

Company Registration No. 08183505 (England and Wales)

LABGENIUS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022



LABGENIUS LIMITED

COMPANY INFORMATION

Directors	I E Haivas E Moses J E J Field S Vayda R Ganeshananthan	(Appointed 10 October 2022) (Appointed 10 February 2023)
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Company number	08183505
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Registered office	G04 Cocoa Studios The Biscuit Factory 100 Drummond Road London SE16 4DG
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Auditor	Shaw Gibbs (Audit) Limited 264 Banbury Road Oxford Oxfordshire OX2 7DY
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LABGENIUS LIMITED

CONTENTS

	Page
Strategic report	1
Directors' report	2 - 3
Independent auditor's report	4 - 6
Statement of comprehensive income	7
Balance sheet	9
Statement of changes in equity	10
Statement of cash flows	8
Notes to the financial statements	11 - 24

LABGENIUS LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

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

Fair review of the business, future developments and research & development

LabGenius Limited's principal activity is the development of a machine learning (ML)-driven platform for the rapid identification of uniquely powerful antibody-based therapeutics.

LabGenius creates value through the discovery and optimisation of novel high-performing therapeutic antibodies. The company operates under a hybrid business model that involves the discovery of novel molecules in the context of both partnered and wholly owned programs.

LabGenius is leveraging its technology platform and deep scientific expertise to build a pipeline of wholly-owned highly selective T-cell engagers for the treatment of solid tumours. In 2022, the company initiated the first of these programs and expects to achieve an IND filing in 2025.

In order to raise the capital required to progress our internal assets towards the clinic and to further mature its discovery platform, LabGenius will initiate its Series B fundraising in 2023. The company enters the fundraising process well capitalised, with over £9.3M held as cash or short-term investments at the year-end.

LabGenius has entered into a collaboration with Sanofi which is a world-leading pharmaceutical company. In 2022, as part of this collaboration, the company successfully delivered multiple high-performing NANOBODY® proteins. For these proteins, performance gains were driven by unique combinations of non-intuitive mutations. The success of this project further validates LabGenius' unique and differentiated discovery platform. LabGenius' collaboration with Sanofi continues into 2023.

The company strengthened its senior leadership team during the year through the appointment of a Chief Technical Officer.

Principal risks and uncertainties

The key business risks and uncertainties that may have an impact on the company's performance are common to most biotechnology companies working to discover and develop pre-clinical and clinical stage therapeutic antibodies. These risks include the operational and technical risks of building and deploying a novel platform and pipeline as well as the financial risks relating to the availability of capital. All key risks are managed by the senior leadership team and the Board through regular updates on the ongoing scientific, operational, financial and commercial developments of the business.

Key performance indicators

The Board monitors the financial performance and health of the company on an ongoing basis through regular updates. When assessing the company's financial performance, the Board monitors generic financial metrics (eg. gross burn, cash runway) as well as more business-specific KPIs (eg. cycle time, cost per variant screened).

The Board is satisfied with respect to performance against these KPIs.

On behalf of the board

J E J Field
Director

19 April 2023

LABGENIUS 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 continued to be that of the development of a machine learning (ML)-driven platform for the rapid identification of uniquely powerful antibody-based therapeutics.

Results and dividends

The results for the year are set out on page 7.

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

No preference dividends were paid.

Going concern

The directors are of the opinion that the company has adequate resources to continue in operational existence for the foreseeable future. As a result, the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

More information on how the directors arrived at this conclusion can be found in notes to the accounts (note 1.2 on page 11).

Directors

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

Z Dar	(Resigned 10 October 2022)
I E Haivas	
N Li	(Resigned 10 February 2023)
E Moses	
J E J Field	
S Vayda	(Appointed 10 October 2022)
H Rickerby	(Resigned 28 January 2022)
R Ganeshanathan	(Appointed 10 February 2023)

Auditor

Shaw Gibbs (Audit) Limited were appointed as auditor to the company and in accordance with section 485 of the Companies Act 2006, a resolution proposing that they be re-appointed will be put at a General Meeting.

LABGENIUS LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

Statement of directors' responsibilities

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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 of the company and of the 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

On behalf of the board

J E J Field
Director

19 April 2023

LABGENIUS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LABGENIUS LIMITED

Opinion

We have audited the financial statements of Labgenius Limited (the 'company') for the year ended 31 December 2022 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the statement of cash flows and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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.

