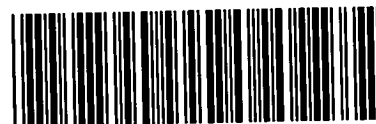


Company Registration No. 10271134 (England and Wales)

TROPIC BIOSCIENCES UK LIMITED
ANNUAL REPORT AND FINANCIAL
STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2022

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TROPIC BIOSCIENCES UK LIMITED

COMPANY INFORMATION

Directors	E Vigodman Dr D K Lawrence Q Li B Beldegrun N Manzoni Dr E Maori G M Gershon
Secretary	J M Rowles
Company number	10271134
Registered office	Norwich Research Park Innovation Centre Colney Lane Colney Norwich NR4 7GJ England
Auditor	PricewaterhouseCoopers LLP The Maurice Wilkes Building St. John's Innovation Park Cowley Road Cambridge CB4 0DS

TROPIC BIOSCIENCES UK LIMITED

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TROPIC BIOSCIENCES UK LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

The directors present the Strategic Report for the year ended 31 December 2022.

Business review

As stated in the Directors' Report, the principal activity of Tropic Biosciences UK Limited ("the Company") is the research and development of high-performing commercial varieties of tropical crops. The factors and trends that determine the success of the Company are undertaking research and development of its proprietary plant and technology products. The Company is dedicated to the development of healthier, more robust, high performing varieties of tropical crops with a vision to becoming a world leading technology forward seed business.

The Company, that was founded in 2016, developed GEiGS™ originally to support its own product development to address the critical fungal disease and is now developing commercial banana lines that are resistant to TR4. GEiGS™ uses universal gene editing tools such as CRISPR, to minimally edit the hosts own non-coding genes and redirect their silencing activity (RNAi) towards any desired target or gene family.

GEiGS™ does not depend on the introduction of foreign genes into the host genome, and therefore the approach will be considered as non-GMO in multiple regions. Recognising these technologies' wider potential beyond tropical crops allows the Company to make GEiGS™ commercially available to select companies in other sectors. The Company since has entered into licensing agreements with multiple leading global agribusinesses enabling them to use the platform to develop disease resistance, quality and welfare traits across crop, livestock, and aquaculture species.

The research and development carried out by the Company is further focused on the development of high performing commercial varieties of tropical crops, as well as on the development of enabling technologies to support such efforts. The management team and the Company's directors are of the opinion that a robust research and development team is essential to generate and maintain a competitive advantage in the agricultural biotechnology sector and continue to dedicate resources to improve and expand the effort.

To support this the Company has invested in its people and additional space this year as outlined below.

Principal risks and uncertainties

The Agritech industry is highly regulated, the Company currently undertakes most of its research and development in tropical crops. The Company identified that the market for tropical crops was less saturated, high in growth and as the population grows the need for these tropical staples was essential. The recent substantial increase in prices for these crops was also another reason why the Company wanted to invest further research in these crops as these stable products will be more available for all.

The Gene Editing technologies deployed by the Company allow farmers to produce more food and less waste and to manage increased crop disease pressure brought on by climate change without the need for increasing and unsustainable pesticide use. Consumers also benefit from better produce produced in a healthier way. These clear benefits that impact both the growers and consumers, offer a very attractive rationale for investment in research and development.

The Company also collaborates with commercial and university partners in other areas of research and development that are not the Company's key focus. The directors are confident that the risks faced by the Company are adequately managed. The main risks facing the Company are:

Environmental risks

Uncertainties that could impact on the Company are unknown diseases which have not been found and can affect tropical crops.

Economic and Financial risks

Energy and freight costs together with the rising cost of inflation continue to put pressure on keeping costs under control. The Company budgeted for this increase and monitors these expenses on a monthly basis.

Financial risk management

The principal financial risks to which the Company are exposed are discussed below.

TROPIC BIOSCIENCES UK LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

Currency risks

The Company raises funds in US Dollar and pays for goods and services in a variety of currencies, mainly pound sterling and US Dollar. The Company mitigates the risk by holding cash in a variety of currencies and by monitoring the fluctuations in the USD/GBP rates, taking advantage of favorable market conditions.

Liquidity risks

The Company manages its cash and borrowing requirements whilst generating interest income and minimising interest expense. Management monitors rolling forecasts of the Company's cash and cash equivalents on the basis of expected cash flows with the objective of ensuring that the Company has sufficient cash to meet all its future obligations. At 31 December 2022 the Company has net cash of £18,449,733 (31 December 2021: £7,634,222).

Credit risk

Investments of cash surpluses, borrowings and derivative instruments are made through banks and companies which must fulfil credit rating criteria approved by the board. All customers who wish to trade on credit terms are subject to credit verification procedures. Trade debtors are monitored on an ongoing basis and provision is made for doubtful debts where necessary.

Competition risks

There is risk that new entrants could enter the market and reduce future profit potential for the Company. To reduce this risk the Company has patented GEiGS™ technology and is also focused on its goals to ensure the commercial side.

Supply Chain risks

The Company has a procurement system in place to ensure that product levels are monitored and remain at a consistent level. Initially the Company identified 20 key consumables that were most exposed to any potential supply chain issue based on price, competition, lead time and quality. Once these key consumables were identified a preferred supplier list was set that enabled the Company to benefit from stable prices and economies of scale.

The risk is further reduced by setting up standing orders with companies and putting in place contracts with suppliers that we are most vulnerable to. This ensures our supply remains stable and as per the agreed terms of the contract. To mitigate the inflationary price increases identified in 2022 the Company brought additional research and development consumables that could be stored for future use.

Regulatory and Compliance risks

The Company uses a variety of resources to reduce the regulatory risks it faces are adhered to. The Company is required to appoint a Biological Safety Officer (BSO), conduct, and review regular risk assessments, appoint a Biological Safety Council, and hold biological safety council review sessions. To reduce the risks further the Company has a dedicated quality team who will also regularly assess and monitor the regulatory risks. The quality team uses external consultations on a regular basis for advice and maintenance of standards.

The Company is required to follow the HSE GMO Contained Regulations 2014 and has plant phytosanitary requirements from Alpha and Defra to adhere to.

Some of the risks are mitigated by being fully audited members of the Excellence through Stewardship promotes best practices and quality management in agricultural biotechnology. This recent recognition is a success for the Company.

Product Pipeline

There is a risk that the income from the GEiGS™ technology could be delayed. The Company has established clear goals to ensure the transition to a commercial Company is successful. The Company has invested in people and created new roles to facilitate this.

Government risks

There is a risk that the Government could reduce the scope or revoke the R&D tax credit scheme that the Company currently benefits from. This is regularly monitored so that any changes can be managed. The ability to secure and maintain intellectual property for all the Companies products in development. We work with an international organization to help secure our regulatory approvals.

