genedrive

Decentralising
molecular diagnostics

Annual Report 17

genedrive plc

WHAT WE DO
Introduction and highlights

genedrive plc is focused on decentralising molecular diagnostics, concentrating on applications where our technology will provide sustainable growth.

Financial Highlights

£5.8m
+13.7%
Revenue and other income
(2016: £5.1m)

£2.6m
+30.0%
Development Income
(2016: £2.0m)

£3.2m
+3.2%
Service Income
(2016: £3.1m)

£5.1m
+363.6%
Cash
(2016: £1.1m)

- Turnover of £5.8m, up 13.7% (2016: £5.1m)
- Strong growth in Genedrive® development income to £2.6m (2016: £2.0m) principally driven by the US Department of Defense (DoD) biohazard programme
- Moderate increase in Service income to £3.2m (2016: £3.1m)
- Trading loss improvement to £4.9m (2016: £5.4m) despite increased Research & Development and Administrative costs
- Cash at 30 June 2017 of £5.1m (2016: £1.1m) post £6.0m equity fund raising in July 2016; 30 September 2017 cash of £4.2 (unaudited)
- Loss for the year £6.4m, up 8.5% from £5.9m in the prior year reflecting an impairment charge and tax credit

Operational Highlights

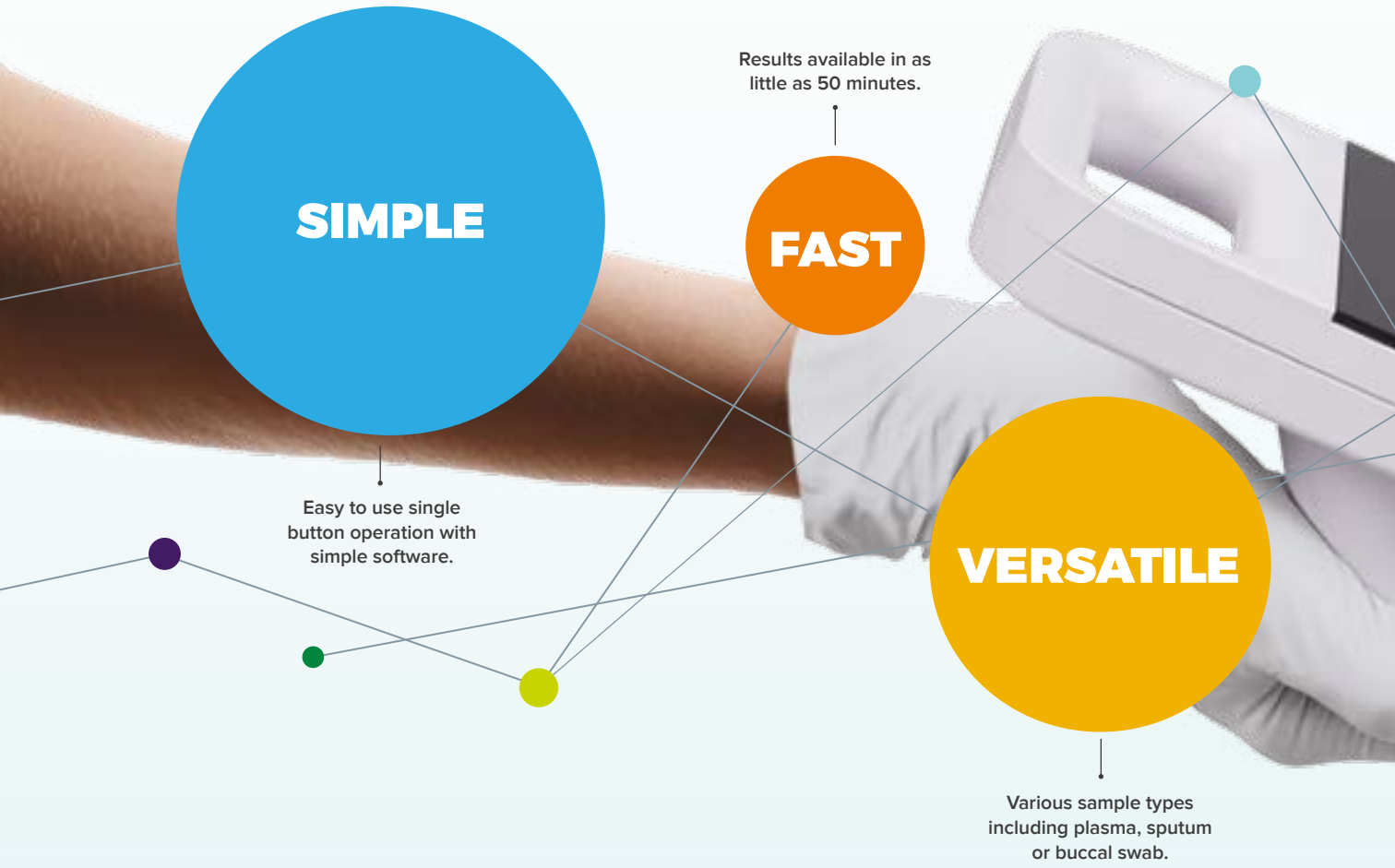
- Proprietary Genedrive® Hepatitis C (HCV) test submitted for CE marking
- Continued positive progress with the US DoD biohazard identifier programme, including extension of programme into next phase
- Successful field trials of Genedrive® aquaculture testing programme, performed in collaboration with the Centre for Environment, Fisheries and Aquaculture Science (Cefas)
- Disappointing uptake of MTB/RIF assay in India, in part owing to sample preparation problems specific to MTB and commercial issues
- Name change from Epistem Holdings Plc to genedrive plc and £6m raised from July 2016 placing - strategic focus on molecular diagnostics business opportunities

Post Year End

- CE marking obtained for Genedrive® HCV ID kit
- Entered into a distribution agreement with Sysmex Europe for Genedrive® HCV ID kit in the EMEA region with an initial focus on Africa
- Entered into the next stage of the US DoD biohazard programme, worth approximately $1.4m in development income and a further $0.5m in product sales all expected to be recognised in the current financial year
- £0.6m conditional grant offer from Innovate UK to fund centrifuge free plasma separation device

