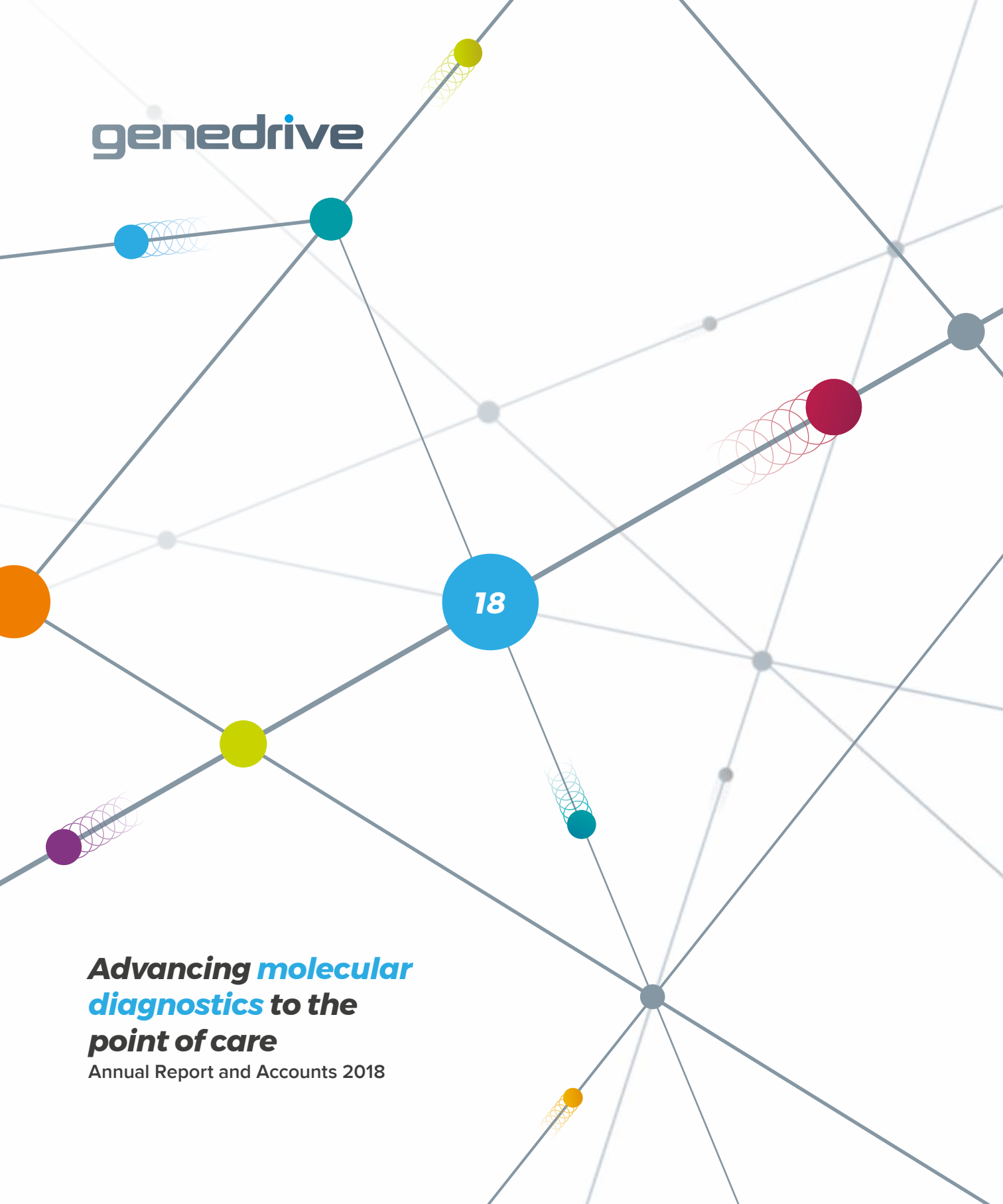
genedrive



Advancing molecular diagnostics to the point of care

Annual Report and Accounts 2018

WHAT WE DO

genedrive is advancing Molecular Diagnostics to the Point of Care with the innovative Genedrive® platform.

Genedrive® is a low cost, rapid and reliable solution for providing molecular diagnostic testing where speed and timely delivery of results is vital.

OUR PERFORMANCE

Delivering the strategy.

Confident with our technology since gaining CE Mark status and forming strong relationships with our partners, our strategy is focused on delivering our technology to market.

We are concentrating our efforts in Africa, India and South Asia, where the need is most urgent.

Operational Highlights

- Proprietary Genedrive® Hepatitis C (HCV) test obtained CE marking and commercial roll-out began.
- Distribution agreements signed with Sysmex EMEA, Sysmex APAC and Arkray for India.
- Streamlined and focused the Company on global diagnostic opportunities through the divestment of Services Divisions.
- £1.6m of funding secured from Innovate UK to develop and refine mTB and future HCV sample preparation processes.
- Receipt of UK multi-partner grant award to develop and implement a point of care test to avoid anti-biotic induced hearing loss (AIHL) in newborn children.

Financial Highlights

- First commercial sales of Genedrive® HCV ID Kit to support registrations and Key Opinion Leader engagement.
- Services Divisions disposed on 8 June 2018 for up to £1.9m.
- Cash at 30 June 2018 of £3.5m (2017: £5.1m).

Post Year End

- The Group has received its first commercial deployment order for $0.9m from US Department of Defense for Genedrive® instruments and assays. Subject to manufacture and shipping this order is expected to be recognised as revenue in the first half of the current financial year.
- Genedrive® HCV ID Kit under review by the World Health Organisation for Pre-Qualified status

In November 2018 the Group announced its intention to raise £6.0m (gross) from a combination of equity and debt, with a further £0.5m potentially raised via a broker option. If approved by shareholders at the general meeting on 7 December 2018 the Company will:

- Enter into a £2.5m convertible loan note arrangement with the Business Growth Fund.
- Place new shares sufficient to raise £3.5m of new equity with potentially up to a further £0.5m via a broker option.
- Amend the terms of the GHIF bond to extend the maturity date to December 2023, allow deferral of interest to December 2021 and also amend the conversion prices.

OUR GENEDRIVE® SOLUTION

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

Overview

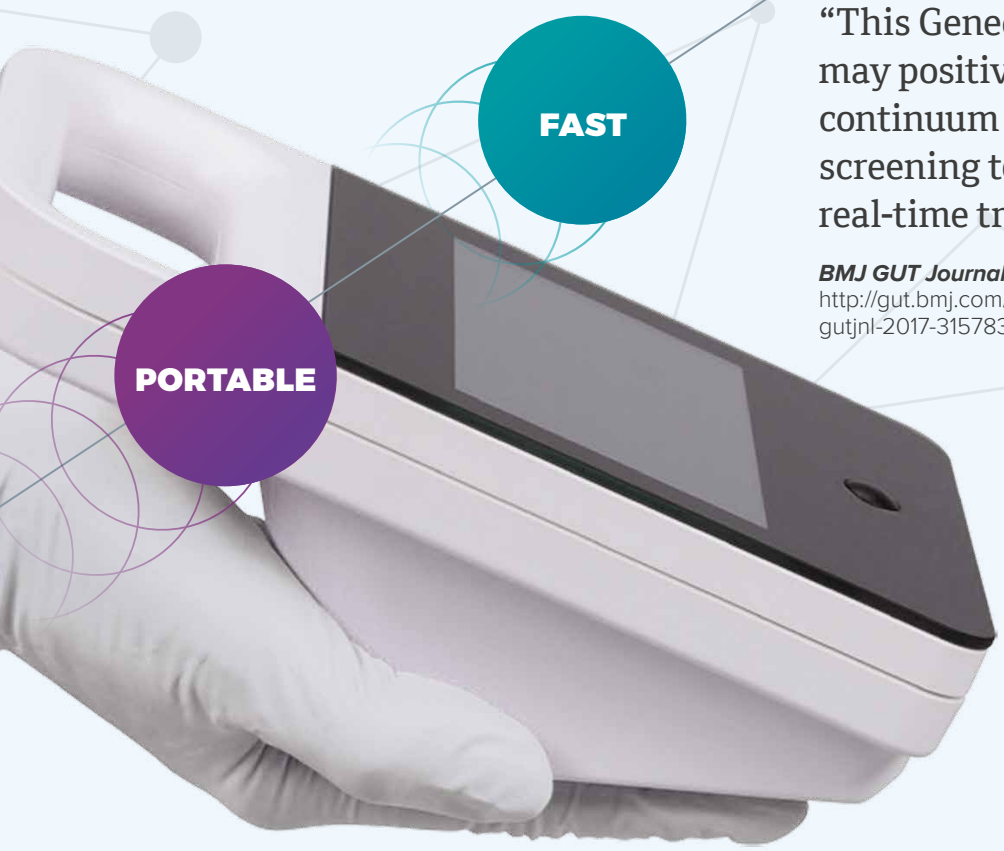
Genedrive® is a patented small polymerase chain reaction (PCR) platform which enables rapid nucleic acid amplification and detection from various sample types, including plasma, sputum and buccal swabs. With minimal hands on time and single button operation, it provides diagnostic results, without the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

How Genedrive® works

Genedrive® utilises proprietary technology to rapidly amplify and detect target nucleic acid sequences 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 PCR amplification, melting curve analysis is used to establish the presence of the target sequence in the sample and the results are automatically interpreted by Genedrive®. An internal control (IPC) is included for each assay. Depending on assay, results are available in as little as 50 minutes.



Gut

"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 **50 minutes**

Up to 1,000 results can be stored

CHAIRMAN'S STATEMENT

Ian Gilham, Ph.D.
Chairman

genedrive plc is well-positioned for growth in the rapidly growing point of need molecular testing market.

I am pleased to report on the positive operational progress the Group has made during the 2017/18 year. The Group has delivered many of the strategic milestones it set out, and is now positioned as a focused diagnostics company, ready to realise the varied opportunities of the Genedrive® system.

Delivering Our Strategy

We are executing our plans to bring a HCV test to market. During the year the Genedrive® HCV ID Kit was CE-marked, we entered distribution agreements to go to market with world class partners in Sysmex and Arkray, excellent data was released from a South African based performance study, and we began commercial sales through Sysmex as we entered the registration processes for target markets.

In June we announced a grant award from the National Institute of Clinical Research to develop and implement a Point-of-Care test for use within NHS hospitals across the UK. This additional test leverages the cost and speed advantages of Genedrive® for acute care, in a new market distinct from our focus in Global Health settings.

In the second half of 2017/18 we secured grant funding of £1.1m to part-fund the development of a Genedrive® companion sample preparation system for mTB. Following the review of our commercial strategy, and termination of our previous Indian distribution arrangements, we plan to return to market with a product with performance characteristics suitable for the larger geographic market in which we now have a footprint. We are part-way through this programme of work to bring an mTB test back to market during the year ending 30 June 2021.

Focusing our efforts on Genedrive® has been a core operational priority, and on the 8 June the Services Divisions was divested to a consortium led by Cath Booth, a former director of genedrive plc. The proceeds from the disposal will help support our development programmes.

Looking Forwards

We are currently registering in markets with the Genedrive® HCV ID Kit. While it is an expanding opportunity, we are first to market with a decentralised molecular HCV test and have the first mover advantage in engaging with clinicians and customers.

To complement HCV we are investing in mTB. Part funded by the £1.1m grant award from Innovate UK we have plans to bring Genedrive® back to this significant global market within two and a half years. mTB is a large and well-funded diagnostics market, and building on our knowledge and experience from the Indian market we are confident we will bring a strong product to market with unique selling points.

Outside of development activities, we have begun to receive income from our pathogen detection programme with the US Department of Defense, (DoD). This project has been fundamental to the development of Genedrive® and continues to provide attractive cash flows for the Group, albeit with limited visibility of the potential future demand. Post year end we received an order for $0.9m and we are encouraged by the engagement of the DoD.

To fund these developments we announced in November 2018 our intention to raise £6.0m (gross) via a combination of equity and debt with a further £0.5m via a broker option. The fund raising will strengthen our financial positions and will bridge the gap to self-sufficiency that will arrive when all three development programmes are revenue generating.

Governance and People

For this annual report the Group has adopted the Quoted Companies Alliance Corporate Governance Code, full details can be found on page 18. While the code is new to the Group, the values and principles are not, and adopting the code has only codified how the Board was acting previously. During the year the Board has undergone changes in personnel and I believe the composition now fits correctly the positioning and strategy of the Group: Tom Lindsay joined as Non-Executive Director in April 2018 bringing a wealth of experience in the decentralised molecular testing market, and Chris Yates joined as Non-Executive Director and Chairman of the Audit Committee in August 2018, Chris has considerable experience in UK publically listed markets. Cath Booth resigned from the Board on the 8th June 2018 as part of her acquisition of the Services business. In addition to these changes, Robert Nolan and Roger Lloyd will not be seeking re-election at the next Annual General Meeting. I would like to thank Cath, Robert and Roger for their services to the Group over what has been a significant period of time and change.

Outlook

It has been another year of progress as we delivered against our milestones to redirect the company as a diagnostics focused business. If approved by shareholders the proposed financing will enable us to have three assays on market in the medium term, (HCV, mTB and Antibiotic Induced Hearing Loss) in addition to our work with the US DoD. This financing is due to close in December 2018. I am very optimistic about the future for the Group and believe we are well placed to grow the business and exploit the attractive market for decentralised diagnostics testing.

I would also like to take this opportunity to express thanks to our staff, the Board and our investors for their support during the year.

Dr Ian Gilham
Chairman
21 November 2018

CHIEF EXECUTIVE'S REVIEW

David Budd
Chief Executive Officer

We continue to make strong progress with a disciplined approach to executing our strategy.