TROPIC BIOSCIENCES UK LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

Key performance indicators

The main financial KPIs are revenue, cost tracking versus budget, whilst the main non-financial KPI's are our headcount development and progress tracking in regard to completion of Company strategic milestones. Costs are tracked continuously over time (full monthly closing) to be able to identify any deviations early on.

The directors consider the results for the year ended 31 December 2022 as expected and in line with budget expectations. The Company utilised 92% of its annual budget in 2022 with 58% being spent on research and development expenses. The remainder of the costs were spent on selling, general and administrative expenses.

The Company's loss for the year, after taxation, amounted to £10.6m (2021: £8.2m). The net assets of the Company total £6.0m (2021: £16.6m). The prior financial statements have been prepared for the 17-month period from 1 August 2020 to 31 December 2021 in order to align the Company's reporting with the calendar year end.

During the first quarter of 2022 the Company had achieved 70% of its set strategic milestones for the calendar year end. This achievement allowed for a further additional 15 strategic milestones to be set. By the end of 2022 the Company had achieved 88% of the set strategic milestones.

The Company has seen significant growth in 2022 which is evidenced by increasing the average research and development headcount by 37% and floorspace by 70%. This has allowed the Company to ensure it has enough resources to remain competitive in its field. The Company believes in diversity, in that bringing in people with different backgrounds allows for further growth and success. By the end of 2022 the Company had a team which was composed of 19 different nationalities.

Section 172(1) Companies Act 2006

The directors confirm that they have acted in good faith in the way they consider what would be most likely to promote the success of the Company for the benefit of its members. In doing so they have considered, among other matters, those set out in section 172(1) (a) to (f) of the Companies Act 2006: the likely consequences of any decision in the long term; the interests of the Company's employees; the need to foster the Company's business relationships with suppliers, customers and others; the impact of the Company's operations on the community and the environment; the desirability of the Company maintaining a reputation for high standards of business conduct; and the need to act fairly as between members of the Company. This statement applies equally to the directors individually and when acting collectively as the board.

In discharging their duties in relation to section 172 (1), careful consideration is given to the matters set out above. The stakeholders we consider in this regard are primarily employees, suppliers and customers, the communities we operate in, the wider world and environment.

Engagement with our shareholders and all stakeholders is of fundamental importance across the business and the directors are focused on building these relationships on a continuous basis.

Communities

We are committed to creating sustainable, long-term opportunities in our communities in addition to aiming to become an employer of choice. By providing innovation, passion, respect, leading by example, striving for excellence and building trust, along with a benchmarked market package for our employees.

Environment

We take the impact on the environment very seriously, having set up an Environmental, Social and Governance (ESG) impact committee in 2022 with external members who are well known in the space of ESG. We strive to increase our positive contribution to society and minimize the negative effects of our business activities.

Engagement with employees

Our employees are critical to the success of our business, we strive for timely and effective communication with all employees across the Company, and we are all about the power of people. This means working together and putting humans at the heart of our process to get the best results. We encourage two-way participation from all personnel, and contributions are published in a monthly newsletter to all employees.

TROPIC BIOSCIENCES UK LIMITED
STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

Signed and approved on behalf of the board:

Gilad M. Gershon
.....

G M Gershon
Director

Date: 02/06/23
.....

TROPIC BIOSCIENCES UK LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

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

Principal activities

The principal activity of the Company is the research and development of high-performing commercial varieties of tropical crops.

Results and dividends

The results for the year are set out within the Strategic Report, and a business review is included within the Strategic Report on page 1.

No ordinary dividends were paid. The directors do not recommend payment of a final dividend.

No preference dividends were paid.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

E Vigodman
Dr D K Lawrence
Q Li (Appointed 21 January 2022)
B Beldegrun
N Manzoni
Dr E Maori
G M Gershon

Qualifying third party indemnity provisions

As permitted by the Companies Act 2006, the Company has indemnified the directors and officers in respect of proceedings which may be brought by third parties and such indemnification was in place throughout the year and at the date of approval of these financial statements. Neither the Company's indemnity nor insurance provides cover if a director or officer is proved to have acted fraudulently or dishonestly.

Political donations

The Company has made political donations of £nil (2021: £nil)

Financial risk management

The Company has detailed any areas of risk within the Strategic Report of the financial statements.

Research and development

To support the Company in the development of its proprietary plant and technology products, the average number of staff employed by the Company on research and development has increased from 75 to 103. The research and development carried out by the team is further focused on the development of high performing commercial varieties of tropical crops, as well as on the development of enabling technologies to support such efforts. The management team and the Company's directors are under the opinion that a robust research and development team is essential to generate and maintain a competitive advantage in the agricultural biotechnology sector and continue to dedicate resources to improve and expand the effort.

Employee involvement

Employee involvement and consultation is managed in several ways by the business. This includes holding weekly team briefings by line managers and regular updates by Company directors; this continues to be an important basis for ensuring good internal communications. These arrangements continue to promote a common awareness amongst employees of the financial and economic factors affecting the performance of business. This is supplemented by a monthly newsletter to all employees.

TROPIC BIOSCIENCES UK LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

Post reporting date events

On 12 January 2023 a further \$2 million has been received as part of the draw down of the unsecured convertible loan, which commenced on 11 March 2022.

An additional loan of £350,000 has been advanced to Laverock Therapeutics Limited (formerly Skylark Therapeutics Limited) on 6 April 2023, as per note 29.

Future developments

The Company's management team and directors aim to maintain and further support the policies which have resulted in the Company's substantial growth in recent years. They consider that the next year will show further growth across multiple fronts, namely:

- The testing of the Company's novel gene edited plants under field conditions with select partners in further countries.
- The continued commercialization of the Company's proprietary GEiGS™ technology platform, supporting additional short and mid-term revenue streams.
- Further expansion of the Company's team across all core functions (e.g.R&D, Commercialisation, Project Management, Finance and HR).
- Expansion into a potentially a fourth crop, either with a strategic partner or alone.
- Tapping into new potential clients due to England allowing gene-editing research for R&D purposes.

In 2023 the Company has created a new set of 3-year company goals which will focus on preparations for the commercialisation of products. These new goals were approved and signed off by the board of directors in April 2023, allowing the Company to set a number of strategic milestones to align these to the company goals.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the next board of directors meeting.

Statement of disclosure to auditor

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the directors have taken all the steps that ought to have been taken as directors in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Going Concern

These financial statements have been prepared on a going concern basis. The directors have assessed the Company's ability to continue as a going concern and have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

In reaching these conclusions, the Company has considered its existing resources (including its cash reserves, investments and awarded and yet undrawn grant funding) and expected cash inflows (including from revenue streams and R&D tax credit claims), which together are comfortably in excess of its planned expenditure over a period of at least twelve months from the date of approval of the financial statements.

Through the financial year, the Company entered into non-interest bearing, unsecured convertible loan agreements, which total \$42 million.

