genedrive

genedrive plc
Annual Report and
Accounts 2020

Advancing molecular diagnostics to the point-of-care

Genedrive® is an innovative, easy-to-use platform that brings molecular diagnostics to decentralised laboratories

Overview

Genedrive® is a patented small molecular diagnostic platform which enables rapid nucleic acid amplification and detection from various sample types, including plasma, sputum and buccal swabs. With minimal hands-on time and single button operation, it provides diagnostic results, without the need for specialist knowledge or data interpretation. With no manual calibration or maintenance required, Genedrive® is ideal for lower-throughput, decentralised diagnostics.

Delivering our strategy

Genedrive® is a focused molecular diagnostics company with four assays on-market and with two more in development supporting our strategy to get material revenue from at least three assays by 2021.

How Genedrive® works

Genedrive® utilises proprietary technology to rapidly amplify and detect target nucleic acid sequences, often without the requirement for nucleic acid isolation.

Genedrive® provides rapid nucleic acid amplification and detection from various sample types, including plasma, sputum or buccal swab (assay dependent).

Following amplification, melt curve analysis is used to establish the presence of the target sequence in the sample and the results are automatically interpreted by Genedrive®. Depending on assay, results are available in as little as 27 minutes.

See pages 4 and 5

Acronyms used throughout this document:

HCV	Hepatitis C Virus
mTB	Tuberculosis
DoD	US Department of Defense
AIHL	Antibiotic Induced Hearing Loss
CoV-2	SARS CoV-2

Our Performance

Financial Highlights

- Revenue for the year to 30 June 2020 in line with expectations at £1.1m (2019: £2.4m), with H2 revenues significantly impacted by COVID-19 disruption
- Year-end cash of £8.2m (Dec 2019: £3.5m) following a successful equity fundraise in May 2020
- Balance sheet further strengthened through conversion of the US$8.0m Global Health Investment Fund bond
- At year end over £1.0m of initial orders for Genedrive® 96 SARS-CoV-2 kit, pending regulatory approvals
- Post year end, no material sales for 96 SARS-CoV-2 test as we await further registrations, but further orders are anticipated through a widened network of partners. Pipeline of sales opportunities for 96 SARS-CoV-2 test continues to grow and includes an advanced opportunity for supply to a Ministry of Health of a European country, which if converted to a sale could be for low double digit millions of pounds and delivered in the first quarter of the new calendar year
- Unaudited cash of £5.1m at 31 October 2020 after securing long lead time supplies and building initial stocks

Operational Highlights

- HCV test obtained WHO pre-qualification status
- AIHL test CE-marked and distributor contracted for UK product launch
- Framework contract with the DoD increased by $2.0m
- Genedrive® 96 SARS-CoV-2 test CE marked and modest first commercial sales achieved
- Genedrive® SARS-CoV-2 Kit for Point of Care demonstrates positive results from saliva in approximately 15 minutes. Development remains on track with launch anticipated in March 2021
- Post CE mark for 96 SARS-CoV-2 Kit - expanded extraction claims achieved and migrated Kit across wider range of RT-PCR instrument platforms
- First overseas regulatory approval in September 2020 with South Africa Health Products Regulatory Authority validating the test
- Initial feedback from FDA EUA submission received in November 2020 but no visibility on EUA timescales
- Expecting additional regulatory approvals, but timing remains undefined
- Post year end significant progress made with collaboration agreement with Beckman Coulter to bring a fully automated testing solution to the market
- Recent vaccine news is very welcome but the Board remains confident that high throughput and point of care Covid-19 testing opportunities will be a critical part of controlling the pandemic for a considerable period of time

Company Assay Update

Genedrive® is a patented small molecular diagnostic platform which enables rapid nucleic acid amplification and detection from various sample types, including plasma, sputum and buccal swabs.

Responding to molecular diagnostic opportunities

Rapid response to COVID-19 outbreak

Genedrive® 96 SARS-CoV-2 Kit

- High-throughput lab-based PCR test diagnose whether someone has an active infection
- Freeze-dried plates offer testing simplicity and temperature stability in high throughput format
- Cytiva's manufacturing processes are capable of producing 10,000 polymerase chain reaction (PCR) beads per hour
- CE marked May 2020 and commercial launch June 2020. South African HPRA approval in late September 2020
- Analyses assays from up to 94 patients in around 90 minutes

Future SARS-CoV-2 Point-of-Care Diagnostic Kit
Preliminary product expected December 2020.

Final CE marked version March 2021.

Designed for use outside hospital settings (e.g. care homes), leveraging the Genedrive® qualities of size, portability and cost.

See pages 12 and 13

Collaboration on AIHL

Genedrive® MT-RNR1 is a molecular test to screen newborns for a genetic predisposition to certain antibiotics that cause irreversible hearing loss.

Genedrive® meets the clinical need, ease-of-use size, portability and crucially speed – delivering a result in the 'golden hour'.

- Initial grant award from NHS of £0.6m
- Test CE Marked
- Hospital trials began 2020 and progressing after some delays owing to COVID-19, Anticipated to complete imminently
- Distribution agreement with Inspiration Healthcare Plc
- Commercial roll out now beginning

Gene defect is not geographically variable and so the Genedrive® MT-RNR1 assay addresses a global market.

See pages 16 and 17

Tuberculosis (under development)

Genedrive® tuberculosis test designed as an affordable rapid PCR-based test for the detection of mTB and rifampicin ('RIF') resistance.

The TB market is large and well defined and TB is the largest single infectious disease causing deaths in the world.

- Grant funding of £1.1m awarded in Feb 2018 and phase I project completed in Mar 2020
- New companion device and processing cartridge developed
- System based on pathogen enrichment technology that has technical capability for other targets

Product launch estimated 2022.

See pages 12 and 13

Complex analysis of Biohazard targets

Genedrive has been working with the US DoD since 2013 and has recorded revenues of over $10m to date.

The DoD has helped fund many of the unique properties of the Genedrive® that make a versatile military specification piece of kit very appropriate to conditions and extremities in the developing world.

The current assays cover multi-plex targets for a broad range of biopathogens.

- Framework contract extended by $2m in November 2019
- Customer had indicated their intention to enter a new contract in Autumn 2020 and facilitate procuring around 500 Genedrive's and associated assays over a number of years, – timescales have slipped into the new calendar year owing to COVID
- Continue to receive and ship smaller orders in FY2020/21

The long term view remains very positive with high expectation of recurring and growing revenue.

See pages 12 and 13

Point-of-need capability for HCV testing

A first-to-market opportunity to support the WHO's goal of eliminating HCV by 2030.

In almost 2,000 patient tests:
Specificity 100%
Sensitivity 96.5% = -100%

It is estimated that 70m people are living with chronic HCV infection with over 1.7m new cases annually.

In 2015 only 7.4% of those diagnosed with HCV infection had started treatment.

- Product CE marked in 2017 and launched in 2018
- Distributor partner network secured for main markets and includes Sysmex for EMEA and Asia Pacific and Arkray for India
- Registered in India, largest single market, January 2020
- Sales activity disrupted by COVID-19 pandemic
- WHO pre-qualification status achieved in June 2020

The long term need for molecular HCV testing remains and with WHO pre-qualification status, the outlook and opportunity is positive for the Genedrive® HCV test.

See pages 12 and 13

Genedrive® Product

Genedrive® is an innovative, easy-to-use platform that brings molecular diagnostics to decentralised laboratories

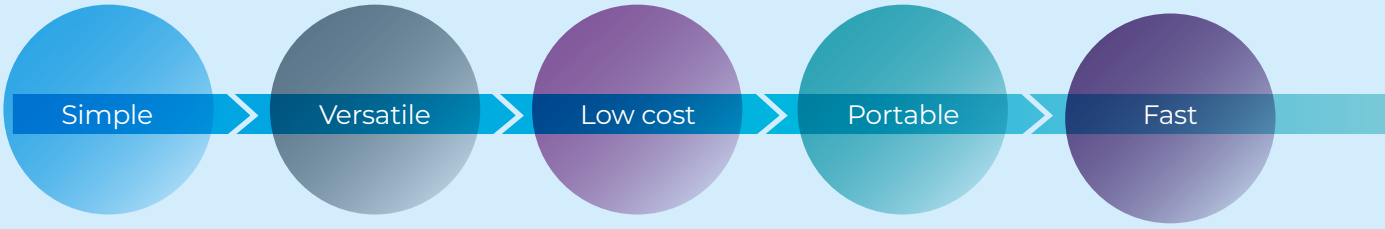
Overview

Genedrive® is a small patented molecular diagnostics platform which enables rapid nucleic acid amplification and detection from various sample types, including plasma, sputum and buccal swabs, with minimal hands-on time and single button operation it provides diagnostics results without the need for specialist knowledge or data interpretation. With no manual calibration required, Genedrive® is ideal for lower throughput decentralized laboratories.

How Genedrive® works

Genedrive® utilises proprietary technology to rapidly amplify and detect nucleic acid sequences without the requirement for nucleic acid isolation.

Following amplification, melt curve analysis is used to establish the presence of the target sequence in the sample and the results are automatically interpreted by Genedrive®. Depending on the specific assay, results can be available in as little as 27 minutes.



> This Genedrive® HCV assay may positively impact the continuum of HCV care from screening to cure by supporting real-time treatment decisions.
>
> **BMJ GUT Journals**
> *http://gut.bmj.com/content/early/2018/04/03/gutjnl-2017-315783*

Results available in as little as 27 minutes

Our HCV Kit

Genedrive® HCV ID Kit is a qualitative molecular HCV assay, providing results within 90 minutes.

Many clinics and smaller hospital laboratories lack the appropriate resources to perform confirmatory molecular testing and so are forced to send patient samples away for testing. Many patients have to wait weeks for their test results and often have to schedule a subsequent follow-up appointment at the local clinic.

Indirect patient cost is a significant burden. When samples are sent away for molecular testing, between 5-50% of patients do not return for their result and required treatment. The patient dropout rate and indirect patient cost can be significantly reduced by performing the molecular confirmatory HCV test on-site using the Genedrive® HCV ID Kit.

The Genedrive® HCV ID Kit is a simple and cost-effective molecular solution for HCV testing. The assay is ideal for use in low-throughput, decentralised laboratories by providing rapid results direct from plasma without any requirement for viral RNA extraction.

Process

We have commenced commercial sales and shipments of the Genedrive® HCV ID Kit and Genedrive® platform into the EMEA region. The products have been shipped from genedrive's distributor, Sysmex Corporation ('Sysmex'), a world leader in clinical laboratory systemisation and solutions, and are now destined for use in various initial target countries. In addition, the first commercial sales and shipments of the Genedrive® HCV ID Kit and Genedrive® platform are expected to commence in the Asia Pacific region. Despite the delays owing to COVID we expect healthcare systems to revisit HCV and our product is well positioned to support.

Providing results within 90 minutes

Since signing our distribution agreements with Sysmex, we have continued to build momentum in the market and we are beginning to see initial commercial sales.

Genedrive® Connect

We have developed our Genedrive® connectivity solution, allowing for clinical data transmission from decentralised testing facilities.

The Genedrive® Connect app is designed to enhance usability, and will provide functional surveillance-based data to further promote product adoption in the longer term. Genedrive® Connect is an android-based mobile app, providing wireless data management to a single Genedrive® or a larger network installation. The phase 1 release of Genedrive® Connect allows Genedrive® users to manage patient demographics and user data, device and instrument data, and append this supplementary information to test results. The comprehensive data can then be transferred if needed to another local or distant location for rapid patient management or longer-term data storage. Over the longer term, subsequent phases of Genedrive® Connect are planned to target collection of market surveillance capabilities for treatment facilities or funding agencies, to facilitate cost and performance analysis of their investments in Genedrive® technology.

By developing a mobile app that allows added data management flexibility and results transmission, we will help improve the customer experience and help drive wider adoption.

Benefits

- ➔ Enhanced data capture and supplementary patient demographic data
- ➔ Improved laboratory management to append data to test results
- ➔ Easy transfer of data to endpoint locations

Business Model

We are committed to generating shareholder value by pushing the boundaries of innovation to maximise the unique characteristics and capabilities of Genedrive®.

Who we are

A highly specialised, agile company with a skill set relevant for developing high-quality PCR assays.

Strong development, manufacturing and commercial relationships and well experienced in developing highly accurate molecular diagnostic assays for use on our Genedrive® instrument.

We outsource a substantial part of our processes and retain key value-add items in-house.

Our product is sold via a distributor network so that customers have global support.

Underpinned by our values

How we create value

Genedrive adds value through rapidly developing tests that lever the unique properties of the Genedrive® system.

- Niche positions in attractive growth markets
- A unique and differentiated technology
- Deep product and PCR expertise
- Highly skilled people
- Entrepreneurial culture
- Experienced management team

Who benefits

Our people

- Reward and recognition
- Employee wellbeing
- Personal development and sense of belonging

Our partners

- Quality and innovation
- Rapid development of new products
- Contribution to healthcare fight

Our patient

- First-to-market solutions
- Availability of affordable testing

Long term delivery and growth underpinned by a set of values and frameworks that protect from unnecessary risk.

Robust risk management framework

- Appropriate risk management structure
- Risk managed to ensure the Group delivers its objectives
- Integrated approach to risk

See page 21

Effective governance structure

- High standard of corporate governance that aligns with the needs of the Company
- Experienced and knowledgeable Board
- A desire to 'punch above our weight' in terms of controls, process and governance

See pages 22 to 37

Chairman's Statement

Proven to be resilient and innovative

> Our adaptability and people drive the Company's ability to bring innovation and rapid product development to customers.
>
> **Ian Gilham, Ph.D.**
> *Chairman*

Dear Shareholder

The past 12 months have brought some immense challenges and indeed some significant opportunities as key industry players found their place to contribute to the global Covid-19 crisis. genedrive has adapted well and emerged in a stronger position with an expanded product portfolio, a stronger balance sheet and a growing pipeline of sales opportunities.

With the challenge of Covid-19 came the opportunity for genedrive to innovate and respond – which we did with the development and launch of the Genedrive® 96 SARS CoV-2 Kit. Combining our deep technical capabilities in PCR with our manufacturing partner's abilities in freeze drying, we developed a unique and innovative Covid-19 test that we launched in and began selling in June. In parallel with the high volume test we began to develop a point of care Covid-19 test to run directly on the Genedrive® platform – a product that will be launched in the coming months.

In order to develop and launch a range of Covid-19 products the Group raised £8.0m (gross) through an equity funding announced in May 2020. Part of these funds were used in June 2020 to pay the interest due to Global Health Investment Fund (GHIF) when they elected to convert their $8.0m convertible bond. Conversion of this bond significantly strengthened the Group's balance sheet, reducing cash debt to £2.7m, (2019: £8.5m).

The focus of healthcare systems around the world on Covid-19 clearly impacted our assay strategies in the second half of the year with little commercial traction owing to low activity in hospitals on non-Covid related products. Our AIHL hospital trial programme was slowed, but still continued throughout the period through the energy and commitment of our clinical partners in the NHS, and is now due to complete imminently. Our HCV product saw limited sales but with WHO pre-qualification status achieved during the initial lockdown period, we are hopeful to see a positive pick-up in sales as and when the world returns to the new normal. Our US DoD contract was not directly impacted with sales being approximately as expected, but availability of funding may affect the timing of the next phase of the customer's purchase plans.

Performance

Revenue for the first half of the year was £0.6m and was on plan with our targets for the full year. However when Covid-19 began to impact in early 2020 it impacted our ability to commercialise the HCV product and full year revenues were £1.1m (2019: £2.4m).

Operational performance in the first half of the year was centred around the development of our AIHL product that was CE marked in November 2019 and launched into NHS Hospital trials in January 2020. We remain enthusiastic about the product's opportunities and very pleased with the partnership entered into with Inspiration Healthcare plc, experts in neonatal care and able to exploit the potential of this neonatal test.

Despite good progress on the AIHL test, the second half of the year was defined by our innovation and rapid development of two Covid-19 tests. We made a decision in March 2020 to develop a high throughput test, CE marked it at the end of May and began commercial sales in June. Our historical

distribution partners do not cover Europe, so we have been working to establish new relationships in Europe while focusing on opportunities in India, Africa and the United States. The subsequent roll out and sales of the test have been impacted by delays in obtaining regulatory approvals from third party agencies as well as expanding claims to new platforms and both automated and manual extraction processes, to further improve product performance and positioning. Post year end we received South African approval for the test and also entered into a collaborative relationship with Beckman Coulter to deliver a high volume testing solution on their automated equipment. We have ongoing dialogue with the Indian regulators but progress has been slow. In November the FDA provided initial feedback of our EUA application, and requested additional information primarily related to new requirements and methodologies they introduced after our initial submission earlier in the year. We also provided additional data to the World Health Authority (WHO) in November. At this time we do not have visibility from the FDA, WHO or the Indian regulatory agency on approval timelines but we believe the opportunities in these countries remain very significant. The focus of our development on Covid-19 products will continue into early calendar year 2021. Once development is complete the team will revert to our Tuberculosis product development activities. Tuberculosis is still a significant unmet needs and an attractive opportunity for the Company and one which we are targeting to launch a new product in 2022.

Governance and People

The Board has continued to focus on a strong governance framework, ensuring that internal controls, values and culture align with our strategy. We aim to have a governance structure that meets the medium term requirements of the Company. This can be reviewed in our Corporate Governance Report on pages [26 and 27].

The Board remains focused on ensuring its own effectiveness and that of the governance processes throughout the Group. We believe we have a board that reflects our strategy and ambition and will continue to review its effectiveness.

Outlook

In the short term the Covid-19 global crisis significantly impacts our ability to be definitive in our outlook. With a focused portfolio of products and our reliance on healthcare markets, demand will be impacted by the priorities of countries Covid-19 responses. But conversely our Covid-19 products, the on-market high volume lab assay and the soon to be launched point of care saliva based test, provide great opportunities. Although initial commercialisation of the high volume assay has experienced some delay we continue to focus on building sales through collaborations such as the one with Beckman Coulter and our other existing relationships. Our pipeline of sales opportunities for the 96 SARS-CoV-2 test is growing and includes a potential supply contract to a Ministry of Health of a European country. If converted to a sale this would be for low double digit millions of pounds of revenue and delivered in the first quarter of the new calendar year without the need for prolonged regulatory approvals. For our point of care test we are expecting to CE mark and launch the product in March 2021. We expect it will contribute significantly to the on-going management of Covid-19 and will also be an important contributor to sales for genedrive. Until such opportunities with our Covid-19 tests are crystalised we will continue to manage the cost base appropriately.