Overview

During the year we accomplished many of the objectives we set ourselves on our plan to become a focused molecular diagnostics company. Over the past two years, we have put a strong team in place that can drive a product menu strategy to ultimately deliver shareholder and customer value. We have aggressively sought grant funding to engage external partners in product engineering and industrial design support, which complement our own assay development capabilities. These world-class partners de-risk our product development programmes and give us confidence in delivering to our timelines.

Our Performance

HCV

The Genedrive® HCV ID Kit is the first low cost, qualitative molecular decentralised testing product on the market. We successfully obtained CE marking in September 2017, quickly followed by partnerships with Sysmex for EMEA and APAC, and then Arkray for India.

We made our first commercial sales in March 2018 to support registrations and KOL engagement. As previously announced, in country registrations have been slower than planned because we delayed initial filings to take advantage of extending our storage claims on the product following successful stability studies, and latterly to reflect the change in name of our trading entity following the disposal of Services. These initial product sales have been followed up subsequently and we currently plan to be registered in up to 30 countries over the next twelve months. While we are targeting these first tier countries with Sysmex, we continue to work on further regions with the desire to bring further partners and markets online.

Antibiotic Induced Hearing Loss

In June 2018 we announced that 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 newborn children. Significantly, the grant is both for the development and the initial implementation in selected NHS Trusts, which will de-risk the sometimes difficult part of introducing new tests within the NHS environment in the future.

We do not anticipate difficulties in developing the assay and so we are focusing attention and resource on overcoming practical difficulties of customer adoption, including IT and connectivity requirements. If proven, there is a sizeable and attractive market which the Group plans to start to exploit during the calendar year 2020.

This is an exciting new development for the Group that leverages the speed and portability of the Genedrive® to provide diagnostics testing at the point of need in an acute care setting, a new potential market for test development. For the first time Genedrive® will be targeted outside of emerging markets.

mTB

Tuberculosis remains an important target market for the Group. The market for mTB testing is large and well defined, and the market needs stated from KOLs and global health organisations clearly points to molecular testing as the desired method in future to replace traditional microscopy.

Having been awarded £1.1m from Innovate UK in January 2018 to refine and develop an alternative sample preparation process, the Group took the decision to re-enter markets with a new mTB test that will build on these sample preparation improvements. The £1.1m funding will provide a substantial portion of the capital required to support the improvements. There will also be assay reformulation to create a test suitable for detection of the most prevalent drug resistant strains of mTB, and not just the most common in India. We are also reworking on design for manufacture requirement to decrease manufacturing costs. The up-front sample improvements and the changes to the assay formulation will give a product and price suited to the global reach of our new distribution networks.

Other

We successfully completed our development programme with the US Department of Defense (DoD) for pathogen identification, and final development revenue from this contract was £1.6m (2017: £2.2m) in the year. The programme now moves to a commercial phase, with the DoD purchasing Genedrive® units and testing cartridges as needed. The Group is encouraged by the initial $0.9m order and believes there is potential for further engagement win the DoD in 2019. The project has been a success in all parameters: supporting development of Genedrive® capabilities, providing funding to the Group, delivering a complex product to the customer specification, and providing ongoing revenue. Subject to manufacturing and shipping the $0.9m order is expected to be recognised as revenue in the first half of the current financial year but is not incremental to the Board's view for sales outlook for the current financial year as a whole. We currently have no visibility or expectations of what future customer demand might be, but are working to establish visibility with the customer.

While we are focused on developing revenue from three assays, we will continue to monitor and look for other collaborations that are accretive and non-dilutive.

Services

On 8 June we disposed of the Services Businesses previously referred to as Preclinical Research Services and Pharmaco-genomic Services, thereby delivering on our strategy to dispose of non-core activities and focus on the attractive global diagnostic market. The consideration was £1,150k up front with up to an additional £750k based on the R&D tax credits earned by the Services Business in the 36 months post sale. The disposal provides genedrive with funds to invest in diagnostics, and the new owners now have the ability to grow a services based business with our former Epistem colleagues.

Outlook

genedrive is now a commercial stage diagnostics business in HCV and DoD and we are transitioning towards a menu of assays. The proposed financing will help the Group drive towards demonstrable revenue growth and to advance the Group's portfolio of additional tests, which if successful, are expected to increase shareholder value and enhance the strategic value of the Groups diagnostics technologies.

We have made significant progress since 2016, and while the Group still has much to strive and work for, I am pleased with the progress made in the year. We have a very knowledgeable and committed team which I am very proud of, strong commercial partners, and large market opportunities ahead. Our progress over the past two years provides me and the Board with confidence that we will continue to make good progress in the future.

David Budd
Chief Executive Officer
21 November 2018

BUSINESS REVIEW
Routes to commercialisation

HEPATITIS C

A First to Market Opportunity to support the WHO's goal of eliminating HCV by 2030.

"Early diagnosis of hepatitis infection is critical for effective treatment and care. Yet globally, less than 5% of persons with chronic viral hepatitis are aware of their status. Awareness is lacking, reliable diagnostics that are appropriate for the setting of intended use and testing services are not sufficiently available and laboratory capacity is weak."

World Health Organisation

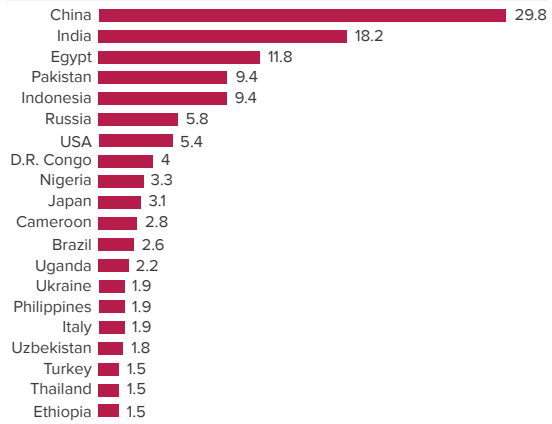
Market Opportunity

The development and availability of new Direct Acing Antivirals (DAAs) for HCV offer the promise of cost effective global eradication. As the availability of generic HCV DAAs become available, genedrive's newly CE-marked HCV test is the first decentralised qualitative molecular test to market that can be used to identify patients eligible for therapy. 20-40% patients spontaneously clear the virus after infection. With antibodies still present in the immune system, a molecular test is needed to assess the presence of active viral infection in those that cannot naturally clear the virus, so they can have treatment.

Historically, treatment has reached only a small fraction of the infected population.

- It is estimated that 70 million people are living with chronic HCV infection with 1.7 million new cases annually
- In 2015, only 7.4% of those diagnosed with HCV infection (or 1.1 million people) had started treatment.
- Low and middle income countries account for the largest proportion of persons living with HCV (72%), yet access to testing and treatment is limited in these geographies.
- 15-45% patients spontaneously clear the virus after infection. With antibodies still presenting the immune system, a molecular test is needed to assess the presence of active viral infection in their blood prior to treatment.

Prevalence of HCV in Top 20 countries (millions)



Genedrive application for Hepatitis C

Decentralised Testing

Portable and highly accurate results made available to smaller laboratories or clinics to support accelerated treatment decisions and initiation.

Cost effective molecular solution

Genedrive is affordable and cost effective, avoiding the high costs and commitments of central laboratory solutions.

- Global distribution deals signed with Sysmex EMEA, Sysmex Asia Pac and Arkray Inc.

Successful Validation

Clinical validation performed by Institut Pasteur, Paris and Queens Medical Centre Nottingham.

- CE marking obtained 11 September 2017.

New Treatment Availability

Availability of new treatments at sustainable developing world prices is driving the need for decentralised diagnostics.

Status

Following successful CE-marking, the Group established distribution partnerships to cover much of the geography needed for the sale and support of Genedrive in the countries with both the clinical need and the commercial opportunity.

- Through our partnerships with Sysmex, we are targeting over 30 priority country registrations over the next twelve months. The entry time by country is dependent on each individual specific regulations and custom practices. Countries are selected based on availability of DAAs, current or future funding streams, ability to sell and support via the distribution partners, and incidence of HCV infection in the population.
- We recognized initial and follow-on orders for product from Sysmex toward the last quarter of the year, with product used to support the registrations in countries requiring evaluations, and for KOL engagement
- We are working to establish additional distribution partners beyond the geographies already contracted.

Commercialisation strategy

HCV Launch

- Prioritised list of countries based on HCV dynamics
- Positive engagement with global and regionals NGOs to support roll-out
- Company in active discussions with both regional and country specific commercial partner

Launch locations

BUSINESS REVIEW

Routes to commercialisation

Next Steps

It is important to get the product registered into market, but also that we work to unlock and facilitate the funding that ultimately is needed to purchase product and treat patients. To that end, we are engaged with the World Health Organisation through their "pre-qualification" (PQ) programme to establish genedrive HCV on the list of WHO approved products. The WHO PQ process not only establishes independent performance and safety data on in vitro diagnostics, but also places approved products on an electronic e-commerce system so that they may be purchased by member states. While there is no guarantee that we will be able to achieve this, it is a very realistic opportunity that could be obtained within the next 12 months.

Pharma companies also have a vested interest in the availability of diagnostics in the marketplace, for without widespread diagnostic availability, widespread uptake of their products is hindered. To that effect, we are engaged with pharma companies and their partners on the opportunity to include Genedrive HCV-ID in targeted studies or commercial roll-out.

Partners

Distribution deals signed with:

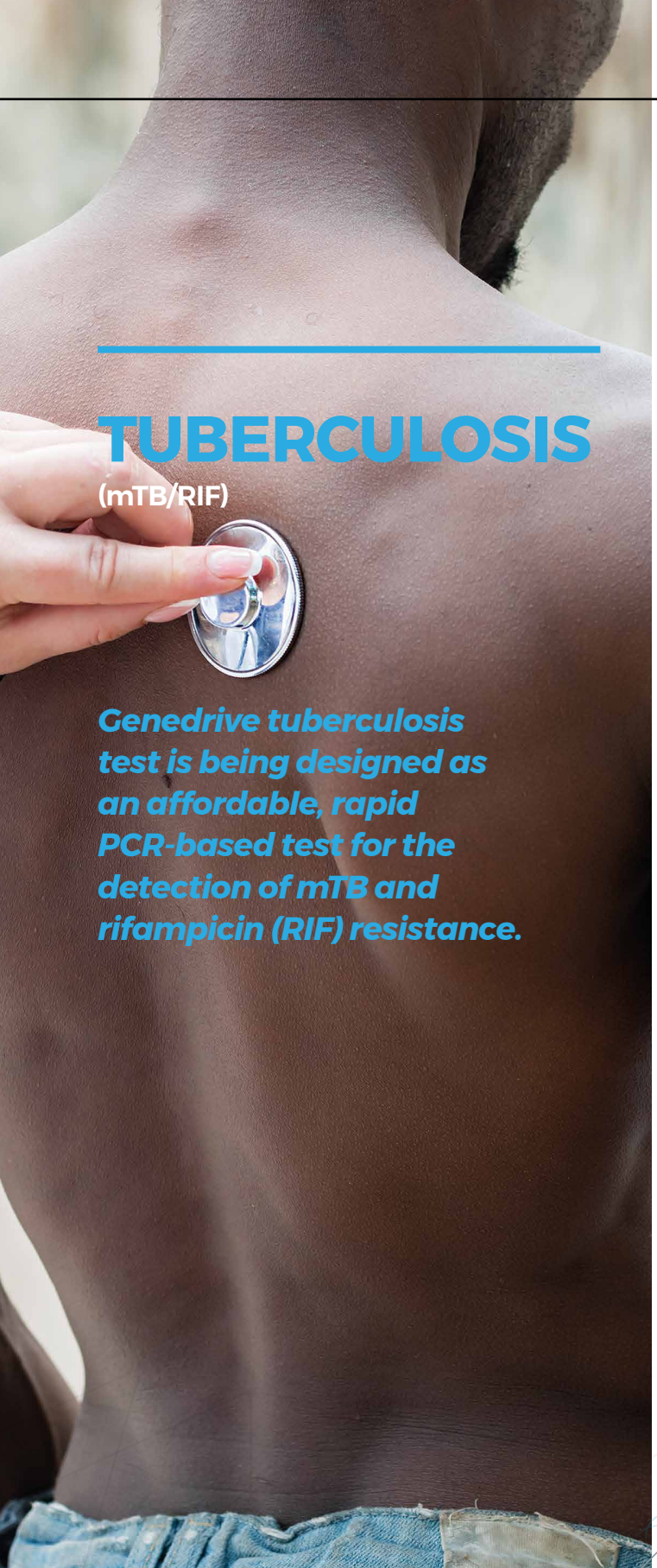
- Sysmex EMEA
- Sysmex Asia Pacific
- Arkray

Genedrive join Sysmex Asia Pacific at ICPaLM 2018 Conference

Genedrive at The International AIDS Conference

"With a strong commercial partner now in place for HCV in EMEA, we look forward to beginning commercialisation activities in certain markets for this important new assay"

David Budd
Chief Executive Officer



TUBERCULOSIS

(mTB/RIF)

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

Market Opportunity

The TB market is large and well defined. The Genedrive® mTB/RIF assay aims to increase the adoption and availability of sophisticated molecular diagnostic analysis.

- TB is the largest single infectious disease causing death among young people and adults globally.
- TB diagnosis in many countries is still reliant on microscopy.
- Molecular testing is the fastest growing TB test segment.

Status

In February 2018 the Group announced it had been awarded grant funding of £1.1m to design and develop a sample preparation process for the Genedrive® mTB assay.

