genedrive

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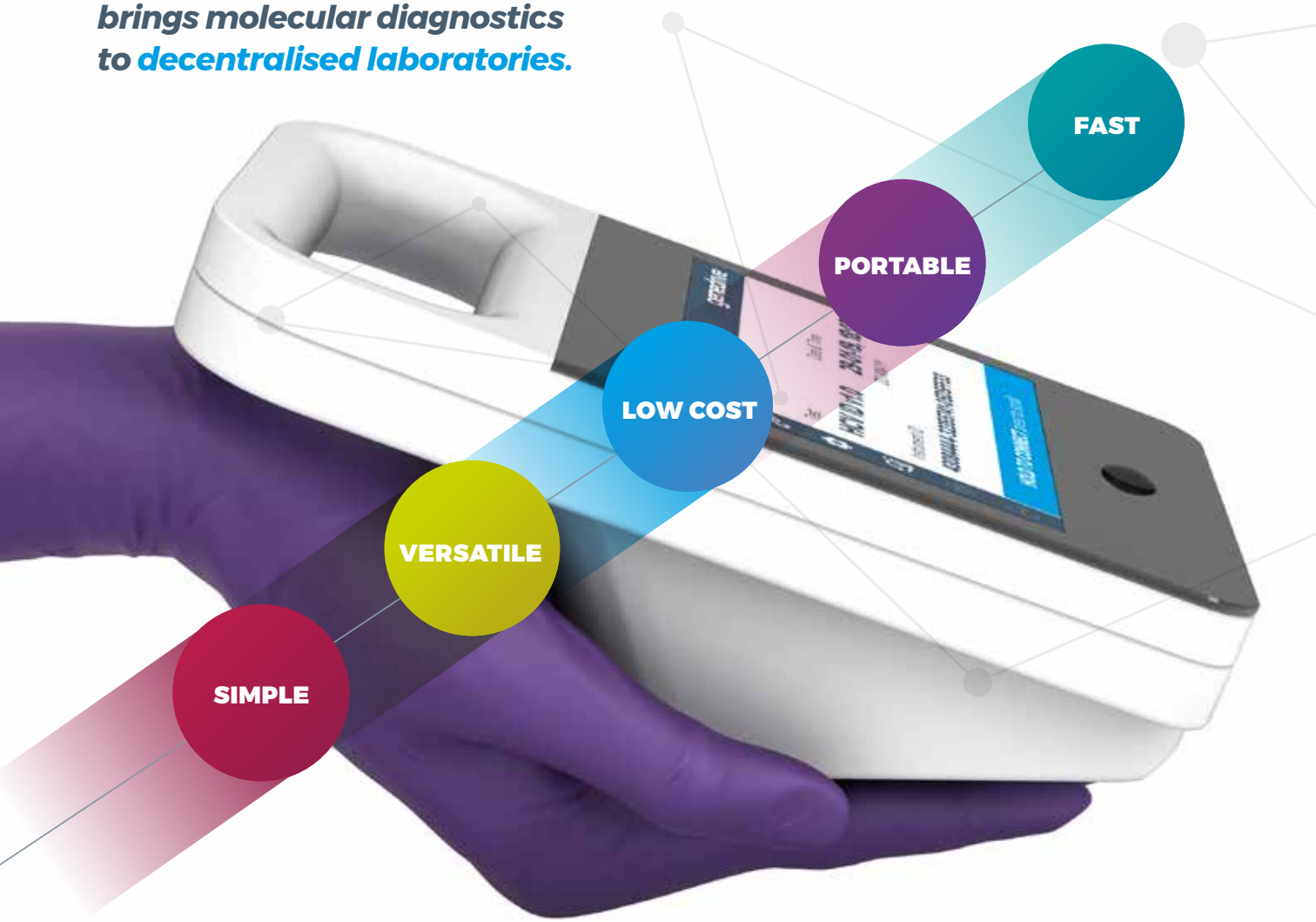
Advancing molecular diagnostics to the point of care

Interim Report 2020

WHAT WE DO
Introduction and highlights

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



HALF YEAR REPORT

genedrive plc (LSE: GDR), the near patient molecular diagnostics company, announces unaudited interim results for the six months to 31 December 2019.

The Company develops and commercialises a range of genetic tests which can be used on its portable point-of-care molecular diagnostic reader, Genedrive®. The Companyhas two areas of focus: Global Health and Developed Markets. In Global Health, its Genedrive® HCV ID kit ('HCV ID kit') is on market in targeted countries, and the Tuberculosis ('mTB') detection test is in development with support of grant funding, expected to be on market in the financial year 20/21. For Developed Markets, its military Pathogen detection range is on market and sold directly to the US Department of Defense ('DoD'), while its Antibiotic Induced Hearing Loss ('AIHL') is CE marked and has just entered implementation studies in two UK hospitals and is expected to be on market in the early part of financial year 20/21.