Despite these challenges our strategy is to position ourselves to react decisively and quickly to adapt to the changes and take advantage of opportunities that will emerge. In terms of AIHL and DoD Pathogen detection we expect to see a step up in demand through the coming year as these products enter new phases in their lifecycles. Whilst the past year presented many challenges it has also offered many opportunities which have the potential to deliver significant revenues and cashflows for the Group. The level of demand for Covid-19 testing remains high and even with vaccines on the horizon we believe this demand will continue for a considerable period of time and we will continue to maintain focus on our two product strategy with both lab based and point of care solutions. I remain confident of genedrive's ability to deliver and grow significantly over the coming years.

Dr Ian Gilham
Chairman
16 November 2020

Chief Executive's Review

genedrive plc is a commercial stage company

> The previous year brought some immense challenges and fantastic opportunities.

David Budd
Chief Executive Officer

Overview

During the first half of the year we continued to execute on our product and commercial strategy. However with the emergence of Covid-19 in the second half of the year we saw revenues on our core assays stall, just as many companies found as global markets went into quarantine. Despite the impact on revenues, Covid-19 brought real opportunity to genedrive as a commercial stage molecular diagnostics company. We were quick to develop solutions and brought a genuinely unique product to market in rapid time.

Our performance

Reacting to the COVID-19 global crisis

As announced on 25 March 2020, following the rapid global shift of healthcare emphasis towards testing and treatment of Covid-19, the Company refocused a significant part of its core resources towards development of two SARS-CoV-2 tests to detect active Covid-19 infections.

The first test is a high throughput laboratory test and the second test, expected to be launched in March 2021, is a point-of-care test that will run on the Genedrive® instrument. The high throughput test was CE marked in May 2020 and we commenced modest commercial sales in June 2020. Despite having CE marking, our historical distribution partners focus on Africa, Asia and India and so we have been working to establish new relationships in Europe. In the UK, we have not focused on opportunities in the NHS due to their existing supply contracts, and their migration to 384-well format platforms in the 'Lighthouse' labs. We do however believe our point of care device should have considerable relevance to the NHS.

After CE marking and initial launch, we continued to extend the product's claims, including the introduction of automated extraction processes and with the development of the Genedrive® Exporter tool to simplify analysis for the user.

The registration and regulatory approval processes of the test has had to take account of the various formats of our product – we effectively have three distinct product variants for different lab machines. As indicated in July we obtained the CE mark on the Roche Lightcycler and have extended the validation to include the ABI 7500 FAST and BioRad CFX96 systems to the range of instruments on which the assay is CE Marked.

We have focused only in specific target markets and obtained South African approval in September 2020 which was a clear validation of the product. We are currently pending on regulatory approvals in the US (EUA approval), with WHO and in India but have limited information on timescales which we believe is owing to the huge burden of activity on their regulatory bodies.

While there has been excellent sales funnel progression since the summer, there have been no material deliverable contracts to date as further key registrations have not yet been achieved. We have also focused commercially on the larger, more strategic opportunities that by their nature take longer to come to fruition. These are higher risk, but higher reward. We remain optimistic about the full potential of the test, and our pipeline of sales opportunities for 96 SARS-CoV-2 test includes a supply opportunity to a Ministry of Health of European country which the Company is engaged with directly. This opportunity is at an advanced stage but may not conclude successfully. If we are successful the total revenue expectation is for low double digit millions of pounds in the first quarter of the new calendar year and we

do not expect additional approval processes. We expect that our high throughput test will make a significant contribution to revenue over the coming periods. Finally, new relationships in new markets, such as with Beckman Coulter are presenting new and unique revenue opportunities for the Company.

The second test, the point of care assay on the Genedrive® device is due for preliminary release (Research Use Only) around December 2020 with a full CE marked product targeted for March 2021. While first to market opportunities are significant, the underlying qualities and reliability of a test are also of significant importance. I therefore believe that customers are looking for accurate validated products and that the advantages of being deployable and rapid, mean we can address a global market flexibly with the Genedrive® device. Post year end we announced that our test would be a saliva based assay with a design goal of achieving results within 15-20 minutes and with a limit of detection within the accepted product profile targets of the UK Government. While recent vaccine news is very welcome, we have a high degree of confidence that high throughput and point of care Covid-19 testing opportunities will be a critical part of controlling the pandemic for a considerable period of time. We remain fully focused on exploiting the commercial opportunities arising on testing for both assays.

Our performance

HCV

The CE marked Genedrive® HCV ID Kit was brought to market in March 2018. It is the first low cost, qualitative molecular decentralised testing product on the market. We achieved World Health Organisation pre-qualification status in May 2020. Prequalification means the Genedrive® HCV ID kit will be included in the WHO list of prequalified in vitro diagnostics (IVDs) and becomes eligible to participate in the procurement processes of UN agencies. WHO Member States are encouraged to use the WHO list of prequalified IVDs for their respective procurement decisions. To date, it has been a challenging opportunity due to low funding in market for HCV drugs and consequently diagnostics. The redirection of healthcare's focus to Covid-19 saw sales activity reduce significantly in the second half of the year.

Despite the Covid-19 market issues, the market opportunity remains, and as healthcare priorities move back away from Covid-19 with our WHO pre-qualification status and our experienced distribution partners we are positioned to quickly and efficiently exploit opportunities.

Pathogen detection tests for US DoD

Revenue in the year was £0.4m down £0.5m on the prior year, but this was expected as 2019/20 was a transition year for the DoD contract. The initial DoD development contract that had been worth approximately $10.0m over its life came to an end during 2019, and was extended by $2.0m in November 2019. This extension allows the DoD to continue ordering into their new financial year when it is expected they will enter a long-term supply contract. While final unit numbers and assays will be subject to confirmation and allocation of funding, the expectation is that the DoD will procure up to 500 Genedrive®'s and associated assays over a three year period and we now expect to begin contract discussions in early 2021.

The DoD development contract has been a success for genedrive over the years supporting development of the Genedrive® capabilities, providing funding to the Group, delivering a complex product to the customer specification, and providing ongoing revenue. We had significant headwinds in being able to supply the DoD for part of the year owing to supplier quality issues. The Company ultimately transferred production of DoD product to Cytiva. We have every belief that the product and the customer will form a significant part of the business in the coming years.

Antibiotic Induced Hearing Loss

In June 2018 the Group was part of an award from UK NHS National Health Research for the development and implementation of a point of care test for the prevention of hearing loss in new-born children when exposed to certain antibiotics. The genedrive allocation of the award has been used to fund the product through development, and is now supporting our in-hospital validation processes during clinical trials at 2 NHS sites. The Genedrive® MT-RNR1 assay has been designed and manufactured to run a highly accurate test in 27 minutes – within the National Institute of Clinical Excellence "golden hour" needed for clinicians to assess and prescribe alternative antibiotics. I am thoroughly excited about the global commercial and clinical prospects as well as the healthcare benefits of this first use of a molecular test in a neonatal emergency setting.

The product is due to be launched on a targeted basis in UK and Ireland at the end of 2020 with full commercial roll out planned for June 2021. We signed a distribution agreement with Inspiration Healthcare plc in April 2020. With the neonatal sales knowledge of Inspiration Healthcare we expect commercial traction from early adopters at launch, then 12-18 months later waves of large demand following write-up and inclusion in paediatric guidelines; if successful there should be adoption in the NHS and further afield.

The market is potentially very attractive as being both large and at a higher margin compared to global health-related tests. This opportunity is well suited to the Genedrive®, needing multiple, low-cost units to deliver fast testing at a point of need.

mTB

Tuberculosis remains one of the largest molecular testing markets in the world and in terms of routes to market and process it is well defined. It is an important market for the Group and a vital component of our strategy. We have therefore not changed our stance on the importance of accessing this market, but owing to the focus on Covid-19 have pushed out our time horizon for product launch to 2022.

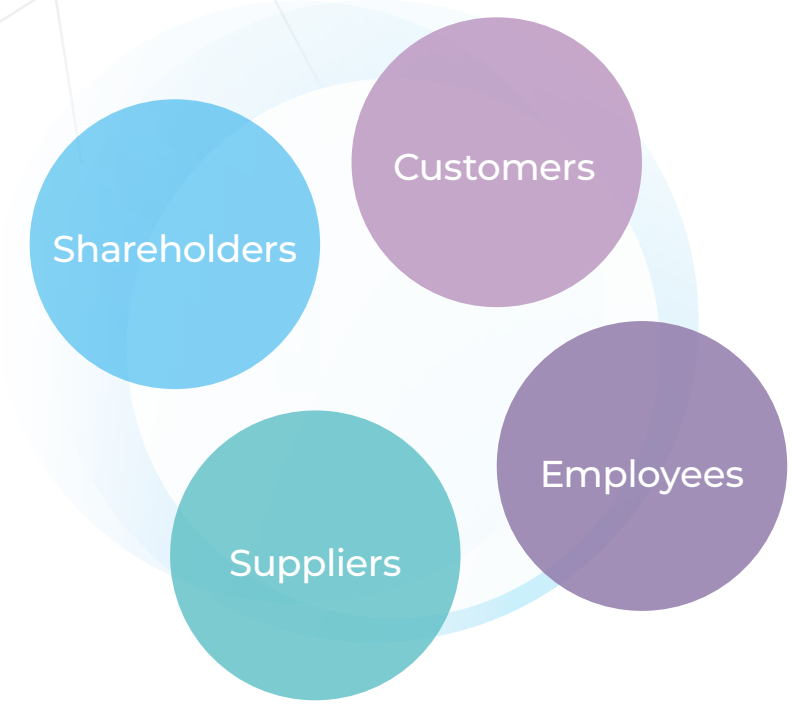
Outlook

At the end of a challenging year, we are now in a fundamentally stronger position, aided by the £8m (gross) fund raise in May 2020 and the conversion of loan notes in June 2020 and post year end in September 2020. We were nimble in reacting to Covid-19 and we now have four assays on market: HCV, DoD Biohazard, AIHL, and COVID 96 rapid test, and while there have been delays and there remain some uncertainties around regulatory approvals for the Covid tests, we remain confident in the product's potential and our pipeline. We also have two products in development: mTB and a COVID point-of-care test. These products are expected to produce meaningful revenues in the future.

It has been a challenging year, but genedrive was in the fortunate position to have invested in the capabilities and people needed to exploit its position in PCR, and emerge a better and stronger company. Our products and pipeline provide us with confidence that we will deliver strong growth and much increased shareholder value.

David Budd
Chief Executive Officer
16 November 2020

Engaging With Our Stakeholders



Understanding our stakeholders enables the Board in performing its duty under s172 of the Companies Act 2006, to consider and discuss each stakeholder group's interests and concerns and the potential impact of any Board decision on stakeholder groups. Stakeholder interests are considered by the Board through a combination of the following: Executive Directors' reports, H&S reports and customer and supplier feedback.

Shareholders

We create value for shareholders by delivering sustainable growth. We engage regularly with shareholders through a planned programme of investor relation activities to ensure that our strategy and market trends are clearly understood. Shareholder feedback along with details of movements in our shareholder base are regularly reported to and discussed by the Board and forms part of its decision-making.

Why we engage

- We want to ensure that our strategy and market trends are clearly understood
- To explain how we aim to grow and create shareholder value

How we engage

- Corporate website investor relations section
- AGM, Annual Report, trading updates and results presentations
- Press releases
- Analyst briefings
- Investor roadshows with current and prospective institutional shareholders
- Meetings/consultation with shareholders on relevant matters

Stakeholder areas of interest

- Governance and transparency of Company vision and our strategy for growth

Customers

As a growing diagnostics group we innovate, design and manufacture diagnostics tests for customers worldwide. We engage with our customers, strengthening our understanding of their needs and the core markets we serve. We use our wealth of expertise and knowledge to support their requirements today and tomorrow. Updates and feedback from customers are regularly reported to the Board. This provides the Board with specific and general market intelligence, together with any potential impact or opportunities for the business.

Why we engage

- To understand and exceed customer expectations – delivering focused solutions that can meet the diverse and changing requirements of our global base
- To drive continuous improvement in customer service, by responding to feedback and changes in the wider industrial and healthcare markets we serve

How we engage

- Regular one-to-one interactions and meetings
- Industry exhibitions, customer site tours and presentations
- Company website
- LinkedIn communications
- Digital marketing

Stakeholder areas of interest

- Customer service/quality standards and compliance
- Research and development opportunities

Suppliers

Our network of innovative, reliable and quality-focused suppliers is critical to ensuring we can meet the needs of our customers. We work with our suppliers to balance economical requirements with environmental, social and ethical considerations. Information relating to the Group's supply chain is used by the Board to ensure that, in addition to business needs, social and ethical requirements are also being met.

Why we engage

- To meet the needs of our customers, ensuring and maintaining high-quality materials and resources
- To ensure high supplier standards, both ethical and otherwise

How we engage

- Regular communication
- Regular evaluation of quality, service and performance using onsite and offsite audits

Stakeholder areas of interest

- Quality and accreditations
- Sustainability
- Satisfaction/reputation
- Corporate social responsibility expectations

Employees

Creating value for our customers relies on the quality of the services and products that we provide, and the skills and knowledge of our employees. We appreciate the value of diversity and recognise the resilience, focus and innovation that our employees all over the world demonstrate on a daily basis. Feedback from the employee engagement survey was presented to the Board, which assisted in its understanding and ability to ensure the alignment of culture and strategy. As part of the actions determined, the CEO Town Hall programme was commenced.

Why we engage

- To ensure alignment of our culture and strategy
- To create a diverse and inclusive workplace where every employee can demonstrate entrepreneurship and help build our business
- To ensure we deliver and make the right business decisions, which in turn means we retain and develop the best talent

How we engage

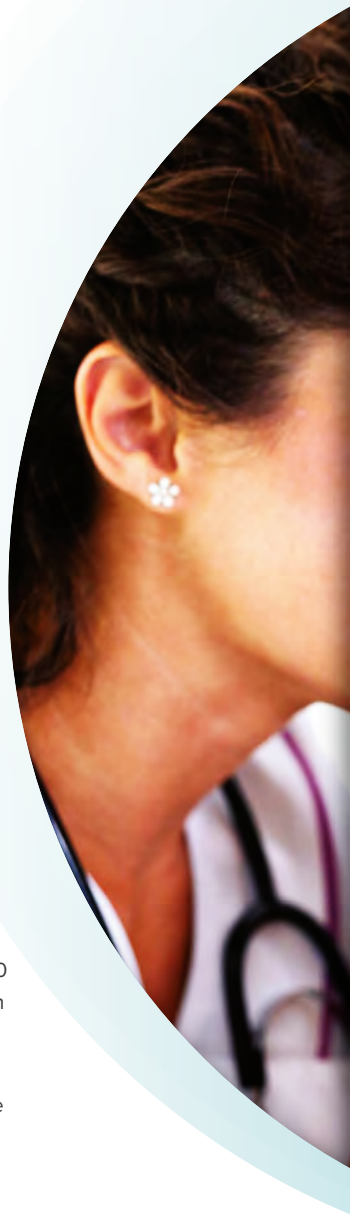
- Company communications, town hall programmes, briefings, news bulletins
- Training and development
- Employee performance reviews

Stakeholder areas of interest

- Reward and recognition
- Internal communication
- Diversity and inclusion
- Personal development and sense of belonging
- Transparency of information
- Reputation management

Strategy in Action: Antibiotic Induced Hearing Loss

Developing a point-of-care test with initial implementation in the NHS



Market overview

In the UK, approximately 90,000 babies are admitted to intensive care settings, with approximately 80% being treated with antibiotics on admission. Owing to an identified genetic predisposition, when exposed to certain antibiotics, a fraction of these babies will develop irreversible hearing loss. Alternative treatments can be prescribed, but lack of testing means that unfortunately a number of infants suffer profound hearing loss each year, which also creates a lifetime cost to the NHS. Genedrive® suits the requirements for a point-of-need device as it is small, portable and quick – providing results within the 'golden hour' of admittance. The gene defect is not geographically specific and therefore the assay addresses a global market – with European and North American markets each being around seven times larger than the size of the UK.

Rapid progress from clinical need to CE marking

- In June 2018 Genedrive was part of a grant award for the development and implementation of a point-of-care test for the prevention of hearing loss in newborn children
- By December 2018 a test was developed to satisfy the specificity and speed requirements: identifying the mutant gene in under 30 minutes
- Proof of principle batches were produced in Spring 2019
- After assay optimisation, initial scale size batches were produced and tested in Summer 2019
- The assay was CE marked in November 2019
- Clinical trials in two hospitals commenced January 2020 and are expected to conclude in November 2020

Outlook

- Clinical trials expected to successfully complete during 2020
- Product launch is expected shortly following trial completion in 2020 with some initial uptake from participant Trusts following swiftly
- Longer term uptake will be by clinical guidelines and evidence reviews but we are likely to see wholescale uptake across the NHS if the trials prove successful
- European markets provide similar potential and entry is facilitated in part by CE marking
- Entry to large North American market will be reviewed in light of its regulatory hurdles and will likely result in entry via partners

> This is a very exciting opportunity that has the potential for the Genedrive® unit to be distributed across all NHS emergency settings as well as Europe and the rest of the world.

David Budd
Chief Executive Officer

Inspiration HEALTHCARE

Distribution agreement announced 24 April 2020

> We look forward to working with genedrive plc to make this test the standard of care in the UK and the wider neonatal community around the world.

Neil Campbell
CEO, Inspiration Healthcare plc

Financial Review

Strong momentum with coronavirus tests

> The fund raise in May 2020 provided a net capital injection of £7.5m to help fund the development and launch of the Genedrive® COVID-19 products.

Matthew Fowler
Chief Financial Officer

The financial results have been prepared under IFRS and the Company's accounting policies are set out on pages 42 to 45.

Revenue and other income for the year was £1.1m (2019: £2.4m). COVID-19 had an impact on sales in the second half of the year and the expected sales traction on our HCV and DoD assays did not take place as expected with customers prioritising their activities elsewhere.

Research and development costs were £4.7m (2019: £4.9m) and reflected an increased spend in the second half of the year related to the COVID-19 assay. Overall spend was slightly down on the year to June 2019 owing to reduced activity and tight cost control in the first half of the year.

Administration costs were £2.0m, up slightly from the prior year £1.9m. The majority of this cost increase was related to the second half of the financial year where certain share price linked costs increased as the share price increased.

The trading loss for the year was £5.6m (2019: £4.4m) and the increase was owing to the reduced revenue in the year. There were no exceptional costs in the year (2019: £0.4m gain), giving an operating loss of £5.6m (2019: £4.0m).