The grant funding from Innovate UK is being used to engage world-class British industrial design expertise to de-risk and expedite the development programme. Concurrently, the Company is re-engineering the assay design to minimise manufacturing costs and ensure a standardised global performance in the resistance it detects.

The new product is targeted to have an automated, streamlined sample preparation approach, a clear focus on overall cost and potential to increase biosafety beyond what is currently available in the market.

Next Steps

The timeline for the programme has a number of fixed duration items, such as the Innovate development timeframe, product performance and clinical validation, and subsequent country registration periods – we therefore expect to be on-market and generating revenues with our new test by the year ending 30 June 2021, targeting the many countries with which we now have distribution reach.

Partner

GLOBAL HEALTH INVESTMENT FUND

BUSINESS REVIEW
Routes to commercialisation

ANTIBIOTIC INDUCED HEARING LOSS

Development of a point-of-care test with initial implementation in the NHS, targeted to avoid antibiotic-related hearing loss in newborn children.

£550,000
Grant

"We look forward to working with Genedrive and our colleagues in Manchester and Liverpool to assess the impact of rapid genetic testing as a method of avoiding irreversible hearing loss in babies."

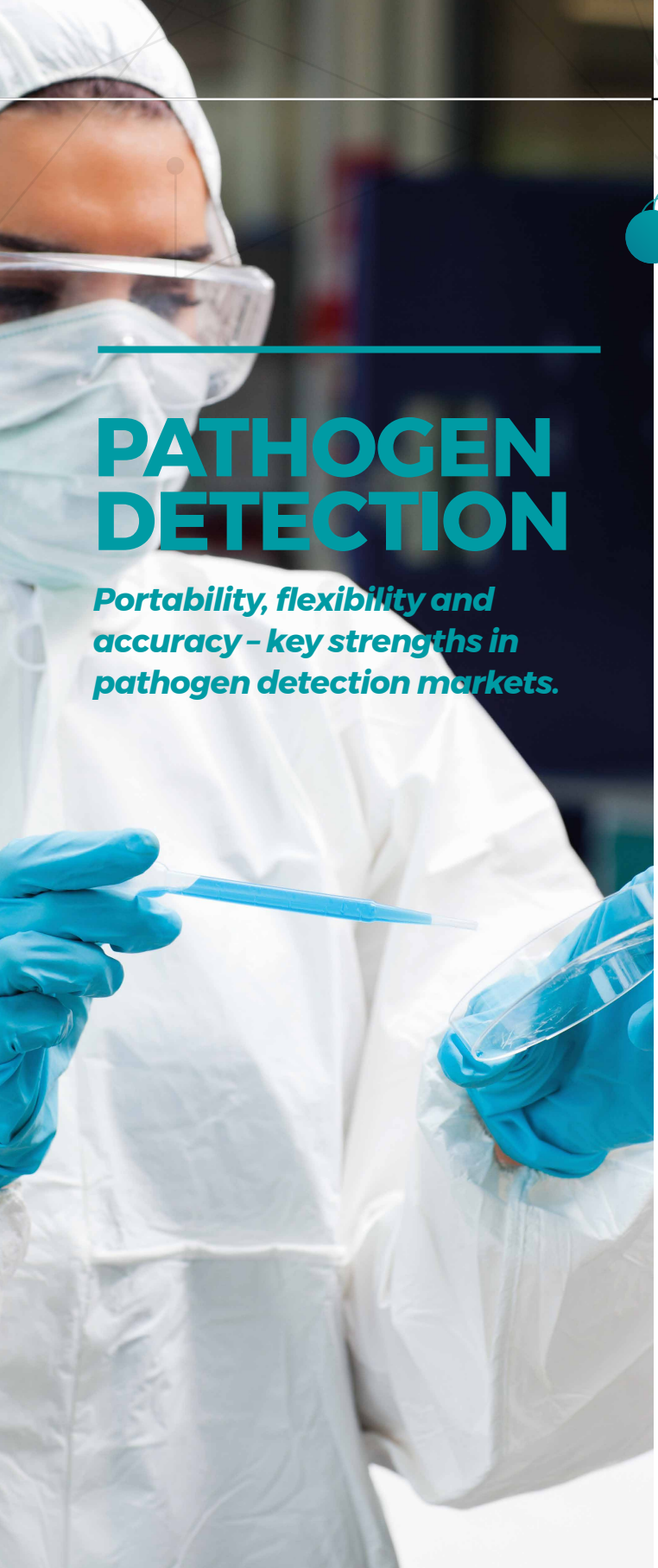
Professor William Newman
(Professor of Translational Genomic Medicine at the University of Manchester and Consultant at Manchester University NHS Foundation Trust)

Overview
Through the UK National Institute for Health Research's Innovation programme and in Partnership with Manchester University NHS Foundation Trust and other partners, the Group is developing a point-of-care test to avoid antibiotic-induced hearing loss in infants suspected of sepsis.

Market Opportunity
Due to an identified genetic predisposition, certain individuals develop irreversible hearing loss when exposed to gentamicin, an antibiotic used to treat several types of bacterial infections. In the UK, approximately 90,000 babies per year are admitted to intensive care units with the majority treated with gentamicin. Antibiotic treatment should start within the first hour after admission, but current lab-based genetic tests are not able to return actionable results within that timeframe. The application of Genedrive® in an urgent healthcare setting is an excellent example of how a rapid, affordable, point-of-care test could impact patients' treatment and quality of life.

Status
The project started in June 2018 and we expect to update with our first progress report in the interim financial statements to December 2018. Upon successful completion, the programme would set the stage for the Group's first programme that involves a high income country, and has the opportunity for expansion into other geographies across Europe and globally. It also marks the first use of Genedrive in an urgent care setting.

Partner
NHS
Manchester University
NHS Foundation Trust



PATHOGEN DETECTION

Portability, flexibility and accuracy – key strengths in pathogen detection markets.

Biodefence

Genedrive has been working with the US Department of Defense (DoD) since 2013. The programme of work has been centred on developing a set of pathogen detection tests appropriate for military requirements. The work has been integral to the development of the Genedrive® unit over the years as well as a key source of funding for the Group.

Progress

During the year, total revenues to the DoD were £1.6m (2017: £2.2m), the decline entirely owing to the life-cycle of the project. Total revenues included approximately £0.5m of Genedrive® unit and assay sales as the customer widened its internal 'marketing' of the molecular testing solution.

Next Steps

The development phase of the contract has now ended and the customer is moving into commercial deployment. For genedrive, this means we are now a supplier to the DoD where previously we were a co-developer with a predictable income stream measured against milestones achieved. We understand from the customer that the Genedrive® has passed internal evaluation tests completed by independent assessors which will lead to additional sales. Post year end we received an order from the customer as they start a deployment of the Genedrive® – the order is worth approximately $0.9m. The Group is encouraged by this recent order and believes there is potential for further engagement with the DoD in 2019, however we currently have limited order visibility from the customer to gauge future demand.

Partner

FINANCIAL REVIEW

Matthew Fowler
Chief Financial Officer

We are committed to develop and improve our Genedrive® technology.

Results for the year delivered revenue and other income of £1.9m (2017: £2.6m). Research and development costs were £5.2m (2017: £5.0m) and the increase reflects our continued commitment to develop and improve our Genedrive® technology, with specific in year costs related to obtaining CE marking and extending stability claims. Administration costs were £2.0m, down substantially from the prior year £2.6m as we focus on cost control. The operating loss for the year was £7.4m (2017: £7.4m) and is stated after the impairment of intangible assets of £2.1m (2017: £2.4m).

Financing costs of £0.4m (2016: £0.2m) relate to the dollar denominated Global Health Investment Fund (GHIF) convertible bond and are all non-cash charges. The charges include the unwind of the discount on the long term debt, £0.2m (2017: £0.2m), interest costs £0.3m (2017: £0.3m) and positive foreign exchange movements of £0.1m (2017: £0.1m loss).

The loss on activities was £7.8m (2017: £7.6m) and the tax credit for the year was £0.8m (2017: £1.0m), meaning the loss for the financial year after tax was £7.0m (2017: £6.6m).

On the 8th June the Group disposed of the business and assets of its Services Divisions. These Divisions comprised the segments previously reported as Preclinical Research Services and Pharmaco-genomic Services. The initial consideration was £1,150k subject to normal working capital adjustments, plus up to an additional £750k deferred consideration based on the Research and Development tax credits earned by the Services Business in the 36 months post disposal. The division has been reported under discontinued operations; it contributed £1.1m after tax, made up of a profit on disposal of £0.6m and an operating profit of £0.4m.

Total comprehensive expenses for the year from continuing and discontinued operations was £6.0m (2017: £6.4m). The basic loss per share from continuing operations was 37.6p (2017: 35.7p).

Cash Resources

Operating cash outflows are stated after losses, working capital and tax, and were £2.5m (2017: £1.8m). Operating losses were £4.3m (2017: £3.9m). Working capital contributed £0.6m, including discontinued operations, lower than the £1.3m inflows from 2017 owing to the correction of debtor management in that year. Tax credit received was £1.2m (2017: £0.8m) and relates to cash received under the Corporation Tax Research and Development tax relief scheme operated in the UK. The current year tax debtor is £1.0m (2017: £1.2m) and while still a significant element of funding for the Company, this is down on 2017 owing to the lower qualifying costs following the disposal of Services and a greater mix of non-qualifying costs related to work connected to UK funded grants.

Offsetting this £2.5m outflow, net cash contribution from the disposal of Service was £1.0m. The overall decrease in cash was £1.6m (2017: £4.1m increase) meaning a closing cash position of £3.5m (2017: £5.1m).

Balance Sheet

Balance sheet net liabilities at 30 June 2018 totaled £2.4m (30 June 2017: £3.4m net assets). Given the level of cash in the business and post the proposed financing, the negative net assets are not of material concern to the Board. However, Section 656 requires a public company whose net assets are half or less of its called-up share capital to call a General Meeting for the purpose of considering whether any, and if so what, steps should be taken to deal with the situation. A General meeting was announced and convened on 13 September 2018.

Non-current assets were £3.1m down from the prior year £3.6m owing to the impairment of intangible fixed assets, depreciation, amortisation and the disposal of assets related to the Services business. The carrying value of intangible assets was reviewed in the year and the value was impaired down to nil. The portion of the consideration for Services that will be received at least twelve months from the balance sheet date has been fair valued, discounted and reported as non-current, £0.3m (2017: £nil).

Current assets of £5.4m (2017: £8.4m) included cash of £3.5m (2017: £5.1m) and tax receivable of £1.0m (2017: £1.2m), with the remaining working capital related items making up £1.0m lower than the prior year £2.1m owing to the disposal of Services and reduction in assets and liabilities. The liability attached to the convertible loan increase from £5.2m in 2017 to £5.6m at the balance sheet date. The increase is non cash and related to interest and the unwinding of the discount.

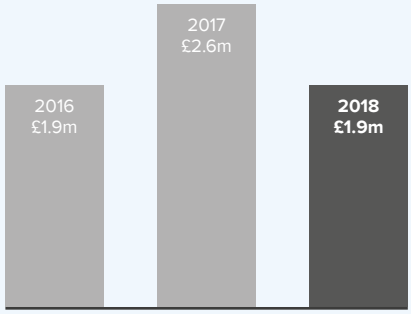
During November we confirmed a proposed financing to enable us to bring three assays to the market in the medium term. The financing is due to close in December 2018.

Matthew Fowler
Chief Financial Officer
21 November 2018

KEY PERFORMANCE INDICATORS

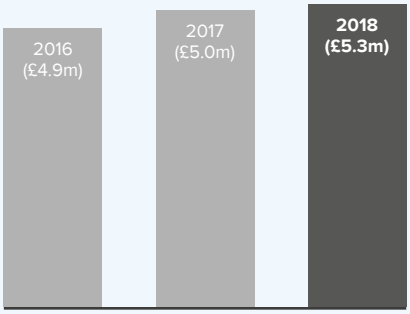
Diagnostics (Genedrive)

Diagnostics revenue down as we transition from development income to revenue from instrument and assay sales.



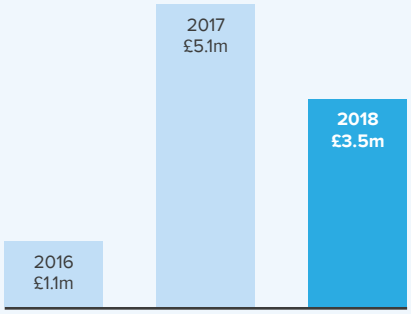
Trading Result

Loss before tax, interest, finance costs and impairment of intangibles up slightly over prior years owing to reduced revenues.



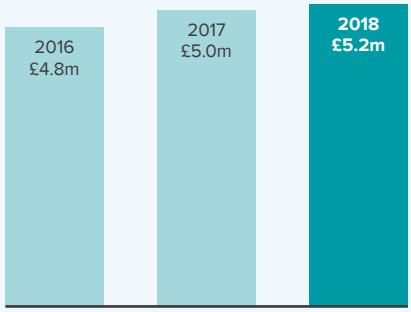
Cash Reserves

Cash reserves of £3.5m, boosted by the disposal of the Service business.



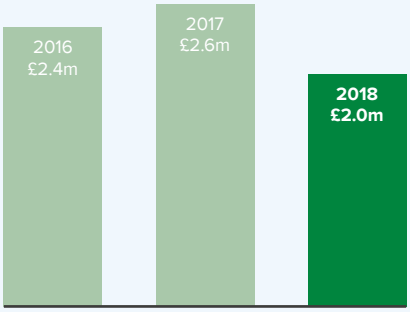
Research and Development Costs

Research and Development costs grew to £5.2m as we continue to invest in the Genedrive® offering.