Financial Highlights

- Total revenue and other income of £0.6m (2018: £1.5m) as commercialisation of HCV ID kit continues to be slow and delays on shipping orders to the DoD have meant that sales have not been sufficient to offset the anticipated revenue reductions from the expiry of grant funded programmes
- Focused R&D spend of £2.3m (2018: £2.5m)
- Finance costs £0.8m (2018: £0.4m) giving rise to a pre-tax loss of £3.3m (2018: £1.7m)
- Cash of £3.5m at 31 December 2019 (30 June 2019: £5.2m)

Operating Highlights

- AIHL test, the Genedrive® MT-RNR1 ID kit, obtained CE marking and entered implementation studies in Manchester and Liverpool Hospitals
- Indian regulatory approval for the HCV ID kit received in December 2019, bringing the total number of registered countries to 14
- Framework contract with the DoD increased by US$2.0m
- WHO Prequalified status progressing and now expected in Q1/Q2 of calendar year 2020

INTERIM MANAGEMENT REPORT

The Company has remained focused on a four-assay strategy in order to drive material revenues from these assays by the year ending June 2022. During the six months to 31 December 2019, we focused our commercial efforts on HCV and the DoD, being our on-market assays. Commercial traction for our HCV-ID kit has been slow as we highlighted in our preliminary results issued in October 2019, and DoD order rates continue to be irregular. However ongoing interactions with our key customers gives us confidence in the market prospects for these two opportunities and we expect demand to grow over the coming years, although we are cautious on the short-term prospects. Both our on-market products will help sustain the Company if material recurring volumes can be attained. For our 'in development' assays, there were important milestones achieved on our third assay AIHL, as we further de-risked the assay with CE marking and commencement of NHS implementation trials. For mTB, the Innovate project funding phase successfully ended in the period, and the project delivered positive tangible results in terms of product development.

On Market

Hepatitis C (HCV)

The CE marked Genedrive® HCV-ID kit is the first to market decentralised qualitative molecular test for HCV at the point of need. The Company has contracted with world-class distributors in Sysmex EMEA, Sysmex APAC and Arkray in India, giving broad reach and skilled resource to market and sell the product. The size and cost of the HCV-ID kit means that the Company is well placed to enter and succeed in the market for decentralised diagnostic testing for HCV in developing countries.

However, revenues and commercial uptake of the HCV-ID kit continued to be disappointing in the period. We see this primarily due to a lack of significant funding in target markets, and longer than expected registration timelines. Availability of funding for HCV treatment and diagnostics is key to the adoption and uptake of our product, and to date we have not seen funding made available at a significant level in many countries. In the background to the commercialisation efforts, we have seen outstanding performance of the product in all evaluations to date. A formal summary of results will be published as soon as individual study contributors give permission for release and we are very pleased with analytical performance of the system. The clinical results to date are clear validation of the efficacy of the test and provide a solid basis that, with funding, commercial adoption can follow. We are also exploring a number of country specific opportunities for our HCV-ID kit that would generate additional revenue on a project-by-project basis.

Towards the very end of the period the HCV ID kit was given regulatory approval for the Indian market, bringing the total number of registrations to 14 and with another 12 in progress. The size and structure of the Indian market, a funded market with a high number of private labs and payers, makes this territory attractive for the Company, and a different dynamic to the other markets in which the Company is registered to date.

To improve the commercial attractiveness of our test, we began the process to gain World Health Organisation ('WHO') pre-qualification. Pre-qualification is progressing but is taking longer than was communicated by WHO. Laboratory studies were completed at the end of January and we now think it reasonable to expect to receive pre-qualification in calendar Q1/Q2 2020.

Pathogen Detection (DoD)

Revenue was £0.3m (2018: £0.7m), down from the prior year as trading was impacted by the previously disclosed supplier issue. This problem was successfully resolved during the latter part of the period and a second supplier has been obtained to secure a secondary supply. The delayed orders of around US$0.5m are expected to be fulfilled in 2019/20, however in keeping with previous financial reports we do not have a specific forecast of longer term future orders from this customer.

Pathogen detection has been fundamental to the progress of Genedrive® over the past years and continues to make a very important contribution to the Company. Currently we are working with the DoD to try and expand their internal customer base for Genedrive® and to gauge better their anticipated level of future orders. As part of these discussions the DoD extended their framework contract by an additional US$2m. We are encouraged by this step but flag there is no obligation on the DoD to spend this amount. It is our current understanding that the product is being transitioned internally between the DoD bodies and expect order intake to increase as a result of this transition. We also anticipate a potential de-restriction of the product that may allow for sale outside of the US military. Our long-term view of the Pathogen Detection opportunity remains very positive.