Financing costs

Financing costs were £14.7m (2019: £0.5m). The finance costs are associated with the convertible bonds outstanding during the year. The finance cost on the convertibles has several elements: an interest charge that unwinds the discount on these long term liabilities, a foreign exchange impact from the US dollar denominated GHIF bond and finally a derivative charge for the 'option' of the bond holders to convert the bond to shares in the Group. The interest on unwinding the discount and foreign exchange movements were £1.0m and were broadly in line with the prior year £1.1m. Owing to the increase in the Group share price from 20.5p at 30 June 2019 to 102p at 30 June 2020, the cost of the conversion rights on the two bonds

increased by £13.8m and this is treated as an expense through the finance costs. In the prior year a falling share price since 30 June 2018 created a £0.3m gain. These movements are non-cash and merely reflect the changing value of the options to convert. As GHIF converted their bond on the 16 June 2020 and BGF partially converted their bond in September 2020, the only financing costs remaining will relate to the residue £1.5m BGF bond and as the share price rises or falls against the 30 June 2020 price of 102p a further charge or release to financing costs will be recognised.

Taxation

The tax credit for the year was £1.0m (2019: £0.9m). The Group investment in R&D falls under the UK Government's R&D tax relief scheme for small and medium companies where it meets the qualifying criteria. The tax credit was larger than originally forecasted owing to the increase in qualifying criteria as the Group invested and developed the COVID-19 assay that was not expected at the start of the year. As the Group did not make a profit in the year it collects the tax credit in cash following submission of tax returns. The expected receivable on the balance sheet is £1.0m (2019: £1.0m).

The loss for the financial year after tax was £19.4m (2019: £3.6m), with £14.7m of this loss being non-cash financing costs relating to convertibles bonds.

Cash resources

Net cash outflow from operations was £4.8m (2019: £4.6m). The operating losses were £5.6m (2019: £4.4m) with working capital contributing £0.8m (2019: £0.2m consumption) mainly from an increase in trade and other payables.

The tax credit received was £1.0m (2019: £1.0m) and relates to cash received under the UK Governments R&D tax relief scheme. The current year tax debtor is £1.0m (2019: £1.0m) and we would expect receipt in the months following release of these statutory accounts.

The net proceeds from financing activities were £6.9m (2019: £5.3m). The net proceeds from equity were £7.5m. Cash paid to GHIF as part of the conversion of their loan note was £0.7m.

The increase in cash was £3.0m (2019: £1.7m) meaning a closing cash position of £8.2m (2019: £5.2m).

Balance sheet

Balance sheet net liabilities at 30 June 2019 totalled £2.5m and this increased slightly to £3.3m at 30 June 2020. The deficit is mainly owing to the non-cash accounting adjustment on the BGF derivative and without this item the balance sheet would be in net assets as a result of the equity raise in May 2020. As the balance sheet position has remained in net liabilities throughout the year, there was no requirement under section 656 of the Companies Act to call a meeting of shareholders and discuss the net liabilities position.

Current assets of £10.3m (2019: £6.9m) included cash of £8.2m (2019: £5.2m) following the successful May 2020 fund raise. The tax receivable was £1.0m (2019: £1.0m) for the current year Corporation Tax Research and Development tax claim and this should be paid by the end of the calendar year. The remaining working capital-related items make up £1.0m (2019: £0.8m) with the largest increase in inventory being high average balances of COVID-related materials which are being held to mitigate long lead time supply.

Current liabilities were £2.2m (2019: £1.2m) with the large increase related to the purchase commitment on COVID-19 materials as well as property rent that was deferred during lockdown but that was paid post year end.

Capital and reserves were affected by two notable items in the second half of the financial year. The fund raise in May 2020 provided a net capital injection of £7.5m to help fund the development and launch of the Genedrive® COVID-19 products. Secondly in June 2020, GHIF, the holders of an $8.0m convertible bond, exercised their right to convert their bond into shares in genedrive plc. As part of the settlement with GHIF, the Group paid GHIF £0.7m and issued 7.1m shares. The net equity impact of the GHIF conversion was a £10.9m credit to reserves. In addition to these two large movements, there were share-based payment movements of £46k and a loss for the year of £19.4m, meaning an increase in net liabilities of £0.8m.

£4.7m
Research & Development costs

£7.5m
Funds raised (May 2020)

Going concern

We have experienced delays commercialising the Genedrive® 96 SARS CoV-2 test and the lack of revenue has impacted our cash position. However we continue to focus on obtaining product approvals and securing sales and we are managing the cost base until revenues are assured. We are confident in our sales forecasts but securing cash generative revenue in the forthcoming months is necessary otherwise the Group will have to reduce costs and raise additional funds. We continue to adopt a going concern basis for the preparation of the accounts, but the combination of the above factors represents a material uncertainty that may cast significant doubt on the Group and Company's ability to continue as a going concern.

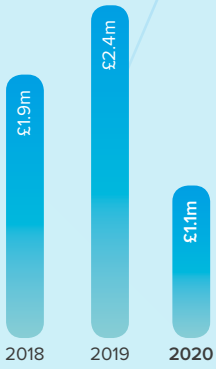
Risk management and the year ahead

Risk is managed closely and is spread across our businesses and managed to individual materiality. The Board has reviewed and considered the impact of the UK's departure from the EU and has considered the issues relating to a no-deal departure. The Board has considered all of the above factors in its review of going concern and has been able to conclude the review satisfactorily.

Matthew Fowler
Chief Financial Officer
16 November 2020

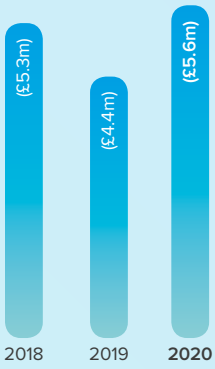
Key Performance Indicators

Diagnostics (Genedrive®)



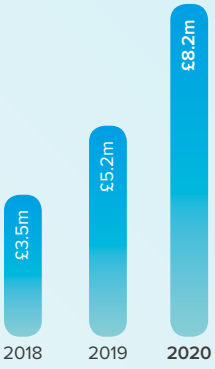
Diagnostics revenue down impacted by the effects of COVID in the second half of the year.

Trading result



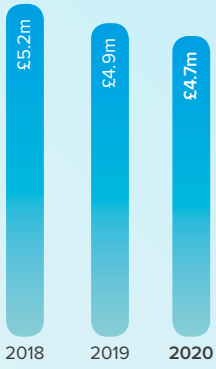
Loss before exceptionals, tax, interest and finance costs up over prior years owing to reduced revenues.

Cash reserves



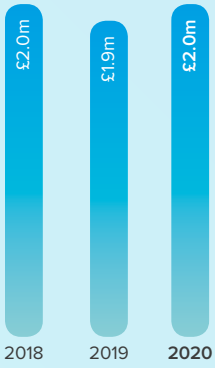
Cash reserves of £8.2m, boosted by the May 2020 fund raise.

Research and development costs



Research and development declined slightly to £4.7m; we continue to invest in the Genedrive® offering.

Adminstration costs



Administration costs amounted to £2.0m impacted by share price related costs in the second half of the year.

Principal Risks

for the year ended 30 June 2020

Risk is an inherent part of our business and it is important for us to identify and understand the degree to which its impact and likelihood of occurrence will affect the delivery of our key objectives.

Genedrive records risks using the following risk management model that is centred around a corporate risk register. The Board has overall responsibility for ensuring that genedrive has an effective risk management framework which is aligned to our objectives. The Executive Team, Audit and Risk Committee and Board review risks which could affect the Group throughout the year. Risk and issue tracking systems are reviewed on a regular basis, to ensure that the framework is in line with good practice in risk management and that agreed mitigation plans are being followed.

In determining the relative importance of risks in our business, we use a scoring mechanism to identify the likelihood of a risk crystallising and the impact this would have on the achievement of our strategic objectives, assuming that no controls are in place (inherent risk score).

The table below outlines the principal risks and uncertainties which the Group faces together with relevant key controls and mitigating factors. The list does not constitute a list of all risks faced by the Group and is not presented in priority order.

Risk	Impact	Mitigation	Risk movement
Economic and political uncertainty COVID-19 outbreak and Brexit trade negotiations, which affect market and financial stability	Negative impact on long-term prospects	• Clear strategy for COVID-19 assays • Regular Board discussions on COVID-19 • Authorised key operators in place for key regulatory matters	▲
Business strategy The Board develops the wrong strategy or fails to implement strategy effectively	Negative impact on long-term prospects	• Clear strategy which is reviewed regularly • Progress of strategy clear in KPIs and reporting	▲
Competitor entry New entrant to Company's markets	Loss of first-to-market advantage and reduction of potential market share	• Product improvement projects to differentiate and protect Genedrive® • Cost programmes in place to support future price-down strategies • Constant market monitoring and competitor analysis	◆
Failure to generate material CoV-2 sales The Genedrive 96-SARS-CoV-2 Kit® does not achieve the desired market penetration/market approvals or the prevalence of the disease reduces	Loss of revenue and profit Loss of brand value and reputation	• Independent clinical studies performed • Ongoing improvement programmes to refine and update • Close monitoring and review of in-field performance	N/A
HCV sales slower than expected Delays in the processes to register and commence the sales of the Genedrive HCV ID Kit® in target markets, accentuated in the light of healthcare systems being focused on COVID-19	Loss of revenue and profit Loss of reputation	• Close working relationship with Sysmex • Detailed registration plans per country • Close monitoring and reporting to the Board	▲
Regulatory and reimbursement The Company strategy relies on regulatory approval for Genedrive® products and the availability of funds from Government and other large organisations to fund drugs treatments	Negative impact on long-term prospects Loss of revenue Negative impact on brand	• Company is progressing preferred status (e.g. pre-qualification) with key bodies • Registration trackers are reported to the Board monthly	◆
Supply chain The Company is reliant on certain key suppliers of raw materials and components	Inability to fulfil demand Loss of revenue and profit	• Contractual arrangements exist where possible • Secondary suppliers scoped and in progress • Selective forward buying of key components	▲
Financial position The Company is loss-making and will continue to have going concern challenges until it builds a portfolio of profitable diagnostics assays	Negative impact on Company's prospects	• Company continues to seek non-dilutive sources of funding • Cash consumption is a key Board metric	▼

This report was approved by the Board of Directors on 16 November 2020 and signed on its behalf by M J Fowler.

Introduction to Corporate Governance

Maintaining high standards

> As a Board we fully acknowledge the importance of Corporate Governance and the expectations of stakeholders that encourage responsible corporate behaviour.

Dr Ian Gilham
Chairman

The statement of corporate governance practices set out on pages 23 to 27, including the reports of Board Committees, and information incorporated by reference, constitutes the Corporate Governance Report of genedrive plc.

On behalf of the Board, I am pleased to present genedrive plc's Corporate Governance Report for the year ended 30 June 2020.

As a Board we fully acknowledge the importance of Corporate Governance and the expectations of stakeholder that encourage responsible corporate behaviour. This report seeks to provide shareholders and stakeholders with a clear understanding of how we discharge our governance duties. As a Group we apply the principles of good governance as set down in the Quoted Companies Alliance Corporate Governance Code (the QCA Code), which was adopted for the first time in the prior year. Further details of the Code and its adoption can be found on our website http://www.genedriveplc.com/investor-relations/corporate-governance.php. The Board continues to remain fully supportive of the principles laid down in that Code and keeps under review its systems, policies and procedures that support the Group's sustainability and governance practices. The Board is responsible for maintaining high standards of corporate governance which necessitates managing the business in a transparent and accountable way. Transparency is fundamental to delivery of the Group's strategy and to enabling value creation for shareholders and stakeholders. We continue to communicate our strategy and progress through clear published announcements and presentations and feel this is fundamental to maintaining the support of our shareholders.

The composition of the Board has been reviewed to ensure that we have the diverse balance of skills, experience and industry knowledge required to achieve our strategic goals. Board succession planning is an important element of our corporate governance regime and procedures are in place to attract, assess and develop Board and Executive Team talent. All appointments are made on merit, and the Board will consider suitably qualified applicants from as diverse a range as possible, with no restrictions on age, gender, religion, and ethnic background or current executive employment.

In line with our previous practice all Directors will be proposed for re-election at the Annual General Meeting of the Company to be held on 30 December 2020. In light of social distancing measures as a response to the Coronavirus (COVID-19) pandemic, and as permitted by The Corporate Insolvency and Governance Act 2020, this year's AGM will be run as a closed meeting and shareholders will not be permitted to attend the AGM. We hope that you understand in these exceptional circumstances that we are taking these steps to adhere to the UK Government guidelines and to protect our shareholders, employees, the Board and the wider community. Details of how shareholders may submit questions into the AGM will be issued as part of the AGM notices.

Dr Ian Gilham
Chairman
16 November 2020

Board of Directors

The right mix of skills & experience

Ian Gilham Ph.D.
Chairman

Ian was appointed a Director on 24 November 2014 and as Non-Executive Chairman on 11 May 2015. He is currently Non-Executive Chairman of two life sciences companies: AIM-quoted Horizon Discovery Group Plc, which provides gene-editing tools to support translational genomics and the development of personalised medicine, and Cytox which is focused on the development of polygenic risk score algorithms to stratify dementia risk and progression. Dr Gilham was formerly Chief Executive Officer of Axis-Shield Plc.

David Budd
Chief Executive Officer

David was appointed a Director and Chief Executive on 1 March 2016. He has over 20 years of international commercial and operational experience in the diagnostics and medical devices field. He previously served as General Manager of Leica Biosystems Amsterdam and Commercial Director at Leica Biosystems Newcastle, with global responsibility for marketing, product development, and commercial launches for diagnostic tests. Prior to Leica, David's roles included point-of-care, molecular, and central laboratory marketing and commercialisation responsibilities at Siemens Healthcare Diagnostics, Bayer Diagnostics, and Visible Genetics.

Matthew Fowler
Chief Financial Officer

Matthew was appointed Chief Financial Officer on 13 December 2016. He has almost 20 years of experience in senior positions in the manufacturing, power and support services industries. Prior to joining Genedrive, Matthew spent eight years as Group Financial Controller of Scapa Group plc, a multinational manufacturing AIM-quoted business. Prior to that, Matthew spent three years at British Nuclear Group as Finance Manager for the corporate centre. Matthew trained and qualified in the audit department of Deloitte & Touche before spending four years working for Deloitte Consulting.

Tom Lindsay
Non-Executive Director

Tom was appointed to the Board on 9 April 2018. He has 35 years of global sales and marketing experience in the diagnostics sector. He most recently worked for Alere Inc. in Africa, where he held a range of executive posts including President of Africa, President Commercial Operations Africa and Business Development Director for Africa. Prior to Alere, Tom held senior commercial roles at Trinity Biotech (Ireland) including Marketing and Sales Director (Global) and Business Development Director for Africa, Middle East and India. Tom studied Microbiology at Glasgow Caledonian University and completed a national diploma in microbiology at the South African Institute of Medical Research in Johannesburg, South Africa.

Chris Yates
Non-Executive Director

Chris was appointed to the Board on 22 August 2018. He is CEO of Abingdon Health, a position he has held since July 2015. Chris co-founded Abingdon in 2008 and was a Non-Executive of the Company prior to his appointment as CEO. Chris has over 20 years' experience of working in listed environments and prior to working at Abingdon, was CFO at Immunodiagnostic Systems Holdings PLC and Cozart plc. Chris is a Chartered Accountant and has a degree in economics from Cambridge University.

Committee Membership

- *Audit and Risk Committee*
- *Remuneration Committee*
- *Nominations Committee*
- *Denotes Committee Chair*

Corporate Governance

The Board has delegated certain responsibilities to the following Board Committees:

- the Audit and Risk Committee
- the Nominations Committee
- the Remuneration Committee

The reports of the Audit and Risk Committee and Remuneration Committee are set out on pages 28 to 35. There is no separate report provided for the Nominations Committee.

Each Committee operates under clearly defined Terms of Reference. Each Committee provides update reports to the Board via the Chairman of the Committee. Each Committee has sufficient resources to undertake their duties, including access to the Company Secretary and external advisers, where appropriate.

Audit and Risk Committee

The Audit and Risk Committee's main responsibilities are to monitor the integrity of the Group's financial statements, to review internal and external audit activity and to monitor the effectiveness of risk management and internal controls.

Remuneration Committee

The Remuneration Committee is responsible for determining all elements of remuneration for the Executive Directors and Executive Team and for reviewing the appropriateness and relevance of the Group's remuneration policy.

Nominations Committee

The Nominations Committee is responsible for Board recruitment and succession planning, to ensure that the Board is balanced and comprises the correct skill sets.

Leadership

The role of the Board

The Board is responsible for the long-term success of the Group and is ultimately accountable for the Group's strategy, risk management and performance. The Board's primary roles are: to provide leadership to the Group within a framework of prudent and effective control which enables risk to be assessed and managed; to set the Group's strategic objectives; and to ensure that the necessary resources are made available so that those objectives can be met. The Board also sets the Group's values and standards and is responsible for ensuring that its obligations to shareholders and other stakeholders, including employees, suppliers, customers and the community, are understood and met.

The Board has adopted an annual programme ensuring that key matters are routinely considered in addition to non-standard items. The annual programme includes:

- approval of the annual budget;
- review of performance of the Company against the approved budget;
- review of key advisers;
- review of insurance premiums and coverage;
- review of governance issues affecting the Company; and
- assessment of the corporate risk register.

The Board currently comprises two Executive Directors, a Non-Executive Chairman and two Non-Executive Directors. The names, biographical details and Committee memberships of the current Board members are set out on pages 24 and 25 of this report. Given the size and strategy of the Company, the Board believes that two Non-Executive Directors as well as a Non-Executive Chairman is an appropriate structure going forwards.

Division of responsibilities of the Chairman and Chief Executive

There is a clear division of responsibilities between the Chairman and the Chief Executive. Each role has its own formal written description of specific responsibilities.

The Chairman's principal responsibility is to lead the Board in the determination of its strategy and the achievement of its objectives. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness by facilitating full and constructive contributions to the development and determination of the Group's strategy and its overall commercial objectives from each member of the Board.

The Chief Executive is directly responsible for all executive management matters affecting the Group. His principal responsibility is ensuring achievement of the agreed strategic objectives and leadership of the business on a day-to-day basis. The Chief Executive is accountable to the Board for the financial and operational performance of the Group.

The role of the Non-Executive Directors

The Non-Executive Directors bring independence and a wide range of experience to the Board. Their role is to help develop strategy and to promote constructive debate and challenge in Board discussions. The Non-Executive Directors ensure that the financial controls and systems of risk management are robust and defensible.

The role of the Company Secretary

The Company Secretary advises the Board through the Chairman on all governance matters. All Directors have access to the services of the Company Secretary and may take independent professional advice at the Company's expense in conducting their duties.

Operation of the Board

The Board held 10 Board meetings during the year to 30 June 2020. The normal pattern of meetings is to hold six main in-person meetings every other month, with video conference meeting in between. Owing to Covid-19 social distancing issues all Board meetings and Committee meetings took place by video conference from March 2020 onwards. The Board appointed a sub-committee to deal with matters associated with the May 2020 fund raising. The provision of relevant, up-to-date information is fundamental to the effective leadership delivered by the Board. Reports from the Executive Directors, which focus on major operational matters, are circulated in advance of every Board meeting. To ensure that the Board are kept fully informed on the status of the business, reports and presentations are also produced by key Executive management. Attendance at each meeting is set out below.