OUR FOCUS

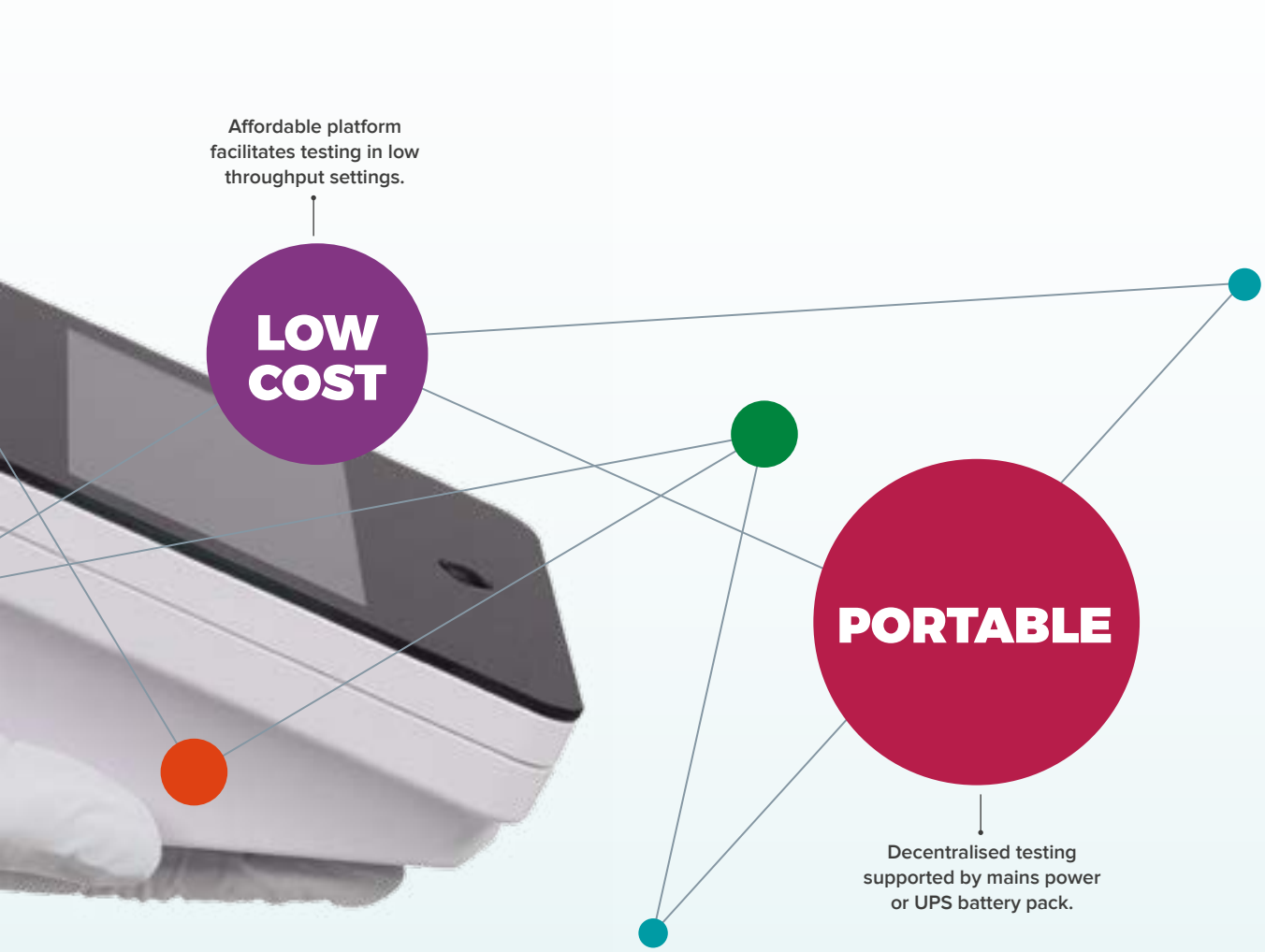
Changing the way molecular diagnostics and personalised medicine are delivered



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.

50 minutes

minimal amount of time before results are available

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.

Dear Shareholder

I am pleased to report that 2016/17 has seen us make further progress on our journey to refocus the Company on the highly attractive opportunities which the Genedrive® diagnostics platform offers in the rapidly growing market for decentralised, near patient diagnostic tests.

Key Achievements

A major focus for the year was the development of our Genedrive® HCV ID Kit. With the advent of new 'curative' direct acting antiviral treatments for Hepatitis C (HCV), there is a major opportunity to tackle the global burden of the disease if accurate, decentralised diagnostics can be used to identify those living with HCV and give them access to therapy.

Our Genedrive® HCV ID Kit was submitted for CE registration in April 2017 based on excellent performance data from clinical validation studies. Post year end, I am delighted that we obtained CE marking, a vital first step to commercialization.

We are also delighted to have entered into a distribution agreement with Sysmex Europe to target the commercial HCV opportunity in Africa. The agreement covers the EMEA region with an initial focus on multiple countries in Africa. Working together the two companies will focus on securing the required regulatory approvals and we anticipate commercial traction during the 2017/18 financial year.

Other Activities

The pathogen detection programme with the US DoD contributed significantly to the current year revenues and included shipments of Genedrive® units and assays for field use testing. Post year end we also received confirmation that following successful evaluations, the programme will be entering its next phase, worth $1.4m in development income and $0.5m in product sales to be recognised in the year to 30 June 2018.

As previously announced, we encountered a specific sample preparation problem relating to a supplier component in the MTB/RIF test. An alternative solution had been successfully tested in Indian laboratories however we have had difficulty assessing the impact of this through our commercial partner. In the light of these challenges, we are considering how best to address the Indian MTB/RIF market and the broader potential of Genedrive® in this area. As stated in the trading statement of 13 July 2017, no additional short term revenues were expected from MTB/RIF in India. However, the TB market is large and there is significant potential for Genedrive®.

Away from our core human healthcare focus, we enjoyed success with funded field trials of Genedrive® for white-spot disease detection in farmed shrimp. The results validated Genedrive®'s potential as a rapid cost effective system for disease detection in animals. The Company however remains focused on the human health market and will only pursue this opportunity further if a commercial partner can be identified.

With modest investment the Services division continued to contribute to the Group. Revenues and operating margin were up on the same period last year. The Board wishes to see the division divested and discussions are ongoing in order to pursue that as a strategic aim and thereby secure additional investment capital for Genedrive®. While we remain optimistic that an appropriate divestment can be secured, we believe the division can continue to contribute to the Group should a sale not be secured.

Governance and People

Strong governance and values are vitally important to the success of the Company and the Board remains focused on ensuring its own effectiveness and that of the governance processes throughout the Company. The Board has recently gone through some changes. John Rylands, stepped down from the Board in November 2016 and we thank him for his excellent contribution to the Company and wish him well for the future. Matthew Fowler joined the Board on 13 December 2016 in his role as Chief Financial Officer. Matthew brings to the role strong business skills and extensive experience in listed businesses, which are already proving of great benefit to the Company.

On behalf of the Board, I would like to thank our staff and extend this thanks to our investors and customers for their commitment and support. We look forward to updating investors during the year on further progress and delivery against our strategic objectives.

Dr Ian Gilham
Chairman
17 October 2017

CHIEF EXECUTIVE'S REVIEW

David Budd
Chief Executive Officer

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

Overview

Our transition to a commercial stage diagnostics business is well underway. genedrive plc now has a clear strategic direction and the efforts of the Company are focused towards advancing our offerings as a disease detection business built around the Genedrive® platform. I am pleased with the progress made in the year but we are aware there are still challenges ahead of us for the Company to fully realise the considerable potential of Genedrive®.