Accordingly, the directors have a reasonable expectation that the Company will continue in operational existence and thus they adopt the going concern basis of accounting in preparing the financial statements.

TROPIC BIOSCIENCES UK LIMITED
DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

On behalf of the board

Gilad M. Gershon

.....
G M Gershon
Director

Date: 02/06/23

TROPIC BIOSCIENCES UK LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

The directors are responsible for preparing the annual 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, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently.
- 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;
- make judgements and accounting estimates that are reasonable and prudent; 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 safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also 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.

Independent auditors' report to the members of Tropic Biosciences UK Limited

Report on the audit of the financial statements

Opinion

In our opinion, Tropic Biosciences UK Limited's 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 and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the balance sheet as at 31 December 2022; the statement of comprehensive income/(loss), statement of cash flows and statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability 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.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

Auditors' 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 auditors' 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Companies Act 2006 and tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate journal entries to manipulate financial results and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- inquiries with management around any actual or potential litigation and claims, including known or suspected instances of non-compliance with laws and regulations and fraud;
- inspecting minutes of meetings of the board of directors and associated sub-committees;
- verifying financial statement disclosures and agreeing to supporting documentation to assess that disclosures are in compliance with applicable laws and regulations;
- identifying and testing journal entries, in particular any journal entries posted with unusual account combinations;
- challenging the assumptions made by management in their significant accounting estimates, in particular in relation to complex financial instruments;
- designing audit procedures to incorporate an element of unpredictability around the nature, timing and extent of our testing procedures; and
- evaluating management's controls designed to prevent and detect irregularities.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Simon Ormiston (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
2 June 2023

TROPIC BIOSCIENCES UK LIMITED

STATEMENT OF COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	Year ended 31 December 2022 £	17 months ended 31 December 2021 £
Turnover	3	665,124	1,092,755
Cost of sales		(226,924)	-
Gross profit		438,200	1,092,755
Operating expenses		(10,789,515)	(11,740,447)
Other operating income		751,808	404,453
Operating loss	7	(9,599,507)	(10,243,239)
Interest receivable and similar income	9	298,508	23,561
Other gains and losses	10	(2,342,882)	-
Loss before taxation		(11,643,881)	(10,219,678)
Tax on loss	11	1,073,028	2,062,083
Loss for the financial year		(10,570,853)	(8,157,595)

There were no recognised gains and losses for 2021 or 2022 other than those included in the statement of comprehensive income / (loss).

The statement of comprehensive income / (loss) has been prepared on the basis that all operations are continuing operations.

The notes on pages 17 to 39 form part of these financial statements.

TROPIC BIOSCIENCES UK LIMITED**BALANCE SHEET****AS AT 31 DECEMBER 2022**

	Notes	2022		2021	
		£	£	£	£
Fixed assets					
Intangible assets	13		40,056		84,086
Tangible assets	14		1,025,341		730,747
Investments	15		808,323		4,000
			<u>1,873,720</u>		<u>818,833</u>
Current assets					
Debtors	17	2,480,331		3,592,272	
Investments	18	20,762,410		5,556,668	
Cash at bank and in hand		18,449,733		7,634,222	
			<u>41,692,474</u>		<u>16,783,162</u>
Creditors: amounts falling due within one year	19	(874,665)		(1,043,588)	
Net current assets			<u>40,817,809</u>		<u>15,739,574</u>
Total assets less current liabilities			<u>42,691,529</u>		<u>16,558,407</u>
Creditors: amounts falling due after more than one year	20		(36,647,224)		-
Net assets			<u><u>6,044,305</u></u>		<u><u>16,558,407</u></u>
Capital and reserves					
Called up share capital	22		719,681		719,219
Share premium account			12,646,059		12,635,519
Other reserves			271,895		226,146
Profit and loss reserves			(7,593,330)		2,977,523
Total equity			<u><u>6,044,305</u></u>		<u><u>16,558,407</u></u>

The notes on pages 17 to 39 are an integral part of these financial statements.

The financial statements on pages 13 to 39 were approved by the board of directors and authorised for issue on 02/06/23..... and are signed on its behalf by:

Gilad M. Gershon

G M Gershon
Director

TROPIC BIOSCIENCES UK LIMITED

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

	Notes	Called up share capital £	Share premium account £	Other reserves £	Profit and loss reserves £	Total £
Balance at 1 August 2020		706,846	30,479,848	312,447	(7,860,574)	23,638,567
17 month period ended 31 December 2021:						
Loss and total comprehensive income for the period		-	-	-	(8,157,595)	(8,157,595)
Issue of share capital	22	12,373	1,155,671	-	-	1,168,044
Dividend in specie		-	-	-	(4,308)	(4,308)
Capital reduction	22	-	(19,000,000)	-	19,000,000	-
Debit to equity for equity settled share-based payments		-	-	(86,301)	-	(86,301)
Balance at 31 December 2021		719,219	12,635,519	226,146	2,977,523	16,558,407
Year ended 31 December 2022:						
Loss and total comprehensive income for the year		-	-	-	(10,570,853)	(10,570,853)
Issue of share capital	22	462	10,540	-	-	11,002
Credit to equity for equity settled share-based payments	6	-	-	45,749	-	45,749
Balance at 31 December 2022		719,681	12,646,059	271,895	(7,593,330)	6,044,305

TROPIC BIOSCIENCES UK LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022		2021	
		£	£	£	£
Cash flows from operating activities					
Cash absorbed by operations	23	(7,998,069)		(9,717,269)	
Income taxes refunded		1,551,716		983,406	
Net cash used in operating activities		(6,446,353)		(8,733,863)	
Investing activities					
Purchase of intangible fixed assets		(76,138)		(84,086)	
Purchase of tangible fixed assets		(622,650)		(751,677)	
Proceeds on disposal of tangible fixed assets		33,593		-	
Purchase of investments		-		(8,308)	
Short term deposits made		(20,762,410)		(5,556,668)	
Maturity of short term deposits		5,556,668		-	
Loans granted to associates		(477,677)		(510,146)	
Interest on bank deposits		284,841		23,561	
Net cash used in investing activities		(16,063,773)		(6,887,324)	
Financing activities					
Proceeds from issue of shares		11,002		1,168,044	
Issue of convertible loan notes		34,265,207		-	
Net cash generated from financing activities		34,276,209		1,168,044	
Net increase/(decrease) in cash and cash equivalents		11,766,083		(14,453,143)	
Cash and cash equivalents at beginning of year / period		7,634,222		22,457,554	
Effect of foreign exchange rates		(950,572)		(370,189)	
Cash and cash equivalents at end of year / period		18,449,733		7,634,222	

TROPIC BIOSCIENCES UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies

Company information

Tropic Biosciences UK Limited (the "Company") is a private company limited by shares and is registered and incorporated in England and Wales. The registered office is Norwich Research Park Innovation Centre, Colney Lane, Colney, Norwich, England, NR4 7GJ.