Attendance at meetings

The following table sets out the attendance of each Director at Board and Committee meetings held during the year, along with the maximum number of meetings that it was possible to attend:

	Board	Board sub-committee for fund raise	Audit and Risk Committee	Remuneration Committee[a]	Nominations Committee
Ian Gilham	10/10	4/4	3/3	2/2	1/1
Tom Lindsay	10/10	–	3/3	2/2	1/1
Chris Yates	10/10	–	3/3	2/2	1/1
David Budd[a]	10/10	4/4	3/3	2/2	1/1
Matthew Fowler[a]	10/10	4/4	3/3	2/2	1/1

a Attendance via invite.

Although not members of the Committees, the Executive Directors attend meetings of the Audit and Risk Committee, Remuneration Committee and Nominations Committee as invited attendees when appropriate.

Key matters considered at each main meeting of the Board during the year included:

July 2019

- Review of R&D projects
- Commercial Presentation
- Review of year end results

September 2019

- Reviewed and approved Annual Report 2018/19
- Review of R&D projects

November 2019

- AGM and Proxy Results
- Annual review of advisers
- Commercial Presentation

January 2020

- Reviewed and approved Interim Results
- Reviewed long term forecasts

March 2020

- Group strategy review
- Discussion of funding opportunities
- R&D review of CoV-2 opportunity

June 2020

- Commercial Presentation
- Risk management and risk register
- Annual review of insurance risk

Report of the Audit and Risk Committee

Chris Yates
Non-Executive Director

The Committee completed its work for the year and continuously reviewed internal control, risk, accounting policies and regulatory guidance. There is nothing to bring to your attention as a result of the work. In summary, the Committee considers that it has delivered what it set out to do and has a clear plan for 2020/21. Together with members of the Committee, I will be available at the Annual General Meeting to respond to any questions on any of the Committee's activities.

Aims and objectives

The overall aim of the Committee is to monitor the integrity of the Group's financial statements and announcements, its accounting processes, and the effectiveness of internal controls and risk management. At this stage of the Group's size and development the Committee has decided that an internal audit function is not required as the Group's internal controls system in place is appropriate for its size. The Audit and Risk Committee has met three times during the year as well as the Board meeting to review and approve the register of significant risks in the Group.

Composition

The Audit and Risk Committee is comprised of Ian Gilham, Tom Lindsay and myself. In addition David Budd and Matthew Fowler were invited and attended meetings during the year.

All members of the Committee are independent Non-Executive Directors and the Committee as a whole has competence relevant to our sector. Since July 2015 I have been the CEO of Abingdon Health Limited. Prior to this I served as CFO at two AIM-listed medical diagnostic companies: Immunodiagnostic Systems Holdings PLC and Cozart plc. I am a Fellow of the Institute of Chartered Accountants of England and Wales. Ian Gilham is Chairman of both Horizon Discovery Group plc and Cytox Group Ltd and previously was CEO at Axis Shield Plc as well as having held a number of independent director roles at various life sciences and healthcare businesses. Tom Lindsay has held a number of senior roles within major diagnostics businesses, with specific focus and knowledge of the Africa region. This relevant experience allows the members to:

- understand the risks facing a pre-profit diagnostics business and approaches to managing its risks;
- maintain an oversight of the Group's internal control environment through the internal audit plan and risk management framework;
- review strategic financial management in a fledgling diagnostics company and provide constructive challenge to the reports and assurances given by management, and guide the design and implementation of a suitable assurance framework;
- provide practical insights on the Group's approach to corporate governance.

Audit and Risk Committee activities

During the year the Committee met three times in 2019/20 and undertook the following activities:

Audit tender and appointment of new auditors

The Committee asked myself and Matthew Fowler to review the audit activities of the Group. A small tender process was undertaken with a number of firms invited to bid for the audit of the Group and the Company. A recommendation was made to the Committee and RSM UK Audit LLP were appointed auditors in December 2019 following the passing of a resolution at the Group's AGM in November 2019.

Audit Committee Terms of Reference and potential conflicts of interest

During the period the Committee formally reviewed and revised the Audit Committee's Terms of Reference.

The Committee also checked on individual directors' conflicts of interest.

Financial statements and reports

- Reviewed the interim financial statements and related statements and discussed key accounting judgements, Income Statement for the half year (specifically convertible loans), share issue, revenue and cash projections
- Advised the Board that, taken as a whole, the Annual Report and accounts are fair, balanced and understandable
- Reviewed and considered the significant issues in relation to the financial statements and how these have been addressed, including:
  - Requirements around going concern and the Company's viability
  - Adjustment and treatment of Convertible Loans on the Balance Sheet
  - Fund raising and the renegotiation of historic earn-out arrangements

Going concern

The Committee reviewed whether it was appropriate to adopt the going concern basis for the preparation of the Annual Report. Consideration was given to the Group's three year forecasts and the current cash resources. The forecasts were stress tested and factors which impact on risks and uncertainties were properly considered. Following the Committee's review, it recommended to the Board that it was appropriate to adopt the going concern basis. However, given the level of uncertainty as to the timing and quantum of revenues, including reference to delays in regulatory approvals and the uncertainty around the Groups ability to both reduce costs and raise additional funds, the stress testing of the Group's revenues forecasts led to a recommendation to include a material uncertainty paragraph relating to going concern.

Risk management

- Reviewed and approved the key risks (financial and operational) facing the Group and the ongoing development and implementation of action plans to mitigate these risks
- Reported to the Board on how it has discharged its responsibilities
- Reviewed and considered the Group's Whistleblowing Arrangements and Anti-Bribery Policy

External audit

- Monitored and ensured the independence and objectivity of the external auditor
- Reviewed and approved the external audit fees for 2019/20
- Reviewed and approved the scope and methodology of the external audit strategy for 2019/20
- Reviewed and agreed on a policy for employing the external auditor for non-audit services

The Committee continues to monitor the external auditor's compliance with applicable guidance and guidelines and considers the independence and objectivity of the external auditor as part of the Committee's duties. The Committee received and reviewed written confirmation from the external auditor on all relationships that, in their judgement, may bear on their independence. The external auditor has also confirmed that they consider themselves independent within the meaning of UK regulatory and professional requirements.

In all services purchased, the Group selects the provider best placed to deliver the work in terms of quality and cost. As a general principle the external auditor is excluded from consultancy work and other non-audit work except for assurance services. The Group adhere to The Financial Reporting Council Revised Ethical Standard 2019 which prohibits the auditor from providing non-audit services to listed companies except for certain assurance-related services. The external auditor did not undertake any non-audit services during the year.

Tendering policy and review of auditor effectiveness

During the year the Audit Committee carried out a review of the Group's audit arrangements and invited a number of firms to tender for the audit of the Company and the Group. As a result of this review a resolution was proposed to the Annual General Meeting to Appoint RSM UK Audit LLP (RSM) as the Group's and Company's auditors. This resolution was passed and RSM became auditors in December 2019. The Committee looks forward to a productive and interactive relationship with RSM over the forth coming years.

Chris Yates
Chairman of the Audit and Risk Committee
16 November 2020

Report of the Remuneration Committee

Ian Gilham, Ph.D.
Chairman of the Remuneration Committee

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 30 June 2020.

This report sets out the activities of the Remuneration Committee for the year ended 30 June 2020. The report has been prepared in accordance with the requirements of Schedule 2 Pt1 to the Companies Act 2006 ('the Schedule') and describes how the Board has applied the Principles of Good Governance relating to Directors' remuneration. Section 497 of the Act requires the auditors to report to the Company's members on the 'auditable part' of the Directors' Remuneration Report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with Part 3 of the Schedule. This report has therefore been divided into separate sections for audited and unaudited information. The information provided in this part of the Directors' Remuneration Report is not subject to audit.

Our strategy

We aim to shape the success of Genedrive by maintaining a disciplined approach in executing our strategy to create a focused molecular diagnostics business. We are focused on bringing at least three revenue-generating assays to market in the near term.

Executive remuneration and link to strategy

Our Remuneration Policy focuses on rewarding sustained performance. It is our belief that Executives should be rewarded on the basis of their individual performance and the value created for shareholders. Variable elements of pay are therefore focused on simple and transparent measures of key strategic objectives, sales, cash and building shareholder value. Bonus and long term incentive scheme targets are purposely designed to be challenging and drive the long-term success of the Group.

Remuneration outcomes of 2020

Full details of the decisions of the Committee made in 2020 are set out in the Directors' Annual Remuneration Report on pages 30 to 35.

The Committee agreed to increase the salary of the Chief Executive to £233,500 per annum effective from 1 July 2020. This increase is in line with the general workforce increase for the same period. The Committee agreed to increase the salary of the Chief Financial Officer to £175,000 effective from 1 July 2020. This increase is commensurate with additional operational responsibilities incorporated within the role during the year.

The annual bonus targets for the Executive Directors and Executive Team were set by the Committee at the beginning of the financial year. The Chief Executive Officer and Chief Financial Officer could receive an annual bonus equivalent to 100% and 60% of salary for 2019. Having reviewed the targets, the bonus payment made for this financial year was 90% of entitlement for both the Chief Executive Officer and the Chief Financial Officer.

Remuneration Committee

The Remuneration Committee is responsible for determining reviews of the scale and structure of the Executive Directors' and senior management's remuneration and the terms of their service contracts. The remuneration and terms of appointment of the Non-Executive Directors are set by the Board. The Remuneration Committee also approves the issue of share options under schemes approved by the Board. None of the Committee members have any personal financial interest (other than as shareholders), conflicts of interest arising from cross-directorships or day-to-day involvement in the running of the business. No Director plays a part in any final decision about his or her own remuneration.

Meeting frequency and attendance

The Committee is scheduled to meet at least twice a year, with other meetings taking place as required. Only members of the Committee have the right to attend Committee meetings. However, other individuals including the Group Chief Executive and external advisers may be invited to attend for all or part of any meetings, as and when appropriate and necessary.

Transparency

The Committee seeks to operate in a clear and transparent manner and to demonstrate good practice in Executive remuneration. The Committee's report comprises two sections, namely:

- this statement, which sets out a summary of and explains the major decisions on Directors' remuneration;
- the Directors' Annual Remuneration Report, which provides details on how the proposed amended Remuneration Policy will operate in the forthcoming year and states the remuneration earned by the Directors in the year to 30 June 2020.

The Directors' Annual Remuneration Report will be subject to an advisory vote by shareholders at the 2020 Annual General Meeting. As Chairman of the Committee, I will be available to respond to any questions you may wish to raise on any of the Committee's activities.

Dr Ian Gilham
Chairman of the Remuneration Committee
16 November 2020

Remuneration Policy

This report sets out the Company's policy on the remuneration of its Executive Directors and Non-Executive Directors (the 'policy').

The Executive Directors have written terms of engagement with no fixed expiry date. Executive remuneration packages are prudently designed to attract, motivate and retain Directors of the necessary calibre and to reward them for enhancing value to shareholders. The performance measurement of the Executive Directors and key members of senior management and the determination of their annual remuneration package is undertaken by the Remuneration Committee.

Salary: Salaries are set to attract and retain the right calibre of Executive. Salaries are usually determined by reference to market data. All increases and changes are at the discretion of the Committee.

Pension: Both the Chief Executive and the Chief Financial Officer received a contribution to pension equivalent to 3% of salary. The Executives may elect for contributions to be paid via a salary sacrifice scheme.

Annual bonus: Schemes are designed to link individuals' performance to rewards and encourage the achievement of results aligned to the strategy and objectives of the Company. Bonus decisions are based on Executive Directors' performance during the year measured against Group and personal objectives. The value of bonus is limited to a percentage of salary. The current maximum percentages are 100% for the Chief Executive, and was increased from 60% to 80% from July 2020 for the Chief Financial Officer.

Long Term Incentive Plans ('LTIP'): The LTIP schemes are designed to discourage excessive risk-taking and inappropriate short-term behaviours as well as aligning interests with shareholders. Awards vest after three years subject to the achievement of vesting criteria. Awards are made annually up to a maximum percentage of 100% of salary, although the scheme allows for up to 200% of salary for exceptional circumstances.

Service contracts: Executive Directors' service contracts are subject to six months' notice of termination.

External appointments: Executive Directors are entitled to accept appointments outside the Company provided the Board's permission is sought. Neither Executive Director currently holds an external appointment.

Non-Executive Directors' terms of engagement

The remuneration of the Non-Executive Directors is determined by the Board within limits set out in the Articles of Association. Each Non-Executive Director has specific terms of engagement. Their remuneration is determined by the Board. In the event that a Non-Executive undertakes additional assignments for the Company, the Non-Executive's fee will be agreed by the Company in respect of each assignment.

Audited information

Single figure for total remuneration

The following table sets out the single figure for total remuneration for Directors for the financial years ended 30 June 2020 and 2019.

		Salary and fees £	Bonus £	Benefits in kind £	Pension £	Total £
Executive						
David Budd	**2020**	**230,049**	**207,044**	**1,100**	**6,422**	**444,615**
	2019	226,650	90,660	1,100	6,422	324,832
Matthew Fowler	**2020**	**146,395**	**79,054**	**–**	**4,087**	**229,536**
	2019	144,230	34,615	–	4,087	182,932
Non-Executive						
Ian Gilham	**2020**	**65,000**	**–**	**–**	**–**	**65,000**
	2019	65,000	–	–	–	65,000
Tom Lindsay	**2020**	**24,000**	**–**	**–**	**–**	**24,000**
	2019	24,000	–	–	–	24,000
Chris Yates[1]	**2020**	**24,000**	**–**	**–**	**–**	**24,000**
	2019	20,000	–	–	–	20,000

1 Appointed 22 August 2018.

Additional disclosures for single figure total remuneration to 30 June 2020

Salary

The Chief Executive's salary at 30 June 2019 was £230,049 and was increased by 1.5% from 1 July 2020 to £233,500. The Committee believes that the increase of 1.5% awarded was in line with the performance of the Group and the individual, as well as being entirely consistent with the pay increases awarded to other members of staff. The CFO's salary at 30 June 2019 was £146,395 and was increased by 19.5% from 1 July 2020 to £175,000. During the course of the year the role of the Chief Financial Officer was increased to include additional operational responsibilities. The increase in salary is commensurate with the extended role.

Remuneration Policy continued

Annual performance bonus

The 2020 bonus for the Executive Directors and senior management was based on:

- Revenue targets on sales of Genedrive® units and assays
- The cash position of the Group at 30 June 2020
- Milestone achievements on the mTB project
- Milestone achievements on the AIHL project

The specific targets have not been disclosed. The overall achievement was 90%.

Long Term Incentive Plans

Details of the options for Directors who served during the year are as follows:

	Outstanding 30 June 2020	Date granted	Exercised	Lapsed	Exercise price	Earliest exercise date	Expiry date
Executive							
David Budd	1,056,982	03/04/2020	–	–	£0.090	04/04/2023	03/04/2030
	540,000	04/04/2019	–	–	£0.235	05/04/2022	04/04/2029
	222,260	19/07/2018	–	–	£0.305	20/07/2021	19/07/2028
	397,590	04/04/2017	–	–	£0.430	05/04/2020	04/04/2027
	244,444	07/04/2016	–	–	£0.900	07/04/2019	06/04/2026
Matthew Fowler	672,626	03/04/2020	–	–	£0.090	05/04/2022	03/04/2029
	340,000	04/04/2019	–	–	£0.235	05/04/2022	04/04/2029
	264,046	19/07/2018	–	–	£0.305	20/07/2021	19/07/2028
	141,666	22/12/2016	–	–	£0.600	14/12/2019	13/12/2026
Non-Executive							
Ian Gilham	50,000	07/04/2016	–	–	£2.78	07/04/2019	06/04/2026
	100,000	17/12/2014	–	–	£2.78	17/12/2018	16/12/2025

The Company issues long term incentives under the management incentive plan dated July 2017. The incentive plan has the following key features:

- Executives may be awarded up to 100% of salary per annum in the form of options, with allowance for up to 200% in exceptional circumstances
- The exercise price of options will not be below market price
- Awards vest over three years subject to performance criteria being met
- The Board retains the right to scale back or reduce to zero the size of vesting awards if they are not satisfied that the status and performance of the business is sufficient or the individual has not met an acceptable level of personal performance

The Company has a policy to issue awards to the Executive Directors and other senior management annually.

Directors and their interests in shares

The Directors of the Company who held office throughout the year, unless otherwise stated, and their interests in the share capital of the Company, including family and pension scheme trust interests, were as follows:

	30 June 2020	30 June 2019
Executive		
David Budd	213,710	145,380
Matthew Fowler	99,457	86,957
Non-Executive		
Ian Gilham	503,174	266,424
Tom Lindsay	202,217	65,217
Chris Yates	41,304	16,304

Share Investment Plan

The details of the Epistem Share Investment Plan ('SIP') are outlined in note 20 to the financial statements. None of the current Directors participate in the SIP.

Advice received by the Committee

The Committee has access to advice when it considers it appropriate. In the current year the Committee received benchmarking data and recommendations from Deloitte LLP.

This Remuneration Report was approved by a duly authorised Committee of the Board of Directors on 16 November 2020 and signed on its behalf by:

Dr Ian Gilham
Chairman of the Remuneration Committee
16 November 2020

Directors' Report

The Directors present their Annual Report for genedrive plc ('the Company') and its subsidiaries (together 'Genedrive' or 'the Group') for the year ended 30 June 2020. Genedrive plc is the holding company for a group of companies operating in the disease diagnostics markets. A review of the performance of the Group's businesses is contained on pages 1 to 21 and forms part of this report.

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year.

The Directors are required by the AIM Rules of the London Stock Exchange to prepare Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected under company law to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

The Group financial statements are required by law and IFRS adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 Group and Company and of the profit or loss of the Group and 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 IFRSs as adopted by the European Union have been followed for the Group and Company financial statements, 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 Group and Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Genedrive Plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Principal activities and business review

Genedrive plc is the holding company for a Group operating in the design, development and manufacture of molecular diagnostics testing equipment for applications in the Healthcare and other markets. A review of the performance and future development of the Group's business is contained on pages 1 to 21 and forms part of this report.

Results

The trading results for the year and the Group's financial position at the end of the financial year are shown in the financial statements on pages 42 to 45 of this report. The Directors do not recommend paying a dividend.