Our Performance

Revenue for the period was £5.8m, up 13.7% from the £5.1m on the prior period. This year-over-year growth in revenue was driven by the Diagnostics division that saw revenue growth of 36.8% to £2.6m (2016: £1.9m). Our pathogen detection programme with the DoD was central to this growth with revenue of £2.2m, up £0.5m from 2016. Services revenue was £3.2m (2016: £3.1m), up 3.2%. We closed the year with £5.1m of cash (2016: £1.1m). Targeted investment of our cash resources remains vital as we assess and prioritise the various commercial and development opportunities before us.

The Genedrive® Platform – Strategic Progress

During the year we announced the successful studies on our HCV ID kit conducted at the Institut Pasteur, Paris and Queens University Nottingham. Following these successful studies that showed overall sensitivity of greater than 99% and specificity of 100%, the product was submitted for CE marking in April 2017. I am pleased that in September 2017 the product obtained its CE registration. With the HCV ID kit now CE registered we are in a position to begin commercialisation efforts. We have signed a distribution agreement with Sysmex Europe, a world leader in clinical laboratory systemization and solutions, for the EMEA with an initial focus on Africa. Working together, the companies will now focus on securing the required regulatory approvals in individual territories of Africa and we anticipate commercial traction during the 2017/2018 financial year. This agreement is an important step to providing access to Genedrive® across target countries in Africa and we are delighted to be working with Sysmex Europe who have the experience and networks needed to market and commercialise the product.

Our Genedrive® HCV ID kit will initially be launched and sold into decentralised laboratories; being facilities outside of large hospitals. Our test is performed from plasma, which is currently isolated from whole blood using a centrifuge. As direct acting antiviral use increases in the future, we anticipate an increased demand for diagnostics in even smaller, point-of-need facilities. To support future positioning in this user segment, the Company has secured a £0.6m conditional offer of development funding from Innovate UK. When confirmed the grant will be used to further our Centrifuge Free Plasma Separation device concept, so that

smaller facilities without centrifuges can also use Genedrive® HCV ID. We also intend to refine, improve and simplify other aspects of the HCV test to make it even more suitable for point of need testing to maximize its commercial potential.

Commercialisation of our MTB test in India has continued to be challenging in the past year, primarily owing to a component issue in the sample preparation process specific to that test, but also compounded by commercial issues. We believe we have resolved the problem but, until validated in the field, revenues are not expected in the short term. The market dynamics of MTB have not changed since genedrive plc identified the opportunity, the market is large and well defined and there is significant potential in smaller laboratories. However with the benefit of experience acquired in the field, we are considering how best to address the Indian market and the broader potential of Genedrive® MTB/RIF in this area. It is possible that to fully exploit the potential of MTB we may need to more fully refine our sample preparation processes before re-engaging the market.

The programme with the DoD has seen continued success. This work involves collaboration with the DoD to develop biohazard tests for Genedrive® in the context of a small portable diagnostics device capable of deployment in the field. The work not only validates Genedrive® as a flexible and accurate diagnostics device, it has helped to fund important developments such as Bluetooth connectivity and uninterruptible power supply that will benefit customer adoption. The DoD has not indicated the intended future sustained use of Genedrive® and as such it is not possible for us to predict future commercial revenues. However, post year end an additional funding award was made to support the continuation of the project and an award was made to support ongoing validation work. This additional funding is expected to generate approximately $1.4m in development and commercial income of $0.5m for the financial year to 30 June 2018.

Services Operations

As previously stated, we have been seeking strategic alternatives for our Services business including considering divestment. We have yet to secure a disposal although discussions are ongoing but should a divestment on acceptable terms not be possible, we remain flexible to the division being retained within the Company. We do believe that focusing our efforts on Genedrive® should remain a core strategic priority.

Revenues from our larger US based programmes were slightly down in the year, 8.8%, but the decline is owing to the life-cycle of the projects as opposed to underlying trends in the market. Conversely European business enjoyed a good period of growth, 17.8% year over year. The growth was delivered from a growing number of programmes with smaller customers, and was aided by improvements to our marketing, contacts and relationship management.

Outlook

We are now entering a defining period for genedrive plc. The CE marked Genedrive® HCV ID kit positions the Company as first to market with an affordable and cost effective HCV test. In the current financial year, we will be working with our distribution partner(s) to begin commercialisation efforts and secure requisite regulatory approvals. While we have challenges with MTB our experience in the market and successes with the DoD and CEFAS projects underline the potential of the Genedrive® as a flexible, portable and cost effective platform for decentralised molecular diagnostics. To more fully realise that potential, particularly outside decentralised laboratories at point of care, we intend to focus some development work on refining, improving and simplifying product workflow. This will maximise the commercial potential in HCV and in other infectious diseases including MTB. The Board is encouraged by the growing momentum in the business and the outlook for genedrive plc.

David Budd
Chief Executive Officer
17 October 2017

MARKET OPPORTUNITY
Clinical

Hepatitis C

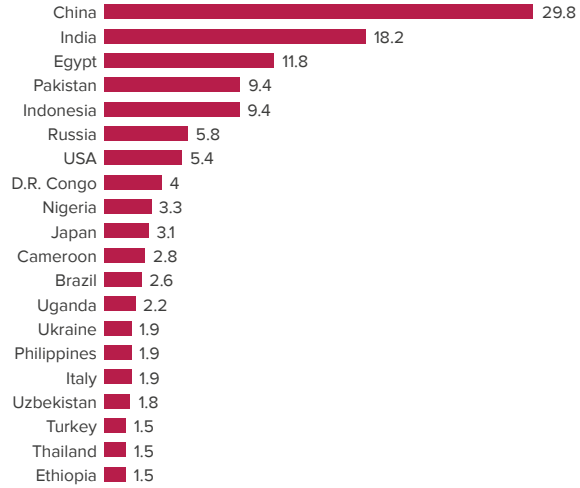
'Early diagnosis of hepatitis infection is critical for effective treatment and care. Yet globally, less than 5% of persons with chronic viral hepatitis are aware of their status. Awareness is lacking, reliable diagnostics that are appropriate for the setting of intended use and testing services are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

– World Health Organisation

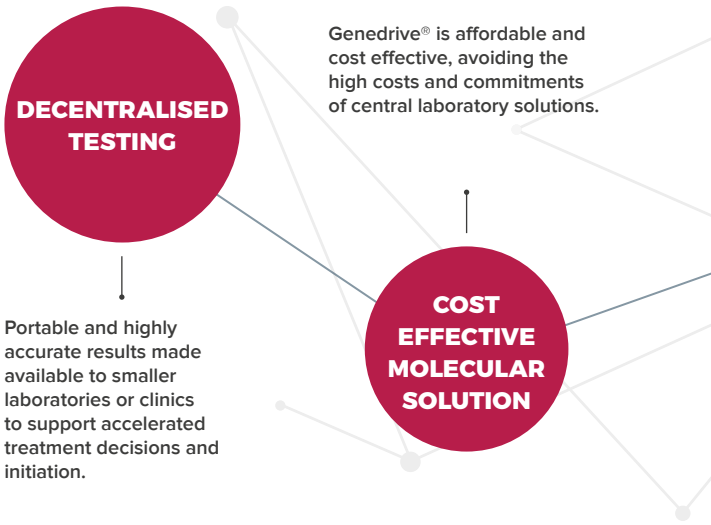
Overview

It is estimated that 71 million people are living with chronic HCV infection and that 80% of those people are undiagnosed. genedrive plc newly CE registered HCV test has the potential to be first to market globally with a decentralised point of need HCV qualitative test.