The Company's principal activities and nature of its operations are disclosed in the Directors' Report.

Statement of compliance

These financial statements of the Company have been prepared in accordance with United Kingdom Accounting Standards, including Financial Reporting Standard 102 and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the Company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value. The principal accounting policies adopted are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Going concern

These financial statements have been prepared on a going concern basis. The directors have assessed the Company's ability to continue as a going concern and have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

In reaching these conclusions, the Company has considered its existing resources (including its cash reserves, investments and awarded and yet undrawn grant funding) and expected cash inflows (including from revenue streams and R&D tax credit claims), which together are comfortably in excess of its planned expenditure over a period of at least twelve months from the date of approval of the financial statements.

Through the financial year, the Company entered into non-interest bearing, unsecured convertible loan agreements, which total \$42 million.

Accordingly, the directors have a reasonable expectation that the Company will continue in operational existence and thus they adopt the going concern basis of accounting in preparing the financial statements.

Reporting period

The prior period financial statements have been prepared for the 17 month period from 1 August 2020 to 31 December 2021 in order to align the Company's reporting date with the calendar year end. As such the current year results are not directly comparable with the prior period.

Turnover

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the Company and the turnover can be reliably measured. Turnover is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes.

TROPIC BIOSCIENCES UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies (Continued)

Turnover from a contract to provide services is recognised in the year in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of turnover can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the year can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

Turnover from licence fees

Where the Company grants a licence and has no ongoing obligations in respect of that licence, revenues are recognised on granting of the licence.

Where the Company grants exclusivity to a customer, this income is deferred and recognised over the period of the exclusivity, which is normally in 12 months tranches.

Research and development expenditure

Expenditure on research and development is expensed in the year in which it is incurred.

Intangible fixed assets other than goodwill

Intangible assets acquired separately from a business are recognised at cost and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is recognised so as to write off the cost of assets less their residual values over their useful lives on the following bases:

Software (LIMS)	33% Straight line
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At the year end the intangible asset was not being amortised whilst it was in development to bring it into use. It has since been deemed that the intangible asset is impaired and has been reduced in the financial statements to reflect a 75% reduction in value.

Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost, net of depreciation and any impairment losses.

Depreciation is recognised within the statement of comprehensive income / (loss) so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Leasehold improvements	25% Straight line
Laboratory and office equipment	20% - 25% Straight line
Computers	33% Straight line

Assets under construction are not depreciated until the point at which the assets are available for use and transferred to their respective asset class.

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

TROPIC BIOSCIENCES UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies (Continued)

Fixed asset investments

Interests in subsidiaries, associates and jointly controlled entities are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. Details on the overall result of the associate is as follows: the net loss after tax for the period 31 December 2022 is £2,097,522, Net assets are £1,455,127 and liabilities are £3,543,649. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

A subsidiary is an entity controlled by the Company. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

An associate is an entity, being neither a subsidiary nor a joint venture, in which the Company holds a long-term interest and where the Company has significant influence. The Company considers that it has significant influence where it has the power to participate in the financial and operating decisions of the associate.

Entities in which the Company has a long term interest and shares control under a contractual arrangement are classified as jointly controlled entities.

Impairment of fixed assets

At each reporting year end date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Cash and cash equivalents

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

Current asset investments

Other current asset investments relate to deposits with financial institutions with original maturities of greater than 3 months (but not greater than 12 months) and hence are disclosed separately from cash and cash equivalents.

TROPIC BIOSCIENCES UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies (Continued)

Financial instruments

The Company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised when the Company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include trade and other debtors, cash and bank balances and short term investments, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the financial asset is measured at the present value of the future receipts discounted at a market rate of interest.

Other financial assets

Other financial assets, including amounts owed by associate, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except those investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment. Certain equity instruments, specifically loans to the Company's associate, do not meet the definition of basic financial instruments. On initial recognition, such amounts owed by associates were valued at the present value of future receipts, and discounted as such - with the difference between the amount initially recognised and the cash paid recognised as an investment in associate (see note 15). At year end the loans have then been subsequently re-measured as the discounting unwinds. The treatment and recognition through profit and loss follows the classification of such amounts as complex financial instruments as a result of certain terms relating to contingent settlement. For further details regarding such amounts please refer to note 17.

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the Company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

TROPIC BIOSCIENCES UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies (Continued)

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Basic financial liabilities

Basic financial liabilities, including trade and other creditors, are initially recognised at transaction price.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Other financial liabilities

Debt instruments, including convertible loan notes, where the contractual returns, repayment of the principal, or other terms (such as prepayment provisions or term extensions) do not meet the conditions to be measured at amortised cost, are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value through profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Derecognition of financial liabilities

Financial liabilities are derecognised when, and only when, the Company's contractual obligations are discharged, cancelled, or they expire.

Share capital

Shares are classified as equity as they represent the residual interest in the Company's assets after deducting all its liabilities. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Taxation

The tax expense represents the sum of the current tax expense and deferred tax expense. Current tax assets primarily represent the Company's claims under the Research and Development (R&D) tax relief for small & medium sized entities.

Current and deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited to other comprehensive income or equity, when the tax follows the transaction or event it relates to and is also charged or credited to other comprehensive income, or equity.

Current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities are offset, if and only if, there is a legally enforceable right to set off the amounts and the entity intends either to settle on the net basis or to realise the asset and settle the liability simultaneously.

Current tax is based on taxable loss for the year. Current tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is calculated at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled based on tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax liabilities are recognised in respect of all timing differences that exist at the reporting date. Timing differences are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in different years from their recognition in the financial statements. Deferred tax assets are recognised only to the extent that it is probable that they will be recovered by the reversal of deferred tax liabilities or other future taxable profits.

TROPIC BIOSCIENCES UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies (Continued)

Employee benefits

The Company operates a number of annual bonus plans for employees. An expense is recognised in the statement of comprehensive income / (loss) when the Company has a legal or constructive obligation to make payments under the plans as a result of past events and a reliable estimate of the obligation can be made.

Retirement benefits

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

The contributions are recognised as an expense in the statement of comprehensive income / (loss) when they fall due. Amounts not paid are shown in accruals as a liability in the balance sheet. The assets of the plan are held separately from the Company in independently administered funds.

Share-based payments

Equity-settled share-based payments are measured at fair value at the date of grant by reference to the fair value of the equity instruments granted using the Black Scholes model. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the estimate of shares that will eventually vest. A corresponding adjustment is made to equity.

When the terms and conditions of equity-settled share-based payments at the time they were granted are subsequently modified, the fair value of the share-based payment under the original terms and conditions and under the modified terms and conditions are both determined at the date of the modification. Any excess of the modified fair value over the original fair value is recognised over the remaining vesting period in addition to the grant date fair value of the original share-based payment. The share-based payment expense is not adjusted if the modified fair value is less than the original fair value.