In Development

Antibiotic Induced Hearing Loss (AIHL)

The AIHL assay is the first use of a point of care diagnostics test in an NHS emergency setting and is a clear validation of the capabilities of the Genedrive® system. The test screens for a genetic mutation that causes infants to suffer lifelong deafness as a consequence of antibiotic treatment administered in critical care after birth. Up to 90,000 babies a year in the UK and over one million in Western markets globally are potential candidates for testing. Manchester and Liverpool hospitals are running implementation trials and will be valuable advocates and hopefully early adopters of the assay when the trials complete in summer 2020. We remain on track to launch the product in the calendar year 2020 with initial revenues expected in the year to 2021 and material revenue after approvals into clinical guidelines. We are very excited about the commercial and healthcare prospects for this assay both in the UK and ultimately across the globe.

In June 2018, genedrive was part of a grant award for the development and testing of a point-of-care test for the prevention of hearing loss in new born children exposed to certain antibiotics. To date we have used approximately 75% of the grant and reached a key milestone in December 2019 with the AIHL test gaining its CE mark. In the CE marking validation tests, the assay achieved a diagnostic sensitivity and specificity of 100% on a validation cohort of 303 samples. This again highlights the excellent performance we are achieving with the Genedrive® system, and this bodes well for the in hospital trials that have now commenced and are due to complete in summer 2020. These trials are considered the final hurdle for the product, after which we expect to commence commercial activities and full launch. Plans are currently underway to scope and define the path to full global commercialisation.

Tuberculosis (mTB)

The fourth assay in the Company's strategy is for the large and well-defined mTB sector. We intend to bring to market a new simple to use sample preparation process and test that minimises cost and maximises performance. The design and development phase of the project is now complete and revenue of £0.2m (2018: £0.5m) was recorded which completes the funding under the £1.1m Innovate UK grant secured in January 2018. Progress in the past six months has been strong and we have a "works-like" design that achieves our desired outcomes on cost trajectory, usability and technical performance. There remain a number of development and manufacturing milestones to bring the new assay system to market, but we remain focused on earning commercial revenues from this assay in the year ending 30 June 2021.

INTERIM MANAGEMENT REPORT continued

Financial Results

Revenue for the period was £0.6m (2018: £1.5m). The revenue from the commercialisation of our HCV and pathogen detection assays has not been sufficient to offset anticipated revenue reductions on the grant programmes that have declined as the grants have come to an end. Research and development costs were £2.3m (2018: £2.5m), down slightly owing to the reduced activity on grant funded programmes. Administration costs were down at £0.9m (2018: £1.0m) as we manage costs and look to control tightly any discretionary spend. The trading loss for the period was £2.6m (2018: £2.0m).

Financing costs of £765k (2018: £354k) relate to interest accruals on the convertible bonds issued to the Business Growth Fund ('BGF') and the Global Health Investment Fund ('GHIF'), net of a small amount of interest earned on deposited cash. The movement in the period is the fair value finance charge for the bonds of £1.1m (2018: £0.5m) offset by a gain in the foreign exchange movement on the US dollar denominated GHIF loan of £0.3m (2018: £0.2m loss). After financing costs, the loss before taxation was £3.3m compared to the prior period loss of £1.7m after exceptional credit of £0.6m. This reduces to £3.0m (2018: £1.4m) after estimating the six-month taxation credit. The basic loss per share was 8.9p (2018: 7.0p).

Cash Resources

Net cash out-flows from operations were significantly lower at £1.7m (2018: £3.0m). The operating loss was £2.6m (2018: £1.4m) and working capital consumption £0.1m (2018: £1.0m). The R&D tax claim for the year ending 30 June 2019 was received in the final few days of the period and amounted to £971k (2018: £nil) and was the main receipt bringing the net outflow to £1.7m, or around £1.2m better than the same period in 2018. There was minimal investing and financing activities compared with the fundraising in the prior period, and as such the net decrease in cash in the period was £1.7m (2018: £2.3m increase). The period end cash positon was £3.5m (30 June 2019: £5.2m, 31 December 2018: £5.8m).

Balance Sheet

Balance sheet net liabilities at 31 December 2019 totalled £5.5m (30 June 2019: £2.5m net liabilities). The movement in the period is owing to the consolidated loss for the period £3.0m (2018: £1.4m).

Principal Risks and Uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Company's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. The Directors do not consider that these principal risks and uncertainties have changed materially since publication of the annual report for the year ended 30 June 2019; a more detailed explanation of the risks for the Company can be found on page 21 of the annual report. The UK's exit from the European Union (Brexit) has been considered by the Board and is not considered a material risk to the short and medium-term plans of the Company.

Going Concern

The Board has considered long term plans in assessing the Company's ability to continue as a going concern. While the Board is confident it will achieve its plans, as set out in the annual report there remains uncertainty in the revenue and cost forecasts. Should the Company miss its plans, the Directors have the alternative options to reduce on-going spend or seek additional funding in order to continue as a going concern. Based on the likelihood of achieving forecasts or implementing alternative actions, the Board believe it is appropriate to continue to adopt a going concern basis in preparing these interim financial statements.

