3,484</u>

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12. CALLED UP SHARE CAPITAL

Allotted, issued, and fully paid:

Number:	Class:	Nominal value:	2023 £	2022 £
223,197	£0.01 Ordinary	1p	2,232	2,025
900,000	£0.01 Preferred Ordinary	1p	9,000	9,000
1,054,878	A Preferred	1p	10,549	10,549
2,361,307	B1 Preferred	1p	23,613	12,992
406,079	B2 Preferred	1p	4,061	1,467
			<u>49,455</u>	<u>36,033</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,

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.

20,742 £0.01 Ordinary shares were issued during the year at their nominal value of 1p. These issues were the result of options being exercised (see note 14).

13. RESERVES

The Company's reserves represent the following:

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:

	2023 Number	2022 Number
At 1 January	575,391	319,941
Granted	126,000	280,950
Exercised	(20,742)	(10,311)
Forfeited	<u>(126,133)</u>	<u>(15,189)</u>
At 31 December	<u>554,516</u>	<u>575,391</u>

At 31 December 2023, 347,757 share options had vested (31 December 2022: 224,665)

The share-based payment charge for the year was £1,407,000. (2022 - £948,000)

15. NOTES TO THE CASH FLOW STATEMENT

Net cash from operating activities:

	2023 £000	2022 £000
Operating loss	(16,557)	(12,750)
Depreciation of tangible assets	509	419
Loss on disposal of assets	20	-
Share-based payments charge	1,407	948
Working capital movements:		
(Increase) in receivables	(398)	(332)
Increase in payables	<u>413</u>	<u>905</u>
NET CASH FROM OPERATING ACTIVITIES	<u>(14,606)</u>	<u>(10,810)</u>

Analysis of changes in net funds/ (debt):

	At 1 January 2023 £000	Cash flows £000	Non-cash changes £000	At 31 December 2023 £000
Cash at bank	3,029	4,820	-	7,849
Investments	4,049	43	-	4,092
Bank loans	(3,791)	2,126	(100)	(1,765)
Finance leases	(119)	56	-	(63)
TOTAL NET FUNDS/ (DEBT)	<u>3,168</u>	<u>7,045</u>	<u>(100)</u>	<u>10,113</u>

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

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NOTES TO THE FINANCIAL STATEMENTS

16. RELATED PARTY DISCLOSURES

Key Management Personnel is disclosed in note 4.

There were no other material related party transactions.

17. POST BALANCE SHEET EVENTS

In the first quarter of 2024, the Company executed a restructure of operations resulting in an ongoing staffing level of approximately 30 people. The total value of redundancy payments made in relation to this restructure is expected to be £88,000.

18. ULTIMATE CONTROLLING PARTY

There is no ultimate controlling party.