Administration Costs

Administration costs amounted to £2.0m, down on prior years following tight control of costs.



PRINCIPAL RISKS AND UNCERTAINTIES

For the year ended 30 June 2018

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.

We monitor new risk based on maintaining and reviewing a risk register. The risk register is created through both top down reviews with the Board and bottom up reviews with the senior management team, culminating in final approval of the register by the Board. In determining the relative importance of risks in the process, we used 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 are not presented in priority order. Given that this is the first year of implementation, the directional movements are the views of the Board during the year and are not at this point underpinned by evidence from a full twelve month period.

Risk	Impact	Mitigation	Risk Movement
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	↔
Distributor Reliance Over reliance on a poorly performing distributor	Loss of revenue	• Close relationship with distributors • Good visibility of marketing plans and promotional strategies • Base controls in distributor supply agreement, including minimum performance criteria	↔
Competitor Entry	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 • Constants market monitoring and competitor analysis	↑
HCV Efficacy The Genedrive® HCV ID Kit does not work as intended in real-world settings	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	↓
In-country Registrations Delays in the processes to Register the Genedrive® HCV ID Kit in target markets	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 & Reimbursement Risk The Company strategy relies on the availability of funds from Government and other large organisations to fund drugs treatments	Negative impact on long-term prospects	• Company is progressing preferred status (eg pre-qualification) with key bodies	↔
Supply Risk 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 • Programme of audits for key suppliers	↔
Financial Position The Company is loss making and will continue to be so until it builds a portfolio of profitable diagnostics assays	Negative impact on Company's prospects	• Company actively and aggressively seeking non-dilutive sources of funding • Cash consumption a key metric	↑

INTRODUCTION TO CORPORATE GOVERNANCE

Ian Gilham, Ph.D.
Chairman

The statement of corporate governance practices set out on pages 18 to 33, 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 2018. 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). During the year the Board considered which recognised Corporate Governance code it should follow and selected the QCA Code as it is supportive of the principles laid down in the Code, especially in the context of growth companies.

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.

The Group has gone through a period of significant change with the disposal of the Services Businesses in June 2018, and the emergence of the plc's strategy solely on molecular diagnostics. As a result, I am pleased to report that since the last annual report we have appointed two new Non-Executive Directors, Tom Lindsay and Chris Yates, both of whom have a wealth of knowledge and experience relevant to our new focussed business. Their biographical details are set out on pages 20 - 21 of this report.

The Board has taken the decision that all Directors be proposed for election or re-election at the next Annual General Meeting of the Company. Both Robert Nolan and Roger Lloyd have indicated their intention to retire at the December 2018 AGM. I would like to thank Bob and Roger for the advice and support they have given me as Chairman and for their contribution and commitment to the Company and the Board of Directors over their years with the Company.

Details of the Annual General Meeting to be held on 31 December 2018 are included in this report and we look forward to meeting shareholders at that meeting.

Dr Ian Gilham
Chairman
21 November 2018

BOARD OF DIRECTORS

The right mix of skills and 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 Biosurfit SA, focused on development and commercialisation of point-of-care diagnostic products. Ian also serves as non-executive director of Elucigene Ltd. 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 March 1, 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 December 13th 2016. He has over 15 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. At Scapa Group plc, Matthew was responsible for shaping and managing finance within the Group as well as strategy development and other core processes. Prior to that, Matthew spent three years at British Nuclear Group as Finance Manager where he managed the corporate centre's finance team and was responsible for planning, reporting and accounting. Matthew trained and qualified in the audit department of Deloitte & Touche.

Committee Membership

- *Audit and Risk Committee*
- *Remuneration Committee*
- *Nominations Committee*
- *Chairman*

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 Sought African Institute of Medical Research in Johannesburg South Africa

Chris Yates

Non-Executive Director

Chris was appointed to Board on 22/8/2018. He is currently 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.

Robert Nolan Ph.D.

Non-Executive Director

Robert has been a Non-executive Director of the Company since 2004. Having gained US post-doctoral experience at Dartmouth Medical School and MIT, he joined SANDOZ Forschungsinstitut in Vienna in 1972 to work on mechanism of antibiotic action and was also co-opted on to Sandoz global strategic planning group. He joined ICI pharmaceuticals (which became AstraZeneca) in 1979 to head up a natural products discovery programme and subsequently joined their product licensing group. He brings with him a wealth of expertise in partnering and licensing negotiations with both small biotechnology and large pharmaceutical companies. Prior to his retirement he was Director, Global Licensing, at AstraZeneca. He is also a Non-executive Director of Phico Therapeutics Ltd.

Roger Lloyd Ph.D.

Non-Executive Director

Roger joined the Board as a Non-executive Director on 1 July 2007.

Trained as a biochemist, Roger has 40 years' experience in the healthcare and biotechnology sector, particularly in the areas of strategic planning and business development. International business management with ICI Plc and AstraZeneca Plc included living and working in the United States and Germany, and having territorial responsibilities for Europe, Japan, Korea, Mexico and the Middle East. As Executive Director of Global Licensing at AstraZeneca he personally completed 24 transactions. He operates as a Board Adviser in the Biotech sector.

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 24 to 30. 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.

Nominations Committee

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

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.

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 entrepreneurial 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 currently comprises two Executive Directors, a Non-Executive Chairman and four Non-Executive Directors. The names, biographical details and Committee memberships of the current Board members are set out on pages 20 - 21 of this report. Robert Nolan and Roger Lloyd have stated their intention to step down from the Board at the Annual General Meeting in December. 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 meeting during the year to 30 June 2018, 6 in-person Board meetings and 4 by telephone. 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 in the table below. To ensure that the Directors are kept fully informed on the status of the business, presentations from senior managers are also delivered to the Board.

Attendance at Meetings

	Board[a]	Audit and Risk Committee	Remuneration Committee	Nominations Committee
Ian Gilham	10	2	2	1
Robert Nolan	9	2	2	1
Roger Lloyd	9	2[a]	2	1
Tom Lindsay[b]	3	–	–	–
David Budd	10	2[a]	2	–
Matthew Fowler	10	2[a]	2	–
Allan Brown[c]	2	–	–	–
Catherine Booth[d]	8	–	–	–
Chris Yates[e]	–	–	–	–

a Attendance via invite
b Appointed 9 April 2018
c Resigned from the Board 8 November 2017
d Resigned from the Board 8 June 2018
e Appointed 22 August 2018

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

REPORT OF THE AUDIT AND RISK COMMITTEE

Ian Gilham, Ph.D.
Chairman of the Audit and Risk Committee

The Audit and Risk Committee ('the Committee') report for the year ended 30 June 2018 is set out on the following pages 24 to 25. There is nothing of note to bring to your attention. I will of course be available at our Annual General Meeting to respond to any questions related to Audit and Risk.

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 twice 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 Bob Nolan and myself. In addition Roger Lloyd was invited to the two meeting during the year, as were David Budd and Matthew Fowler. We recognise the potential conflicts of having the Company's Chairman also chair the Audit and Risk Committee. We do not believe this has created any issues historically, but this has been a factor in our selection and recruitment of a new non-executive director.

Chris Yates has recently been appointed to the Board, and following shareholder approval at AGM in November it is the intention that Chris will become the Chairman of the Audit and Risk Committee. Chris brings a depth of financial knowledge in small listed businesses and as such is well placed to chair the Audit and Risk Committee.

Audit and Risk Committee activities

During the year the Committee has undertaken the following activities:

Financial statements and reports

- Reviewed and discussed changes to the AIM Rule 26 and its impact on reporting requirements
- Reviewed the interim financial statements and related statements and discussed, key accounting judgements, Income Statement for the half year, specifically revenue, trading profit and cash projections
- 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
  - Carrying value of intangible assets on the balance sheet
  - Disposal of the "Services " business

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 approved the Group's insurance coverage

External Audit

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. However, there may be occasions when it is appropriate to use our external auditor for non-audit services and this will be reviewed on an individual basis and allocated according to merit. The external auditor did not undertake any non-audit services during the year.

Tendering policy and review of auditor effectiveness

PwC was appointed as the Group's external auditor in 2016 and has been the Group's external auditor for three financial years. The current engagement partner, Hazel Macnamara, has been in place during all of this time. Following satisfactory audits over the past three years, the Committee and the Board recommend the reappointment of PwC as auditor for the next financial year.

Dr Ian Gilham
Chairman of the Audit and Risk Committee
21 November 2018

REPORT OF THE REMUNERATION COMMITTEE

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

Remuneration Committee

The Remuneration Committee is responsible for determining reviews 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.

Introduction

This 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.

Unaudited information

Remuneration 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 Finance Officer received a contribution to pension equivalent to 2% of salary. The executives may elect for contributions to be paid via a salary sacrifice scheme.

Annual bonus: schemes are designed to link individual's 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 60% for the Chief Finance Officer.

Long Term Incentive Plan (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.

Service contracts: Executive Directors' service contracts are subject to 6 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 Directors 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.

REPORT OF THE REMUNERATION COMMITTEE
continued

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 2018 and 2017.

		Salary & Fees £	Bonus £	Benefits in kind £	Pension £	Total £
Executive						
David Budd	**2018**	**223,300**	**103,332**	**1,100**	**4,466**	**332,198**
	2017	220,000	73,125	805	4,400	298,330
Matthew Fowler	**2018**	**142,100**	**70,000**	**–**	**2,842**	**214,942**
	2017	77,538	21,313	–	1,551	100,402
Catherine Booth[1]	**2018**	**129,482**	**–**	**583**	**2,590**	**132,655**
	2017	135,643	14,625	345	2,713	153,326
Allan Brown[2]	**2018**	**138,671**	**–**	**756**	**2,081**	**141,508**
	2017	154,177	14,625	434	3,084	172,319
Non-executive						
Ian Gilham	**2018**	**65,000**	**–**	**–**	**–**	**65,000**
	2017	65,000	–	–	–	65,000
Tom Lindsay[3]	**2018**	**6,000**	**–**	**–**	**–**	**6,000**
	2017	–	–	–	–	–
Robert Nolan	**2018**	**24,000**	**–**	**–**	**–**	**24,000**
	2017	24,000	–	–	–	24,000
Roger Lloyd	**2018**	**24,000**	**–**	**–**	**–**	**24,000**
	2017	24,000	–	–	–	24,000

1 Resigned from the Company on 8 June 2018 as part of the disposal of the Services Businesses. There were no additional payments made to C Booth as part of her resignation.
2 A Brown resigned from the Board on 8 November 2017 and left the Company on 31 January 2018. He was paid £33,534 when he left the Company in lieu of his remaining notice period. In addition the Board exercised its discretion to extend the life of certain options granted to the Director until 31 October 2018. There were no other benefits or payments made to the employee.
3 Appointed 9 April 2018.

Additional disclosures for single figure total remuneration to 30 June 2018

Salary

The Chief Executives salary at 30 June 2018 was £223,300 and was increased by 1.5% from the 1 July 2018 to £226,650. The CFOs salary at 30 June 2017 was £142,100 and was increased by 1.5% from the 1 July 2018 to £144,230. The Committee believes that the increase of 1.5% awarded was in line with the performance of the Group and the individuals, as well as being entirely consistent with the pay increases awarded to other members of staff.

Annual Performance Bonus

The 2018 bonus for the Executive Directors and Senior Management was based on

- Revenue targets on sales of Genedrive® units and assays.
- Securing the viability of the Company by attaining funding for the Group.
- A trading loss target measured against budget.
- Progressing the attainment of CE marking for the HCV assay.
- Securing a distributor structure for the Genedrive® instrument.

The specific targets have not been disclosed. The overall achievement was 61.7%.

Pension contributions

The Company pays contributions to the nominated personal pension plans of the Executive Directors, in each case at a rate equal to 2% of salary. Certain Directors elect to have part of their salary and fees paid into their pension scheme under salary sacrifice arrangements. In the remuneration table above salary and fees are stated before salary sacrifice.

Long Term Incentive Plans

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

	1 July 2017	Exercised / Lapsed	Options Granted	30 June 2018	Exercise price	Earliest exercise date	Expiry date
Executive							
David Budd	244,444	–	–	244,444	£0.90	07/04/2019	06/04/2026
	397,590	–	–	397,590	£0.43	05/04/2020	04/04/2027
Matthew Fowler	141,666	–	–	141,666	£0.60	14/12/2019	13/12/2026
Allan Brown	200,000[A]	–	–	200,000	£3.25	25/03/2017	31/10/2018
	50,000	(50,000)	–	–	£0.43	05/04/2020	31/10/2018
Non-executive							
Ian Gilham	100,000	–	–	100,000	£2.78	17/12/2018	16/12/2025
	50,000	–	–	50,000	£2.78	07/04/2019	06/04/2026
Roger Lloyd	30,000	–	–	30,000	£2.78	17/12/2018	16/12/2025

A Under the terms of his severance agreement Allan Brown has until 31 October 2018 to exercise his vested options.

The Company adopted a new enterprise management incentive plan in July 2017 as the old scheme, dated November 2007, was due to expire. The new scheme is broadly aligned with the old scheme and 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 circumstance.
- 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.

No options were granted to the Chief Executive or the CFO during the year under the new scheme. The Remuneration Committee approved the issue of options to the two Executive Directors but these where not granted as the Company entered into a close period with respect to the grant award for the point of care test in the NHS. Subsequent to the year end, and as announced on 19 July 2018, the two Executive Directors were awarded options that will be reported in the 2018/19 annual report and accounts. The exercise price of the awards was the share price at the date of grant.