Cancellations or settlements (including those resulting from employee redundancies) are treated as an acceleration of vesting and the amount that would have been recognised over the remaining vesting period is recognised immediately.

Operating leases: the Company as lessee

Rentals payable under operating leases, including any lease incentives received, are charged in the statement of comprehensive income / (loss) on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the leases asset are consumed.

Government grants

Government grants are recognised at the fair value of the asset received or receivable when there is reasonable assurance that the grant conditions will be met and the grants will be received.

Government grants relating to expenditure are recognised as income over the years when the related costs are incurred. Grants relating to an asset are recognised in income systematically over the asset's expected useful life. If part of such a grant is deferred it is recognised as deferred income rather than being deducted from the asset's carrying amount.

During the year the Company received £564,073 in grant income, most of this income was received from Innovate UK which is related to R&D innovation work, and is recognised within other operating income in the statement of comprehensive income / (loss). The Company has also benefited from the government R&D Tax relief scheme.

TROPIC BIOSCIENCES UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies (Continued)

Foreign exchange

Transactions in currencies other than the functional currency (foreign currency) are initially recorded at the exchange rate prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies are translated at the rate ruling at the date of the transaction, or, if the asset or liability is measured at fair value, the rate when that fair value was determined.

All translation differences are taken to profit or loss, except to the extent that they relate to gains or losses on non-monetary items recognised in other comprehensive income, when the related translation gain or loss is also recognised in other comprehensive income.

Other reserves

Other reserves consist of a share-based payment reserve which includes credits relating to equity settled share-based payments and a reserve which includes debits relating to share capital issued for non-cash consideration. Where cash or other resources are received before equity instruments are issued, the Company recognises the corresponding increase in equity to the extent of consideration received as shares to be issued.

Share premium account

The share premium reserve represents the difference between the consideration received for shares issued above their nominal value.

2 Critical accounting judgements and estimation uncertainty

In the application of the Company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The critical judgements made by management in these financial statements are as below:

Impairment of investment in associate

Management deem the investment in associate not to be impaired at the year end. This is because Laverock Therapeutics Limited (Laverock) has been incorporated as a separate company in order to allow a focus on the application of the GEiGS™ technology within human therapeutics. An intellectual property agreement was signed giving Laverock an exclusive right to make use of the technology for this purpose, which has the potential for application in global markets such as type 1 diabetes and cancer treatment. During 2022, Laverock opened dedicated laboratories in the Stevenage Bioscience Catalyst after achieving a successful seed funding round with further funding rounds planned for the future. Management have made the judgement that there is no indication that the business plan of Laverock will fail

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of liabilities within the next financial year are addressed below.

TROPIC BIOSCIENCES UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

2 Critical accounting judgements and estimation uncertainty (Continued)

Fair value measurement of convertible loan notes

Convertible loan notes (CLNs) have been classified as "complex" financial instruments, and as such are required to be accounted for at fair value through profit and loss. This has been assessed as a significant estimate due to the complexity of the calculation and the uncertainty involved.

As there is no observable market price for the CLNs, an alternative valuation methodology was used in order to measure these CLNs at fair value as at 31 December 2022. As such, management has created a valuation model which includes a number of significant inputs and assumptions. These include:

- likelihood of conversion events (see note 21 of the financial statements for probabilities assigned to each conversion event)
- expected share price at maturity of each CLN (a calculation which used the Black Scholes Model). The following assumptions were used in the Black Scholes model:
 - (i) Expected volatility – 64%
 - (ii) Risk free interest rate – 1.3%-3.3%
 - (iii) Share price at grant - \$11.80
- date for qualified financing (anticipated to be September 2024)
- discount rate - 7.06%-13.20%, assumed to be equal to the internal rate of return of each individual CLN.

Changes to these assumptions could affect the reported fair value of the CLNs.

3 Turnover

	Year ended 31 December 2022	17 months ended 31 December 2021
	£	£
Turnover analysed by geographical market		
United States of America	477,624	745,839
Europe	175,000	188,333
Asia	12,500	158,583
	<u>665,124</u>	<u>1,092,755</u>

Turnover arising from the rendering of services analysed by geographical market.

4 Employees

The average monthly number of persons (including directors) employed by the Company during the year was: 126 (2021: 95).

	2022	2021
Research and Development	103	75
Central	11	9
Administrative	8	5
Operations	4	6
Total	<u>126</u>	<u>95</u>

TROPIC BIOSCIENCES UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

4 Employees (Continued)

Their aggregate remuneration comprised:

	Year ended 31 December 2022	17 months ended 31 December 2021
	£	£
Wages and salaries	5,101,889	5,040,518
Share-based payments	45,749	(86,301)
Social security costs	554,741	535,568
Cost of defined contribution scheme	114,250	124,792
	<u>5,816,629</u>	<u>5,614,577</u>

5 Directors' remuneration

	Year ended 31 December 2022	17 months ended 31 December 2021
	£	£
Remuneration for qualifying services	354,637	343,297
Company pension contributions to defined contribution schemes	3,520	5,115
Sums paid to third parties for directors' services	45,889	22,935
	<u>404,046</u>	<u>371,347</u>

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 2 (2021 - 2). During the year contributions of £3,520 (2021: £5,115) were made to the scheme.

During the year, there were no amounts paid to or receivable by directors under long term incentive schemes in respect of qualifying services (2021: £nil).

The number of directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes were nil (2021: nil).

No directors exercised share options during the year (2021: nil).

No sums were paid by way of expenses allowance that are charged to UK income tax (2021: £nil).

TROPIC BIOSCIENCES UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

5 Directors' remuneration (Continued)

Remuneration disclosed above include the following amounts paid to the highest paid director:

	Year ended 31 December 2022	17 months ended 31 December 2021
	£	£
Remuneration for qualifying services	275,887	257,636
Company pension contributions to defined contribution schemes	1,761	2,488
	<u>277,648</u>	<u>260,124</u>

In respect of the highest paid director; during the year, there were no amounts paid to or receivable by directors under long term incentive schemes in respect of qualifying services (2021: £nil).

The highest paid director did not exercise share options during the year (2021: nil).

No sums were paid to the highest paid director by way of expenses allowance that are charged to UK income tax (2021: £nil).

6 Share-based payment transactions

The Company operates equity based payment schemes as part of the remuneration package for consultants and employees in the form of share options schemes and share schemes.