Prevalence of HCV in Top 20 countries (millions)



Genedrive® Application for Hepatitis C



Partners

- Distribution agreement signed with Sysmex to target commercial opportunities in EMEA with initial focus on Africa.

Institut Pasteur

sysmex

SUCCESSFUL VALIDATION

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

– CE marking obtained September 2017

NEW TREATMENT AVAILABILITY

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

FUTURE OPPORTUNITIES

Significant global players could offer future opportunity for partnership, development and distribution opportunities.

Commercialisation Strategy

HCV Launch

- Prioritised list of countries based on HCV dynamics
- Positive engagement with global and regional NGOs to support roll-out
- Commercial partner for EMEA region secured
- Company in active discussions for further geographies

Launch Target Locations

MARKET OPPORTUNITY
Clinical

Tuberculosis
(MTB/RIF)

Genedrive® tuberculosis test is designed as an affordable, rapid PCR-based test for the detection of MTB and rifampicin (Rif) resistance.

Target Market

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. Within India we are targeting small to medium size labs where throughput does not support more expensive lab equipment, but where Genedrive® can replace the need to refer to central labs.

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

Progress

Commercial traction in the first half of the year was impaired by a sample preparation component problem. During the second half of the year we identified the issue, isolated the component and sourced a replacement. Commercial and contractual issues during this time have slowed our ability to subsequently re-engage the market. Currently the Company has the option to continue with the product, or return to the market in the medium term with further refined sample preparation approach that could allow us to target market opportunities beyond India.

Partners

GLOBAL HEALTH INVESTMENT FUND

Non clinical applications

Pathogen Detection

Portability, flexibility and accuracy make Genedrive® an attractive solution on pathogen detection markets.

Biodefence

The US DoD funded collaboration project on biohazard tests for Genedrive® has continued to be a success. The programme represents external validation for our development capability as well as significant funding for the enhancement and development of the Genedrive® unit.

- Revenues of £2.2m (2016: £1.7m)
- Units and assays delivered for fields trials
- Post year end the Company announced it had entered the next stage of the programme
- The Company expects around $1.4m of development income from the work in the year ending June 2018, plus an additional $0.5m of product-related income.

Aquaculture

Beyond the human healthcare market, during the year funded filed trials of Genedrive® for white-spot disease detection in farmed shrimp were conducted in collaboration with Cefas.

The positive outcomes demonstrate the potential of Genedrive® for cost effective disease detection in animals.

The Company is actively seeking business partners to realise the commercial opportunities that may exist in this adjacent market.

- Collaboration with Centre For Environment, Fisheries & Aquaculture Sciences (Cefas)
- Point of need aquaculture test for diagnosis of pathogens
- Successful in country testing in Thailand in November 2016

Partners

Biodefence

Aquaculture

Cefas

FINANCIAL REVIEW

Matthew Fowler
Chief Financial Officer

Growth in the Diagnostics division underpinning the performance for the year.

Results for the year delivered revenue and other income of £5.8m (2016: £5.1m). Research and development costs were £5.1m (2016: £4.8m) reflecting the continued investment in our Genedrive® technology. Contract and administration costs were £5.6m (2016: £5.7m) and gave a trading loss for the year of £4.9m (2016: £5.4m).

During the year, the Group reviewed the useful economic life of its intangible assets. The conclusion from this review was that the assumed useful economic lives were too long given the rapid advances of technology in the market. The Group has therefore shortened the remaining lives of the assets and impaired the assets down to their fair value. This £2.4m non-cash charge (2016: £nil) has been separated out on the face of the income statement to give readers a better understanding of the underlying performance of the Group.

Financing costs of £0.2m (2016: £1.1m) relate to the dollar denominated Global Health Investment Fund (GHIF) convertible bond. The terms of the bond were amended in the year to 30 June 2016 but had an effective date for accounting period to 30 June 2017. The total charge comprised £0.1m related to foreign exchange losses and £0.1m of fair value movements. The fair value movements include both the IFRS financing charge for the year and a fair value gain on the amendment signed in the year. The financing costs are all non-cash following an election under the signed amendment to defer interest payable into the principal. After financing costs and the impairment of intangibles, the loss before taxation was £7.5m (2016: £6.5m). This reduces to £6.4m (2016: £5.9m) after the Research and development taxation credit for the year. The basic loss per share was 34.9p (2016: 56.2p).

Cash Resources

Operating cash outflows were £7.3m (2016: £5.4m). Working capital contributed £1.3m (2016: £nil) to give a net cash outflow from operations of £2.6m (2016: £4.2m). Working capital movements were mainly owing to debtors as the Company benefitted from a movement to monthly invoicing on the DoD contract and the successful management of long overdue items. Interest inflows were £nil (2016: £0.3m outflow). Tax received was £0.8m (2016: £0.7m) and relates to cash received under the Corporation Tax Research and Development tax relief scheme operated in the UK.

In July 2016 the Company raised £6.0m after costs, from the placement of 8,125,000 new ordinary shares. The Group closed the year with cash of £5.1m (30 June 2016: £1.1m).

Balance Sheet

At the year end, the convertible bond was £5.2m up from £5.0m in 2016. The fair value gains from the amendment in July 2016 were offset by foreign exchange losses and the annual finance cost on the bond. Genedrive® related revenue was key to the growth in revenue for the year. Given this growth we are approaching the criteria for triggering the £1.3m (2016: £1.3m) deferred consideration payable in shares, however the Directors still consider it appropriate to classify the liability as non-current.

Balance sheet net assets at 30 June 2017 totaled £3.4m (30 June 2016: £3.8m). The increase in share capital of £6.0m is directly from the shares issue in July 2016. Offsetting this increase was the consolidated loss for the year £6.4m (2016: £5.9m loss).

Matthew Fowler
Chief Financial Officer
17 October 2017

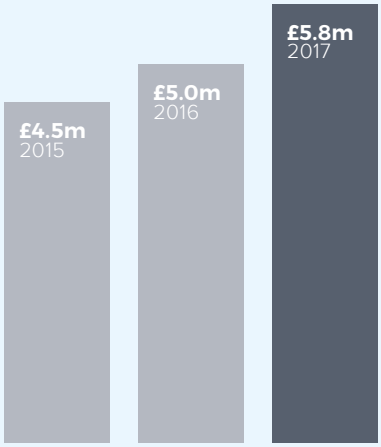
KEY PERFORMANCE INDICATORS

We report a strong growth in overall income, driven by Genedrive® development income.

Services income was slightly up in the period. We report continued increase in development expenditure and increased administration costs as the Company focuses on the launch of the Genedrive® molecular diagnostics platform.