REPORT OF THE REMUNERATION COMMITTEE
continued

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 2018	30 June 2017
Executive		
David Budd	31,250	31,250
Matthew Fowler	–	–
Catherine Booth	980,000	980,000
Allan Brown	51,999	51,999
Non-executive		
Ian Gilham	114,250	114,250
Tom Lindsay	–	n/a
Roger Lloyd	12,500	12,500
Robert Nolan	5,065	5,065

The shareholdings of Allan Brown and Catherine Booth are stated at the date of retirement from the Company. Catherine Booth's shareholding was subject to a "lock-in" mechanism as part of the agreement to sell the Services Businesses to a company in which she is a director and material shareholder. The terms of the lock-in prevent Catherine Booth from selling any ordinary share in the six months following completion. In addition for a further six months Catherine Booth has agreed not to sell more than £200,000 worth of ordinary shares in the Company; any sale will be by way of an orderly marketing arrangement..

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.

When Allan Brown left the Company he was entitled to 19,813 shares from the SIP savings scheme. These SIP shares are excluded from the table above. When Catherine Booth left the Company she was entitled to 31,223 shares from the SIP savings scheme. These SIP shares are excluded from the table above.

Advice Received by the Committee

The Committee has access to advice when it considers appropriate. In the current year the Committee did not receive any formal external advice. In the year ended 30 June 2018 the Committee received assistance and advice from the Company Secretary, and in addition had specific advice on the Company's long term incentive plan from Deloitte LLP.

This Remuneration Report was approved by a duly authorized Committee of the Board of Directors on 21 November 2018 and signed on its behalf by:

Dr Ian Gilham
Chairman of the Remuneration Committee
21 November 2018

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 2018. Genedrive plc is the holding company for a group of company's operating in the disease diagnostics markets. A review of the performance of the Groups businesses is contained on pages 10 to 13 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. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 financial statements and IFRSs as adopted by the European Union have been followed for the 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.

Results and dividends

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 39 to 42 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 announced fund raise that is due to complete after the Group's accounts are signed. In order for the Group to continue as a going concern, the Group has proposed to raise £6.0m (gross) from a combination of equity and debt, and potentially up to a further £0.5m via a broker option. The Group's stock broker has obtained commitments from shareholders that it will get £6.0m. Owing to the size of the fund raise relative to the market capitalisation of the Group, shareholder approval is required before these commitments become unconditional.

While the Board is confident that it will achieve approval from shareholders, until it is confirmed at a general meeting there is a material uncertainty as to the whether the fund raise will conclude successfully. Owing to reporting obligations for the Group's annual accounts, the Group cannot wait until after the shareholder approval to release its accounts. Therefore at the date of these financial statements the fund raising has not been approved and this 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 shareholders rejecting the fund raise, 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 Group was unable to continue as a going concern.

DIRECTORS' REPORT
continued

Annual General Meeting
The Annual General Meeting will be held on 31 December 2018 at Addleshaw Goddard LLP, Milton Gate, 60 Chiswell Street EC1Y 4AG. Details of the business to be considered at the Annual General 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 pages 69. 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 30. 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.

The Company issued a convertible bond to the Global Health Investment Fund 1 LLC in July 2014. 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 page 61.

On 29 July 2010 the Company bought 100% of the share capital of Visible Genomics Limited. As part of the consideration £1,250k will become payable to the previous owner in the form of shares as detailed in note 18 on page 60.

Board of Directors
The names of the present Directors and their biographical details are shown on pages 20 to 21. At the Annual General Meeting, to be held on 31 December 2018, Tom Lindsay and Chris Yates will offer themselves for election. Ian Gilham, David Budd and Matthew Fowler offer themselves for re-election. Robert Nolan and Roger Lloyd will not offer themselves for re-election and will step down from the Board.

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:

	Holding
Calculus Capital	17.7%
M&G Investment Mgt	13.0%
Odey asset Mgt	10.6%
River & Mercantile asset Mgt	5.62%
Catherine Booth	5.38%

Research and development

During the year ended 30 June 2018 the Group has incurred research and development costs of £5,180k (2017: £5,009k). Expenditure on Intangible Assets (relating to research and development activities) was £nil (2017: £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 17.

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 20 to 21. 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 auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution that they be re-appointed will be proposed at the 2018 Annual General Meeting.

Approved by the Board

Matthew Fowler
Company Secretary
21 November 2018

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GENEDRIVE PLC

Report on the audit of the financial statements

Opinion

In our opinion, genedrive plc's Group financial statements and Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 30 June 2018 and of the Group's loss and the Group's and the Company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and company balance sheets as at 30 June 2018; the consolidated statement of comprehensive income, the consolidated cash flow statement, the company statement of cash flows, and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Material uncertainty relating to going concern – Group and Company

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Group's and the Company's ability to continue as a going concern. Note 1 describes the Group's post balance sheet fundraise which at the date of approval of these financial statements is conditional on shareholder approval. This condition, along with the other matters explained in note 1 to the financial statements, indicates the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

Explanation of material uncertainty

As described in note 1 the Group has received irrevocable commitments for the issuance of £3.5m of share capital and £2.5m of convertible loan notes. Given the value of this fundraise relative to the market capitalisation of the Group, shareholder approval is required before these commitments become unconditional. There is a risk that shareholder approval is not obtained and the fundraise does not complete. If this were the case, the Group may not have sufficient cash to meet its obligations as they fall due. Given this risk, the directors have drawn attention to this in disclosing a material uncertainty relating to going concern in the basis of preparation to the financial statements.

What audit procedures we performed

In concluding there is a material uncertainty, our audit procedures included:

- obtaining the irrevocable commitments received by the Group in relation to its fundraise and understanding the conditions that these are subject to;
- obtaining management's cash flow forecast, which supports its use of the going concern basis of accounting, and testing the mathematical accuracy of this model. We compared significant forecast revenue transactions to supporting information including purchase orders and found these to be consistent. We compared forecast total costs to equivalent amounts incurred in the current year and discussed with management the reasons for any significant variances;
- considering the consistency of the forecast with other forecasts made by management, for example in impairment models. We also considered historical accuracy of management's forecasting; and
- reviewing management's downside sensitivities and performing our own sensitivity analysis, focusing on reasonable downside scenarios including lower than, or a deferral of, forecast revenue. We also established the level of committed versus discretionary spend to determine where costs could be reduced if necessary to mitigate any short term cash shortfall.

The base case going concern forecast includes £6.0m gross cash inflow related to the Group's fundraise which, as noted above, is subject to shareholder approval. If approval is not obtained the Group and Company may not have sufficient cash to meet their obligations as they fall due. This has been deemed a material uncertainty which, if realised, may affect the Group's and Company's ability to continue as a going concern.

Our audit approach

Overview

- Overall Group materiality: £232,650 (2017: £255,400), based on 5% of profit before tax, adjusted for the impairment of intangible assets.
- Overall Company materiality: £69,140 (2017: £89,900), based on 1% of net liabilities.

- We performed audit work over genedrive plc (the parent company of the Group) and Genedrive Diagnostics Limited (formerly Epistem Limited), a 100% owned subsidiary, which accounted for 100% of revenue and 98% of loss before tax, adjusted for the impairment of intangible assets.
- We performed audit work over all material financial statement line items of the Company financial statements.

- Valuation of intangible assets (Group).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GENEDRIVE PLC

Report on the audit of the financial statements continued

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, 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, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the 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 going concern, described in the Material uncertainty relating to going concern section above, we determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Valuation of intangible assets - Group Refer to note 11. Due to the loss made in the current year, management performed an impairment review and determined that the Group's intangible assets should be impaired to nil, resulting in an impairment charge of £2,111k. This conclusion was reached primarily due to uncertainty related to the amount and timing of future cash flows from commercial sales. We focused on this area due to the material value of the opening balance and the estimation involved in determining the recoverable value of the assets.	We evaluated and challenged the Group's impairment model including the underlying cash flow forecasts. We understood the current status of the Group's product registration process, the expected timetable for future commercial sales and the key milestones to be achieved in order to generate such sales. We compared previous forecasts to actual results to assess management's ability to accurately forecast the results of the business. We tested the discount rate used by assessing the cost of capital for the Group and comparing against similar organisations. We assessed the sensitivity of the impairment model to changes in the discount rate and other key estimates.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group comprises the following entities: genedrive plc (parent company of the Group); Genedrive Diagnostics Limited (formerly, Epistem Limited); Epistem Inc and Epistem SIP Trustee Limited.

The Group audit team in the UK performed an audit of the complete financial information of genedrive plc and Genedrive Diagnostics Limited, which we regarded as financially significant components of the Group. These components accounted for 100% of the Group's revenue and 98% of loss before tax, adjusted for the impairment of intangible assets.

We performed audit work over all material financial statement line items of the Company financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£232,650 (2017: £255,400).	£69,140 (2017: £89,900).
How we determined it	5% of profit before tax, adjusted for the impairment of intangible assets.	1% of net liabilities.
Rationale for benchmark applied	We believe that profit before tax adjusted for the impairment of intangible assets is an important measure in assessing the performance of the Group, and is a generally accepted auditing benchmark.	We believe that net liabilities is an important measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark. This benchmark is different to that used in the prior year (total assets) due to the impairment of assets during the year.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £65,000 and £225,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £11,600 (Group audit) (2017: £12,770) and £3,450 (Company audit) (2017: £4,495) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Reporting on other information

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

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 June 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GENEDRIVE PLC

Report on the audit of the financial statements
continued

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Hazel Macnamara (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
21 November 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2018

	note	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Continuing operations			
Revenue	2	**1,938**	2,619
Research and development costs	3	**(5,180)**	(5,009)
Administrative costs	3	**(2,022)**	(2,614)
Trading loss		**(5,264)**	(5,004)
Impairment of intangible assets		**(2,111)**	(2,379)
Operating Loss	3	**(7,375)**	(7,383)
Finance costs	7	**(413)**	(195)
Loss on ordinary activities before taxation		**(7,788)**	(7,578)
Taxation on ordinary activities	8	**758**	992
Loss for the financial year from continuing operations		**(7,030)**	(6,586)
Discontinued operations			
Profit for the year from discontinued operations		**1,063**	150
Loss/Total Comprehensive Expense for the financial year		**(5,967)**	(6,436)
Loss per share (pence) from continuing operations – Basic and Diluted	10	**(37.6)**	(35.7)
Loss per share (pence) from continuing and discontinued operations – Basic and Diluted	10	**(31.9)**	(34.9)

CONSOLIDATED BALANCE SHEET

As at 30 June 2018

	note	30 June 2018 £'000	30 June 2017 £'000
Assets			
Non-current assets			
Plant and equipment	12	**165**	568
Intangible assets	11	**–**	3,038
Contingent consideration receivable		**340**	–
		505	3,606
Current assets			
Inventory	13	**171**	444
Trade and other receivables	14	**551**	1,654
Contingent consideration receivable		**172**	–
Current tax asset		**980**	1,213
Cash and cash equivalents	15	**3,529**	5,129
		5,403	8,440
Liabilities			
Current liabilities			
Deferred revenue	16	**–**	(98)
Trade and other payables	17	**(1,470)**	(2,058)
Deferred consideration payable in shares	18	**(1,250)**	–
		(2,720)	(2,156)
Net current assets		**2,683**	6,284
Total assets less current liabilities		**3,188**	9,890
Deferred consideration payable in shares	18	**–**	(1,250)
Convertible bond	19	**(5,625)**	(5,199)
		(5,625)	(6,449)
Net (liability)/assets		**(2,437)**	3,441
Capital and reserves			
Share capital		**282**	281
Share premium account	24	**25,988**	25,988
Employee share incentive plan reserve		**(196)**	(229)
Share options reserve		**1,437**	1,382
Reverse acquisition reserve		**(2,484)**	(2,484)
Accumulated losses		**(27,464)**	(21,497)
Total (deficit)/equity		**(2,437)**	3,441

The financial statements were approved by the Board of Directors and authorised for issue on 21 November 2018. 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 2018

	Share capital £'000	Share premium account £'000	Employee Share incentive plan reserve £'000	Share options reserve £'000	Reverse acquisition reserve £'000	Accumulated losses £'000	Total equity £'000
Balance at 01 July 2016	158	20,088	(240)	1,281	(2,484)	(15,050)	3,753
Share issue	123	5,900	–	–	–	–	6,023
Transfer of shares to SIP members	–	–	11	–	–	(11)	–
Equity – settled share – based payments	–	–	–	101	–	–	101
Transactions settled directly in equity	123	5,900	11	101	–	(11)	6,124
Total comprehensive expense for the year	–	–	–	–	–	(6,436)	(6,436)
Balance at 30 June 2017	281	25,988	(229)	1,382	(2,484)	(21,497)	3,441
Share issue	1	–	–	–	–	–	1
Transfer of shares to SIP members	–	–	33	–	–	–	33
Equity – settled share – based payments	–	–	–	55	–	–	55
Transactions settled directly in equity	1	–	33	55	–	–	89
Total comprehensive expense for the year	–	–	–	–	–	(5,967)	(5,967)
Balance at 30 June 2018	**282**	**25,988**	**(196)**	**1,437**	**(2,484)**	**(27,464)**	**(2,437)**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2018

		Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Cash flows from operating activities			
Operating loss for the year		**(7,375)**	(7,292)
Depreciation, amortisation and impairment		**3,117**	3,451
ATL Research credits		**(59)**	(162)
Share – based payment (credit)/expense		**(12)**	101
Operating loss before changes in working capital and provision		**(4,329)**	(3,902)
Decrease/(Increase) in inventories		**241**	(242)
Decrease in trade and other receivables		**119**	1,256
(Decrease)/Increase in deferred revenue		**(115)**	10
(Decrease)/Increase in trade and other payables		**(547)**	284
Cash flow from discontinued operations		**864**	–
Net cash outflow from operations		**(3,767)**	(2,594)
Tax received		**1,220**	757
Net cash outflow from operating activities		**(2,547)**	(1,837)
Cash flows from investing activities			
Finance income		**13**	14
Acquisition of plant and equipment and intangible assets		**(24)**	(70)
Proceeds from disposal of discontinued operations		**957**	–
Net cash inflow/(outflow) from investing activities		**946**	(56)
Cash flows from financing activities			
Proceeds from share issue	24	**–**	6,023
Net inflow from financing activities		**–**	6,023
Net (decrease)/increase in cash equivalents		**(1,601)**	4,129
Effects of exchange rate changes on cash and cash equivalents		**1**	(115)
Cash and cash equivalents at beginning of year		**5,129**	1,114
Cash and cash equivalents at end of year		**3,529**	5,129
Analysis of net funds			
Cash at bank and in hand	14	**3,529**	5,129
Net funds		**3,529**	5,129

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

General Information

genedrive plc ("the Company") is a company incorporated in the UK.