Going concern

The Directors have concluded that it is necessary to draw attention to the revenue and cost forecasts in the business plans. In order for the Company to continue as a going concern, there is a requirement to achieve a certain level of sales. If an adequate sales level cannot be achieved to support the Group and Company, the Directors have the options to reduce ongoing spend and seek additional funds from shareholders or debt providers. While the Board is confident that it will achieve the required revenue, and has a successful track record in both reducing costs and raising funds, there remains uncertainty as to the level of sales that will be achieved in the forthcoming months, especially in light of on-going regulatory delays on the Genedrive® 96 SARS CoV-2 test, in addition to uncertainty around the amount of cost reduction that may be required and the amount of funding that could be raised from shareholders or debt providers. This combination of factors represents a material uncertainty that may cast significant doubt on the Group and Company's ability to continue as a going concern. However, based on the relative likelihood of achieving versus not achieving, the Board believe it is appropriate to continue to adopt the going concern basis of accounting in preparing these financial statements. These financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Annual General Meeting

The Annual General Meeting will be held on 30 December 2020 and in light of social distancing measures as a response to the Coronavirus (COVID-19) pandemic, and as permitted by The Corporate Insolvency and Governance Act 2020 this year's AGM will be run as a closed meeting and shareholders will not be permitted to attend. Details of the business to be considered at the Annual General Meeting, how shareholders may submit questions into the Meeting and the Notice of Meeting are included in a separate document.

Share capital

Details of the issued share capital, together with details of movements in the Company's issued share capital during the year, are shown in note 24 to the Company's financial statements on page 70. The Company has one class of ordinary share which carries the right to one vote at General Meetings of the Company. The nature of the Directors' holdings is disclosed on page 35. No person has any special rights of control over the Company's share capital and all issued shares are fully paid. Subject to the provisions of the Company's Articles of Association and the Companies Act 2006, at a General Meeting of the Company the Directors may request authority to allot shares and the power to disapply pre-emption rights and the authority for the Company to purchase its own ordinary shares in the market. The Board requests such authority at each Annual General Meeting. Details of the authorities to be sought are set out in the Notice of Annual General Meeting.

Share options

Details of the Company's share capital and options over the Company's shares under the Company's employee share plans are given in notes 20 and 24

Significant agreements

All of the Company's share plans contain provisions relating to a change of control. On a change of control, outstanding awards would normally vest and become exercisable, subject to the satisfaction of any performance criteria. There are no agreements between the Company and its Directors or employees that provide for compensation for loss of office on a change of control.

In the year to June 2019 the Company issued a convertible bond to the Business Growth Fund in December 2018. Under the terms of this arrangement the bond holder has various options to convert its bond into shares over the term of the bond as detailed in note 19 on pages 62 and 63.

On 10 December 2018 the Company amended the terms of the sale and purchase agreement related to the acquisition of Visible Genomics Limited in July 2010. As part of the amendment 500,000 shares will be issued to the former owner of Visible Genomics on 10 December 2021.

Board of Directors

The names of the present Directors and their biographical details are shown on pages 24 and 25. At the Annual General Meeting, to be held on 30 December 2020, all the Directors will offer themselves for re-election.

Significant shareholdings

In addition to the Directors' holdings, the Company has been advised of the following interests of over 5% of the issued ordinary shares at 30 June 2020:

	Holding
Global Health Investment Fund I LLC	13.66%
Calculus Capital	10.4%
BGF Investment Mgt Ltd	6.4%

Research and development

During the year ended 30 June 20120 the Group has incurred research and development costs of £4.7m (2019: £4.9m). Expenditure on Intangible Assets (relating to research and development activities) was £nil (2019: £nil) as detailed in Note 11 to the Financial Statements. A review of this expenditure is included within the Strategic Report on pages 1 to 21.

Strategic Report

The information required by schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 has been included in the separate Strategic Report in accordance with section 414C (11) of the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

Financial risk management

The Company's approach to managing financial risk is covered in note 21 to the financial statements.

Provision of information to auditors

The Directors who were members of the Board at the time of approving the Directors' Report are listed on pages 24 and 25. Having made enquiries of fellow Directors and of the Group's auditors, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information (that is, information needed by the Group's auditors in connection with preparing their report) of which the Group's auditors are unaware; and
- each Director has taken all the steps that a Director might reasonably be expected to be taken to be aware of relevant audit information and to establish that the Group's auditors are aware of that information.

Independent auditors

The independent auditors, RSM UK Audit LLP, have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the 2020 Annual General Meeting.

By order of the Board

Matthew Fowler
Company Secretary
16 November 2020

Independent Auditor's Report to the members of genedrive plc

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Genedrive plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 June 2020 which comprise consolidated statement of comprehensive income, consolidated and company statements of financial position, consolidated and company statements of changes in equity, consolidated and company statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2020 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent 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 as applied to SME listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty relating to going concern

We draw attention to note 1 on going concern in the financial statements concerning the group and parent company's ability to continue as a going concern. The going concern status of the group and parent company is dependent upon the achievement of a certain level of sales. If an adequate sales level cannot be achieved to support the group and company, the Directors have the options to reduce ongoing spend and seek additional funding from shareholders or debt providers. As stated in note 1 on going concern, these events or conditions, indicate that a material uncertainty exists which may cast significant doubt on the group and parent company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Summary of our audit approach

Key audit matters	**Group** • Valuation of convertible debt • Going concern
Materiality	**Group** • Overall materiality: £328,000 (2019: £247,850) • Performance materiality: £246,000 **Parent Company** • Overall materiality: £114,000 (2019: £84,380) • Performance materiality: £86,000
Scope	Our audit procedures covered 100% of revenue, 100% of total assets and 100% of loss before tax; as we audited all companies within the group.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the group and parent company financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the group and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material uncertainty related to going concern section we have determined the matters described below to be the key audit matters to be communicated in our report.

Valuation of convertible debt

Key audit matter description	*(Refer to page 50 regarding the accounting policy in respect of financial instruments, including convertible bond, and note 19 in respect of the accounting treatment of the convertible bond).* The group issued convertible debt instruments in 2014, which were subsequently amended in 2016 and 2018, and a convertible loan note issued in 2018. The group's accounting policies require the derivative components to be recorded at fair value. The treatment of such instruments is complex, and the measurement requires use of judgement. In June 2020 the holder of convertible bonds with a value of $8 million notified Genedrive that it intended to exercise its right to convert all of its bonds for the maximum number of shares under the terms of the instrument. Management engaged external valuations experts to assist with the valuations performed at the date of the agreements, the date of conversion and at the year end date.
How the matter was addressed in the audit	We read the agreements relating to the conversion of the GHIF convertible debt instrument and assessed management's proposed accounting treatment and found it to be appropriate. We used valuation specialists to review and challenge the valuations of the loan note instruments performed by management's expert. The specialists reviewed the valuation techniques and confirmed that they were appropriate. We assessed the inputs used in the measurement of derivatives by: • Comparing share price volatility assumptions to movements in the company's own share price and those of peer companies. • Comparing the risk free rate used to UK Government bond yields for appropriate maturities. • Comparing the number of shares that were expected to be issued upon conversion to the number of shares that were actually issued. We have reviewed the disclosures in the financial statements and consider them to be sufficient and appropriate.

Independent Auditor's Report to the members of genedrive plc

Report on the audit of the financial statements continued

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. Based on our professional judgement, we determined materiality as follows:

	Group	Parent Company
Overall materiality	£328,000 (2019: £247,850) Overall materiality for the group changed from £307,000 to £328,000 during the course of the audit as the initial measure was based on forecast results.	£114,000 (2019: £84,380) Overall materiality for the group changed from £69,100 to £114,000 during the course of the audit as the initial measure was based on forecast results.
Basis for determining overall materiality	5% of loss before tax adjusted for exceptional items such as gains or losses on revaluation of convertible bonds.	1% of net liabilities.
Rationale for benchmark applied	We believe that loss before tax, adjusted for exceptional items and gains or losses on revaluation of the convertible bond, is an important measure of performance and is consistent with the expectations of the users of the financial statements of an AIM listed entity.	We believe that net liabilities is an important measure in assessing the performance of the parent company.
Performance materiality	£246,000 Performance materiality for the parent company changed from £230,250 to £246,000 during the course of the audit, as a result of adjustments made.	£86,000 Performance materiality for the parent company changed from £51,825 to £86,000 during the course of the audit, as a result of adjustments made.
Basis for determining performance materiality	75% of overall materiality	75% of overall materiality
Reporting of misstatements to the Audit Committee	Misstatements in excess of £16,400 (2019: £12,393) and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £6,000 (2019: £4,219) and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

The group consists of 3 components, all of which are based in the UK. Full scope audit procedures were performed for all entities. The coverage achieved by our full scope audit procedures was 100% of revenue, 100% of loss before tax and 100% of net assets. No work was undertaken by component auditors.

Other information

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

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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 36, 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 group's and the parent 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 group or the parent 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.

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Graham Bond FCA (Senior Statutory Auditor)
for and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
20 Chapel St
Liverpool
L3 9AG
16 November 2020

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2020

	Note	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'000
Continuing operations			
Revenue	2	**1,059**	2,362
Research and development costs	4	**(4,673)**	(4,877)
Administrative costs	4	**(2,026)**	(1,934)
Trading loss		**(5,640)**	(4,449)
Exceptional items	5	**–**	439
Operating loss	4	**(5,640)**	(4,010)
Finance costs	8	**(14,744)**	(508)
Loss on ordinary activities before taxation		**(20,384)**	(4,518)
Taxation on ordinary activities	9	**965**	882
Loss for the financial year		**(19,419)**	(3,636)
Loss/total comprehensive expense for the financial year		**(19,419)**	(3,636)
Loss per share (pence)			
– Basic and diluted	11	**(55p)**	(14p)

Consolidated Balance Sheet

as at 30 June 2020

	Note	30 June 2020 £'000	30 June 2019 £'000
Assets			
Non-current assets			
Plant and equipment	12	**147**	164
Contingent consideration receivable	13	**47**	153
		194	317
Current assets			
Inventories	14	**413**	123
Trade and other receivables	15	**398**	556
Contingent consideration receivable	13	**212**	106
Current tax asset		**1,018**	971
Cash and cash equivalents	16	**8,218**	5,184
		10,259	6,940
Liabilities			
Current liabilities			
Deferred revenue	17	**(67)**	(88)
Trade and other payables	18	**(2,129)**	(1,129)
		(2,196)	(1,217)
Net current assets		**8,063**	5,723
Total assets less current liabilities		**8,257**	6,040
Convertible bonds	19	**(11,599)**	(8,518)
Net liability		**(3,342)**	(2,478)
Capital and reserves			
Share capital			
Called-up equity share capital	24	**780**	510
Other reserves		**42,620**	28,112
Accumulated losses		**(46,742)**	(31,100)
Total deficit		**(3,342)**	(2,478)

The financial statements were approved by the Board of Directors and authorised for issue on 16 November 2020. They were signed on its behalf by:

David Budd
Chief Executive Officer

Matthew Fowler
Chief Financial Officer

Company number: 06108621

Consolidated Statement of Changes in Equity

for the year ended 30 June 2020

	Share capital £'000	Other reserves £'000	Accumulated losses £'000	Total equity £'000
Balance at 30 June 2018	282	24,745	(27,464)	(2,437)
Share issue	228	3,015	–	3,243
Deferred consideration equity component	–	315	–	315
Equity-settled share-based payments	–	49	–	49
FX on translation of overseas assets	–	(12)	–	(12)
Transactions settled directly in equity	228	3,367	–	3,595
Total comprehensive loss for the year	–	–	(3,636)	(3,636)
Balance at 30 June 2019	510	28,112	(31,100)	(2,478)
Share issue – deferred consideration	13	(13)	–	–
Share issue	150	7,383	–	7,533
Share issue – conversion of GHIF bond (note 19)	107	7,092	3,777	10,976
Equity-settled share-based payments	–	46	–	46
Transactions settled directly in equity	270	14,508	3,777	18,555
Total comprehensive loss for the year	–	–	(19,419)	(19,419)
Balance at 30 June 2020	**780**	**42,620**	**(46,742)**	**(3,342)**

Consolidated Cash Flow Statement

for the year ended 30 June 2020

	Note	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'000
Cash flows from operating activities			
Operating loss for the year		**(5,640)**	(4,010)
Depreciation, amortisation and impairment		**57**	98
Exceptional items (all non-cash)		**–**	(439)
ATL Research credits		**(53)**	(89)
Share-based payment		**32**	49
Operating loss before changes in working capital and provision		**(5,604)**	(4,391)
Increase in inventories		**(290)**	(12)
Decrease in trade and other receivables		**158**	60
Decrease in deferred revenue		**(21)**	88
Increase/(Decrease) in trade and other payables		**1,000**	(346)
Net cash outflow from operations		**(4,757)**	(4,601)
Tax received		**971**	980
Net cash outflow from operating activities		**(3,786)**	(3,621)
Cash flows from investing activities			
Finance income		**13**	18
Finance costs		**(15)**	–
Acquisition of plant and equipment and intangible assets, net of loss on disposals		**(40)**	(97)
Proceeds from disposal of discontinued operations		**–**	56
Net cash outflow from investing activities		**(42)**	(23)
Cash flows from financing activities			
Proceeds from share issue		**7,546**	3,243
Proceeds from bond issue		**–**	2,366
Cash paid to settle convertible bonds		**(685)**	–
Cash paid to settle deferred consideration		**–**	(300)
Net inflow from financing activities		**6,861**	5,309
Net increase in cash equivalents		**3,033**	1,665
Effects of exchange rate changes on cash and cash equivalents		**1**	(10)
Cash and cash equivalents at beginning of year		**5,184**	3,529
Cash and cash equivalents at end of year		**8,218**	5,184
Analysis of net funds			
Cash at bank and in hand	16	**8,218**	5,184
Net funds		**8,218**	5,184

Notes to the Consolidated Financial Statements

for the year ended 30 June 2020

General information

genedrive plc ('the Company') is a company incorporated and domiciled in the UK. The registered head office is The CTF Building, Grafton Street, Manchester M13 9XX, United Kingdom.

genedrive plc and its subsidiaries (together, 'the Group') is a molecular diagnostics business developing and commercialising a low-cost, rapid, versatile, simple-to-use and robust point-of-need or point-of-care diagnostics platform for the diagnosis of infectious diseases and for use in patient stratification (genotyping), pathogen detection and other indications.

genedrive plc is a public limited company, whose shares are listed on the London Stock Exchange Alternative Investment Market.

1. Significant accounting policies

This note provides a list of the principal accounting policies adopted in the preparation of these consolidated financial statements to the extent that they have not already been disclosed in the other notes below. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods represented in these consolidated financial statements.

Basis of accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation, IFRS Interpretations Committee ('IFRSIC') and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared on a historical cost basis as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The consolidated financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group'). They are presented in pounds sterling and all values are rounded to the nearest one thousand (£k) except where otherwise indicated.

The Group funds its day-to-day working capital requirements through its bank resources.

Going concern

The Directors have concluded that it is necessary to draw attention to the revenue and cost forecasts in the business plans. In order for the Company to continue as a going concern, there is a requirement to achieve a certain level of sales. If an adequate sales level cannot be achieved to support the Group and Company, the Directors have the options to reduce ongoing spend and seek additional funds from shareholders or debt providers. While the Board is confident that it will achieve the required revenue, and has a successful track record in both reducing costs and raising funds, there remains uncertainty as to the level of sales that will be achieved in the forthcoming months, especially in light of on-going regulatory delays on the Genedrive® 96 SARS CoV-2 test, in addition to uncertainty around the amount of cost reduction that may be required and the amount of funding that could be raised from shareholders or debt providers. This combination of factors represents a material uncertainty that may cast significant doubt on the Group and Company's ability to continue as a going concern. However, based on the relative likelihood of achieving versus not achieving, the Board believe it is appropriate to continue to adopt the going concern basis of accounting in preparing these financial statements. These financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Inter-company transactions, balances and unrealised gains on transaction between Group companies are eliminated. Unrealised losses are also eliminated. Where necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Revenue

Revenue is measured at the fair value of the consideration received or receivable and net of discounts and sales-related taxes.

Revenue recognition

a. Product sales

Sales of goods are recognised when all the performance obligations have been completed and when the Group entity has no continuing managerial involvement nor effective control over the goods. The transfer of control of goods can pass at various points depending on the shipping terms of the contract with the customer, they can be at collection from a premises or delivery to the relevant port or customer designated premises. Where items are sold with a right of return, accumulated experience is used to estimate and provide for such returns at the time of sale.

b. Collaboration and licensing revenue

Contractually agreed upfront payments and similar non-refundable payments in respect of collaboration or licence agreements which are not directly related to ongoing research activity are recorded as deferred income and recognised as revenue over the anticipated duration of the agreement. Where the anticipated duration of the agreement is modified, the period over which revenue is recognised is also modified.

Non-refundable milestone and other payments that are linked to the achievement of significant and substantive technological or regulatory hurdles in the research and development process are recognised as revenue upon the achievement of the specified milestones.

Income which is related to ongoing research activity is recognised as the research activity is undertaken, in accordance with the contract. Activity is measured based on progress and milestones and not cost.

c. Other income – development grant funding

Income receivable in the form of Government grants to fund product development is recognised as development grant funding over the periods in which the Group recognises, as expenses, the related eligible costs which the grants are intended to compensate and when there is reasonable assurance that the Group will comply with the conditions attaching to them and that the income will be received. Government grants whose primary condition is that the Group should purchase or otherwise acquire non-current assets are recognised as deferred revenue in the Consolidated Balance Sheet and transferred to the Consolidated Statement of Comprehensive Income on a systematic and rational basis over the useful lives of the related assets.

Segment reporting

A segment is a group of assets, liabilities and operations engaged in providing products or services that are subject to risks and returns that are different from those of other parts of the business. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

Research and development

Research expenditure is written off as it is incurred. Development expenditure is written off as it is incurred up to the point of technical and commercial validation. Thereafter, costs that are measurable and attributable to the project are carried forward as intangible assets, subject to having met the following criteria:

- demonstration that the product will generate profitable future economic benefit and of an intention and ability to sell the product;
- assessment of technical feasibility;
- confirmation of the availability of technical, financial and other resources to complete the development;
- management intends to complete the development so the product will be available for use; and
- the expenditure attributable to the development can be reliably measured.

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2020

1. Significant accounting policies continued

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated so as to write off the cost of an intangible asset, less its estimated residual value, over the useful economic life of that asset, as follows:

- Acquired intellectual property – the shorter of 5% straight-line basis or their estimated useful life
- Developed intellectual property – the shorter of 10% straight-line basis or their estimated useful life
- Patents – over the shorter of 17 years or their estimated useful lives on a straight-line basis

No amortisation is charged on those assets which are not yet available for use.

Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

- Lab equipment – 25% reducing balance basis
- Fixtures and fittings – straight-line over 48 months
- Other equipment – straight-line over 48 months

Operating lease agreements

On transition to IFRS 16, the Group did not recognise a right-of-use asset and a lease liability and took the practical expedient to exclude short term leases.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Further detail on the accounting for leases can be found in 'Adoption of new and revised standards', IFRS 16 Leases, see page 51.

Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in sterling which is the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying net investment hedges. Non-monetary items carried at fair value and denominated in foreign currencies are retranslated at the rates prevailing on the date when fair value is determined. The foreign currency risks relating to assets and liabilities are detailed in note 21.

Share-based payments
The Group issues equity-settled share-based payments to certain employees (including Directors). The fair value of the employee services received in exchange for the grant of the options is calculated using appropriate valuation models and is recognised as an expense over the vesting period.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. Fair value is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, experience and behavioural considerations.

At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable.

It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity, over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

The issuance by the Company of share options to employees of its subsidiary represents additional capital contributions and the fair value of such options and awards is therefore recognised as an increase in the Company's investment in Group undertakings with a corresponding increase in total equity shareholders' funds.

Share Incentive Plan ('SIP')
The Company operates a SIP scheme and both issues new shares to settle the liability and offers the cash equivalent to employees. The liability to settle the shares accrued under the SIP scheme is thus treated as a cash-settled liability on the balance sheet with the cost of the liability being expensed to the income statement. The balance sheet liability is adjusted periodically to reflect the change in the share price over the life of the scheme with the movement taken to the income statement. Any shares bought in anticipation of settling the SIP scheme are held as a debit in reserves. Where a leaver requests to take shares instead of cash, as permitted under the SIP scheme, the historic cost of shares acquired is moved from reserves to the balance sheet liability.

Pension contributions
Contributions to personal pension plans of employees on a defined contributions basis are charged to the income statement in the period in which they are payable.

Exceptional items
Items which are both material, either qualitatively or quantitatively, and infrequent in nature, are presented as exceptional items so as to provide a better indication of the Company's underlying business performance and are shown separately on the face of the income statement. Items classed as exceptional in the income statement are treated as exceptional in the cash flow until the items are fully unwound.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is calculated on a first-in and first-out basis and includes bought-in cost and, where appropriate, other direct costs. Net realisable value represents the estimated selling price less applicable selling costs. Where applicable, provision is made for slow-moving and obsolete inventory.

Trade and other receivables
Trade and other debtors are recognised and carried forward at invoiced amounts less provisions for any expected credit losses. Expected credit losses are estimated using reasonable and supportable information that is available at the reporting date and the provisions are reviewed until debts are collected.

Cash and cash equivalents
Cash and cash equivalents are included in the balance sheet at cost. Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2020

1. Significant accounting policies continued

Interest-bearing loans and borrowings

All loans and borrowings are recognised initially at cost, which is the fair value of the consideration received, net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method. Gains or losses are recognised in the Consolidated Income Statement when liabilities are derecognised or impaired, as well as through the amortisation process.

Investments

Investments in subsidiaries are stated at cost less any provisions for impairment. An impairment is recognised when the recoverable amount of the investment is less than the carrying amount.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date.

Taxation credits which fall under the category of Above the Line Research & Development credits ("ATL Research credit") as detailed in the Finance Act 2013 are offset against the expenditure to which they relate and, in the Statement of Profit and loss, are disclosed within Administration and development costs, as appropriate.

Deferred tax is recognised in respect of all temporary differences identified at the balance sheet date, except to the extent that the deferred tax arises from the initial recognition of goodwill (if amortisation of goodwill is not deductible for tax purposes) or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit and loss. Temporary differences are differences between the carrying amount of the Group's assets and liabilities and their tax base.

Deferred tax liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where an entity has a legally enforceable right to offset and either intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax is provided on temporary differences arising in subsidiaries, jointly controlled entities and associates, except where the timing of reversal of the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the asset is realised or liability settled, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Measurement of deferred tax liabilities and assets reflects the tax consequence expected to fall from the manner in which the asset or liability is recovered or settled.

Financial instruments (including convertible bonds)

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

As disclosed in note 19, the Company has in issue a convertible bond which is a compound instrument comprising a liability component, or debt host, and an equity derivative component.

On initial recognition, convertible bonds are recorded at fair value net of issue costs. The initial fair value of the debt host is determined using the market interest rate applied by a market participant for an equivalent non-convertible debt instrument. Subsequent to initial recognition, the debt host is recorded using the effective interest method until extinguished on conversion or maturity of the bonds. The amortisation of the debt host and the interest payable in each accounting period is expensed as a finance cost.

Equity derivatives embedded in the convertible instruments which are required to be recorded as financial liabilities are initially recognised at fair value. At each reporting date, the fair values of the derivative are reassessed by management. Where there is no market for such derivatives, the Company uses option pricing models to measure the fair value.

The amortisation of the debt host, interest payable in the period and gains or losses on the fair value of the derivative are disclosed with finance income and costs detailed in note 8.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Parent Company assets

The assets of the Parent Company are subject to impairment review in each financial period.

Adoption of new standards and revised standards

IFRS 16 is effective for annual periods beginning 1 January 2019 and replaced IAS 17 Leases. It introduced changes to lessee accounting by removing the distinction between operating and finance leases, requiring the recognition of a right-of-use asset and a lease liability at the commencement of all leases. Leases previously classified as operating leases with lease payments recorded in the Consolidated Income Statement will now be included in the Consolidated Balance Sheet.

IFRS 16 application had no impact on the reporting date because there was no material unexpired period left under the leases as the leases for the Group's property expired in April 2020. IFRS 16 is expected to have a larger impact on the interim accounts to be prepared to 31 December 2020, however owing to the short term nature of property leases the Group enters into, the impacts will not be material.

The Group has not early adopted any Standards in the current or prior year.

The following new standards have been adopted in the year:

- IFRS 9 Prepayment Features with Negative Compensation
- IAS 28 Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs
- IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement
- IFRIC 23 Uncertainty over Income Tax Treatments

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2020

1. Significant accounting policies continued

Adoption of new standards and revised standards continued

The above interpretations and revised Standards have not had any material impact on the amounts reported in these financial statements or the disclosures required. At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 17 Insurance Contracts
- IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets Between an Investor and its Associates or Joint Venture
- Amendments to IFRS 3 Definition of a Business
- Amendments to IAS 11 and IAS 8 Definition of a Material
- Conceptual Framework Amendments to References to the Conceptual Framework in IFRS Standards

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

Critical accounting estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed below:

- R&D tax credit of £1.0m (2019: £1.0m). Determining what components of expenditure fit the definitions of the R&D tax credit regime requires an estimation and interpretation of tax rules on research and development costs. There have been no changes to historic assumptions in the year and there is no expectation of a change in the level of uncertainty within the next financial year. If the qualifying costs used to calculated the R&D tax credits are 10% higher/lower than estimated then the value of the tax debtors in the balance sheet would increase/(decrease) by £100k.
- Convertible bond of £11.6m (2019: £8.5m). Determining the market value of the debt component of the convertible bond requires the Board to make a judgement about the market rate of interest to apply to an instrument of this nature. The single biggest variable is the discount rate used to present value of the loan items. The Company assessed the variable and determined that 10% was an appropriate discount rate. Sensitivity analysis performed on the discount rate shows that if the rate was 2.5% higher or lower than 10% used the loan element of the bond would decrease/increase by £241k and £213k. In addition the valuation of the derivative element of the bond liability is sensitive to the share price at the balance sheet date. If the share price had been 5p higher/ lower at the balance sheet date, the impact would been to increase/decrease the value of the derivative liability by £560k.
- Deferred consideration of £0.3m (2019: £0.3m). The consideration for the disposal of the Services business included deferred consideration based on the R&D tax credits claimed by the business in the three years post disposal. The deferred consideration is carried at the discounted fair value of the expected R&D tax credits. The estimated value of the R&D tax credits was originally based on the value claimed in the period ending December 2018 and has subsequently been updated to reflect actual claims made by the purchaser.

Actual results may differ from these estimates. 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 and in any future periods affected.

The separate financial statements of genedrive plc are presented on pages 72 to 74.

2. Operating Segments

For internal reporting and decision-making, the Group is organised into one segment, Diagnostics. Diagnostics is commercialising the Genedrive® point-of need molecular testing platform. In future periods, and as revenue grows, the Group may review management account information by type of assay and thus split out Diagnostics into segments – however for now the single segment is appropriate.

The chief operating decision-maker primarily relies on turnover and operating profit to assess the performance of the Group and make decisions about resources to be allocated to each segment. Geographical factors are reviewed by the chief operating decision-maker, but as substantially all operating activities are undertaken from the UK, geography is not a significant factor for the Group. Accordingly, only sales have been analysed into geographical statements.

The results of the operating division of the Group are detailed below.

Business segments	Diagnostics segment £'000	Administrative costs £'000	Total £'000
Year ended 30 June 2020			
Revenue	1,059	–	1,059
Segment EBITDA	(3,584)	(1,999)	(5,583)
Less depreciation and amortisation	(30)	(27)	(57)
Operating loss	**(3,614)**	**(2,026)**	**(5,640)**
Net finance costs			(14,744)
Loss on ordinary activities before tax			**(20,384)**
Taxation			965
Loss for the financial year			**(19,419)**
Total comprehensive expense for the year			**(19,419)**

Business segments	Diagnostics segment £'000	Administrative costs £'000	Total £'000
Year ended 30 June 2019			
Revenue	2,362	–	2,362
Segment EBITDA	(2,483)	(1,868)	(4,351)
Less depreciation and amortisation	(32)	(66)	(98)
Exceptional items	–	439	439
Operating loss	**(2,515)**	**(1,495)**	**(4,010)**
Net Finance costs			(508)
Loss on ordinary activities before tax			**(4,518)**
Taxation			882
Loss for the financial year			**(3,636)**
Total comprehensive expense for the year			**(3,636)**

	Diagnostics segment £'000	Administrative costs £'000	Total £'000
Year ended 30 June 2020			
Segment assets	**800**	**9,653**	**10,453**
Segment liabilities	**(1,323)**	**(12,472)**	**(13,795)**
Year ended 30 June 2019			
Segment assets	720	6,532	7,252
Segment liabilities	(598)	(9,132)	(9,730)

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2020

2. Operating Segments continued

Geographical segments

The Group's operations are located in the United Kingdom. The following table provides an analysis of the Group's revenue by customer location:

All on continuing operations	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'000
United Kingdom	**597**	1,439
Europe	**35**	16
United States of America	**420**	907
Rest of world	**7**	–
	1,059	2,362

Revenues from customers accounting for more than 10% of total revenue in the current or prior years are detailed below:

a. £420k of revenue was derived from the US Department of Defense (2019: £907k);
a. £280k of revenue was derived from Innovate UK (2019: £1,107k); and
b. £210k of revenue was derived from the UK National Institute for Health Research (2019: £300k).

3. Revenue

	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'000
Revenue from customer contracts	**502**	961
Grant and other income	**557**	1,401
	1,059	2,362

There were no sales with extended payment terms. Revenue from customers was all related to product sales.

Where customers pay consideration before the Group has transferred the goods or services to the customer the revenue is deferred and a contract liability created; see note 17. Where goods have been shipped but an invoice has not been raised, revenue is accrued, totalling £67k (2019: £88k).

4. Operating loss

The Group operating loss is stated after charging/(crediting):

	Note	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'000
Research and development expenditure		**4,673**	4,877
ATL Research credits	9	**(53)**	(89)
Gain on settlement of deferred consideration payable in shares		**–**	(635)
Impairment of deferred consideration receivable	5	**–**	196
Depreciation of owned tangible fixed assets	12	**57**	98
Staff costs	6	**2,893**	2,778
Tax computations and creation of R&D tax credit		**16**	16
Auditors' remuneration, fees payable for:			
– the audit of the Parent Company and consolidated accounts		**45**	81
– the audit of subsidiary accounts		**5**	10
– agreed upon procedures for the interim accounts		**4**	–
Operating lease costs – property rent		**300**	294

5. Exceptional items

	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'000
Exceptional gain on settlement of deferred consideration payable	**–**	635
Impairment of deferred consideration receivable	**–**	(196)
	–	439

During the year to June 2019 the Company entered into a fifth Deed of Amendment in relation to the Visible Genomics Sale and Purchase Agreement. The fifth Deed of Amendment became effective on 10 December 2018 and varied the remaining £1,250,000 consideration payable. The difference between the total fair value of amended consideration payable and the £1,250,000 created a gain of £635,000 which was treated as exceptional.

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2020

6. Particulars of employees

The average number of staff employed by the Group during the financial year was:

	Year ended 30 June 2020 Number	Year ended 30 June 2019 Number
Research and development	**32**	31
Administration	**14**	13
	46	44

The aggregate employee costs (including Directors) were:

	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'000
Wages, salaries and other benefits	**2,522**	2,402
Social security costs	**283**	271
Pension cost-defined contribution plans	**56**	56
Equity-settled share-based payments	**32**	49
	2,893	2,778

7. Directors' remuneration (key management)

	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'000
Wages, salaries and other benefits	**879**	980
Social security costs	**109**	120
Equity-settled share-based payments	**28**	47
Pension cost-defined contribution plans	**21**	22
	1,037	1,169

For the current and prior year the key management of the Company is the senior management team of the Company and compromises Executive Board members plus four members of the senior staff.

Disclosure of individual Directors' remuneration, share interests, share options, long term incentive schemes, pension contributions and pension entitlements required by the Companies Act 2006 are shown in the tables in the Remuneration Committee report on pages 30 to 35 and form part of these financial statements.

8. Finance income/(costs)

Group	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'000
Interest income on bank deposits	**13**	18
Gain on amendment to convertible bonds	**–**	325
Movement in fair value of derivative embedded in convertible bonds	**(13,807)**	318
Finance cost on liabilities measured at amortised cost	**(808)**	(889)
Foreign exchange movement in convertible bonds	**(142)**	(280)
	(14,744)	(508)

9. Taxation on ordinary activities

(a) Recognised in the income statement

Current tax:	Total Year ended 30 June 2020 £'000	Total Year ended 30 June 2019 £'000
Research and development tax credits	**(1,018)**	(971)
Less: recognised as ATL Research credits	**53**	89
Total tax credit for the year	**(965)**	(882)

(b) Reconciliation of the total tax charge

The tax assessed on the loss on ordinary activities for the year is lower (2019: lower) that the weighted average applicable tax rate for the year ended 30 June 2020 of 19.0% (2019: 19.0%). The differences are explained below:

	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'000
Loss before taxation on continuing operations	**(20,384)**	(4,518)
Tax using UK corporation tax rate of 19.0% (2019:19.0%)	**(3,873)**	(858)
Adjustment in respect of R&D tax credit recognised as Above The Line ('ATL')	**13**	4
Adjustment in respect of R&D tax credit claimed	**(415)**	(379)
Items not deductible for tax purposes – permanent	**2,807**	11
Items not deductible for tax purposes – temporary	**(6)**	–
Deferred tax not recognised	**777**	304
Rate differences	**(268)**	36
Total tax credit for the year	**(965)**	(882)

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2020

9. Taxation on ordinary activities continued

(b) Reconciliation of the total tax charge continued

No deferred tax assets are recognised at 30 June 2020 (2019: £nil). Having reviewed future profitability in the context of trading losses carried, it is not probable that there will be sufficient profits available to set against brought-forward losses.

The Group had trading losses, as computed for tax purposes, of approximately £16,151k (2019: £11,733k) available to carry forward to future periods; this excludes management expenses.

The Finance Bill 2020, which was subsequently enacted on 19 March 2020, includes provisions to keep the corporation tax rate at 19.0% and not reduce the rate to 17.0%.

In accordance with the provisions of the Finance Act 2000 in respect of research and development allowances, the Group is entitled to claim tax credits for certain research and development expenditure. These credits are disclosed partly as Above The Line research and development credits ('ATL Research credits') within research and development costs and partly as research and development tax credits within taxation on ordinary activities. The total amount included in the financial statements in respect of the year ended 30 June 2020 was £1,018k which included £53k disclosed as ATL Research credits deducted from research and development costs with the balance of £965k disclosed within taxation on ordinary activities as detailed above.

10. Loss attributable to members of the Parent Company

genedrive plc has not presented its own statement of comprehensive income as permitted by Section 408 of the Companies Act 2006. The loss dealt with in the accounts of genedrive plc was £21,538k (2019: loss of £5,131k).

11. Earnings per share

Group	2020 £'000	2019 £'000
Loss for the year after taxation	**(19,419)**	(3,636)

Group	2020 Number	2019 Number
Weighted average number of ordinary shares in issue	**35,556,905**	26,037,433
Potentially dilutive ordinary shares	**–**	–
Adjusted weighted average number of ordinary shares in issue	**35,556,905**	26,037,433
Loss per share on continuing operations		
– Basic	**(55)p**	(14)p
– Diluted	**(55)p**	(14)p

The basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders for the year by the weighted average number of ordinary shares in issue during the year.

As the Company is loss-making, no potentially dilutive options have been added into the EPS calculation. Had the Company made a profit in the period:

Group	Number
Potentially dilutive shares on the convertible bond, net of interest charge*	**11,196,703**
Potentially dilutive shares on deferred consideration	**500,000**
Potentially dilutive shares from share options	**4,125,562**
Potentially dilutive shares within the SIP	**198,050**
Potentially dilutive ordinary shares	**16,020,315**

* 4,478,681 of these shares were issued on 30 September 2020, see note 19.

12. Plant and equipment

Group	Lab equipment £'000	Fixtures and fittings £'000	Other equipment £'000	Total £'000
Cost				
At 1 July 2019	298	114	232	644
Additions	34	–	9	43
Disposals	–	–	(14)	(14)
At 30 June 2020	**332**	**114**	**227**	**673**
Accumulated depreciation				
At 1 July 2019	182	108	190	480
Charge for the year	30	6	21	57
Depreciation on disposed assets	–	–	(11)	(11)
At 30 June 2020	**212**	**114**	**200**	**526**
Net book value				
At 30 June 2019	116	6	42	164
At 30 June 2020	**120**	**–**	**27**	**147**

13. Contingent consideration receivable

	Greater than 12 months £'000	Less than 12 months £'000	Total £'000
Balance at 30 June 2018	340	172	512
Received in the period	–	(57)	(57)
Impairment of	(187)	(9)	(196)
Balance at 30 June 2019	153	106	259
Balance at 30 June 2020	**47**	**212**	**259**

Under the terms of sale and purchase agreement for the disposal of the Services business, a total of £512k of future contingent consideration was held on the balance sheet at June 2018. In June 2019 £57k was received for the first six months of trading of the new entity. The amount received in 2019 was lower than the amount expected and so an impairment charge of £196k was posted to value the deferred consideration at the new fair value.

The amount provided on the balance sheet of £259k represents 30 months' trading. The amount owing for the period to June 2020 was overdue at the balance sheet date and so there is effectively 24 months of consideration within the balance of £212k. A payment of £137k was received in August 2020.