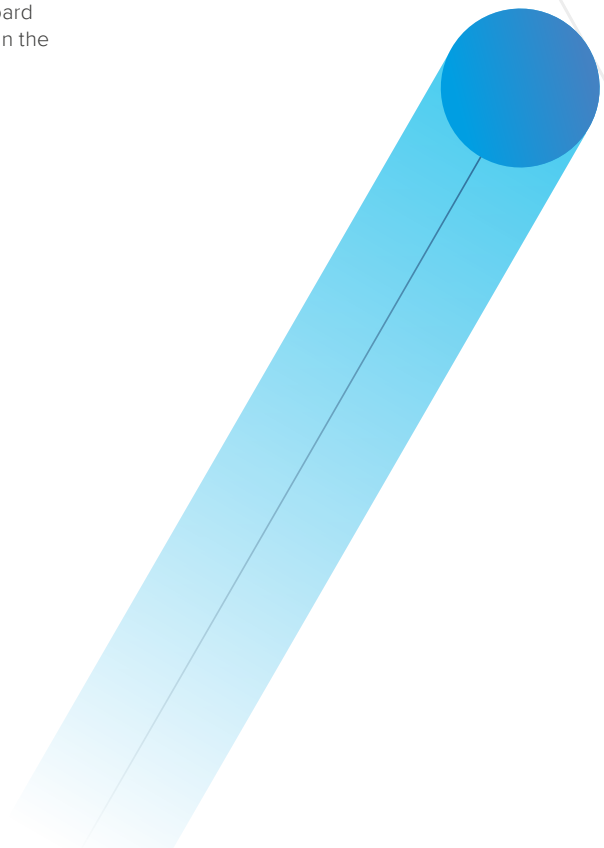
OUTLOOK

Trading has been challenging in the first half of the current financial year owing to the continued slow commercial traction with the HCV ID kit and also the delays experienced on shipping various DoD orders. There are a number of attractive commercial opportunities with varying levels of certainty that have the potential to make a material difference to the full year outcome and these include further DoD orders, initial HCV orders for India as well as various country specific opportunities. Meeting consensus revenue estimates for the year remains attainable however the Board expresses some caution given the varying degrees of visibility on the commercial opportunities being pursued.

Strategically we remain on plan to bring multiple, commercially valuable, assays to market by the end of 2022. Currently we have two assays on market, the HCV ID kit and DoD, and expect the third, AIHL, to come to market during 2020, with the fourth, mTB, due in 2021/22. The Board remains confident in the Genedrive® platform and in the execution of our strategy.

David Budd
Chief Executive Officer
4 February 2020

Dr I Gilham
Chairman



UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

	Note	**Six months ended 31 December 2019 Unaudited £000**	Six months ended 31 December 2018 Unaudited £000	Year ended 30 June 2019 Audited £000
Revenue & other income	(4)	**627**	1,488	2,362
Research and development costs		**(2,293)**	(2,496)	(4,877)
Administrative costs		**(901)**	(1,009)	(1,934)
Trading loss		**(2,567)**	(2,017)	(4,449)
Exceptional items	(4)	**–**	635	439
Operating loss	(4)	**(2,567)**	(1,382)	(4,010)
Finance costs	(5)	**(765)**	(354)	(508)
Loss on ordinary activities before taxation		**(3,332)**	(1,736)	(4,518)
Taxation on ordinary activities		**290**	303	882
Loss for the financial year from continuing operations		**(3,042)**	(1,433)	(3,636)
Loss/Total Comprehensive Expense for the period		**(3,042)**	(1,433)	(3,636)
Loss per share (pence) from continuing operations – Basic and Diluted		**(8.9)**	(7.0)	(14.0)

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

	Share Capital £000	Other Reserves £000	Accumulated Losses £000	Total £000
At 30 June 2018	282	24,745	(27,464)	(2,437)
Issue of shares	228	3,015	–	3,243
Deferred consideration – equity component	–	315	–	315
Equity-settled share based payments	–	46	(18)	28
Transactions settled directly in equity	228	3,376	(18)	3,586
Total comprehensive expense for the financial period	–	–	(1,433)	(1,433)
At 31 December 2018	510	28,121	(28,915)	(284)
Equity-settled share based payments	–	3	–	3
FX on translation of overseas assets	–	–	(12)	(12)
Transactions settled directly in equity	–	3	(12)	(9)
Total comprehensive expense for the financial period	–	–	(2,203)	(2,203)
At 30 June 2019	**510**	**28,124**	**(31,112)**	**(2,478)**
Issue of shares	**13**	**(13)**	**–**	**–**
Equity-settled share based payments	**–**	**16**	**–**	**16**
Transactions settled directly in equity	**13**	**3**	**–**	**16**
Total comprehensive expense for the financial period	**–**	**–**	**(3,042)**	**(3,042)**
At 31 December 2019	**523**	**28,127**	**(34,154)**	**(5,504)**