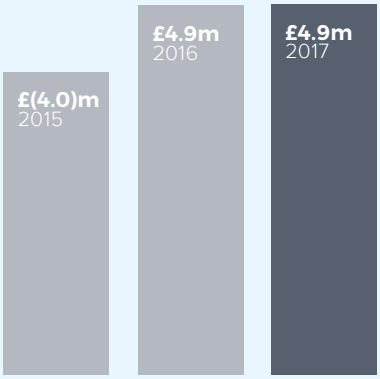
Group Revenue

Significant growth from Genedrive® Development income



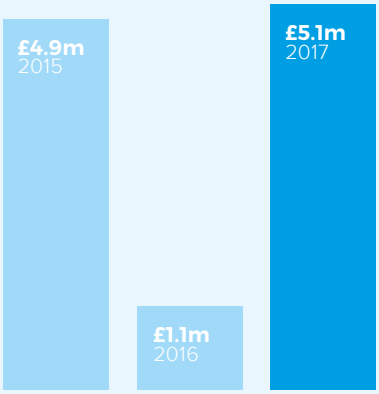
Results After Tax

Loss before tax, interest, finance costs and impairment of intangible assets of £4.9m



Cash Reserves

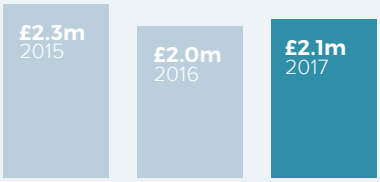
Cash reserves of £5.1m following £6.0m Placing in July 2016



KEY PERFORMANCE INDICATORS
Continued

Preclinical Services Revenue

Preclinical Research Services £2.1m revenue up from £2.0

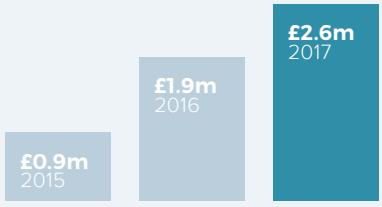


Pharmacogenomic Services Revenue

Preclinical Research Services at £1.1m revenue

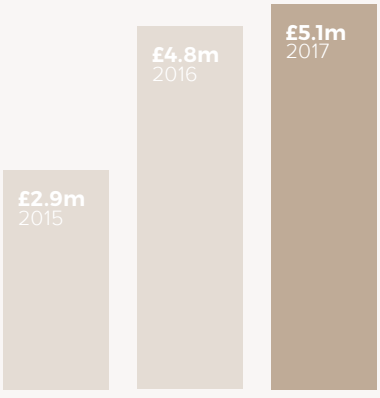
Diagnostics (Genedrive®) Revenue

Genedrive® development collaboration delivered £2.6m income up from £1.9m



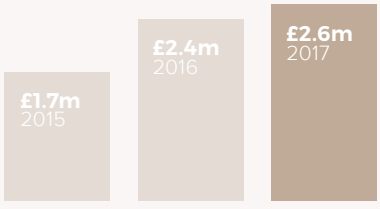
Research and Development Costs

Research and Development costs grew in 2017 to £5.1m



Administration Costs

Administration costs amounted to £2.6m



PRINCIPAL RISKS AND UNCERTAINTIES

For the year ended 30 June 2017

The Board meets regularly to review operations and to discuss risk areas. Details of the financial risks are disclosed in note 20 to the financial statements. The Directors regularly assess and monitor the business risks faced by the Group. Risk is an inherent feature of business and set out below are some key risks, together with associated mitigating factors. This list does not purport to be exhaustive.

Development Risk

The Group undertakes significant activity with the aim of launching new products, therapies and services. There can be no guarantee that the development activity will enable the programmes to meet the technical and intellectual property hurdles required for a commercial launch to be undertaken. The Group seeks to mitigate this risk by ensuring that development programmes are planned and undertaken by staff with the requisite skills. The Group monitors industry trends and customer needs to ensure that its development targets remain relevant. The Group's services to clients relate to projects which are also subject to development risk. The Board regularly monitors the client profile and seeks to broaden the client base where possible. Further information on significant clients is detailed in note 2 the financial statements.

Financing Risk

In the forthcoming period, the Board anticipates that the Group's investment in its development activities described above is likely to require additional equity investment into the Group. The Board maintains close dialogue with the Group's advisers to monitor shareholder support for its investment programme and the Board is satisfied that it may reasonably expect to raise appropriate equity finance. However, there remains a risk that further equity fundraising will not be possible and, in this event, the Board will review the funding options available to the Group and the scope of its investment activities.

Quality Assurance and Regulatory Risk

The Group operates in a regulated industry and maintains significant investment in its Quality Assurance systems. In respect of its services the Group is accredited with GcLP Certification. In respect of its products, the Group is registered to ISO 13485 Certification. There can be no guarantee that the Group's products or services will be able to obtain or maintain the necessary approval for the orderly conduct of its business. Approvals can require evaluation of data relating to safety, quality and efficacy standards. The Group seeks to mitigate regulatory risk by conducting its operations within recognised quality assurance standards and by undergoing external assessment.

Manufacturing Risk

On commencement of the supply of products (Genedrive® units and assays), the Group will be dependent on two key suppliers for the timely delivery of product at consistent quality and prices. One key supplier is based in the Far East and one key supplier is based in the UK. It is unlikely that dual sourcing of supply will be achievable in the short term.

Management and Employees

The Group's future success is dependent on its management team and staff. There is an on-going risk that staff will leave to join competitor companies. The Group seeks to mitigate this risk by establishing effective management organisation and leading staff incentive schemes.

Economic Risk

The Group's programmes are targeted to meet the commercial requirements of its clients. In the current economic climate, clients' plans may be subject to changes which may adversely affect the financial performance of the Group. The Group seeks to mitigate this risk by operating a diversified business model across various technologies and territories.

Approved by the Board and signed on its behalf

Dr Ian Gilham
Chairman
17 October 2017

BOARD OF DIRECTORS

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

Matthew Fowler

Chief Financial Officer

Matthew was appointed Chief Financial Officer on 13 December 2016. He has 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. 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.

Catherine Booth, Ph.D.

Director, Research Services

Catherine is a co-founder of Epistem and prior to starting Epistem she worked for ten years with Prof. Chris Potten at the Paterson Institute. Whilst at the Paterson Institute she developed many pre-clinical assays. This knowledge is at the core of the Epistem Contract Research Service. Catherine received her Ph.D. from Emmanuel College, University of Cambridge.

Allan Brown, Ph.D.

Chief Operating Officer

Allan has spent his career in the Life Sciences/Diagnostics industry. During a seventeen year period with Tepnel Life Sciences plc, (latterly Gen-Probe), Allan's technical management roles covered product development through to commercial product launch; his commercial management roles covered sales and business development and M&A. After leaving Tepnel/ Gen-Probe, Allan joined the leading Sample & Assay Technologies company, QIAGEN N.V., in Manchester as General Manager where he oversaw the development and launch of the company's first US FDA approved product, and establishing the site as QIAGEN's Global Centre of Excellence for molecular diagnostic product development. Allan was appointed to the Board on 1 February, 2014.