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.

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 other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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 course of 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 this gives rise to 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 our 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.

LABGENIUS LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF LABGENIUS LIMITED

Matters on which we are required to report by exception

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.

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 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 directors' responsibilities statement, 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.

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.

1. At the planning stage of the audit we gain an understanding of the laws and regulations which apply to the company and how the management seek to comply with those laws and regulations. The most significant are those that relate to the financial reporting framework (FRS 102), Companies Act 2006, the tax compliance regulations and health and safety regulations. This helps us to plan appropriate risk assessments.
2. During the audit we focus on relevant risk areas and review the compliance with the laws and regulations by making relevant enquiries and undertaking corroboration, for example by reviewing Board Minutes and other documentation.
3. We assess the risk of material misstatement in the financial statements including as a result of fraud and undertake procedures including:
 - a. Reviewing the controls set in place by management;
 - b. Making enquiries of management as to whether they consider fraud or other irregularity may have taken place, or where such opportunity might exist;
 - c. Challenging the assumptions with regard to accounting estimates, particularly concerning the valuation of share based payments, dilapidation provision and revenue recognition via the percentage of completion method; and
 - d. Identifying and testing journal entries, particularly those which appear to be unusual by size or nature.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

LABGENIUS LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBERS OF LABGENIUS LIMITED

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Nikolaos Ioannidis
Senior Statutory Auditor
For and on behalf of Shaw Gibbs (Audit) Limited

20 April 2023

Chartered Certified Accountants
Statutory Auditor

264 Banbury Road
Oxford
Oxfordshire
OX2 7DY

LABGENIUS LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 £	2021 £
Turnover	3	190,200	190,000
Cost of sales		(1,683,676)	(1,566,869)
Gross loss		(1,493,476)	(1,376,869)
Administrative expenses		(6,934,701)	(5,838,073)
Other operating income		133,773	307,759
Operating loss	5	(8,294,404)	(6,907,183)
Interest payable and similar expenses	7	(61,892)	(9,996)
Loss before taxation		(8,356,296)	(6,917,179)
Tax on loss	8	1,381,391	1,095,041
Loss for the financial year		(6,974,905)	(5,822,138)

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

There are no recognised gains and losses other than those passing through the statement of total comprehensive income.

LABGENIUS LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022		2021	
		£	£	£	£
Cash flows from operating activities					
Cash absorbed by operations	24	(7,633,936)		(5,980,247)	
Interest paid		(61,892)		(9,996)	
Income taxes refunded		1,171,509		898,931	
Net cash outflow from operating activities		(6,524,319)		(5,091,312)	
Investing activities					
Purchase of tangible fixed assets		(384,995)		(1,006,517)	
Proceeds from disposal of tangible fixed assets		7,404		8,800	
Net cash used in investing activities		(377,591)		(997,717)	
Financing activities					
Issue of convertible loans		5,025,961		-	
Proceeds from new bank loans		3,000,000		-	
Payment of finance leases obligations		(152,056)		(141,785)	
Net cash generated from/(used in) financing activities		7,873,905		(141,785)	
Net increase/(decrease) in cash and cash equivalents		971,995		(6,230,814)	
Cash and cash equivalents at beginning of year		8,333,389		14,564,203	
Cash and cash equivalents at end of year		9,305,384		8,333,389	
Relating to:					
Cash at bank and in hand		2,705,384		8,333,389	
Short term deposits included in current asset investments		6,600,000		-	

LABGENIUS LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2022

	Notes	2022		2021	
		£	£	£	£
Fixed assets					
Tangible assets	9		1,881,985		1,947,318
Current assets					
Debtors	11	2,738,651		1,529,918	
Investments	12	6,600,000		-	
Cash at bank and in hand		2,705,384		8,333,389	
			<u>12,044,035</u>		<u>9,863,307</u>
Creditors: amounts falling due within one year	14	<u>(7,626,363)</u>		<u>(675,208)</u>	
Net current assets			<u>4,417,672</u>		<u>9,188,099</u>
Total assets less current liabilities			<u>6,299,657</u>		<u>11,135,417</u>
Creditors: amounts falling due after more than one year	13		<u>(2,220,417)</u>		<u>(121,544)</u>
Net assets			<u><u>4,079,240</u></u>		<u><u>11,013,873</u></u>
Capital and reserves					
Called up share capital	18		3,632		3,632
Share premium account			22,835,214		22,835,214
Capital redemption reserve			546		546
Share options reserve			307,661		267,389
Profit and loss reserves			<u>(19,067,813)</u>		<u>(12,092,908)</u>
Total equity			<u><u>4,079,240</u></u>		<u><u>11,013,873</u></u>