The options will vest provided the consultant/employee remains appointed by the Company during the vesting period and provided the contingent vesting condition is met. The contingent vesting condition is expected to be met in the financial year ending 31 December 2025. Management will re-estimate the vesting date at each reporting year end. In the prior year the Company estimated the vesting conditions to be met in the financial year ending 31 December 2024, on review in financial year ending 31 December 2022 the Company took a more prudent approach to the anticipated date and it would not be achieved by 31 December 2024. A reconciliation of the share option movements over the year to 31 December 2022 is shown below:

	Number of share options		Weighted average exercise price	
	Number	Number	£	£
Outstanding at 1 January 2022 / 1 August 2020	1,307,844	642,771	2.16	1.43
Granted	9,494	671,918	7.43	7.43
Forfeited	(48,713)	(6,845)	5.01	4.59
Exercised	(4,434)	-	3.00	-
	<u>1,264,191</u>	<u>1,307,844</u>	<u>2.09</u>	<u>2.16</u>
Outstanding at 31 December 2022 / 2021				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Exercisable at 31 December 2022 / 2021				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Under the share scheme, 9,494 (2021: 671,918) shares were granted during the year. During the year 48,713 (2021: 6,845) shares were forfeited.

TROPIC BIOSCIENCES UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

6 Share-based payment transactions (Continued)

Liabilities and expenses

During the year, the Company recognised total share-based payment expenses of £45,749 (2021: £(86,301)) which related to equity settled share-based payment transactions.

The charge relating to the options expected to vest is being recognised over the year to vesting, which, to the extent vesting is contingent on an exit event, is re-estimated at each year end, and the cumulative charge adjusted accordingly.

7 Operating loss

	Year ended 31 December 2022	17 months ended 31 December 2021
	£	£
Operating loss for the year is stated after charging/(crediting):		
Exchange differences apart from those arising on financial instruments measured at fair value through profit or loss	5,378	3,976
Research and development costs	1,834,192	2,082,155
Depreciation of owned tangible fixed assets	287,781	167,409
Loss on disposal of tangible fixed assets	6,682	-
Impairment of intangible assets	120,168	-
Share-based payments	45,749	(86,301)
Operating lease charges	319,808	272,528
	<u> </u>	<u> </u>

8 Auditor's remuneration

	Year ended 31 December 2022	17 months ended 31 December 2021
	£	£
Fees payable to the company's auditor and its associates:		
For audit services		
Audit of the financial statements of the company	68,770	33,133
	<u> </u>	<u> </u>
For other services		
Tax advisory services	8,250	9,000
	<u> </u>	<u> </u>

9 Interest receivable and similar income

	2022	2021
	£	£
Interest income		
Interest on bank deposits	284,841	23,561
Interest receivable from associated companies	13,667	-
	<u> </u>	<u> </u>
Total interest income on financial assets not measured at fair value through profit or loss	298,508	23,561
	<u> </u>	<u> </u>

TROPIC BIOSCIENCES UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

10 Other gains and losses

	Year ended 31 December 2022	17 months ended 31 December 2021
	£	£
Fair value gains/(losses) on financial instruments		
Change in the value of financial assets held at fair value through profit or loss	39,135	-
Change in the value of financial liabilities held at fair value through profit or loss	(2,382,017)	-
	<u>(2,342,882)</u>	<u>-</u>

11 Tax on loss

	Year ended 31 December 2022	17 months ended 31 December 2021
	£	£
Current tax		
UK corporation tax on losses for the current period	(1,507,113)	(2,173,536)
Adjustments in respect of prior periods	434,085	111,453
Total current tax	<u>(1,073,028)</u>	<u>(2,062,083)</u>
Deferred tax		
Origination and reversal of timing differences	284,087	194,827
Losses and other deductions	(284,087)	(194,827)
Total deferred tax	<u>-</u>	<u>-</u>
Total tax credit	<u>(1,073,028)</u>	<u>(2,062,083)</u>

TROPIC BIOSCIENCES UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

11 Tax on loss (Continued)

Reconciliation of tax charge

Tax assessed for the year is higher (2021: lower) than the standard rate of corporation tax in the UK for the year ended 31 December 2022 of 19% (2021: 19%). The differences are explained below:

	Year ended 31 December 2022	17 months ended 31 December 2021
	£	£
Loss before taxation	(11,643,881)	(10,219,678)
Expected tax credit based on the standard rate of corporation tax in the UK of 19.00% (2021: 19.00%)	(2,212,337)	(1,941,739)
Effects of:		
Expenses that are not deductible for tax purposes	459,304	32,486
Income not taxable for tax purposes	-	(16,397)
Adjustments in respect of prior periods	434,085	111,453
Research and development tax credit	(1,498,746)	(2,173,536)
Other permanent differences	(1,570)	190
Additional deduction for R&D expenditure	(1,116,213)	(1,609,785)
Deferred tax not recognised	1,125,491	1,099,878
Remeasurement of deferred tax for changes in tax rates	(270,118)	(459,820)
Fixed asset differences	(36,161)	(32,461)
Hybrid and other mismatches adjustment	68,400	79,566
Surrender of tax losses for R&D tax credit refund	1,974,837	2,848,082
Taxation credit for the year	(1,073,028)	(2,062,083)

In the Budget 2020, the government announced that the corporation tax main rate (for all profits except ring fence profits) for the years starting 1 April 2020 and 2021 would remain at 19%. In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25% (rather than remaining at 19%, as previously enacted). This new law was substantively enacted on 24 May 2021. In the Autumn Statement in November 2022, the government confirmed the increase in corporation tax rate to 25% from April 2023 will go ahead.

TROPIC BIOSCIENCES UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

12 Impairments

Impairment tests have been carried out where appropriate and the following impairment losses have been recognised in profit or loss:

	Notes	Year ended 31 December 2022 £	17 months ended 31 December 2021 £
In respect of:			
Intangible assets	13	120,168	-
		<u>120,168</u>	<u>-</u>
Recognised in:			
Administrative expenses		120,168	-
		<u>120,168</u>	<u>-</u>

The impairment losses in respect of financial assets are recognised in other gains and losses in the profit and loss account.

13 Intangible fixed assets

	Software (LIMS) £
Cost	
At 1 January 2022	84,086
Additions	76,138
At 31 December 2022	<u>160,224</u>
Amortisation and impairment	
Impairment losses	120,168
At 31 December 2022	<u>120,168</u>
Carrying amount	
At 31 December 2022	40,056
At 31 December 2021	<u>84,086</u>

During the year the asset has been assessed for impairment and this impairment loss has been recognised in the statement of comprehensive income / (loss). The project was not completed as expected in terms of both time frame and outcome. The Company have subsequently brought in external consultants who verified management's understanding that the work could not be finished in its current form. Management have agreed an impairment of 75% as the belief is that the remaining 25% can be utilised from some of the coding and work flows already produced to date.