UNAUDITED CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2019

	Note	**31 December 2019 (unaudited) £000**	31 December 2018 (unaudited) £000	30 June 2019 (audited) £000
Non-current assets				
Intangible assets		**–**	–	–
Plant and equipment		**130**	181	164
Contingent consideration receivable		**153**	340	153
		283	521	317
Current assets				
Inventories		**125**	333	123
Trade and other receivables		**605**	1,290	556
Contingent consideration receivable		**106**	172	106
Current tax asset		**300**	1,307	971
Cash and cash equivalents		**3,499**	5,840	5,184
		4,635	8,942	6,940
Liabilities				
Current liabilities				
Deferred income		**(77)**	–	(88)
Trade and other payables		**(1,052)**	(1,397)	(1,129)
		(1,129)	(1,397)	(1,217)
Net current assets		**3,506**	7,545	5,723
Total assets less current liabilities		**3,789**	8,066	6,040
Non-current liabilities				
Convertible bonds	(8)	**(9,293)**	(8,350)	(8,518)
Net liabilities		**(5,504)**	(284)	(2,478)
Capital and reserves				
Called-up equity share capital	(9)	**523**	510	510
Other reserves	(10)	**28,127**	28,121	28,112
Retained earnings		**(34,154)**	(28,915)	(31,100)
Total deficit		**(5,504)**	(284)	(2,478)

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

	31 December 2019 (unaudited) £'000	31 December 2018 (unaudited) £'000	30 June 2019 (audited) £'000
Cash flows from operating activities			
Operating loss for the year	**(2,567)**	(1,382)	(4,010)
Depreciation, amortisation and impairment	**33**	54	98
Exceptional items	**–**	(635)	(439)
Loss on disposal of fixed assets	**2**	–	–
ATL Research credits	**(10)**	(24)	(89)
Share-based payment expense	**16**	9	49
Operating loss before changes in working capital and provisions	**(2,526)**	(1,978)	(4,391)
Increase in inventories	**(2)**	(162)	(12)
(Increase)/Decrease in trade and other receivables	**(49)**	(739)	60
(Decrease)/Increase in deferred revenue	**(11)**	–	88
Decrease in trade and other payables	**(77)**	(45)	(346)
Net cash outflow from operations	**(2,665)**	(2,924)	(4,601)
Tax received	**971**	–	980
Net cash outflow from operating activities	**(1,694)**	(2,924)	(3,621)
Cash flows from investing activities			
Finance income	**10**	5	18
Cash paid to settled deferred consideration	**–**	(300)	(300)
Acquisition of plant and equipment and intangible assets	**(1)**	(70)	(97)
Proceeds from disposal of discontinued operations	**–**	–	57
Net cash inflow/(outflow) investing activities	**9**	(365)	(322)
Cash flows from financing activities			
Proceeds from share issue	**–**	3,243	3,243
Proceeds from bond issue	**–**	2,366	2,366
Net inflow from financing activities	**–**	5,609	5,609
Net increase (decrease)/Increase in cash equivalents	**(1,685)**	2,320	1,666
Cash and cash equivalents at beginning of period/year	**5,184**	3,529	3,529
Effects of exchange rate changes on cash and cash equivalents	**–**	(9)	(11)
Cash and cash equivalents at end of period/year	**3,499**	5,840	5,184
Analysis of net funds			
Cash at bank and in hand	**3,499**	5,840	5,184

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

1. General information

genedrive plc ('the Company') 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 diagnostics platform for the diagnosis of infectious diseases and for use in patient stratification (genotyping), pathogen detection and other indications. The Company is a limited liability company incorporated and domiciled in the UK. The address of its registered office is 48 Grafton Street, Manchester, M13 9XX. The Company has its listing on AIM.

The financial information for the period ended 31 December 2019 and similarly the period ended 31 December 2018 has been neither audited nor reviewed by the auditor. The financial information for the year ended 30 June 2019 has been based on information in the audited financial statements for that period. The interim financial statements for the period ended 31 December 2019 do not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for the year ended 30 June 2019 has been delivered to the Registrar of Companies, the accounts had an unqualified audit opinion.

These interim financial statements were approved by the Board of Directors on 4 February 2020.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods represented in these consolidated financial statements.

2. Significant accounting policies

Basis of accounting

The consolidated interim 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 pounds (£k) except where otherwise indicated.

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Transactions between Group companies are eliminated on consolidation.

Going concern: The Directors have concluded that it is necessary to draw attention to the revenue and costs 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 funding from shareholders. While the Board is confident that it will achieve the required revenue, and has a successful track record in both cutting costs and raising funds, there remains uncertainty as to the level of sales that will be achieved, the amount of cost reduction that may be required and the amount of funding that could be raised from shareholders. This combination of factors represents 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 interim financial statements. These interim financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

New accounting standards adopted in the period

IFRS 16 has been adopted in the period but has not had a material impact on the results.

Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation were the same as those that applied to the consolidated financial statements for the year ended 30 June 2019, with the exception of changes in estimates that are required in:

- determining the provision for taxation; and
- valuing the amendment to the GHIF convertible loan and the fair valuing of the recently issued BGF convertible bond.

Revenue recognition

a. Contract revenue

Contract revenue is recognised by reference to the stage of completion of the transaction at the end of the reporting period. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

b. Collaboration & licensing revenue

Contractually agreed upfront payments and similar non-refundable payments in respect of collaboration or licence agreements which are not directly related to on-going 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 milestone.

Income which is related to on-going research activity is recognised as the research activity is undertaken, in accordance with the contract.

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.

d. Product sales

Revenue from product sales is recognised on shipment to customers in line with contractual agreements.

Research and development

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

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. All intangible assets are subject to impairment review and amortisation in each financial reporting period. In assessing value in use, the estimated future cash flows are discounted to their net present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to that asset.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS continued

2. Significant accounting policies continued

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. 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.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are taken to the Consolidated Statement of Comprehensive Income. Exchange differences arising on non-monetary items, carried at fair value, are included in the income statement, except for such non-monetary items in respect of which gains and losses are recorded in equity.

Share-based payments

The Group issues equity settled and cash-settled share-based payments to certain employees (including directors). Equity settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity settled share-based payments is expensed on a straight-line basis over the vesting period, together with a corresponding increase in equity, based upon the Group's estimate of the shares that will eventually vest.

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, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Where the terms of an equity settled transaction are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity settled transaction is cancelled, it is treated as if it had vested on the date of the cancellation, and any expense not yet recognised for the transaction is recognised immediately. However, if a new transaction is substituted for the cancelled transaction, and designated as a replacement transaction on the date that it is granted, the cancelled and new transactions are treated as if they were a modification of the original transaction, as described in the previous paragraph.

Cash settled share based payments are fair valued at the date services are delivered. A liability is created on the balance sheet for the value received. Until the liability is settled, the fair value is adjusted at each accounting period with changes reported in the profit and loss for that period.

Financial instruments (including Convertible bond)

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. The Company has in issue a convertible bond which is a compound financial 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.

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. Finance costs of the debt host are included in Finance costs and income. Similarly, gains or losses on the value of the derivative are also included in Finance costs and income.

The Group's convertible bonds are compound financial instruments, comprising both liability components and equity components. The fair value of the liability component is estimated using the prevailing interest rate at the date of issue for similar non-convertible instruments. The difference between the proceeds of issue of the convertible bonds and the fair value assigned to the liability components, representing the embedded option to convert the liability into Company's ordinary shares, is included in equity. The interest expense on the liability component is calculated by applying applicable market rates for similar non-convertible debt prevailing at the dates of issue to the liability components of the instruments. The difference between this amount and the actual interest paid is added to the carrying amount of the liability component and is included in finance charges together with the interest payable.

3. Revenue and Other Income

Income receivable in the form of Government grants to fund product development is recognised as development grant funding when the related eligible costs are incurred and recognised, £0.3m (2018: £0.8m).

4. Business segments

	Diagnostic Segment £'000	**Administrative Costs £'000**	**Total £'000**
Six months ended 31 December 2019			
Revenue and other income	**627**	**–**	**627**
Segment EBITDA	**(1,650)**	**(884)**	**(2,534)**
Less depreciation and amortisation	**(16)**	**(17)**	**(33)**
Operating loss	**(1,666)**	**(901)**	**(2,567)**
Net Finance costs			**(765)**
Loss on ordinary activities before taxation			**(3,332)**
Taxation			**290**
Loss for the financial period			**(3,042)**

	Diagnostic Segment £'000	Administrative Costs £'000	Total £'000
Six months ended 31 December 2018			
Revenue and other income	1,488	–	1,488
Segment EBITDA	(994)	(969)	(1,963)
Less depreciation and amortisation	(14)	(40)	(54)
Exceptional gain on settlement of deferred consideration	–	635	635
Operating (loss)	(1,008)	(374)	(1,382)
Net Finance costs			(354)
Loss on ordinary activities before taxation			(1,736)
Taxation			303
Loss for the financial period			(1,433)

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS continued

4. Business segments continued

	Diagnostic Segment £'000	Administrative Costs £'000	Total £'000
Twelve months ended 30 June 2019			
Revenue and other income	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 taxation			(4,518)
Taxation			882
Loss for the financial year from continuing operations			(3,636)
Loss for the financial period			(3,636)

There were no exceptional items in the period to 31 December 2019 (2018: £0.6m, and 12 months to June 2019: £0.4m). During the six month period the 31 December 2018 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 the 10th 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. In the year to 30 June 2019, the carrying value of deferred consideration receivable on the disposal of Epistem trade assets was reviewed in the year following receipt of an amount received for an initial part period. The value of expected deferred consideration receiveable was written down creating an impairment charge of £196k.