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, 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 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.

Following the disposal of the Group's Services business, the respective results for this business are disclosed as a discontinued operation. Where necessary the results for the year ended 30 June 2017 have been restated to present these as discontinued operations.

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 announced fund raise that is due to complete after the Group's accounts are signed. In order for the Company to continue as a going concern, the Company has proposed to raise £6.0m (gross) from a combination of equity and debt, and potentially up to a further £0.5m via a broker option. The Company's stock broker has obtained commitments from shareholders that it will get £6.0m. Owing to the size of the fund raise relative to the market capitalisation of the Company, shareholder approval is required before these commitments become unconditional.

While the Board is confident that it will achieve approval from shareholders, until it is confirmed at a general meeting there is a material uncertainty as to whether the fund raise will conclude successfully. Owing to reporting obligations for the Group's annual accounts, the Company cannot wait until after the shareholder approval to release its accounts. Therefore at the date of these financial statements the fund raising has not been approved and this 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 shareholders rejecting the fund raise, 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018
continued

1. Significant accounting policies continued

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:

- 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 calculate 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 £98k.
- 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 instrument of this nature. 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 change in the discount rate cause a 10% higher/ lower bond valuation, the balance sheet liabilities would increase/(decrease) by £563k.
- 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 is the value claimed in the year ending June 2018. If the R&D tax credits are 10% higher/ lower than estimated the value of the deferred consideration would increase/(decrease) by £51k.

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.

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. Contract revenue

Contract revenue is recognised by reference to the stage of completion of the related 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 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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018
continued

1. Significant accounting policies continued

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 & fittings – straight line over 48 months
Other equipment – straight line over 48 months

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the income statement over the period of the lease.

Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. 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.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated on a first in and first out basis and includes bought in cost and, where appropriate, other direct costs. Net realizable 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 doubtful debts. Bad debts are written off when identified. After initial recognition, these are carried forward at amortised cost using the effective interest method.

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.

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 account 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018
continued

1. Significant accounting policies continued

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 Contract and Discovery 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 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.

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 7.

Parent Company Assets

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

New standards and interpretations not applied

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

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 9 Financial instruments
- FRS 14 Regulatory deferral accounts
- IFRS 15 Revenue from contracts with customers
- IFRS 16 Leases
- IRFIC 22 Foreign currency transactions and advance consideration
- Amendments to IFRS 10, IFRS 12 and IAS 28 The application of the investment entities exemptions
- Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture
- Amendments to IFRS 11 Accounting for acquisitions of interest in joint operations
- Amendments to IAS 16 and IAS 38 Clarification of acceptable methods of depreciation and amortisation
- Amendments to IAS 27 Equity method in separate financial statements
- Amendments to IAS 12 Recognition of deferred tax assets for unrealised losses
- Amendments to IAS 7 Disclosure initiative
- Amendment to IAS 16 and IAS 41 Agriculture: Bearer plants
- Annual improvements to IFRSs 2012-2014 cycle (Sep 2014)
- Annual improvements to IFRSs 2014-2016 cycle (Dec 2016)

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, except as follows:

IFRS 15 is effective for annual periods beginning 1 January 2018 and will replace IAS 11 Construction Contracts and IAS 18 Revenue. This standard requires the separation of performance obligations within contracts with customers and the contractual value to be allocated to each of the performance obligations. Revenue is then recognised as each performance obligation is satisfied. The standard will move the focus from risk and reward to control when assessing revenue recognition. The Group is currently reviewing its contracts, specifically where development income arrangements are in place and where goods are customer specific. Per the initial assessment it is not anticipated that transition to IFRS 15 will have a material impact on the Group.

IFRS 16 is effective for annual periods beginning 1 January 2019 and will replace IAS 17 Leases. This standard requires lessees to recognise assets and liabilities for all leases, unless the lease term is 12 months or less, or the underlying asset is low value. As at 30 June 2018, the Group holds a small number of operating leases which currently, under IAS 17, are expensed on a straight line basis over the lease term. Management has not yet performed a full assessment to quantify the financial impact of IFRS16, but all operating leases, with the exception of short-term leases, will be accounted for on the balance sheet. IFRS 16 will therefore result in an increase in both assets and liabilities in the balance sheet, a decrease in operating expenses and an increase in finance expenses in the income statement.

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. An expected credit losses model replaces the incurred loss impairment model used in IAS39. It is anticipated that the classification and measurement basis for financial assets and liabilities will be largely unchanged by adoption of IFRS9 and the impact of the change in impairment model is not expected to be material.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018
continued

2. Revenue

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 2018			
Revenue	1,938	–	1,938
Segment EBITDA	(2,325)	(1,934)	(4,259)
Less depreciation and amortisation	(917)	(88)	(1,005)
Impairment of intangible fixed assets	–	(2,111)	(2,111)
Operating loss	**(3,242)**	**(4,133)**	**(7,375)**
Net Finance costs			(413)
Loss on ordinary activities before tax			**(7,788)**
Taxation			758
Loss for the financial year from continuing operations			**(7,030)**
Profit for the year from discontinued operations			**1,063**
Total comprehensive expense for the year			**(5,967)**

Business segments	Diagnostics Segment £'000	Administrative costs £'000	Total £'000
Year ended 30 June 2017			
Revenue	2,619	–	2,619
Segment EBITDA	(1,592)	(2,510)	(4,102)
Less depreciation and amortisation	(811)	(91)	(902)
Impairment of intangible assets	–	(2,379)	(2,379)
Operating loss	**(2,403)**	**(4,980)**	**(7,383)**
Net Finance costs			(195)
Loss on ordinary activities before tax			**(7,578)**
Taxation			992
Loss for the financial year from continuing operations			**(6,586)**
Profit for the year from discontinued operations			**150**
Total comprehensive expense for the year			**(6,436)**

	Discontinued operations £'000	Diagnostics Segment £'000	Administrative costs £'000	Total £'000
Year ended 30 June 2018				
Segment assets	–	608	5,300	5,908
Segment liabilities	–	(584)	(7,761)	(8,345)
Year ended 30 June 2017				
Segment assets	1,597	3,783	6,666	12,046
Segment liabilities	(831)	(686)	(7,088)	(8,605)

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 2018 £'000**	Year ended 30 June 2017 £'000
United Kingdom	**230**	159
Europe	**59**	227
United States of America	**1,602**	2,233
Rest of world	**47**	–
	1,938	2,619

Revenue from continuing operations during the year related to grant income and funded development programmes of £1,811k (2017: £2,619k) and product sales of £127k (2017: £nil).

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

(a) £1,602k of revenue was derived from the US Department of Defense (2017 – £2,233k);
(b) £221K of revenue was derived from Innovate UK (2017: £460k)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018
continued

3. Operating loss

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

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Research and development expenditure	**5,180**	5,009
ATL Research Credit (Note 8)	**(177)**	(162)
Amortisation of intangible assets	**897**	856
Depreciation of owned tangible fixed assets	**182**	216
Impairment of intangible assets	**2,111**	2,379
Staff costs (Note 4)	**4,051**	4,269
Auditors' remuneration, fees payable for		
– the audit of the parent company and consolidated accounts	**10**	10
– the audit of the Company's subsidiaries	**52**	77
Operating lease costs – property rent	**484**	458

The prior year auditors remuneration included £18,500 related to the audit of the Convertible Bond amendment.

4. Particulars of employees

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

	Year ended 30 June 2018 No	Year ended 30 June 2017 No
Discontinued operations	**28**	32
Research and development	**32**	34
Administration	**12**	13
	72	79

The aggregate employee costs (including Directors) were:

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Salaries and other short – term employee benefits	**3,557**	3,649
Social security costs	**350**	414
Equity settled share – based payments	**55**	10
Pension cost – defined contribution plans	**65**	61
Cost of SIP matching shares provision	**24**	43
	4,051	4,268

5. Directors' remuneration (key management)

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Salaries and other short – term employee benefits	**1,183**	1,042
Social security costs	**154**	135
Equity settled share – based payments	**45**	105
Pension cost – defined contribution plans	**18**	17
Cost of SIP matching shares provision	**4**	7
	1,404	1,306

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. Full details of the Directors' remuneration and Directors' options are contained in the Directors' Remuneration Report.

6. Disposal of business segment

Group	Year ended 30 June 2018 £'000
Fair value of sales proceeds	**1,521**
Costs of disposal	**(163)**
Net assets disposed of	**(717)**
Profit on disposal	**641**

On 8 June 2018 the Group disposed of the business and assets of its "Services" business. This division comprised the segments previously reported as Preclinical Research Services and Pharmaco-genomics Services. The consideration was £1,150k subject to normal working capital adjustments, plus up to an additional £750k deferred consideration based on the Research and Development tax credits earned by the business in the 36 months post disposal. Management have made their best estimate of the future cashflows expected from the disposal and discounted these using the Company's WACC of 12.5%. The costs of the disposal of £163k include legal costs and corporate finance costs.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018
continued

6. Disposal of business segment continued

Result of discontinued operations

The results of the discontinued operation, which have been included in the income statement, were as follows:

Discontinued operations	Period ended 8 June 2018 £'000	Year ended 30 June 2017 £'000
Revenue	**2,783**	3,166
Operating costs	**(2,524)**	(3,237)
Above the line tax credit	**118**	162
Profit before tax	**377**	91
Attributable tax credit	**45**	59
Profit on disposal of discontinued operations	**641**	–
Profit attributable to discontinued operations	**1,063**	150

The disposed business was not a separate legal entity. Any theoretical tax expense in the periods above would have been settled via group relief.

During the year the business contributed £332k to the Company's net operating cashflows. All of these cashflows where from operating activities and there were no investing or financing cashflows in the period.

Discontinued operations	Period ended 8 June 2018 £'000
Proceeds from disposal of business	**957**
Operating cashflows from discontinued operations	**864**
Net cashflow from discontinued operations	**1,821**

7. Finance income/(costs)

Group	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Interest income on bank deposits	**13**	13
Gain on amendment to Convertible Bond	**–**	380
Movement in fair value of derivative embedded in Convertible Bond	**–**	30
Finance cost of Convertible Bond	**(304)**	(308)
Unwind of the discount on the Convertible Bond	**(227)**	(209)
Foreign exchange movement in Convertible Bond	**105**	(101)
	(413)	(195)

8. Taxation on ordinary activities

(a) Recognised in the income statement

	Continuing operations		Discontinued operations		Total	
Current tax:	**Year ended 30 June 2018 £'000**	Year ended 30 June 2017 £'000	**Year ended 30 June 2018 £'000**	Year ended 30 June 2017 £'000	**Year ended 30 June 2018 £'000**	Year ended 30 June 2017 £'000
Research and development tax credits	**(817)**	(1,024)	**(163)**	(196)	**(980)**	(1,220)
Less: recognised as ATL Research Credit	**59**	25	**118**	137	**177**	162
Adjustments in respect of prior years	**–**	7	**–**	–	**–**	7
Total tax credit for the year	**(758)**	(992)	**(45)**	(59)	**(803)**	(1,051)

(b) Reconciliation of the total tax charge

The tax assessed on the profit on ordinary activities for the year is lower (2017: lower) that the weighted average applicable tax rate for the year ended 30 June 2018 of 19.00% (2017: 19.75%). The differences are explained below:

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Loss before taxation on continuing operations	**(7,788)**	(7,578)
Tax using UK corporation tax rate of 19.00% (19.75%)	**(1,480)**	(1,497)
Adjustment in respect of R&D tax credit recognised above the line (ATL)	**59**	25
Adjustment in respect of R&D tax credit claimed	**(380)**	(479)
Items not deductible for tax purposes – permanent	**543**	24
Items not deductible for tax purposes – temporary	**(11)**	–
Deferred tax not recognised	**490**	928
Rate differences	**21**	–
Adjustments in respect of prior years	**–**	7
Total tax credit for the year	**(758)**	(992)

No deferred tax assets are recognised at 30 June 2018 (2017: £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 £9,854k (2017: £8,513k) available to carry forward to future periods.

The Finance Act 2016, which was subsequently enacted on 15 September 2016, includes provisions to reduce the corporation tax rates to 19.0% with effect from 1 April 2017 and 18.0% with effect from 1 April 2020. In addition, the Finance Bill 2017 was substantively enacted on 6 September 2017 which introduced a further reduction in the main rate of corporation tax from 18.0% to 17.0% from 1 April 2020. Both changes are reflected in the balance sheet figures and the overall effect on the deferred tax balance and tax credit for the year is not material.