TROPIC BIOSCIENCES UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

14 Tangible fixed assets

	Leasehold improvements	Assets under construction	Laboratory and office equipment	Computers	Total
	£	£	£	£	£
Cost					
At 1 January 2022	39,150	164,000	705,153	92,523	1,000,826
Additions	51,469	-	508,136	63,045	622,650
Disposals	-	(14,000)	(36,106)	-	(50,106)
Transfers	-	(150,000)	150,000	-	-
At 31 December 2022	90,619	-	1,327,183	155,568	1,573,370
Depreciation and impairment					
At 1 January 2022	2,317	-	220,331	47,431	270,079
Depreciation charged in the year	15,580	-	239,383	32,818	287,781
Disposals	-	-	(9,831)	-	(9,831)
At 31 December 2022	17,897	-	449,883	80,249	548,029
Carrying amount					
At 31 December 2022	72,722	-	877,300	75,319	1,025,341
At 31 December 2021	36,833	164,000	484,822	45,092	730,747

Assets in the course of construction are not depreciated.

15 Investments

	2022 £	2021 £
Investments in associates	808,323	4,000

In the 17 month period ended 31 December 2021, Tropic Biosciences UK Limited transferred 430,785 ordinary shares of Laverock Therapeutics Limited (formerly Skylark Therapeutics Limited) to existing shareholders of Tropic Biosciences UK Limited for no consideration. The nominal value of shares is £0.01 per share, therefore dividend in specie is recorded for £4,308.

TROPIC BIOSCIENCES UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

15 Investments (Continued)

Movements in investments

	Investment in associate	Total
	£	£
17 months ended 31 December 2021:		
Cost		
At 1 August 2020	-	-
Additions	8,308	8,308
Disposals	(4,308)	(4,308)
	<u>4,000</u>	<u>4,000</u>
At 31 December 2021	4,000	4,000
Carrying amount		
At 31 December 2021	<u>4,000</u>	<u>4,000</u>
Year ended 31 December 2022:		
Cost		
At 1 January 2022	4,000	4,000
Capital contribution	804,323	804,323
	<u>808,323</u>	<u>808,323</u>
At 31 December 2022	808,323	808,323
Carrying amount		
At 31 December 2022	<u>808,323</u>	<u>808,323</u>

During 2022 the Company loaned £400,000 to its associate, Laverock Therapeutics Limited (formerly Skylark Therapeutics Limited) on a short-term loan, with final repayment date of 31 December 2025. At the end of 2021, the Company loaned £600,000 to its associate, which was disclosed in current debtors at 31 December 2021. During 2022, the terms of the loan were formalised, and the loan now has a maturity and final repayment date of 13 July 2051.

The loans have been classified as "complex" financial instruments, and as such are required to be accounted for at fair value through profit and loss at the year end. A gain of £39,135 was recognised through the statement of comprehensive income / (loss) as a result of the change in the fair value of the loans since initial recognition. None of this change is attributable to changes in credit risk of the instrument. The key assumptions employed in estimating the fair value of the loans were the risk of loaning the money, with various models were produced to assess the risk and where management has concluded and assigned a 20% discount factor for use. The conversion rights of both loans are shown in note 17.

On initial recognition, the loans were considered at the present value of future receipts and discounted as such - with the difference between the amount initially recognised and the cash paid recognised as an investment in associate here. At year end the loans have then been subsequently re-measured as the discounting unwinds and with the loans carrying amount at the year end totalling £234,811 (as shown in note 17).

TROPIC BIOSCIENCES UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

16 Associates

Details of the Company's associates at 31 December 2022 and 31 December 2021 are as follows:

Name of undertaking	Registered office	Nature of business	Class of shares held	% Held Direct
Laverock Therapeutics Limited (formerly Skylark Therapeutics Limited)	3 Victoria Place, Love Lane, Romsey, England, SO51 8DE	Human gene research	Ordinary	40.00

The Company holds 400,000 A Ordinary Shares at a par value of £0.01 (2021: £0.01) per share.

17 Debtors

	2022 £	2021 £
Amounts falling due within one year:		
Trade debtors	5,920	102,083
Corporation tax recoverable	1,694,848	2,173,536
Other debtors	239,542	1,134,084
Prepayments and accrued income	305,210	182,569
	<u>2,245,520</u>	<u>3,592,272</u>

At the year end, a bad debt provision of £72,977 was made on trade debtors.

	2022 £	2021 £
Amounts falling due after more than one year:		
Amounts owed by associate	<u>234,811</u>	<u>-</u>
Total debtors	<u>2,480,331</u>	<u>3,592,272</u>

TROPIC BIOSCIENCES UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

17 Debtors (Continued)

This amount is unsecured and interest free.

During 2022 the Company entered into two loan agreements with the Company's associate, with funds being loaned to the associate during 2022 under these agreements.

The first agreement is for funds up to £600,000 and is due for final repayment on 13 July 2051, or as soon as reasonably practical following an equity fundraising by the associate whereby an enterprise value in excess of £1 billion is received. This loan is interest free. The second agreement is for funds up to £400,000 and is due for final repayment on 31 December 2025 or as soon as reasonably practical following completion of a qualifying funding round. This agreement bears interest at 4% per annum. Both agreements also contain conversion clauses.

In respect to the loan of £600,000 the Company may, in its sole discretion, elect to convert part or all of the principal amount of the loans into the class of shares and at the conversion price on completion of any equity fundraising, whether in a series of transactions or a single transaction, by Laverock Therapeutics Limited (formerly Skylark Therapeutics Limited) whereby they receive an enterprise valuation in excess of £1 billion from third party investors prior to the Final Repayment Date (a "Funding Round"), into the same class of shares as are issued in the Funding Round (or at the option of the Company another class of shares which have the same economic rights as the shares issued in the Funding Round) and at an aggregate conversion price equal to the pre-money valuation in respect of the Funding Round.

In respect to the loan of £400,000 the Company may, in its sole discretion, elect to convert part or all of the loans into shares.

These loan agreements are held at fair value through profit or loss at the year end. A gain of £39,135 was recognised through profit and loss as a result of the change in the fair value of the loans since initial recognition. None of this change is attributable to changes in credit risk of the instrument.

On initial recognition, the loans were considered at the present value of future receipts, and discounted as such, with the difference between the amount initially recognised and the cash paid recognised as an investment in associate (see note 15). At year end the loans have then been subsequently re-measured as the discounting unwinds and with the loans carrying amount at the year end totalling £234,811.

Details of the Company's exposure to risks arising from such amounts owed by associates are set out below:

Credit risk

A new investment round completed by Laverock Therapeutics Limited (formerly Skylark Therapeutics Limited), as well as the technological advances being made give the directors confidence of the ultimate recoverability of the loan, and that such unsecured debtors will be recovered.

18 Current asset investments

	2022	2021
	£	£
Bank deposits with maturity more than 90 days	20,762,410	5,556,668

TROPIC BIOSCIENCES UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

19 Creditors: amounts falling due within one year

	2022	2021
	£	£
Trade creditors	264,762	35,264
Other creditors	19,505	110,966
Taxation and social security	150,517	125,622
Accruals	380,713	700,069
Deferred income	59,168	71,667
	<u>874,665</u>	<u>1,043,588</u>

20 Creditors: amounts falling due after more than one year

	Note	2022	2021
		£	£
Convertible loan notes	21	36,647,224	-
		<u>36,647,224</u>	<u>-</u>

21 Convertible loan notes

	2022	2021
	£	£
Convertible loan notes	36,647,224	-
	<u>36,647,224</u>	<u>-</u>

During 2022 the Company entered into nine non-interest bearing, unsecured, convertible loan note agreements ("CLNs"), with total proceeds of \$42 million. Each agreement has a maturity date of 30 months after the date of the agreement.