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 coopted 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.

DIRECTORS' REPORT
For the year ended 30 June 2017

For the Year Ended 30 June 2017
The Directors present their report for genedrive plc ('the Company') and its subsidiaries (together 'genedrive plc' or 'the Group') for the year ended 30 June 2017. Genedrive plc is the holding company for a group of companies operating in the disease diagnostics and drug development markets. A review of the performance of the Group's businesses is contained on pages 1 to 14 and forms part of this report.

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 audited consolidated financial statements on pages 32 to 60 of this report. No dividend is proposed.

Going Concern
After due consideration, the Directors have a reasonable expectation that the Group will have access to adequate resources to continue in operational existence for twelve months from the date of approval of the financial statements. Whilst mindful of the Financing Risk detailed on page 62, the Directors continue to adopt the going concern basis in preparing the financial statements. In arriving at this conclusion the Directors have reviewed detailed forecast models for the Company and the Group. These models are based on best estimates of future performance and have been adjusted to reflect various downside scenarios and outcomes that could potentially impact the forecasts.

Annual General Meeting
The Annual General Meeting will be held on 29 November 2017 at Grafton Street. 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 23 to the Company's financial statements on page 60. 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 24.

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 on pages 54 to 60.

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.

The Directors are not aware of any 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 18 on pages 52 to 53.

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 17 on page 51.

Employees and Employment Policies
genedrive plc is committed to the principle of equal opportunity in employment and ensuring that no applicant or employee receives less favourable treatment on the grounds of gender, marital status, age, race, colour, nationality, ethnicity, religion, disability, sexuality or unrelated criminal convictions. genedrive plc applies employment policies which are believed to be fair and equitable and which ensure entry into and progression within the Company determined solely by personal ability and competency.

Board of Directors

The names of the present Directors and their biographical details are shown on pages 16 to 17.

At the Annual General Meeting, to be held on 29 November 2017, Matthew Fowler will offer himself for election. All other members of the Board will offer themselves for re-election.

Significant Shareholdings

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

	Percentage holding %
Calculus Capital	17.80
Odey Asset Mgt	10.69
Genedrive plc Director & Related Holdings	8.70
Hargreave Hale	8.42
M&G Investment Mgt	6.68
River & Mercantile Asset Mgt	5.64
Catherine Booth	5.24

Research and Development

During the year ended 30 June 2017 the Group has incurred research and development costs of £5,086k (2016: £4,836k). Expenditure on Intangible Assets (relating to research and development activities) was £nil (2016: £16k) as detailed in note 10 to the financial statements.

Takeover Directive

The Company has one class of ordinary share and these have equal voting rights. The nature of individual Directors' holdings is disclosed above. There are no other significant holdings of any individual.

Financial Risk Management

The Group's approach to managing financial risk is covered in note 20 to the Group financial statements

Statement of Directors' Responsibilities

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 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 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

DIRECTORS' REPORT
Continued

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 of the ultimate parent Company are responsible for the maintenance and integrity of the of the ultimate Parent Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in Board of Directors confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Group; and
- the Financial Review includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

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 16 and 17. 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 2017 Annual General Meeting.

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

On behalf of the Board

Matthew Fowler
Company Secretary
17 October 2017

DIRECTORS' REMUNERATION REPORT

For the year ended 30 June 2017

Introduction

This report has been prepared in accordance with the requirements of Schedule 2 Pt1 to the Companies Act 2006 ('the Schedule') and also meets the relevant requirements of the Listing Rules of the Financial Services Authority 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.

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

Executive Directors are entitled to accept appointments outside the Company provided the Board's permission is sought.

The remuneration of the Non-Executive Directors is determined by the Board within limits set out in the Articles of Association.

Non-Executive Directors' Terms of Engagement

The Non-Executive Directors have 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.

DIRECTORS' REMUNERATION REPORT

For the year ended 30 June 2017

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 2017 and 2016.

		Salary & Fees £	Bonus £	Benefits in Kind £	Pension £	Total £
Executive						
David Budd	**2017**	**220,000**	**73,125**	**805**	**4,400**	**298,330**
	2016	73,332	25,000	382	1,467	100,181
Catherine Booth	**2017**	**135,643**	**14,625**	**345**	**2,713**	**153,326**
	2016	133,708	7,500	425	2,674	144,307
Allan Brown	**2017**	**154,177**	**14,625**	**434**	**3,084**	**172,319**
	2016	151,987	7,500	547	3,040	163,074
Matthew Fowler[1]	**2017**	**77,538**	**21,313**	**–**	**1,551**	**100,402**
	2016	–	–	–	–	–
John Rylands[2,3]	**2017**	**117,133**	**–**	**1,262**	**1,791**	**120,186**
	2016	133,709	7,500	1,641	2,674	145,524
Non-Executive						
Ian Gilham	**2017**	**65,000**	**–**	**–**	**–**	**65,000**
	2016	65,000	–	–	–	65,000
Robert Nolan	**2017**	**24,000**	**–**	**–**	**–**	**24,000**
	2016	24,000	–	–	–	24,000
Roger Lloyd	**2017**	**24,000**	**–**	**–**	**–**	**24,000**
	2016	24,000	–	–	–	24,000

1 Appointed 13 December 2016

2 Resigned 8 November 2016 and left the Company on 28 February 2017

3 Under the terms of his termination, John Rylands received a loss of office payment of £27,600 in the year ending 30 June 2017. The payment was entirely by way of compensation for the termination of employment. In addition the Board exercised its discretion to extend the life of certain options granted to the Director from 10 January 2018 until 28 February 2018. There were no other benefits or payments made to the employee.

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 their salary and fees paid into their pension scheme in under salary sacrifice. In the remuneration table above salary and fees are stated before salary sacrifice.

Annual Performance Bonus

The 2017 bonus for the Executive Directors and Senior Executives was based on:

- Revenue targets on sales of Genedrive® units and assays
- A cash target for 30 June 2017
- A trading loss target measured against prior year
- Progressing the attainment of CE marking for the HCV assay

In each case the absolute targets have not been disclosed, and the Directors were awarded bonuses of up to 32.5% of maximum potential bonus for the year.

Long Term Incentive Plans

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

		Start of financial year Number	Exercised / Lapsed Number	Options Granted Number	**End of financial year Number**	Exercise price £	Earliest exercise date	Expiry date
Executive								
David Budd	2017	–	–	397,590	**397,590**	0.43	05/04/2020	04/04/2027
	2016	244,444	–	–	244,444	0.90	07/04/2019	06/04/2026
Allan Brown	2017	–		50,000	**50,000**	0.43	05/04/2020	04/04/2027
	2016	200,000	–	–	200,000	3.25	25/03/2017	25/03/2024
Matthew Fowler	2017	–	–	141,666	**141,666**	0.60	14/12/2019	13/12/2026
John Rylands	2016	211,180	–	–	211,180	1.20	–	28/02/2018
Non-Executive								
Ian Gilham	2017	100,000	–	–	**100,000**	2.78	17/12/2018	16/12/2025
	2016	50,000	–	–	**50,000**	2.78	07/04/2019	06/04/2026
Roger Lloyd	2016	30,000	–	–	**30,000**	2.78	17/12/2018	16/12/2025
Robert Nolan	2016	78,000	(78,000)		**–**	–	–	–

There are no performance criteria associated with the options. The exercise price of the awards was the share price at the date of grant.