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2020

14. Inventories

Group	2020 £'000	2019 £'000
Raw materials	**188**	123
Finished goods	**225**	–
	413	123

The inventory valuation at 30 June 2020 is stated net of a provision of £159k (2019: £60k) to write down inventories to their net realisable value. The net charge to the income statement in the year in respect of inventory net realisable value was £99k (2019: £60k).

15. Trade and other receivables

Group	2020 £'000	2019 £'000
Trade receivables	**204**	65
Less: provisions for expected credit loss	**–**	–
Trade receivables – net	**204**	65
Other receivables	**69**	307
Prepayments	**125**	184
	398	556

Analysis of trade receivables

	2020 £'000	2019 £'000
Neither impaired nor past due	**204**	65
Past due but not impaired	**–**	–
Trade receivables	**204**	65

At the year end, net trade receivables were aged as follows:

Group	2020 £'000	2019 £'000
Not overdue	**204**	65
Less than 1 month overdue	**–**	–
Later than 1 month but less than 3 months overdue	**–**	–
Later than 3 months overdue	**–**	–
Total	**204**	65

The movement in the impairment provision for expected credit loss is as follows:

Group	2020 £'000	2019 £'000
Opening provision	**–**	23
Written off in the year	**–**	(23)
Charge for the year	**–**	–
Closing provision at 30 June	**–**	–

Ageing of impaired receivables

Group	2020 £'000	2019 £'000
Greater than 3 months	–	–

There is no other class of financial assets that is past due but not impaired except for trade receivables. The Group's credit period generally ranges up to 60 days.

16. Cash and cash equivalents

Group	2020 £'000	2019 £'000
Cash at bank and in hand	**8,218**	5,184
	8,218	5,184

Cash and cash equivalents comprise current accounts held by the Group with immediate access and short term bank deposits with a maturity of three months or less. Market rates of interest are earned on such deposits. The credit risk on such funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

17. Deferred revenue

The items recorded as deferred revenue are to be recognised over future periods as follows:

Group	2020 £'000	2019 £'000
Amounts to be recognised within 1 year	**67**	88

The brought-forward value of £88,000 was fully recognised as income in the year to June 2020. The balance at the year end of £67,000 is fully expected to be recognised as income in the early part of the new financial year and will be revenue in the year to June 2021.

18. Trade and other payables

Group	2020 £'000	2019 £'000
Trade payables	**980**	402
Accruals	**865**	611
Other payables	**284**	116
	2,129	1,129

19. Convertible bonds

	GHIF host £'000	GHIF derivative £'000	BGF host £'000	BGF derivative £'000	Total host £'000	Total derivative £'000	Total £'000
Balance at 30 June 2018	5,621	4	–	–	5,621	4	5,625
Fair value impact of Deed of Amendment	(563)	238			(563)	238	(325)
Issue of loan note (BGF)	–	–	2,104	396	2,104	396	2,500
Prepaid arrangement fees (BGF)	–	–	(122)	–	(122)	–	(122)
Movement in fair value of embedded derivative	–	(99)	–	(219)	–	(318)	(318)
Finance cost of convertible bonds	710	–	168	–	878	–	878
Foreign exchange movement (GHIF)	280	–	–	–	280	–	280
Balance at 30 June 2019	6,048	143	2,150	177	8,198	320	8,518
Amortised arrangement fees (BGF)	–	–	36	–	36	–	36
Arrangement costs	–	–	(15)	–	(15)	–	(15)
Movement in fair value of embedded derivative	–	4,841	–	8,966	–	13,807	13,807
Finance cost of convertible bonds	487	–	285	–	772	–	772
Foreign exchange movement (GHIF)	142	–	–	–	142	–	142
Balance prior to settlement	6,677	4,984	2,456	9,143	9,133	14,127	23,260
Payment of cash at settlement date	(685)	–	–	–	(685)	–	(685)
Conversion to shares at settlement date	(5,992)	(4,984)	–	–	(5,992)	(4,984)	(10,976)
Balance at 30 June 2020	**–**	**–**	**2,456**	**9,143**	**2,456**	**9,143**	**11,599**

None of the fair value movements relate to changes in the entity credit risk.

Global Health Investment Fund 1 LLC ('GHIF')

On 21 July 2014, the Company entered into a Collaboration and Convertible Bond Purchase Agreement ('Agreement') with the Global Health Investment Fund 1 LLC ('GHIF'). The purpose of the Agreement was to fund the Company's development, production and commercialisation of Genedrive® to address Global Health Challenges and achieve Global Health Objectives. Further, as part of the Agreement, GHIF and the Company entered into a Global Access Commitment. Under the Global Access Commitment, the Company will undertake appropriate regulatory strategic steps and registrations to secure access for Genedrive® in developing countries in tuberculosis, malaria or other infectious diseases as agreed between the parties.

On 23 June 2016, the Company and GHIF entered into a Deed of Amendment and Restatement of the Agreement, which came into effect on 11 July 2016. The principal effects of the Deed of Amendment were to extend the maturity of the GHIF bond by two years to 21 July 2021, and to split the GHIF bond into two tranches: the first tranche of US$2.0m has a conversion price of £1.50 per ordinary share and the second tranche of US$6.0m has a conversion price remaining at £4.89 per ordinary share.

During the year to 30 June 2019, the Company entered into a second Deed of Amendment with the Global Health Investment Fund 1 LLC ('GHIF') that became effective on 10 December 2018. The principal effects of the Deed of Amendment were to alter the June 2016 Deed of Amendment and Restatement of the five-year US$8.0m and 5% coupon convertible bond with GHIF as follows:

- The maturity date of the GHIF bond was extended from December 2021 to December 2023
- The deferment of interest period was extended from January 2019 to January 2022
- The strike price of the first US$2.0m tranche was reduced from 150p to 28.75p
- The strike price of the second US$6.0m tranche was reduced from 489p to 150p

On 6 June 2020, GHIF exercised its rights to convert tranches 1 and 2 simultaneously. Under the terms of the conversion, GHIF was allotted and issued 7,100,000 new ordinary shares, which was the capped number of shares which can be issued under the convertible bond, and was also be paid approximately £685k in cash reflecting the balance of accrued interest owed, in full satisfaction of the obligations of the Company under the convertible bond.

As part of the conversion, GHIF has entered into a lock-in and orderly marketing agreement with Peel Hunt LLP, the Company's Nominated Adviser and Joint Broker. Under this arrangement 5,100,000 of the GHIF shares are subject to an orderly marketing agreement until 30 June 2021 and the remaining 2,000,000 GHIF shares will not be sold prior to 30 June 2021 (subject to various carve outs).

Business Growth Fund ('BGF')

The Company entered into an agreement with the Business Growth Fund ('BGF') that became effective on 10 December 2018. Under the terms of the agreement BGF and the Company entered into a convertible loan arrangement. The main terms of the convertible loan note are:

- £2.5m loan that matures on 30 June 2025
- Interest accrues on the loan at a rate of 7%, payable quarterly
- Interest can be deferred into the principal up until 31 December 2021 and then needs to be paid in full
- The loan converts at 28.75p which was 125% of the share price on 10 December
- Certain warranties have been granted by the Company and the Executive Directors to BGF and BGF consent is required on certain matters
- The loan came conditional with a £1m subscription to the December 2018 fundraising process
- The maximum number of shares to be issued to BGF on conversion of the Loan Notes, when aggregated with the ordinary shares held by BGF and persons acting in concert with BGF, is capped at 29.9% of the issued share capital of the Company

Accounting for the convertible bonds

GHIF

Whilst the bond holder has the option to convert into a fixed number of shares, due to the GHIF convertible bond being denominated in a different currency to the Company's functional currency, IFRS requires the convertible bond to be accounted for as a compound instrument, comprising a debt host (liability component) and a derivative (equity component). The debt host was required to be recorded initially at fair value and subsequently measured at amortised cost.

The derivative was measured at the settlement date using a Quanto Option Valuation model which takes account of the multicurrency aspects of the convertible bond. Changes in fair value are recorded in profit and loss. The variables used in running the model were volatility of the Company's share price of 40%, expected life of the derivative of 0.008 years, risk free interest rate of 0.098% and no dividend yield.

On conversion, the compound instrument has been derecognised. The consideration received for the issue of shares was measured by reference to the face value of the debt of £7,199,000, being the outstanding principal and accrued interest. The difference of £3,177,000 between the carrying amount of the instrument and the consideration received has been recognised directly in equity. No gain or loss has been recorded in the profit and loss account as a result of the conversion.

BGF

The convertible nature of the loan grants BGF an option to convert to equity but the instrument includes adjustments to the conversion price if additional equity is issued by the Company meaning that the number of shares that would be issued is not fixed. The bond also includes options relating to early redemption by the Company subject to it making an early redemption payment. These features represent embedded derivatives which are recognised separately from the debt host.

The debt host was initially recorded at fair value and is subsequently measured at amortised cost.

The derivative is measured at fair value and movements recorded in profit and loss. At 30 June 2020, the derivative has been valued using a Black-Scholes pricing model using the following inputs: volatility of the Company's share price of 40%, expected life of the derivative of 1.5 years, risk free interest rate of 0.098% and no dividend yield.

On 30 September 2020, BGF Investments LP exercised its right to convert £1,000,000 of its £2,500,000 Loan Note instrument into new ordinary shares of 1.5p each in the Company. Under the conversion BGF was allotted and issued 4,478,681 new ordinary shares and was paid approximately £134,000 in accrued interest owed on this tranche of the loan.

Notes to the Consolidated Financial Statements continued

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20. Share-based payments

(A) Share options outstanding at 30 June 2020

Prior to 28 November 2007, the Company operated a number of HMRC approved and unapproved share option schemes for employees (including Directors). The original options were granted by Epistem Ltd but, following its acquisition in 2007 by Epistem Holdings Plc, these were released in exchange for equivalent options over the ordinary shares of Epistem Holdings Plc. On 28 November 2007, the Company established the 2007 Epistem Share Option Scheme. The 2007 Epistem Share Option Scheme was replaced by the 2017 Epistem Share Option Scheme that was adopted at the 2017 AGM.

Share options

Award	Number of awards	Exercise price	Period within which options are exercisable	Fair value per option	Fair value £
2007 Epistem Share Option Scheme	750	£4.03	10 Dec 2013 to 09 Dec 2020	£1.64p	1,230
2007 Epistem Share Option Scheme	30,000	£3.60	10 May 2014 to 09 May 2021	£1.46p	43,800
2007 Epistem Share Option Scheme	750	£3.60	10 Feb 2015 to 09 Feb 2022	£1.46p	1,095
2007 Epistem Share Option Scheme	1,725	£5.50	28 Mar 2016 to 27 Mar 2023	£2.23p	3,847
2007 Epistem Share Option Scheme	21,400	£3.22	29 Jan 2017 to 28 Jan 2024	£1.21p	25,894
2007 Epistem Share Option Scheme	4,000	£3.25	12 Aug 2017 to 11 Aug 2024	£0.60p	2,400
2007 Epistem Share Option Scheme	20,000	£3.25	20 Sep 2017 to 19 Sep 2024	£0.60p	12,000
2014 Unapproved Share Options	100,000	£2.75	17 Dec 2017 to 16 Dec 2024	£0.52p	52,000
2007 Epistem Share Option Scheme	6,750	£1.20	11 Dec 2018 to 19 Sep 2025	£0.33p	2,228
2007 Epistem Share Option Scheme	244,444	£0.90	07 Apr 2019 to 06 Apr 2026	£0.29p	70,889
Epistem Unapproved Share Options	50,000	£2.78	07 Apr 2019 to 06 Apr 2026	£0.27p	13,500
2007 Epistem Share Option Scheme	20,000	£0.82	02 May 2019 to 01 May 2026	£0.27p	5,400
2007 Epistem Share Option Scheme	50,000	£0.90	01 Jun 2019 to 31 May 2026	£0.31p	15,500
2007 Epistem Share Option Scheme	20,000	£0.90	14 Jul 2019 to 13 Jul 2026	£0.12p	2,400
2007 Epistem Share Option Scheme	38,000	£0.80	01 Oct 2019 to 01 Oct 2026	£0.11p	4,180
2007 Epistem Share Option Scheme	9,000	£0.80	15 Oct 2019 to 14 Oct 2026	£0.08p	720
2007 Epistem Share Option Scheme	141,666	£0.60	22 Dec 2019 to 21 Oct 2026	£0.08p	11,333
2007 Epistem Share Option Scheme	70,589	£0.43	04 Apr 2020 to 03 Apr 2027	£0.06p	4,235
Epistem Unapproved Share Option	377,001	£0.43	04 Apr 2020 to 03 Apr 2027	£0.06p	22,620
2017 Epistem Share Option Scheme	59,750	£0.36	30 Nov 2020 to 30 Nov 2027	£0.04p	2,390
Epistem Unapproved Share Option	43,024	£0.36	30 Nov 2020 to 30 Nov 2027	£0.04p	1,721
2017 Epistem Share Option Scheme	88,063	£0.36	05 Dec 2020 to 05 Dec 2027	£0.04p	3,523
Epistem Unapproved Share Option	222,260	£0.31	20 Jul 2021 to 20 Jul 2028	£0.04p	8,135
2017 Epistem Share Option Scheme	264,046	£0.31	20 Jul 2021 to 20 Jul 2028	£0.04p	9,664
2017 Epistem Share Option Scheme	30,000	£0.33	20 Sep 2021 to 20 Sep 2028	£0.03p	732
2017 Epistem Share Option Scheme	20,000	£0.21	19 Dec 2021 to 19 Dec 2028	£0.03p	522
Epistem Unapproved Share Option	690,000	£0.24	05 Apr 2022 to 05 Apr 2029	£0.02p	13,8000
2017 Epistem Share Option Scheme	710,000	£0.24	05 Apr 2022 to 05 Apr 2029	£0.02p	14,200
2017 Epistem Share Option Scheme	10,000	£0.23	20 Apr 2022 to 20 Apr 2029	£0.02p	210
2017 Epistem Share Option Scheme	245,000	£0.21	10 Nov 2022 to 10 Nov 2029	£0.03p	7,350
Epistem Unapproved Share Option	1,226,982	£0.09	06 Apr 2023 to 10 Apr 2030	£0.01p	12,270
2017 Epistem Share Option Scheme	942,626	£0.09	06 Apr 2023 to 10 Apr 2030	£0.01p	9,426
	5,757,826				

Option valuations

The options were valued using the Black-Scholes option-pricing model. The fair value per option granted and the assumptions used in the calculations are in the table below. The Group's effective date for IFRS 2 ('Share Based Payments') implementation is 1 July 2006 and the IFRS has been applied to all options granted after 7 November 2002 which have not vested by this effective date.

Award	Grant date	Expected term (Note a)	Expected dividend yield % (Note b)	Expected volatility % (Note c)	Risk % rate (Note d)	Performance condition
2007 Epistem Share Option Scheme	10 Dec 2010	5 years	0	50	0.50	Note(e)
2007 Epistem Share Option Scheme	10 May 2011	5 years	0	50	0.50	Note(e)
2007 Epistem Share Option Scheme	10 Feb 2012	5 years	0	50	0.50	Note(e)
2007 Epistem Share Option Scheme	26 Mar 2013	5 years	0	50	0.50	Note(e)
2007 Epistem Share Option Scheme	29 Jan 2014	5 years	0	43	0.50	Note(e)
2007 Epistem Share Option Scheme	12 Aug 2014	5 years	0	43	0.50	Note(e)
2007 Epistem Share Option Scheme	20 Sep 2014	5 years	0	43	0.50	Note(e)
2014 Unapproved Share Options	17 Dec 2014	5 years	0	43	0.50	Note(e)
2007 Epistem Share Option Scheme	11 Dec 2015	5 years	0	30	0.50	Note(e)
2007 Epistem Share Option Scheme	07 Apr 2016	5 years	0	36	0.50	Note(e)
Epistem Unapproved Share Option Scheme	07 Apr 2016	5 years	0	36	0.50	Note(e)
2007 Epistem Share Option Scheme	02 May 2016	5 years	0	37	0.50	Note(e)
2007 Epistem Share Option Scheme	01 Jun 2016	5 years	0	39	0.50	Note(e)
2007 Epistem Share Option Scheme	14 Jul 2016	3 years	0	19	0.25	Note(e)
2007 Epistem Share Option Scheme	01 Oct 2016	3 years	0	19	0.25	Note(e)
2007 Epistem Share Option Scheme	15 Oct 2016	3 years	0	19	0.25	Note(e)
2007 Epistem Share Option Scheme	22 Dec 2016	3 years	0	12	0.25	Note(e)
2007 Epistem Share Option Scheme	04 Apr 2017	3 years	0	20	0.25	Note(e)
Epistem Unapproved Share Option Scheme	04 Apr 2017	3 years	0	20	0.25	Note(e)
2017 Epistem Share Option Scheme	30 Nov 2017	3 years	0	15	0.50	Note(e)
Epistem Unapproved Share Option	30 Nov 2017	3 years	0	15	0.50	Note(e)
2017 Epistem Share Option Scheme	05 Dec 2017	3 years	0	15	0.50	Note(e)
Epistem Unapproved Share Option	20 Jul 2018	3 years	0	16	0.75	Note(e)
2017 Epistem Share Option Scheme	20 Jul 2018	3 years	0	16	0.75	Note(e)
2017 Epistem Share Option Scheme	10 Sep 2018	3 years	0	16	0.75	Note(e)
2017 Epistem Share Option Scheme	19 Dec 2018	3 years	0	16	0.75	Note(e)
Epistem Unapproved Share Option	05 Apr 2019	3 years	0	16	0.75	Note(e)
2017 Epistem Share Option Scheme	05 Apr 2019	3 years	0	16	0.75	Note(e)
2017 Epistem Share Option Scheme	24 Apr 2019	3 years	0	16	0.75	Note(e)
2017 Epistem Share Option Scheme	10 Nov 2019	3 years	0	18	0.75	Note(e)
Epistem Unapproved Share Option	06 Apr 2020	3 years	0	18	0.75	Note(e)
2017 Epistem Share Option Scheme	06 Apr 2020	3 years	0	18	0.75	Note(e)

(a) The expected term used in the model is three to five years and is based upon the Directors' best estimates for the effects of exercise restrictions and behavioural considerations;

(b) The dividend yield of 0% reflects the absence of a history of paying dividends and a clear dividend policy at the relevant grant dates;

(c) Prior to 2011, the expected volatility was estimated by the Directors after inspection of the financial statements of comparable businesses in the same business sector as the Group. Thereafter, the expected volatility has been calculated by reference to the historic share price of the Company;

(d) The risk-free rate used is based upon the prevailing UK bank base rate at the date of the grant;

(e) These options may be exercised following the third anniversary of grant and are subject to performance criteria which are appropriate to the option holders' role within the Company and which are assessed by the Remuneration Committee.