5. Finance costs

	31 December 2019 £000	31 December 2018 £000	30 June 2019 £000
Net interest income on bank deposits	**10**	4	18
Gain on amendment to convertible bond	**–**	325	325
Movement in fair value of derivative embedded in convertible bond	**(246)**	–	318
Finance cost of convertible bond	**(810)**	(479)	(889)
Foreign exchange movement in convertible bond	**281**	(204)	(280)
	(765)	(354)	(508)

6. Earnings per share

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. The weighted average number of shares in issue during the period was 34,100,566 (2018: 20,529,373).

7. Deferred consideration payable in shares

During the period to 10 December 2018 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 the 10 December 2018 and varied the remaining £1,250,000 consideration payable to:

i) A payment of £300,000 in cash 20 business days after 10 December 2018
ii) An allotment of 869,565 shares in genedrive plc on 10 December 2019
iii) An allotment of 500,000 shares in genedrive plc on 10 December 2021

The fair value of the future shares to be issued was calculated based on the share price on the date the deed became effective and was 23.0p per share. The aggregate value of shares to be issued was booked into reserves as a separate component of equity and the issue of shares on the 10 December 2019 was allotted against these reserves.

8. 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	–	–	2,104	396	2,104	396	2,500
Prepaid arrangement fees	–	–	(133)	–	(133)	–	(133)
Finance cost	467	–	12	–	479	–	479
Foreign exchange movement (GHIF)	204	–	–	–	–	–	204
Balance at 31 December 2018	5,729	242	1,983	396	7,712	638	8,350
Finance cost	243	–	156	–	399	–	399
Amortisation of arrangement fees	–	–	11	–	11	–	11
Movement in fair value of embedded derivative	–	(99)	–	(219)	–	(318)	(318)
Foreign exchange movement (GHIF)	76	–	–	–	76	–	76
Balance at 30 June 2019	**6,048**	**143**	**2,150**	**177**	**8,198**	**320**	**8,518**
Finance cost	**620**	**–**	**180**	**–**	**800**	**–**	**800**
Amortisation of arrangement fees	**–**	**–**	**10**	**–**	**10**	**–**	**10**
Movement in fair value of embedded derivative	**–**	**88**	**–**	**158**	**–**	**246**	**246**
Foreign exchange movement (GHIF)	**(281)**	**–**	**–**	**–**	**(281)**	**–**	**(281)**
Balance at 31 December 2019	**6,387**	**231**	**2,340**	**335**	**8,727**	**566**	**9,293**

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS continued

8. Convertible Bonds continued

On 23 June 2016, the Company and GHIF entered into a Deed of Amendment & 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. To split the GHIF Bond into two tranches: the first tranche of US$2m has a Conversion Price of £1.50 per Ordinary Share and the second tranche of US$6m 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 the 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 $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 $2m tranche was reduced from 150p to 28.75p
- The strike price of the second $6m tranche was reduced from 489p to 150p

All other terms remained the same. The amendment has been treated as a modification and not an extinguishment because material elements of the changes are unaffected and the difference of the cashflows before and after the amendment are approximately equal to 10.4%. The future cashflows from the bond have been discounted at a cost of capital rate of 10.0%.

Business Growth Fund (BGF)

The Company entered into an agreement with the BGF that became effective on the 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 fund raising 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

The convertible loan has been stated at its fair value and will be subsequently measured at amortised cost. The future cashflows from the bond have been discounted at a cost of capital rate of 10.0%, with loan arrangement costs being prepaid and amortised against the life of the loan. The convertible nature of the loan grants BGF an option to convert to equity at a certain share price; this has been valued as the residual amount, representing the value of the equity conversion component, and treated as a derivative option.

9. Share capital

Allotted, issued and fully paid:	No.	£'000
Balance at 30 June 2018	18,783,115	282
Shares issued	15,217,391	228
Balance at 31 December 2018	34,000,506	510
Balance at 30 June 2019	34,000,506	510
Shares issued	869,565	13
Balance at 31 December 2019	**34,870,071**	**523**

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

1. Note 7 details the shares to be issued to the former owner of Visible Genomics at 10 December 2021
2. Note 8 details the option to convert the loan note held by BGF (£2.5m) at 28.75p
3. Note 8 details the option to convert the loan note held by and GHIF ($8.0m) as follows:
   a. Tranche 1, $2.0m plus deferred interest at 28.75p per share
   b. Tranche 2, $6m plus deferred interest at 150.0p per share