The options above were issued under the Company's enterprise management incentive share option plan dated November 2007 which expired shortly after the year end. The Company has recently replaced this scheme with the genedrive plc 2017 Enterprise Management Incentive plan and will issue future grants under the new scheme. The new scheme is broadly aligned to 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 circumstances
- The exercise price of options granted will not be below market price
- Awards will vest over a three year period, 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

DIRECTORS' REMUNERATION REPORT

For the year ended 30 June 2017

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:

	Number of shares	
	30 June 2017	1 July 2016
Executive		
David Budd	**31,250**	–
Catherine Booth	**980,000**	988,126
Allan Brown	**51,999**	26,257
Matthew Fowler	**–**	–
John Rylands	**373,147**	221,569
Non-Executive		
Ian Gilham	**114,250**	20,500
Roger Lloyd	**12,500**	–
Robert Nolan	**5,065**	5,065

The shareholding of John Rylands is stated at the date of his retirement from the Company.

Share Investment Plan

The details of the Epistem Share Investment Plan are outlined in note 19 to the financial statements. In addition to the shares held directly listed in the table above, the Directors' interests in the shares of the Company include shares acquired under the Share Investment Plan as follows:

	Partnership Shares Number	Matching Shares Number	**Total SIP Shares 30 June 2017 Number**	Total SIP Shares 30 June 2016 Number
Catherine Booth	6,623	13,255	**19,878**	11,339
Allan Brown	5,000	9,642	**14,642**	5,925
John Rylands	–	–	**–**	7,568

The holding of John Rylands is stated at the date of his retirement from the Company.

Advice Received by the Committee

The Committee has access to advice when it considers appropriate. In the year ended 30 June 2017 the Committee received assistance and advice from the Company Secretary, and in addition had specific advice on the genedrive plc 2017 Enterprise Management Incentive plan from Deloitte LLP.

This Remuneration Report was approved by a duly authorised Committee of the Board of Directors on 17 October 2017 and signed on its behalf by:

Dr. Ian Gilham
Chairman of the Remuneration Committee
17 October 2017

CORPORATE GOVERNANCE REPORT

For the year ended 30 June 2017

The Group is subject to the continuing requirements of the AIM Rules and is committed to adhering to corporate governance standards appropriate for a company of its size. Under the rules of the London Stock Exchange AIM Market, the Group is not required to comply with the UK Corporate Governance Code. This statement sets out below how the Board has applied the principles of good corporate governance in its management of the business in the year ended 30 June 2017.

The Group follows the Quoted Companies Alliance guidelines and has Remuneration, Audit and Nomination committees with written terms of reference and a schedule of matters reserved for the Board, which generally meets each month.

The Board has established an Audit Committee, a Remuneration Committee and a Nomination Committee. The membership of these committees and attendance at meetings is as follows:

Ian Gilham (Non-Executive Chairman)

Robert Nolan (Non-Executive Director)

Roger Lloyd (Non-Executive Director), Remuneration/Nominations Committees only

	Board Committee	Audit Committee	Remuneration Committee	Nominations Committee
Ian Gilham	8	2	3	1
Robert Nolan	8	2	3	1
Roger Lloyd	7	2[a]	3	1
David Budd	8	2	2	1
Allan Brown	8	–	–	–
Catherine Booth	8	–	–	–
Matthew Fowler[b]	4	1	2	–
John Rylands	4	1	1	–

a Roger Lloyd attended the Audit Committees via invite
b Appointed 13 December 2016

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

Remuneration Committee

The Remuneration Committee is responsible for reviewing and determining 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.

Audit Committee

The Audit Committee has responsibility for receiving accounts and reviewing reports from the management and the Company's auditors, relating to Annual and Interim Accounts and the accounting and internal controls in place throughout the Group. 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 Committee has met twice during the year.

CORPORATE GOVERNANCE REPORT

For the year ended 30 June 2017

Continued

Nomination Committee

The Nomination Committee has responsibility for reviewing the size, structure and composition of the Board, as well as retirements and appointments of replacement and additional Directors, and for making appropriate recommendations to the Board.

Matthew Fowler (Chief Financial Officer) was appointed to the Board on 13 December 2016. His appointment will be subject to formal approval by shareholders at the Annual General Meeting to be held on 29 November 2017.

Operation of the Board

The Board held eight formal meetings during the year to 30 June 2017. In addition there were two telephone update calls. Reports from the Executive Directors, which focus on major operational matters, are circulated in advance of board meetings. To ensure that the Board are kept fully informed on the status of the business, reports and presentations are also produced by key senior management.

Relations with Shareholders

The Group recognises the importance of communications with its shareholders to ensure that its strategy and performance is understood and that it remains accountable to shareholders. The Board as a whole is responsible for ensuring that a satisfactory dialogue with shareholders takes place, while the Chairman and Chief Executive ensure that the views of the shareholders are communicated to the Board as a whole. The Board ensures that the Group's strategic plans have been carefully reviewed in terms of their ability to deliver long-term shareholder value.

Internal Controls

The Board acknowledges its responsibility for establishing and maintaining the Group's system of internal controls and will continue to ensure that management keeps these processes under regular review and improves them where appropriate. The system of internal controls is designed to manage rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement of loss.

Social, Environmental and Ethical Matters

The Board recognises the growing awareness of social, environmental and ethical matters and its endeavours to take into account the interests of the Group's stakeholders, including the investors, employees, suppliers and business partners, when operating the business.

Employment

At a subsidiary level the individual Company has established policies which address key corporate objectives in the management of employee relations, communications and employee involvement, training and personal development and equal opportunities.

Health, Safety and Environmental Issues

The Board recognises its legal responsibilities to ensure the well-being, safety and welfare of its employees and to maintain a safe and healthy working environment for them and for its visitors and sub-contractors, Health and Safety is on the agenda for regularly scheduled Board meetings.

By their nature, the Group's regular operations are judged to have a low environmental impact and are not expected to give rise to any significant, inherent environmental risks over the next 12 months.

The Group is committed to maintaining high standards in implementing appropriate health, safety and environmental protection policies. Waste materials are recycled where possible, and hazardous waste is catalogued and handled by licensed specialist disposal companies.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GENEDRIVE PLC

Report on the audit of the group financial statements

Opinion

In our opinion, genedrive plc's group financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's affairs as at 30 June 2017 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; 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 statement of profit or loss and comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, and the consolidated cash flow statement; 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.