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 & 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 Continuing Operations for the year ended 30 June 2018 is £817k (2017: £1,024k) which includes £59k (2017: £25k) disclosed as ATL Research Credit deducted from Research and Development Costs with the balance of £758k (2017: £992k) disclosed within Taxation on ordinary activities as detailed above.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018
continued

9. Profit attributable to members of the parent company

The loss dealt with in the accounts of the parent company was £9,401k (2017:loss £24,813k).

10. Earnings per share per share

Group	2018 £'000	2017 £'000
Loss for the year after taxation continuing operations	**(7,030)**	(6,586)
Profit for the year after taxation discontinued operations	**1,063**	150

Group	2018 Number	2017 Number
Weighted average number of ordinary shares in issue	**18,692,269**	18,466,232
Potentially dilutive ordinary shares	**–**	–
Adjusted weighted average number of ordinary shares in issue	**18,692,269**	18,466,232
Loss per share on continuing operations		
– Basic	**(37.6)p**	(35.7)p
– Diluted	**(37.6)p**	(35.7)p
Loss per share on continuing operations and discontinuing operations		
– Basic	**(31.9)p**	(34.9)p
– Diluted	**(31.9)p**	(34.9)p
Earnings per share on discontinued operations		
– Basic	**5.7p**	0.8p
– Diluted	**5.7p**	0.8p

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: there would be no potentially dilutive share options because as shown in note 20, all share options in issue are underwater; there would be 74,096 of dilutive SIP shares, (as described in note 20, the total accrued shares under the SIP should all shares meet their vesting criteria is 102,146 and the Company holds 28,050 to meet the SIP commitments).

11. Intangible assets

Group	Patents £'000	Acquired Intellectual Property £'000	Developed Intellectual property £'000	Total £'000
Cost				
At 1st July 2017	717	3,192	4,001	7,910
Disposals	(717)	–	–	(717)
At 30 June 2018	**–**	**3,192**	**4,001**	**7,193**
Accumulated amortization				
At 1 July 2017	687	1,118	3,067	4,872
Charge for the year	–	546	351	897
Disposals	(687)	–	–	(687)
Impairment	–	1,528	583	2,111
At 30 June 2018	**–**	**3,192**	**4,001**	**7,193**
Net book value				
At 30 June 2017	30	2,074	934	3,038
At 30 June 2018	**–**	**–**	**–**	**–**

The net book value of Intangible assets all relates to the Genedrive® unit and assays. The charges for amortisation are included in the Contract and Research and Development expense headings. During the year to 30 June 2018, the cost of the Company's Patents assessed as not being available for economic use amounted to £nil (2017: £nil).

During the year the Intangible assets have been assessed 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 year two and then deflated down to zero in year three – as the estimated useful economic life of the assets in their current state without further investment is two and a half years. These projected cashflows were discounted at a pre-tax discount rate of 12.5%. Following the exercise the value of intangible assets was impaired down to £nil.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018
continued

12. Plant and equipment

Group	Lab equipment £'000	Fixtures & fittings £'000	Other Equipment £'000	Total £'000
Cost				
At 1 July 2017	1,992	187	449	2,628
Additions	9	1	14	24
Disposals	(1,781)	(74)	(248)	(2,103)
At 30 June 2018	**220**	**114**	**215**	**549**
Accumulated Depreciation				
At 1 July 2017	1,603	123	334	2,060
Charge for the year	94	31	57	182
Depreciation on disposed assets	(1,547)	(70)	(241)	(1,858)
At 30 June 2018	**150**	**84**	**150**	**384**
Net book value				
At 30 June 2017	389	64	115	568
At 30 June 2018	**70**	**30**	**65**	**165**

13. Inventories

Group	2018 £'000	2017 £'000
Raw materials	**171**	332
Finished goods	**–**	112
	171	444

Genedrive units are treated as raw materials. The units are required to go through a testing and software process before being sold.

14. Trade and other receivables

Group	2018 £'000	2017 £'000
Trade receivables	**182**	1,376
Less: provisions for impairment	**(23)**	(218)
Trade receivables – net	**159**	1,158
Other receivables	**132**	86
Prepayments	**260**	410
	551	1,654

Analysis of trade receivables

	2018 £'000	2017 £'000
Neither impaired nor past due	**127**	472
Past due but not impaired	**32**	686
Trade receivables	**159**	1,158

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

Group	2018 £'000	2017 £'000
Not overdue	**127**	472
Less than 1 month overdue	**–**	203
Later than 1 month less than 3 months overdue	**–**	147
Later than 3 months overdue	**32**	336
Total	**159**	1,158

The movement in the impairment provision for trade receivables is as follows:

Group	2018 £'000	2017 £'000
Opening provision	**218**	–
Written off in the year	**(218)**	–
Charge for the year	**23**	218
Closing provision at 30 June	**23**	218

Ageing of impaired receivables

Group	2018 £'000	2017 £'000
Greater than 3 months	**23**	218

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.

15. Cash and cash equivalents

Group	2018 £'000	2017 £'000
Cash at bank and in hand	**3,529**	5,129
	3,529	5,129

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 counter parties are banks with high credit ratings assigned by international credit rating agencies.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018
continued

16. Deferred revenue

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

Group	2018 £'000	2017 £'000
Amounts to be recognized within 1 year	–	98

17. Trade and other payables

Group	2018 £'000	2017 £'000
Trade payables	**392**	816
Accruals	**886**	923
Other payables	**192**	319
	1,470	2,058

18. Deferred consideration payable in shares

Group	2018 £'000	2017 £'000
Payable in shares	**1,250**	1,250

The deferred consideration relates to the acquisition of Visible Genomics Ltd in July 2010. Under the terms of the acquisition £1,250k becomes payable in the form of shares in Genedrive plc to the former owner of Visible Genomics Ltd. The liability becomes payable on the achievement of certain milestones. At 30 June 2018, the Directors reviewed the terms of the earn-out milestones and consider that the criteria will be met during a period less than twelve months following the balance sheet date. The liability is therefore classified as current.

On the 15 November 2018 the Company entered into an agreement with the former owner of Visible Genomics Ltd to alter the arrangements of the deferred consideration. Both parties agreed to amend the terms of the deferred consideration so that £300,000 would be payable in cash 30 days after a target date, 869,565 shares would be issued in 12 months after the target date and 500,000 shares would be issued 36 months after the target date. The target date will be the date of the 2018 fund raise, as this has not taken place yet the agreement is not in effect.

19. Convertible Bond

Group	Host £'000	Derivative £'000	Bond £'000
Balance at 30 June 2016	4,991	–	4,991
Fair value impact from Deed of Amendment	(414)	34	(380)
Increase/(decrease) in fair value	209	(30)	179
Finance costs on Convertible Bond	308	–	308
Foreign exchange movement in Convertible Bond	101	–	101
Balance at 30 June 2017	5,195	4	5,199
Increase in fair value	227	–	227
Finance costs on Convertible Bond	304	–	304
Foreign exchange movement in Convertible Bond	(105)	–	(105)
Balance at 30 June 2018	**5,621**	**4**	**5,625**

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' or the 'bond holder'). 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. Under the terms of the Agreement, the Company issued to GHIF a five-year Convertible Bond, with a 5% coupon payable half yearly, totalling 8.0m. 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. In addition the Company will establish a tiered pricing framework that is commercially reasonable and reflects the needs of poor patients in developing countries. The Company will, taking into account its profitability and other commercial interests, allocate sufficient capacity and product distribution to make Genedrive® and its assays accessible to people most in need in developing countries. In return GHIF will use commercially reasonable efforts through its global access network to ensure support for the Company in placing Genedrive® and its assays in global territories to reflect the needs and price sensitivity of poor patients in the developing world. Notwithstanding any early Conversion, Redemption or Termination of the agreement, the Global Access Commitment shall endure for 5 years from 22 July 2014. During the period of the Agreement, the Company has entered into undertakings commensurate with a Convertible Bond Agreement. These include: undertakings relating to incurring financial indebtedness & financial default; undertakings relating to maintenance of appropriate records; undertakings relating to standards of social responsibility and ethical behaviour.

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. To change the Company conversion option, on the first tranche of US$2m into new Ordinary Shares in circumstances where the average closing price of the Company's Ordinary Shares is greater than or equal to £2.50 per ordinary Share for a period of 20 consecutive days. To allow, for interest periods ending on or before (but not after) 21 January 2019, the Company to elect to pay none or a portion of the 5% interest payable semi-annually on the accrued and outstanding principal amount of the GHIF Bond and instead capitalise and compound some or all of such outstanding interest due until the earlier of the date on which the GHIF Bond is repaid if converted into Ordinary Shares.

Accounting

Due to the 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 is required to be recorded initially at fair value. Whilst the coupon is 5%, IFRS requires that the fair value is calculated based on the rate of interest which a market participant would lend to the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018
continued

19. Convertible Bond continued

Given the nature of the Company's activities, the Company has used a rate of 10.0% in calculating this liability. The Derivative has been valued using a Quanto Option Valuation model which takes account of the multicurrency aspects of the Convertible Bond. The variables used in running the model are as follows: volatility of the Company's Share Price 24%, expected life of the Derivative 4.4 years, risk free interest rate 0.58% and a dividend yield of 0%.

Deed of Amendment to Convertible Bond Purchase Agreement

On 12 October 2018 the Company and GHIF entered into a Deed of Amendment & Restatement of the Agreement. The Deed of Amendment has not yet become effective. If it becomes effective, the principle features will be:

- extend the maturity of the GHIF Bond from 21 July 2021 to 31 December 2023.
- To change the Company conversion option,
  - on the first tranche of US$2m to £0.2875
  - on the second tranche of US$6m to a Conversion price of £1.50
- To allow the Company to elect to pay none or a portion of the 5% interest payable semi-annually on the accrued and outstanding principal amount of the GHIF Bond and instead capitalise and compound some or all of such outstanding interest due until the earlier of January 2022 or the date on which the GHIF Bond is repaid if converted into Ordinary Shares.

The amendment is not yet effective and as a result has no impact on the results and balances for the year ending 30 June 2018.

Convertible Loan Note Issued to Business Growth Fund

At the same time as agreeing the Deed of Amendment on the Convertible Bond Agreement, the Company simultaneously entered a new Convertible Loan Note agreement with the Business Growth Fund Investments LP. The Loan Note has not come into effect yet and as a result has no impact on the results and balances for the year ending 30 June 2018. If it becomes effective, the principle features will be:

- Genedrive plc will issue an unsecured £2,5000,000 Convertible Loan Note
- The loan note ranks pari-passu with the GHIF bond
- The loan note has a conversion price of 125% of the share price at the Company's November fund raise, £0.2875
- The loan note attracts a 7% interest rate that maybe rolled up for 3 years
- The loan note will be redeemed in full on 30 June 2025 if not converted prior to this date.

20. Share-based payments

(A) Share options outstanding at 30 June 2018

Prior to 28 November 2007, the Company operated a number of HMR&C 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	13,400	£1.77	31 Jul 2011 to 30 Jul 2018	£0.37p	4,958
2007 Epistem Share Option Scheme	7,000	£4.03	10 Dec 2013 to 09 Dec 2020	£1.64p	11,480
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	8,000	£3.60	10 Feb 2015 to 09 Feb 2022	£1.46p	11,680
2007 Epistem Share Option Scheme	13,515	£5.50	28 Mar 2016 to 27 Mar 2023	£2.23p	30,138
2007 Epistem Share Option Scheme	53,300	£3.22	29 Jan 2017 to 28 Jan 2024	£1.21p	64,493
2007 Epistem Share Option Scheme	200,000	£3.25	25 Mar 2017 to 31 Oct 2018	£1.21p	242,000
2007 Epistem Share Option Scheme	22,500	£3.25	12 Aug 2017 to 11 Aug 2024	£0.60p	13,500
2007 Epistem Share Option Scheme	20,000	£3.25	20 Sep 2017 to 19 Sep 2024	£0.60p	12,000
2014 Unapproved Share Options	130,000	£2.75	17 Dec 2017 to 16 Dec 2024	£0.52p	67,600
2007 Epistem Share Option Scheme	54,250	£1.20	11 Dec 2018 to 19 Sep 2025	£0.33p	17,903
2007 Epistem Share Option Scheme	244,444	£0.90	07 Apl 2019 to 06 Apl 2026	£0.29p	70,889
Epistem Unapproved Share Options	50,000	£2.78	07 Apl 2019 to 06 Apl 2026	£0.05p	2,500
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	£0.31p	6,200
2007 Epistem Share Option Scheme	95,250	£0.80	01 Oct 2019 to 01 Oct 2026	£0.11p	10,478
2007 Epistem Share Option Scheme	9,000	£0.80	15 Oct 2019 to 14 Oct 2026	£0.08p	720
2007 Epistem Share Option Scheme	10,000	£0.80	31 Oct 2019 to 30 Oct 2026	£0.07p	700
2007 Epistem Share Option Scheme	141,666	£0.60	22 Dec 2019 to 21 Oct 2026	£0.05p	7,083
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	141,250	£0.36	30 Nov 2020 to 30 Nov 2027	£0.04p	5,650
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
2017 Epistem Share Option Scheme	30,000	£0.40	28 Mar 2021 to 28 Mar 2028	£0.05p	1,500
	1,942,252				

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018
continued

20. Share-based payments continued

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 been 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	31 Jul 2008	5 years	0	40	5.00	Note[e]
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	25 Mar 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	1 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	31 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]
2017 Epistem Share Option Scheme	28 Mar 2018	3 Years	0	15	0.50	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.