The financial statements were approved by the board of directors and authorised for issue on 19 April 2023 and are signed on its behalf by:

J E J Field
Director

Company Registration No. 08183505

LABGENIUS LIMITED

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

	Share capital	Share premium account	Capital redemption reserve	Share option reserves	Profit and loss reserves	Total
	£	£	£	£	£	£
Balance at 1 January 2021	3,632	22,835,214	546	225,997	(6,270,770)	16,794,619
Year ended 31 December 2021:						
Loss and total comprehensive expense for the year	-	-	-	-	(5,822,138)	(5,822,138)
Share-based payment charge	-	-	-	41,392	-	41,392
Balance at 31 December 2021	3,632	22,835,214	546	267,389	(12,092,908)	11,013,873
Year ended 31 December 2022:						
Loss and total comprehensive expense for the year	-	-	-	-	(6,974,905)	(6,974,905)
Share-based payment charge	-	-	-	40,272	-	40,272
Balance at 31 December 2022	3,632	22,835,214	546	307,661	(19,067,813)	4,079,240

LABGENIUS LIMITED

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

1 Judgements and key sources of 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 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.

Key sources of estimation uncertainty

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows.

Revenue recognition - percentage of completion

Revenue is recognised based on the stage/ percentage of completion of the underlying contracts which is estimated by management with reference to the milestones completed and the contractual terms.

Share options

The company operates an employee share option scheme which is equity settled. The options are valued using the Black Scholes methodology with a charge to the profit and loss account and a corresponding increase in the equity being computed each year. The cost of this scheme and the present value of the obligation depends on a number of factors, including; the value of the company's shares at each grant date, the company's risk free interest rate, the time until the expiration of the options and the company's volatility. Management estimate these factors in determining the present value, based on historic and benchmarked information.

Dilapidations provision

The dilapidations provision relates to the lease of rooms that have been converted to laboratories, but per the lease agreements, there are clauses that require these rooms to be put into their original condition at the end of the lease term. The dilapidations provision is calculated based on the expected costs to bring the relevant premises to their original condition. The management used the prevailing market rates in their assessment.

2 Accounting policies

Company information

Labgenius Limited is a private company limited by shares incorporated in England and Wales. The registered office is G04 Cocoa Studios, The Biscuit Factory, 100 Drummond Road, London, SE16 4DG.

2.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 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 modified to include certain financial instruments at fair value. The principal accounting policies adopted are set out below.

LABGENIUS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

2 Accounting policies

(Continued)

2.2 Going concern

At the time of approving the financial statements and having taken into consideration forecasted cash flow scenarios that have been prudently prepared based on all information available at the present time, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future.

When assessing the company's going concern status, the directors have focussed on the cash available to the business at the date of approval, in addition to forecast R&D Tax Credit receipts, and have considered whether this is sufficient to deliver its key strategic objectives for at least 12 months. The directors are satisfied that this is the case and that if the company needs to extend its cash runway for whatever reason, this can be achieved through operational efficiencies.

Post year end, the company initiated its Series B fundraise which is intended to further capitalise the company within the next 12 months and ensure it is well placed to deliver on its long-term pipeline and platform objectives. The directors have not taken these funds into consideration in their going concern assessment given the uncertainty involved with all types of fundraising.

As a result of the above, the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

2.3 Turnover

Turnover is recognised when the company obtains a right to consideration in exchange for its fulfilment of contractual obligations.

Turnover is recognised based on the stage of completion of the underlying contracts which is estimated by management with reference to the milestones completed and the contractual terms.

2.4 Tangible fixed assets

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

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

Land and buildings (incl capitalised dilapidations) Straight line over the term of the lease

Plant and machinery 25% reducing balance

Fixtures and fittings 25% reducing balance

Computer equipment 25% reducing balance

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.