Notes to the Consolidated Financial Statements continued
for the year ended 30 June 2020

20. Share-based payments continued
Option valuations continued
The number of options and their weighted average exercise prices are as follows:

	Number		Weighted average exercise price		Weighted average remaining contracted life – Years	
Group	2020	2019	2020	2019	2020	2019
Outstanding as at 1 July	**3,488,968**	1,942,252				
Granted during the year	**2,414,608**	2,038,806	**10p**	25p		
Exercised during the year	**(16,000)**	–	**91p**	–		
Forfeited during the year	**–**	–	**–**	–		
Lapsed during the year	**(129,750)**	(492,090)	**29p**	235p		
Outstanding as at 30 June	**5,757,826**	3,488,968	**37p**	132p	**8.5**	8.6
Options exercisable at 30 June	**1,206,075**	554,319	**48p**	55p	**5.9**	6.1

Options over 16,000 shares were exercised in the year ended 30 June 2020 (2019: nil). All 16,000 were exercised simultaneously in June 2020 when the share price was £1.53.

(B) Share Investment Plan
The Company operates a share investment plan ('SIP'), The Epistem Share Investment Plan, which is open to Directors and employees in accordance with Inland Revenue approved rules. Under the terms of the SIP, Directors and employees may invest up to £150 per month to be invested in ordinary shares ('Partnership Shares') in the Company at the prevailing market price. Participants may withdraw their Matching Shares once their associated Partnership Shares have been held for three years. At the same time as each monthly subscription, a maximum of two Matching Shares for each Partnership Share is accrued by the Company on behalf of the SIP's participants. The Matching shares vest after three years; if an employee leaves the Company, unvested shares lapse. The monthly cost of the Matching Shares is expensed to the income statement.

At 30 June 2020 the number of Partnership Shares earnt by employees was 69,899 (2019: 48,994). The total number of potential Matching Shares provided for employees at 30 June should all the employees meet the three-year vesting rule was 139,793 (2019: 97,993). Of the 139,793 shares 16,393 (2019: 15,957) have vested under the three-year service rule. The Company accrues for the value of shares that it expects to be purchased to satisfy the number of share earnt – this accrual at 30 June 2020, included within trade and other payables, was £190k (2019: £15k).

In order to satisfy the shares accumulated as both Partnership and Matching Shares, Epistem SIP Trustee Ltd, a wholly owned subsidiary of the Company, periodically purchases shares on behalf of the scheme's participants. At the balance sheet date, Epistem SIP Trustee Ltd owned 17,882 (2019: 18,864) shares in the Company. The historic cost of the purchased shares is recorded as a debit in reserves and the movement over the year period is recorded below.

Historic cost of shares acquired	2020 £'000	2019 £'000
Brought forward	**196**	196
Transferred out to participants	**–**	–
Outstanding at 30 June	**196**	196

21. Financial risk management objectives and policies

Historic cost of shares acquired	Classification	2020 £'000	2019 £'000
Financial assets			
Cash and cash equivalents	Amortised cost	**8,218**	5,184
Trade and other receivables	Amortised cost	**273**	372
Financial liabilities			
Trade and other payables	Amortised cost	**2,129**	1,129
Convertible bonds	Fair value	**11,599**	8,518

The convertible bond financial liabilities are categorised as Level 2 within the fair value hierarchy under IFRS 13. Further information is contained in note 19.

The Group holds or issues financial instruments in order to achieve two main objectives, being:
(a) to finance its operations;
(b) to manage its exposure to interest and currency risks arising from its operations and from its sources of finance.

In addition, various financial instruments (e.g. trade receivables, trade payables, accruals and prepayments) arise directly from the Group's and the Company's operations.

Transactions in financial instruments result in the Group assuming or transferring to another party one or more of the financial risks described below.

Interest rate risk

The Group currently finances its operations through reserves of cash and liquid resources. In addition to equity, the Group's capital structure includes a £2.5m Convertible Loan Note as detailed in note 19. The coupon on the Convertible Loan Note is 7%. Surplus cash at bank is placed on deposits at variable rates. The Board monitors the financial markets and the Group's own requirements to ensure that the policies are exercised in the Group's best interests.

The following table demonstrates the sensitivity to a possible change in interest rates on the Group's profit before tax through the impact of floating rate cash balances.

	Increase in the basis points	Before tax and equity £'000
2020		
Cash and cash equivalents	**25**	**10**
2019		
Cash and cash equivalents	25	10

A decrease in 25 basis points would have a similar opposite effect.

Capital management

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

The Group's objective in managing its capital is to ensure that the Group has adequate capital to fund its trading operations and ensure the Group's ability to continue as a going concern. In achieving this objective, the Group seeks to maintain an optimal capital structure to reduce its cost of capital and provide returns for shareholders.

In managing its capital, the Group may from time to time issue new shares, sell assets or issue other capital instruments to optimise its capital structure. In May 2020 the Company issued 10,000,000 new shares as described in note 24.

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2020

21. Financial risk management objectives and policies continued

Credit risk

The Group monitors credit risk closely and considers that its current policies of credit checks meet its objectives of managing exposure to credit risk.

Amounts shown in the balance sheet best represent the maximum credit risk exposure in the event that other parties fail to perform their obligations under financial instruments. The credit status of the trade receivables is detailed below:

	2020 £'000	2019 £'000
Government-related agencies	**182**	59
Independent companies	**22**	6
	204	65

Liquidity risk

The Board's policy aims to ensure that sufficient funds are held on a short-term basis in order to meet operational needs. The age profile of the Group's obligations at the balance sheet date is detailed below:

	2020 £'000	2019 £'000
Payable within 1 year	**2,129**	1,217
Payable within 1 – 2 years	**–**	–
Payable within 3 – 5 years	**2,456**	8,518
	4,585	9,735

The derivative element of the Convertible Loan Note has been excluded from the above as it will be settled via the issuance of shares.

Currency risk

The Group's functional currency is sterling. The exposure to currency risk relates to licence income, those short-term trade receivables which are not invoiced in sterling and foreign denominated cash held in UK banks. There are no significant costs incurred that involve payments in foreign currency. The Group has no forward contracts at the year end (2019: £nil) to manage foreign currency risk.

Balances which are denominated in US dollars are detailed below:

Group	2020 £'000	2019 £'000
Trade and other receivables	**182**	235
Cash and cash equivalents	**11**	18
Less: Convertible bonds	**–**	(6,191)
	193	(5,938)

The following table demonstrates the sensitivity to a possible change in currency rates on the Group's loss before tax through the impact of sterling weakening against the US dollar.

	Decrease in the currency rate	Effect on equity £'000
2020		
Trade and other receivables	**5%**	**9**
Cash and cash equivalents	**5%**	**1**
2019		
Trade and other receivables	5%	12
Cash and cash equivalents	5%	1
Convertible bonds	5%	(310)

An increase in currency rate of 5% would have a similar opposite effect.

Fair values of financial assets and liabilities

There is no material difference between the book value and the fair value of the Group's financial assets or liabilities.

22. Commitments under operating leases

At 30 June 2020 the Group had annual commitments under non-cancellable operating leases as set out below.

	Land and buildings	
Group	**2020 £'000**	2019 £'000
Operating leases which expire:		
Within 1 year	**–**	239
1 – 2 years	**–**	–

The only material operating leases relate to the rental of main premises. The premise lease expired in April 2020 and a new lease was signed after the balance sheet date with an expiry date of 31 July 2022.

23. Related party transactions

Other than items relating to Directors' remuneration and employment, there were no related party transactions during the year (2019: nil).

At the balance sheet date, in respect of T Lindsay, trade and other payables included amounts of £2,000 (2019: £2,000).

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2020

24. Share capital

Allotted, issued and fully paid:

	Number	£'000
Balance at 30 June 2018	18,783,115	282
Shares issued	15,217,391	228
Balance at 30 June 2019	34,000,506	510
Share issue – deferred consideration	**869,565**	**13**
Share issue	**10,000,000**	**150**
Share issue – equity-settled share-based payments	**16,000**	**–**
Share issue – conversion of GHIF bond	**7,100,000**	**107**
Balance at 30 June 2020	**51,986,071**	**780**

At the balance sheet date there are three convertible and potentially convertible arrangements that could result in the issue of additional shares:

Note 19 details the option to convert the Loan Note held by BGF, being £2.5m at the balance sheet date and £1.5m following partial conversion on 30 September 2020.

On 10 December 2021 the Company will issue 500,000 shares in genedrive plc to the former owner of Visible Genomics as part of a Deed of Amendment agreed in December 2018 to the Visible Genomics Sale and Purchase Agreement.

Note 20 to these account details share options that could also be exercised and result in the issue of additional shares.

25. Other reserves

	Share premium account £'000	Shares to be issued £'000	Employee share incentive plan reserve £'000	Share options reserve £'000	Reverse acquisition reserve £'000	Total equity £'000
Balance at 30 June 2018	25,988	–	(196)	1,437	(2,484)	24,745
Share issue	3,015	–	–	–	–	3,015
Deferred consideration – equity component	–	315	–	–	–	315
Transfer of shares to SIP members	–	–	–	–	–	–
Equity-settled share-based payments	–	–	–	49	–	49
FX on translation of overseas assets	–	–	–	–	(12)	(12)
Transactions settled directly in equity	3,015	315	–	49	(12)	3,367
Balance at 30 June 2019	29,003	315	(196)	1,486	(2,496)	28,112
Share issue – deferred consideration	187	(200)	–	–	–	(13)
Share issue	7,383	–	–	–	–	7,383
Share issue – conversion of GHIF bond	7,092	–	–	–	–	7,092
Equity-settled share-based payments	14	–	–	32	–	46
Transactions settled directly in equity	14,676	(200)	–	32	–	14,508
Balance at 30 June 2020	**43,679**	**115**	**(196)**	**1,518**	**(2,496)**	**42,620**

Shares to be issued relate to the equity component of deferred consideration, full details are contained in note 24.

The employee Share Incentive Plan reserve represents 17,882 shares in genedrive plc (2019: 18,864 shares) all of which are held by Epistem SIP Trustee Ltd. These shares are listed on the Alternative Investment Market and their market value at 30 June 2020 was £1.02 per share or £18,240 (2019: £3,867). The nominal value held at 30 June 2020 was £268 (2019: £283).

The reverse acquisition reserve arises as a difference on consolidation under merger accounting principles and is solely in respect of the merger of the Company and Epistem Ltd, during the year ended 30 June 2007.

Company Balance Sheet

as at 30 June 2020

	Note	30 June 2020 £'000	30 June 2019 £'000
Assets			£'000
Non-current assets			
Investment in subsidiaries	a	**–**	–
Current assets			
Amounts receivable from Group undertakings and other receivables	b	**–**	–
Cash and cash equivalents	c	**178**	80
		178	80
Liabilities			
Current liabilities			
Other payables		**–**	–
Deferred consideration payable in shares		**–**	–
		–	–
Net current assets		**178**	80
Total assets less current liabilities		**178**	80
Non-current liabilities			
Convertible bond	d	**(11,599)**	(8,518)
		(11,599)	(8,518)
Net liabilities		**(11,421)**	(8,438)
Capital and reserves			
Called-up equity share capital		**780**	510
Share premium account		**43,679**	29,003
Share options reserve	a	**1,852**	1,820
Shares to be issued		**115**	315
Accumulated losses:			
At 1 July		**(40,086)**	(34,955)
Transactions settled directly in equity		**(3,777)**	
Total comprehensive expense for the year		**(21,538)**	(5,131)
		(57,847)	(40,086)
Total shareholders' funds equity		**(11,421)**	(8,438)

These financial statements were approved by the Directors and authorised for issue on 16 November 2020 and are signed on their behalf by:

David Budd
Chief Executive Officer

Matthew Fowler
Chief Financial Officer

genedrive plc
Company number: 06108621

As permitted by s408 Companies Act 2006, the Company has not presented its own profit and loss account and related notes as it has prepared Group accounts. The Company's loss for the year was £21.5m (2019: £5.1m).

Company Statement of Changes in Equity

for the year ended 30 June 2020

	Called-up equity share capital £'000	Share premium account £'000	Share options reserve £'000	Shares to be issued £'000	Accumulated losses £'000	Total equity £'000
At 30 June 2018	282	25,988	1,771	–	(34,955)	(6,914)
Share issue	228	3,015	–	–	–	3,243
Recognition of equity-settled share-based payments	–	–	49	315	–	364
Transaction settled directly in equity	228	3,015	49	315	–	3,607
Total comprehensive expense for the year	–	–	–	–	(5,131)	(5,131)
At 30 June 2019	510	29,003	1,820	315	(40,086)	(8,438)
Share issue – deferred consideration	13	187	–	(200)	–	–
Share issue	150	7,383	–	–	–	7,533
Share issue – conversion of GHIF bond	107	7,092	–	–	3,777	10,976
Equity-settled share-based payments	–	14	32	–	–	46
Transactions settled directly in equity	270	14,676	32	(200)	3,777	18,555
Total comprehensive expenses for the year	–	–	–	–	(21,538)	(21,538)
Balance at 30 June 2020	**780**	**43,679**	**1,852**	**115**	**(57,847)**	**(11,421)**

Company Statement of Cash Flows

for the year ended 30 June 2020

	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'000
Cash flows from operating activities		
Operating loss for the year	**(6,781)**	(4,604)
Group undertaking loan impairment	**6,739**	5,300
Exceptional gain on amendment of equity portion of deferred consideration	**–**	(635)
Share-based payment expense	**32**	49
Operating loss before changes in working capital and provision	**(10)**	110
Increase in amount owed from Group companies	**(6,739)**	(5,300)
Decrease in trade and other payables	**–**	(109)
Net cash outflow from operating activities	**(6,749)**	(5,299)
Cash flows from financing activities		
Proceeds from share issue	**7,532**	3,243
Proceeds from bond issue	**–**	2,366
Cash paid to settle convertible bonds	**(685)**	–
Cash paid to settle deferred consideration	**–**	(300)
Net inflow from financing activities	**6,847**	5,309
Net increase in cash equivalents	**98**	10
Cash and cash equivalents at beginning of year	**80**	70
Cash and cash equivalents at end of year	**80**	80
Analysis of net funds		
Cash at bank and in hand	**178**	80
Net funds	**178**	80

Notes to the Company Financial Statements

for the year ended 30 June 2020

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation, International Financial Reporting Interpretations Committee ('IFRIC') interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared on a historical cost basis as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The principal accounting policies adopted in the preparation of these financial statements have been disclosed in the notes to the consolidated financial statements of the Group above.

Going concern

The Directors have concluded that it is necessary to draw attention to the revenue and cost forecasts in the business plans. In order for the Company to continue as a going concern, there is a requirement to achieve a certain level of sales. If an adequate sales level cannot be achieved to support the Group and Company, the Directors have the options to reduce ongoing spend or seek additional funds from shareholders or debt providers. While the Board is confident that it will achieve the required revenue, and has a successful track record in both reducing costs and raising funds, there remains uncertainty as to the level of sales that will be achieved in the forthcoming months, especially in light of on-going regulatory delays on the Genedrive® 96 SARS CoV-2 test, in addition to uncertainty around the amount of cost reduction that may be required and the amount of funding that could be raised from shareholders or debt providers. This combination of factors represents a material uncertainty that may cast significant doubt on the Group and Company's ability to continue as a going concern. However, based on the relative likelihood of achieving versus not achieving, the Board believe it is appropriate to continue to adopt the going concern basis of accounting in preparing these financial statements. These financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

a. Investments

The Company is the holding company of the Group. The Company owns 100% of the issued share capital of Genedrive Diagnostics Ltd (formerly called Epistem Ltd) and Epistem SIP Trustees Ltd. The principal activities of the subsidiary companies are:

- Genedrive Diagnostics Ltd –the provision of services to the biotechnology and pharmaceutical industries; incorporated in England, and with registered address 48 Grafton Street, Manchester, M13 9XX, United Kingdom
- Epistem SIP Trustees Ltd – to act as trustee to the Epistem Share Incentive Plan; incorporated in England and with registered address 48 Grafton Street, Manchester, M13 9XX, United Kingdom

	Investment in subsidiaries £'000
At 30 June 2018	–
Additions in the year	49
Impairment	(49)
At 30 June 2019	–
Additions in the year	**32**
Impairment	**(32)**
At 30 Jun 2020	**–**

Additions in the year ended 30 June 2020 comprised the fair value of the share options issued to employees of the subsidiary undertaking during the year of £32k (2019: £49k). Full details of the share options issued are set out in note 20 to the consolidated financial statements. Following an impairment review, the carrying value of the investments were impaired by £32k (2019: £49k).

During the year the carrying value of investments and the recoverability of amounts receivable from Group undertakings were assessed

Notes to the Company Financial Statements continued

for the year ended 30 June 2020

for impairment in accordance with the Company's accounting policies. The recoverable amount was determined on a value-in-use basis using the management approved 12 month forecasts. The base 12-month projection was inflated for years two and three using specific growth numbers in the Company's business plan. For years four to seven there was no growth assumed. A seven-year life cycle was chosen as appropriate for the business and technology of the Company. These projected cashflows were discounted at a pre-tax discount rate of 12.5%. As a result of this analysis the carrying value of the investments at 30 June 2020 was reduced to £nil (2019: £nil) and an impairment charge of £32k (2019: £49k) was booked during the year.

b. Amounts receivable from Group undertakings and other receivables

Company	2020 £'000	2019 £'000
Opening amounts receivable from Group undertakings	–	–
Additions in the year	**6,739**	5,300
Impairment provision	**(6,739)**	(5,300)
Closing amounts receivable from Group undertakings	–	–

Amounts receivable from Group undertakings are held in intercompany accounts with no security and no specified repayment terms.

£6.7m of loans owing from Group undertakings were impaired during the year.

c. Cash and cash equivalents

	2020 £'000	2019 £'000
Cash at bank and in hand	**178**	80
	178	80

Cash and cash equivalents comprise current accounts held by the Company with immediate access and short term bank deposits with a maturity of three months or less. Market rates of interest are earned on such deposits. The credit risk on such funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

d. Convertible bonds

The Company issued a convertible bond to the Global Health Investment Fund 1 LLC in July 2014. This bond was amended and restated on 11 July 2016 and again on 10 December 2018. On 6 June 2020 GHIF exercised its rights to convert the bond into shares. Full details of the bond and the amendment can be found under note 19 of the Group financial statements.

The Company issued a convertible bond to the Business Growth Fund on 8 December 2018. Full details of the bond and the amendment can be found under note 19 of the Group financial statements.

e. Related party transactions

All of the employees of the Group are employed by Genedrive Diagnostics Ltd. There are no employees of the Company.

f. Financial risk management

The Company's approach to managing financial risk is covered in note 21 to the Group's financial statements.

Directors, Secretary and Advisers

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David Budd
Matthew Fowler
Tom Lindsay
Chris Yates

Company Secretary

Matthew Fowler

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