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	**2018**	2017	**2018**	2017	**2018**	2017
Outstanding as at 1 July	**2,060,675**	1,908,274				
Granted during the year	**340,337**	797,506	**36p**	54p		
Exercised during the year	**–**	–	**–**	–		
Forfeited during the year	**–**	–	**–**	–		
Lapsed during the year	**(458,760)**	(645,105)	**123p**	239p		
Outstanding as at 30 June	**1,942,252**	2,060,675	**132p**	148p	**7.8**	7.3
Options exercisable at 30 June	**497,715**	833,225	**310p**	250p	**4.0**	4.4

There were no options exercised in the year ended 30 June 2018 (2017: nil).

(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 3 years, if an employee leave the Company, unvested shares lapse. The monthly cost of the Matching Shares is expensed to the income statement.

At 30 June 2018 the number of partnership shares earnt by employees was 34,753. The total number of potential Matching shares provided for employees at 30 June should all the employees meet the 3 year vesting rule was 67,393, less than two for one owing to specific circumstances on certain individuals. Of the 67,393 shares 7,283 have vested under the 3 years service rule.

In order to satisfy the shares accumulated as both Partnership and the 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 28,050 (2017: 127,801) shares in the Company. The historic cost of the purchased shares is recorded as a debit in reserves and the movement over the period is record below.

Historic cost of shares acquired	**2018 £'000**	2017 £'000
Brought forward	**229**	240
Transferred out to participants	**(33)**	(11)
Outstanding at 30 June	**196**	229

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018
continued

21. Financial risk management objectives and policies

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 $8m Convertible Bond detailed at note 19. The coupon on the Convertible Bond is fixed at 5%. 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
2018		
Cash and cash equivalents	25	10
2017		
Cash and cash equivalents	25	14

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

Capital Management

The Group's objective in managing its capital is to ensure that the Group has adequate capital to fund is 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 July 2016 the Company issued 8,125,000 new shares as described in note 24.

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:

	2018 £'000	2017 £'000
Government related agencies	**122**	278
Independent companies	**37**	880
	159	1,158

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 are detailed below:

	2018 £'000	2017 £'000
Payable within 1 year	**2,720**	2,156
Payable within 1 – 2 years	**–**	1,250
Payable within 3 – 5 year	**5,625**	5,199
	8,345	8,605

Note that within the payable within 1 year is £1,250,000 that will be settled via shares, see note 18.

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 (2017: £nil) to manage foreign currency risk.

Balances which are denominated in US Dollars are detailed below:

Group	2018 £'000	2017 £'000
Trade and other receivables	**47**	476
Cash and cash equivalents	**217**	438
Less: Convertible Bond	**(5,625)**	(5,199)
	(5,361)	(4,285)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018
continued

21. Financial risk management objectives and policies continued

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
2018		
Trade and other receivables	**5%**	**2**
Cash and cash equivalents	**5%**	**11**
Convertible Bond	**5%**	**(260)**
2017		
Trade and other receivables	5%	24
Cash and cash equivalents	5%	22
Convertible Bond	5%	(260)

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 2018 the Group had annual commitments under non-cancellable operating leases as set out below.

	Land and buildings	
Group	**2018 £'000**	2017 £'000
Operating leases which expire:		
Within 1 year	**283**	542
1 year to 2 years	–	–

23. Related party transactions

Other than items relating Director's remuneration and employment, there were no related party transactions during the year (2017: nil). On the 8 June 2018 the Company sold a business to the former director Catherine Booth – this disposal was approved via shareholders at the General Meeting held on 4 June 2018. Catherine Booth was a director immediately prior to the disposal and resigned as part of the disposal process.

At the balance sheet date, in respect of I Gilham and R Nolan, Trade and Other payables included amounts of £5,732 (2017: £5,732) and £1,700 (2017:£1,700), respectively.

24. Share capital

Allotted, issued and fully paid:

	2018 No	2018 £'000	2017 No	2017 £'000
Brought forward at 1 July	**18,689,446**	**281**	10,564,446	158
Shares issued	**93,669**	**1**	8,125,000	123
Ordinary shares of £0.015 each 30 June	**18,783,115**	**282**	18,689,446	281

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

1. Note 18 details the contingent consideration paid to acquire Visible Genomics Ltd. At the satisfaction of certain milestones £1,250,000 becomes payable in the form of shares in Genedrive plc to the former owner of Visible Genomics Ltd. At a 30 June 2018 share price of 36.0p the number of shares required to satisfy this consideration would be 4,310,345.

2. Note 19 details the terms of the Convertible Bond Agreement entered into on 21 July 2014. The Agreement was amended by a Deed of Amendment and Restatement on 23 June 2016 which came into force on 11 July 2016. Under the terms of the amended Agreement, if a conversion occurs in respect of $2.0m at an initial conversion price of £1.50 per share at the fixed exchange rate of $1.6913:£1 together with $6.0m at an initial conversion price of £4.89 per share at the fixed exchange rate of $1.6913:£1, this would result in the issue of 1,513,821 shares (2017: 1,513,821).

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

25. Reserves

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.

The employee share incentive plan reserve represents 28,050 shares in Genedrive plc (2017: 127,801 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 2018 was £10,098 (2017: £54,315). The nominal value held at 30 June 2018 was £421 (2017: £1,917).

The separate financial statements of Genedrive Plc are presented on pages 70 to 72.

COMPANY BALANCE SHEET

As at 30 June 2018

	Notes	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Assets			
Non–current assets			
Investment in subsidiaries	a	**–**	4,101
Current assets			
Amounts receivable from Group undertakings and other receivables	b	**–**	784
Cash and cash equivalents	c	**70**	4,105
		70	4,889
Liabilities			
Current liabilities			
Other payables		**(109)**	(144)
Deferred consideration payable in shares		**(1,250)**	–
		(1,359)	(144)
Net current (liabilities)/assets		**(1,289)**	4,745
Total assets less current liabilities		**(1,289)**	8,846
Non–current liabilities			
Deferred consideration payable in shares	a	**–**	(1,250)
Convertible Bond	d	**(5,625)**	(5,198)
		(5,625)	(6,448)
Net (liabilities)/assets		**(6,914)**	2,398
Capital and reserves			
Called–up equity share capital		**282**	281
Share premium account		**25,988**	25,988
Share options reserve	a	**1,771**	1,683
Accumulated losses:			
At 1 July		**(25,554)**	(742)
Total comprehensive expense for the year		**(9,401)**	(24,812)
		(34,955)	(25,554)
Total shareholders' funds equity		**(6,914)**	2,398

These financial statements were approved by the Directors and authorised for issue on 21 November 2018 and are signed on their behalf by:

David Budd
Chief Executive Officer

Matthew Fowler
Chief Financial Officer

Genedrive Plc
Company number: 06108621

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2018

	Called-up equity share capital £'000	Share premium account £'000	Share options reserve £'000	Accumulated Losses £'000	Total equity £'000
At 01 July 2016	158	20,088	1,582	(742)	21,086
Share issue	123	5,900	–	–	6,023
Recognition of equity settled share based payments	–	–	101	–	101
Transaction settled directly in equity	123	5,900	101	–	6,124
Total comprehensive expense for the year	–	–	–	(24,812)	(24,812)
At 30 June 2017	281	25,988	1,683	(25,554)	2,398
Share issue	1	–	33	–	34
Recognition of equity settled share based payments	–	–	55	–	55
Transaction settled directly in equity	1	–	88	–	89
Total comprehensive expense for the year	–	–	–	(9,401)	(9,401)
At 30 June 2018	**282**	**25,988**	**1,771**	**(34,955)**	**(6,914)**

COMPANY STATEMENT OF CASH FLOWS

For the year ended 30 June 2018

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Cash flows from operating activities		
Operating loss for the year	**(8,975)**	(24,615)
Impairment of assets	**8,975**	24,615
Operating profit before changes in working capital and provisions	**–**	–
Increase in amount receivable from Group companies	**(4,035)**	(2,242)
Net cash outflow from operations	**(4,035)**	(2,242)
Proceeds from issue of share capital	**–**	6,023
Net cash inflow from financing activities	**–**	6,023
Net (decrease)/increase in cash equivalents	**(4,035)**	3,781
Effects of exchange rate changes on cash and cash equivalents	**–**	10
Cash and cash equivalents at beginning of year	**4,105**	314
Cash and cash equivalents at end of year	**70**	4,105
Analysis of funds		
Cash at bank and in hand	**70**	4,105
Cash funds	**70**	4,105

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 30 June 2018

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 announced fund raise that is due to complete after the Group's accounts are signed. In order for the Group to continue as a going concern, the Group has proposed to raise £6.0m (gross) from a combination of equity and debt, and potentially up to a further £0.5m via a broker option. The Group's stock broker has obtained commitments from shareholders that it will get £6.0m. Owing to the size of the fund raise relative to the market capitalisation of the Group, shareholder approval is required before these commitments become unconditional.

While the Board is confident that it will achieve approval from shareholders, until it is confirmed at a general meeting there is a material uncertainty as to whether the fund raise will conclude successfully. Owing to reporting obligations for the Group's annual accounts, the Group cannot wait until after the shareholder approval to release its accounts. Therefore at the date of these financial statements the fund raising has not been approved and this 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 shareholders rejecting the fund raise, 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 Group 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), Epistem SIP Trustees Ltd and Epistem Inc. incorporated in the United States of America. 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
- Epistem Inc. – the provision of services to the biotechnology and pharmaceutical industries; Incorporated in the USA and with registered address 14th Floor, One Broadway, Cambridge, MA 02142, USA
- 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

On 28 July 2010, Genedrive plc, formerly Epistem Holdings Plc acquired 100% of the share capital of Visible Genomics Ltd, whose principal activity had been the development of diagnostic assays and equipment. The assets and liabilities of Visible Genomics were hived into Epistem Ltd and Visible Genomics Ltd ceased to trade. Following a variation of Purchase and Sales agreement agreed with the vendor of Visible Genomics Ltd on 5 March, 2015, the following 'earn-out' of deferred consideration payable to the vendors of Visible Genomics Ltd remained outstanding:

Group	**2018 £'000**	2017 £'000
Deferred consideration payable in shares – Achievement of commercial milestones relating to Genedrive sales	**1,250**	1,250

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 30 June 2018 continued

The commercial milestones referred to above and outstanding at 30 June 2018 £1,250k (2017:£1,250k) relate to the recognition of £5m of Genedrive® related income or contractual commitments from any of a list of 16 IVD companies which provide a minimum combined value of £5m.

The deferred consideration above is payable in shares. The value at which shares are to be issued is to be calculated by reference to LSE daily share price over a 5 day period commencing 30 days after the date that the achievement of the milestone(s) is announced. The Consideration shares are subject to a "lock-in" provision, under which the Vendor covenants not to sell Consideration shares for a period of up to 24 months without the consent of the Company, except in the event that an offer for the whole of the issued share capital of the Company is received and which is either recommended by the Board or becomes unconditional as to acceptances.

In the event that an offer for the whole of the issued share capital of the Company or for the Genedrive® business is received and which is either recommended by the Board or is declared unconditional as to acceptances, then, the Vendor will become entitled to be allotted shares in the Company up to a maximum value of £2.65m, save to the extent that Consideration shares, as detailed above, have already been issued. The value at which these shares are issued will be the relevant offer price.

The Board is of the opinion that, as at 30 June 2018, the value of further consideration of £1,250k (2017: £1.25m) was capable of assessment and provision for this liability has been made in these accounts. Based on the share price of 36.0p at 30 June 2018, this would result in the issue of 3,472,222 shares.

On the 15 November 2018 the Company entered into an agreement with the former owner of Visible Genomics Ltd to alter the arrangements of the deferred consideration. Both parties agreed to amend the terms of the deferred consideration so that £300,000 would be payable in cash 30 days after a target date, £200,000 payable in shares 12 months after the target date and 500,000 shares would be payable 36 months after the target date. The target date will be the date of the 2018 fund raise, as this has not taken place yet the agreement is not in effect.

Year ended 30 June 2018	Investment in subsidiaries £'000
Cost	
At 1 July 2017	4,101
Additions	55
Impairment	(4,156)
At 30 June 2018	**–**
Net book value	
At 30 June 2018	**–**
At 30 June 2017	4,101

Year ended 30 June 2017	Investment in subsidiaries £'000
Cost	
At 1 July 2016	6,615
Impairment	(2,615)
Additions	101
At 30 June 2017	4,101

Additions in the year ended 30 June 2018 comprised the fair value of the share options issued to employees of the subsidiary undertaking during the year of £55k (2017: £101k). Full details of the share options issued are set out in note 21 to the consolidated financial statements. Following an impairment review, the carrying value of the investments were impaired by £4,156k (2017: £2,615k).

During the year the carrying value of Investments and the recoverability of amounts receivable from Group undertakings were assessed 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 2018 was reduced to £nil (2017: £4,101k) and an impairment charge of £4,156k (2017: £2,615k) was booked during the year.

b. Amounts receivable from Group undertaking and other receivables

Company	**2018 £'000**	2017 £'000
Opening amounts receivable from Group undertakings	**784**	20,542
Additions in the year	**4,035**	2,242
Impairment provision	**(4,819)**	(22,000)
Closing amounts receivable from Group undertakings	**–**	784

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

During the year the carrying value of amounts receivable was subject to an annual impairment review. In the view of the Directors and impairment provision of £4,819k was required at the balance sheet date (2017: £22,000,000).

c. Cash and cash equivalents

Company	**2018 £'000**	2017 £'000
Cash at bank and in hand	**70**	4,105
	70	4,105

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 counter parties are banks with high credit ratings assigned by international credit rating agencies.

d. Convertible Bond

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. 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.

DIRECTORS, SECRETARY AND ADVISERS

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David Budd
Matthew Fowler
Roger Lloyd
Robert Nolan
Tom Lindsay
Chris Yates

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Matthew Fowler

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