The CLNs will convert to shares of the Company at a conversion event. Conversion events are a "qualified financing" event, a "non-qualified financing" event, an exit or on maturity, in September 2024. Management has assigned probabilities of the conversion event occurring to qualified financing event (80% probability) and maturity (20% probability) only, as the other scenarios are deemed to attract a very low probability. On a qualified financing event, the loan notes will convert to shares at a price per share equal to the lowest price paid by the investors on the qualified financing round after reducing the share price by a discount. In the case of maturity, the loan notes will convert to shares at a price per share which results from dividing \$148,474,414.50 by the number of shares comprised in the fully diluted share capital immediately prior to the maturity date.

The CLNs are held at fair value through profit or loss at the year end. A loss of £2,382,017 was recognised through profit and loss as a result of the change in the fair value of the CLNs since initial recognition. None of this change is attributable to changes in credit risk of the instrument. Details of the key assumptions employed in estimating the fair value of the CLNs are set out in note 2.

The CLNs' carrying amount as at the year end is \$5,907,307 (£4,906,809) lower than the estimated value of shares the Company would be contractually required to issue to settle the liability at maturity.

TROPIC BIOSCIENCES UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

21 Convertible loan notes (Continued)

Details of the Company's exposure to risks arising from convertible loan notes are set out below:

Liquidity risks

Liquidity risk for the convertible loan notes is not relevant given the loan notes will convert to shares of the Company at a conversion event.

Currency risks

The loan notes were issued in US Dollar. The Company's shares are also denominated in US Dollar, reducing the exposure to currency risks.

Credit risks

The issued convertible loan notes issued have been paid for by the loan note holders.

Conversion price risks

On a qualifying financing event (80% probability) the number of shares that convert and are issued to the loan note holders is dependent on the lowest price paid by the investors on the qualified financing round. The price that will be paid by the investors is not yet known. On maturity (20% probability) the number of shares that convert and are issued to the loan note holders results from dividing \$148,474,414.50 by the number of shares comprised in the fully diluted share capital immediately prior to the maturity date. The cost to the Company of this will be dependent on the valuation of the Company at the maturity date which is not yet known.

22 Called up share capital

	2022 Number	2021 Number	2022 £	2021 £
Ordinary share capital Issued and fully paid				
Ordinary shares of \$0.125 each	2,772,507	2,768,073	273,764	273,302
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Preference share capital Issued and fully paid				
Series A Preference shares of \$0.125 each	2,078,968	2,078,968	198,284	198,284
Series B Preference shares of \$0.125 each	2,460,437	2,460,437	247,633	247,633
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	4,539,405	4,539,405	445,917	445,917
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Preference shares classified as equity			445,917	445,917
			<u> </u>	<u> </u>
Total equity share capital			719,681	719,219
			<u> </u>	<u> </u>

TROPIC BIOSCIENCES UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

22 Called up share capital (Continued)

On 27 November 2022, the Company allotted 4,434 Ordinary Shares at \$0.125 each with a total value of \$2.98 per share.

The holders of Ordinary shares, Series A Preference shares and Series B Preference shares shall, subject to applicable law, be entitled to receive dividends, as and when determined by the Company that there are available profits to distribute.

On distribution of assets upon liquidation or a return of capital, the surplus assets of the Company remaining after payment of its liabilities shall be distributed to shareholders in the following order of priority; Series B Preference Shares, Series A Preference Shares and Ordinary Shares.

In order to account for the dividend in specie, in 2021 the Company transferred £19 million from share premium to profit and loss reserves through a capital reduction.

23 Cash absorbed by operations

	2022 £	2021 £
Loss for the financial year / period after tax	(10,570,853)	(8,157,595)
Adjustments for:		
Taxation credited	(1,073,028)	(2,062,083)
Investment income	(284,841)	(23,561)
Loss on disposal of tangible fixed assets	6,682	-
Amortisation and impairment of intangible assets	120,168	-
Depreciation and impairment of tangible fixed assets	287,781	167,409
Foreign exchange gains on cash and cash equivalents	950,572	370,189
Other gains and losses	2,342,882	-
Equity settled share-based payment income/(expense)	45,749	(86,301)
Movements in working capital:		
Decrease/(increase) in debtors	345,742	(619,032)
(Decrease)/increase in creditors	(156,424)	713,705
Decrease in deferred income	(12,499)	(20,000)
Cash absorbed by operations	<u>(7,998,069)</u>	<u>(9,717,269)</u>

24 Analysis of changes in net funds

	1 January 2022 £	Cash flows £	Market value movements £	Exchange rate movements £	31 December 2022 £
Cash at bank and in hand	7,634,222	11,766,083	-	(950,572)	18,449,733
Short term investments	5,556,668	15,205,742	-	-	20,762,410
Convertible loan notes	-	(34,265,207)	(2,382,017)	-	(36,647,224)
	<u>13,190,890</u>	<u>(7,293,382)</u>	<u>(2,382,017)</u>	<u>(950,572)</u>	<u>2,564,919</u>

TROPIC BIOSCIENCES UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

25 Operating lease commitments

Lessee

At 31 December the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2022 £	2021 £
Within one year	277,213	84,000
Between one and five years	205,834	84,000
	<u>483,047</u>	<u>168,000</u>

26 Related party transactions

Remuneration of key management personnel

The remuneration of key management personnel, who are not directors but are part of the key senior management team, is as follows:

	2022 £	2021 £
Wages and salaries	468,236	569,234
Social security costs	64,469	73,384
Cost of defined contribution scheme	4,550	7,464
	<u>537,255</u>	<u>650,082</u>

Other information

The Company reimbursed £5,743 (2021: £3,457) to the Chairman of the Company.

The Company advanced a loan of £400,000 (2021: £612,177) to its associate. Details of the Company's associate are given in note 17. All transactions have been made at arms length.

27 Ultimate controlling party

There is no ultimate controlling party of the Company.

2 June

28 Pension commitments

The Company operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £114,250 (2021: £124,792). Contributions totaling £21,465 (2021: £17,601) were payable to the fund at the reporting date and are included in creditors.

TROPIC BIOSCIENCES UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

29 Post balance sheet events

On 12 January 2023 a further \$2 million has been received as part of the draw down of the unsecured convertible loan, which commenced on 11 March 2022.

An additional loan of £350,000 has been advanced to Laverock Therapeutics Limited (formerly Skylark Therapeutics Limited) on 6 April 2023.