2.5 Impairment of fixed assets

At each reporting period end date, the company reviews the carrying amounts of its tangible 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.

LABGENIUS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

2 Accounting policies

(Continued)

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.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

2.6 Cash and cash equivalents

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

2.7 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 in the company's balance sheet 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 debtors and cash and bank balances, 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 transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Other financial assets

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, 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 that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

LABGENIUS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

2 Accounting policies

(Continued)

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 end 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.

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 creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

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

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Other financial liabilities

Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 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 the company's contractual obligations expire or are discharged or cancelled.

LABGENIUS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

2 Accounting policies (Continued)

2.8 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

2.9 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

2.10 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

2.11 Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

2.12 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.

LABGENIUS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

2 Accounting policies

(Continued)

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.

2.13 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessees. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets at the lower of the assets fair value at the date of inception and the present value of the minimum lease payments. The related liability is included in the balance sheet as a finance lease obligation. Lease payments are treated as consisting of capital and interest elements. The interest is charged to profit or loss so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Rentals payable under operating leases, including any lease incentives received, are charged to profit or 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.

2.14 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 revenue are recognised in income on a systematic basis over the periods in which the company recognises the related costs for which the grant is intended to compensate.

2.15 Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation in the period are included in profit or loss.

3 Turnover and other revenue

	2022	2021
	£	£
Turnover analysed by class of business		
Partnership revenue	190,200	190,000
	<u>190,200</u>	<u>190,000</u>
	2022	2021
	£	£
Turnover analysed by geographical market		
Europe	190,200	190,000
	<u>190,200</u>	<u>190,000</u>

LABGENIUS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

3 Turnover and other revenue (Continued)

	2022	2021
	£	£
Other revenue		
Grants received	91,390	189,008
RDEC income	42,283	118,751
	<u> </u>	<u> </u>

4 Employees

The average monthly number of persons (including directors) employed by the company during the year was:

	2022	2021
	Number	Number
	54	55
	<u> </u>	<u> </u>

Their aggregate remuneration comprised:

	2022	2021
	£	£
Wages and salaries	3,960,008	3,161,398
Social security costs	501,692	363,289
Pension costs	146,494	69,811
	<u> </u>	<u> </u>
	4,608,194	3,594,498
	<u> </u>	<u> </u>

5 Operating loss

Operating loss for the year is stated after charging/(crediting):

	2022	2021
	£	£
Exchange losses/(gains)	7,905	(225)
Government grants	(91,390)	(189,008)
Fees payable to the company's auditor for the audit of the company's financial statements	18,000	16,500
Depreciation of owned tangible fixed assets	476,279	443,025
Depreciation of tangible fixed assets held under finance leases	78,441	91,950
Share-based payments	40,272	41,392
Operating lease charges	241,435	213,265
	<u> </u>	<u> </u>

LABGENIUS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

6 Directors' remuneration		2022	2021
		£	£
	Remuneration for qualifying services	181,497	244,254
	Company pension contributions to defined contribution schemes	5,323	2,638
		<u>186,820</u>	<u>246,892</u>
<p>The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 2 (2021 - 2).</p>			
<p>Remuneration disclosed above include the following amounts paid to the highest paid director:</p>			
		2022	2021
		£	£
	Remuneration for qualifying services	124,500	120,000
	Company pension contributions to defined contribution schemes	5,213	1,319
		<u>129,713</u>	<u>121,319</u>
7 Interest payable and similar expenses		2022	2021
		£	£
Other finance costs:			
	Interest on finance leases and hire purchase contracts	10,563	9,996
	Finance costs for financial instruments measured at fair value through profit or loss	51,329	-
		<u>61,892</u>	<u>9,996</u>
8 Taxation		2022	2021
		£	£
Current tax			
	UK corporation tax on profits for the current period	(1,381,391)	(1,095,041)
		<u>(1,381,391)</u>	<u>(1,095,041)</u>

LABGENIUS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

8 Taxation (Continued)

The actual credit for the year can be reconciled to the expected credit for the year based on the profit or loss and the standard rate of tax as follows:

	2022 £	2021 £
Loss before taxation	(8,356,296)	(6,917,179)
Expected tax credit based on the standard rate of corporation tax in the UK of 19.00% (2021: 19.00%)	(1,587,696)	(1,314,264)
Tax effect of expenses that are not deductible in determining taxable profit	15,475	2,203
Permanent capital allowances in excess of depreciation	(20,183)	(155,978)
Research and development tax credit	203,361	365,134
Share based payment charge	7,652	7,864
Taxation credit for the year	(1,381,391)	(1,095,041)

9 Tangible fixed assets

	Land and buildings (incl capitalised dilapidations) £	Plant and machinery £	Fixtures and fittings £	Computer equipment £	Total £
Cost					
At 1 January 2022	82,860	2,275,433	442,233	210,708	3,011,234
Additions	-	482,333	1,075	15,058	498,466
Disposals	-	(19,271)	-	(6,806)	(26,077)
At 31 December 2022	82,860	2,738,495	443,308	218,960	3,483,623
Depreciation and impairment					
At 1 January 2022	56,291	789,074	154,612	63,939	1,063,916
Depreciation charged in the year	26,569	418,574	72,040	37,537	554,720
Eliminated in respect of disposals	-	(14,271)	-	(2,727)	(16,998)
At 31 December 2022	82,860	1,193,377	226,652	98,749	1,601,638
Carrying amount					
At 31 December 2022	-	1,545,118	216,656	120,211	1,881,985
At 31 December 2021	26,569	1,486,359	287,621	146,769	1,947,318

LABGENIUS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

9 Tangible fixed assets (Continued)

The net carrying value of tangible fixed assets includes the following in respect of assets held under finance leases or hire purchase contracts.

	2022	2021
	£	£
Plant and machinery	335,604	300,575
	<u>335,604</u>	<u>300,575</u>

10 Financial instruments

	2022	2021
	£	£
Carrying amount of financial assets		
Debt instruments measured at amortised cost	10,408,505	8,476,729
	<u>10,408,505</u>	<u>8,476,729</u>
Carrying amount of financial liabilities		
Measured at fair value through profit or loss		
- Other financial liabilities	8,025,961	-
Measured at amortised cost	1,499,600	427,002
	<u>9,525,561</u>	<u>427,002</u>

11 Debtors

	2022	2021
	£	£
Amounts falling due within one year:		
Trade debtors	-	24,626
Corporation tax recoverable	1,423,674	1,213,792
Other debtors	108,316	73,128
Prepayments and accrued income	585,822	171,129
	<u>2,117,812</u>	<u>1,482,675</u>

	2022	2021
	£	£
Amounts falling due after more than one year:		
Other debtors	20,838	47,243
Prepayments and accrued income	600,001	-
	<u>620,839</u>	<u>47,243</u>
Total debtors	<u>2,738,651</u>	<u>1,529,918</u>

12 Current asset investments

	2022	2021
	£	£
Short term deposits	6,600,000	-
	<u>6,600,000</u>	<u>-</u>

LABGENIUS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

13 Creditors: amounts falling due after more than one year

	Notes	2022 £	2021 £
Bank loans and overdrafts	15	2,000,000	-
Obligations under finance leases		46,872	85,824
Government grants	16	90,685	-
Other creditors		82,860	35,720
		<u>2,220,417</u>	<u>121,544</u>

14 Creditors: amounts falling due within one year

	Notes	2022 £	2021 £
Convertible loans	15	5,025,961	-
Bank loans	15	1,000,000	-
Obligations under finance leases		136,957	136,590
Trade creditors		341,626	233,619
Taxation and social security		137,840	147,336
Government grants	16	821,312	-
Other creditors		26,059	69,023
Accruals and deferred income		136,608	88,640
		<u>7,626,363</u>	<u>675,208</u>

The convertible loans do not have an effective interest rate and are expected to be converted before the end of 31 December 2023.

15 Loans and overdrafts

	2022 £	2021 £
Bank loans	3,000,000	-
Convertible loans	5,025,961	-
	<u>8,025,961</u>	<u>-</u>
Payable within one year	6,025,961	-
Payable after one year	2,000,000	-
	<u>8,025,961</u>	<u>-</u>

On 23 September 2022, Silicon Valley Bank UK Limited created a fixed and floating charge over all the property or undertaking of the company.