10. Other Reserves

	Share Premium Account £000	Shares to be issued £000	Employee Share Incentive Plan Reserve £000	Share Options Reserve £000	Reverse Acquisitions Reserve £000	Total £000
At 30 June 2018	25,988	–	(196)	1,437	(2,484)	24,745
Issue of shares	3,015	–	–	–	–	3,015
Deferred consideration – equity component	–	315	–	–	–	315
Equity-settled share based payments	–	–	18	28	–	46
Transactions settled directly in equity	–	–	18	28	–	40
At 31 December 2018	29,003	315	(178)	1,465	(2,484)	28,121
Transfer of shares to SIP members	–	–	(18)	–	–	(18)
Equity-settled share based payments	–	–	–	21	–	21
Transaction settled directly in equity	–	–	(18)	21	–	3
At 30 June 2019	**29,003**	**315**	**(196)**	**1,486**	**(2,484)**	**28,124**
Issue of shares	**187**	**(200)**	**–**	**–**	**–**	**(13)**
Equity-settled share based payments	**–**	**–**	**–**	**16**	**–**	**16**
Transactions settled directly in equity	**–**	**–**	**–**	**16**	**–**	**16**
At 31 December 2019	**29,190**	**115**	**(196)**	**1,502**	**(2,484)**	**28,127**

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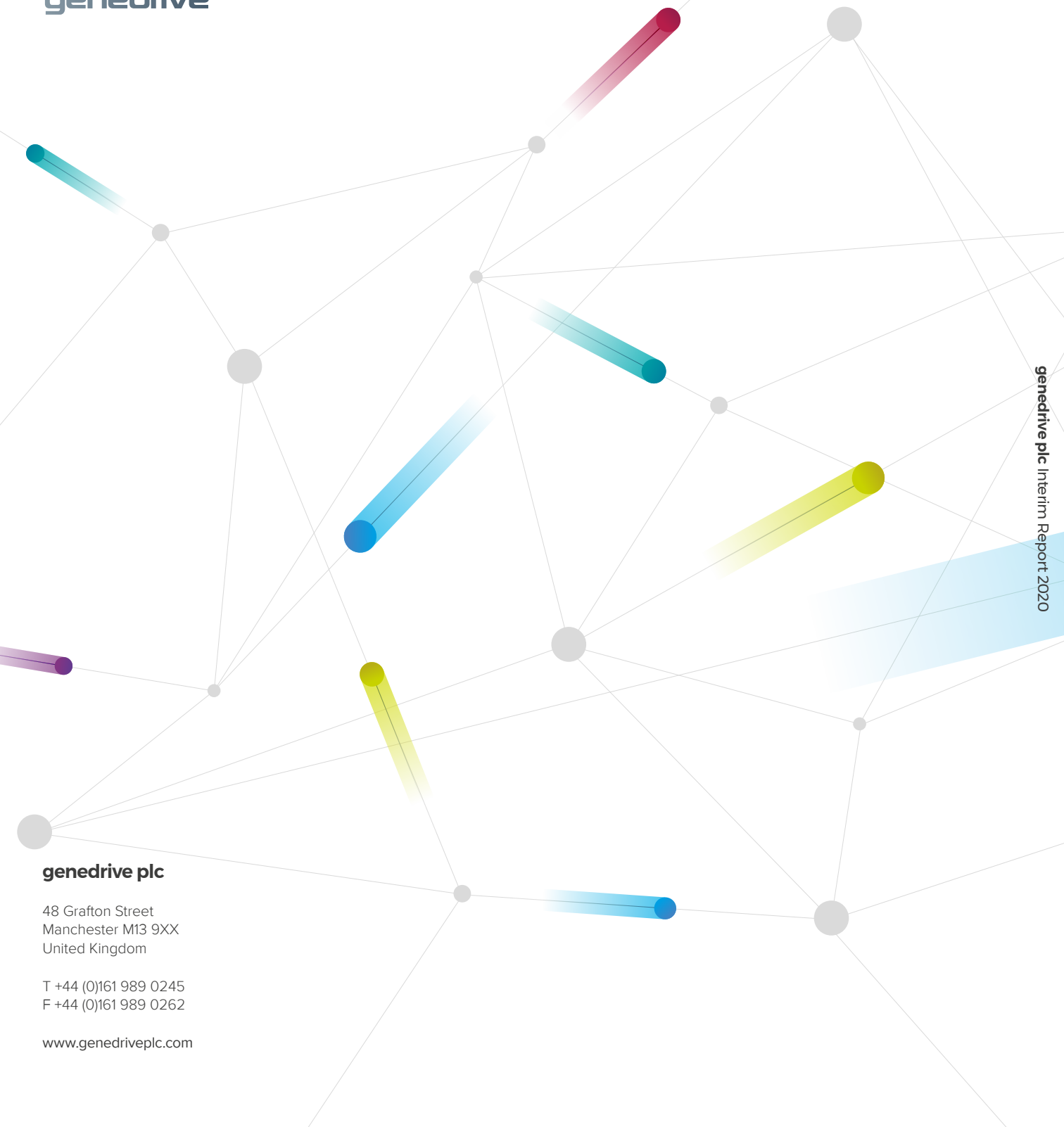

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