LABGENIUS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

16 Government grants	2022	2021
	£	£
Government grants	911,997	-
	<u>911,997</u>	<u>-</u>
Deferred income is included in the financial statements as follows:		
Current liabilities	821,312	-
Non-current liabilities	90,685	-
	<u>911,997</u>	<u>-</u>

17 Retirement benefit schemes	2022	2021
	£	£
Defined contribution schemes		
Charge to profit or loss in respect of defined contribution schemes	146,494	69,811
	<u>146,494</u>	<u>69,811</u>

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

18 Share capital	2022	2021	2022	2021
	Number	Number	£	£
Ordinary share capital				
Issued and fully paid				
Ordinary shares of 0.19p each	550,856	550,856	1,033	1,033
	<u>550,856</u>	<u>550,856</u>	<u>1,033</u>	<u>1,033</u>
Preference share capital	2022	2021	2022	2021
	Number	Number	£	£
Issued and fully paid				
Series seed Preference Shares of 0.19p each	228,322	228,322	428	428
Series A1 of 0.19p each	184,522	184,522	346	346
Series A2 of 0.19p each	973,477	973,477	1,825	1,825
	<u>1,386,321</u>	<u>1,386,321</u>	<u>2,599</u>	<u>2,599</u>
Preference shares classified as equity			<u>2,599</u>	<u>2,599</u>
Total equity share capital			<u>3,632</u>	<u>3,632</u>

19 Share-based payment transactions

In 2017, the company established an Enterprise Management Incentive share option plan under which it has granted rights for its equity instruments to its employees. The share options vest over 4 years from the option grant date and may only be exercised upon an IPO or a change of control of the company.

LABGENIUS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

19 Share-based payment transactions (Continued)

	Number of share options
Outstanding at 1 January 2022	319,862
Granted	60,336
Forfeited	(30,036)
	<u>350,162</u>
Outstanding at 31 December 2022	350,162
	<u><u>350,162</u></u>
Exercisable at 31 December 2022	-
	<u><u>-</u></u>

The options outstanding at 31 December 2022 had an exercise price of £0.001875.

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The fair value of employee share options is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the instruments were granted.

Inputs were as follows:

Weighted average share price (£)	1.12
Weighted average exercise price (p)	0.19
Expected life (years)	4.00
	<u><u>4.00</u></u>

The services received and a liability to pay for those services are recognised over the expected vesting period. The fair value of options expensed in the year ended 31 December 2022 was £40,272 (2021: £41,392).

20 Operating lease commitments

Lessee

At the reporting end date 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	<u>121,235</u>	<u>120,205</u>

21 Events after the reporting date

Post year end, the company has initiated its Series B fundraising to extend the cash runway of the business and support delivery of the company's objectives.

LABGENIUS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

22 Related party transactions

Remuneration of key management personnel

The remuneration of key management personnel is as follows.

	2022 £	2021 £
Aggregate compensation	1,430,331	851,992

23 Ultimate controlling party

The company does not have an ultimate controlling party.

24 Cash absorbed by operations

	2022 £	2021 £
Loss for the year after tax	(6,974,905)	(5,822,138)
Adjustments for:		
Taxation credited	(1,381,391)	(1,095,041)
Finance costs	61,892	9,996
Loss on disposal of tangible fixed assets	1,675	-
Depreciation and impairment of tangible fixed assets	554,720	534,975
Equity settled share based payment expense	40,272	41,392
Movements in working capital:		
(Increase)/decrease in debtors	(998,851)	80,893
Increase in creditors	150,655	269,676
Increase in deferred income including government grants	911,997	-
Cash absorbed by operations	(7,633,936)	(5,980,247)

25 Analysis of changes in net funds

	1 January 2022 £	Cash flows £	New finance leases £	31 December 2022 £
Cash and cash equivalents	8,333,389	971,995	-	9,305,384
Borrowings excluding overdrafts	-	(3,000,000)	-	(3,000,000)
Obligations under finance leases	(222,414)	152,056	(113,471)	(183,829)
Convertible loan notes	-	(5,025,961)	-	(5,025,961)
	<u>8,110,975</u>	<u>(6,901,910)</u>	<u>(113,471)</u>	<u>1,095,594</u>

This document was delivered using electronic communications and authenticated in accordance with the registrar's rules relating to electronic form, authentication and manner of delivery under section 1072 of the Companies Act 2006.