Our audit approach

Overview

- £255,400 (2016: £48,600)
- Based on 5% of loss before tax, adjusted for the impairment of intangible assets.

- We conducted audit work over genedrive plc (the parent company of the Group) and Epistem Limited, a 100% owned subsidiary, which accounted for 100% of revenue and loss before tax, adjusted for the impairment of intangible assets.

- Accounting treatment related to convertible bond
- Valuation of intangible assets
- Going concern

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.

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. This is not a complete list of all risks identified by our audit.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GENEDRIVE PLC

Report on the audit of the group financial statements

Continued

Key audit matter	How our audit addressed the key audit matter
Accounting treatment related to convertible bond Refer to note 18. During the year, the Group entered into a Deed of Amendment with the Global Health Investment Fund ('GHIF') that modified the terms of the USD 8m convertible bond issued in 2014. The modification has been treated as an extinguishment of the previous financial liability which has been de-recognised and a new financial liability recognised in its place. The difference between these two liabilities of £380k has been recorded as a gain in the consolidated statement of profit or loss and comprehensive income. The new financial liability has been measured at amortised cost using management's estimate of a market interest rate for a similar instrument excluding the conversion option.	We read the Deed of Amendment and considered management's proposed accounting treatment. Our testing focussed on the key judgements and estimates as follows: • In concluding that the modification should be treated as an extinguishment of the previous financial liability, management calculated the impact on the future cash flows of the change in terms. We reviewed this analysis and found it to be appropriate. • We assessed the interest rate used in valuing the new financial liability and consider this to be within a reasonable range.
Valuation of intangible assets Refer to note 10. The Group's intangible assets are amortised over their useful economic lives and assessed annually for indicators of impairment. At the year end the net book value of intangible assets was £3,038k (2016: £6,273k). Due to the loss made in the current year, management has performed a full impairment review to compare the carrying value of the intangible assets to their recoverable value. An impairment charge of £2,379k has been recognised to reduce the carrying value of intangible assets to their recoverable value. The determination of recoverable value was based on value in use which required management to make a number of judgements and assumptions, of which the following are considered to be key: • The period over which the current technology is expected to be commercially viable and hence the length of the forecast period. Given the relatively limited expected life of the technology, the impact of one year's cash flows to the value in use is significant. • The forecast volumes of units sold which show increases on actual units sold to date. The genedrive unit is forecast to be sold in relatively low quantities and therefore the value in use is sensitive to changes in sales volumes. • The discount rate used, as a small change in this could have a large impact on value in use.	We evaluated and challenged the Group's future cash flow forecasts, the process by which they were drawn up and the underlying value in use calculations. We compared the Group's forecasts to the latest Board approved budget and found them to be consistent. Our testing was focused on the key judgements and assumptions as follows: • In determining the forecast period of the value in use model, management has assessed similar products being developed by competitors and the impact these would have on the genedrive product. Whilst development of the genedrive product is expected to continue, this has not been considered in management's value in use model which correctly considers the technology in its current state. • We have applied sensitivity analyses to the volumes of sales included in the value in use model. Whilst the value in use calculation is sensitive to changes in forecast sales volumes, we found management's forecasts to be reasonable. • We challenged the discount rate used by assessing the cost of capital for the Group and comparing against similar organisations. We performed a sensitivity analysis of the discount rate applied to ascertain the magnitude of change required for a material misstatement to occur. We determined that a change arising of this extent was unlikely.

Key audit matter	How our audit addressed the key audit matter
Going concern Refer to note 1. The Group financial statements have been prepared on the going concern basis, meaning that the Directors believe that the Group will have the cash resources it requires to settle its liabilities for the period extending 12 months from the date of approval of the financial statements. In concluding on this basis of preparation, the Directors have prepared a cash flow forecast extending to October 2018 which is based on their best estimate of the expected financial performance of the Group. In addition, the Directors have also prepared a sensitised cash flow forecast, covering the same period, that takes into account the financial impacts of a number of risks that the Directors believe have a reasonable likelihood of occurrence. The Group recorded a net cash inflow during the year of £4,129k and ended the year with a cash balance of £5,129k. This net cash inflow was due to £6,023k of proceeds from the Group's share issue during July 2016 and is offset by an operating cash outflow of £1,837k and an investing cash outflow of £56k. The Directors have stated that the Group's strategic focus is on the molecular diagnostic business and this is supported by investment in research and development included in the Group's cash flow forecasts. Due to the fact that the Genedrive has not yet been commercialised, there is inherent uncertainty over the future profitability of the business and therefore the cash resources of the Group are forecast to reduce to a relatively low level during the forecast period, whilst remaining positive throughout.	We evaluated and challenged the Group's future cash flow forecasts and the process by which they were drawn up. We compared the Group's forecasts to the latest Board approved budget and found them to be consistent. Our testing was focused on the key judgements and assumptions as follows: • We have compared significant forecast revenue streams to supporting information including correspondence confirming funding and purchase orders and found these to be consistent. Where significant revenue streams have been forecast with reference to previous performance, we have compared these forecasts to equivalent amounts recognised in previous years and discussed with management the reasons for any significant variances. • We have compared forecast costs to equivalent amounts incurred in previous years and discussed with management the reasons for any significant variances. • We have challenged management's sensitivity analysis in light of our understanding of the business and its environment, including matters that have arisen subsequent to the preparation of management's forecasts. In particular we have focussed on forecast revenue that is not yet secured and management's ability to control costs if necessary. We have found the sensitivity analysis performed to be sufficiently robust. • We have performed additional sensitivity analysis to ascertain the magnitude of change in key estimates required for the cash headroom to be eliminated. When considered along with the mitigating actions that management could execute to reduce cash outflows, we determined that adverse variances of this extent were unlikely.

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, the accounting processes and controls, and the industry in which it operates.

The Group comprises the following entities: genedrive plc, parent company of the Group; 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 Epistem Limited, which we regarded as financially significant components of the Group. These components accounted for 100% of the Group's revenue and loss before tax, adjusted for the impairment of intangible assets.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GENEDRIVE PLC

Report on the audit of the group financial statements

Continued

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:

Overall group materiality	£255,400 (2016: £48,600).
How we determined it	5% of loss before tax, adjusted for the impairment of intangible assets.
Rationale for benchmark applied	Based on the benchmarks used in the annual report, loss before tax, adjusted for the impairment of intangible assets, is the primary measure used by the shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark.

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 £80,000 and £245,000.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £12,770 (2016: £2,430) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

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 2017 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 its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements
As explained more fully in the 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 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 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. We have no exceptions to report arising from this responsibility.

Other matter

We have reported separately on the company financial statements of genedrive plc for the year ended 30 June 2017.

Hazel Macnamara (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
17 October 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

For the year ended 30 June 2017

	Note	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Revenue	2	**3,166**	3,094
Other income – development grant funding		**2,619**	1,969
Revenue and other income		**5,785**	5,063
Contract costs	3	**(2,998)**	(3,285)
Research and development expenditure	3	**(5,086)**	(4,836)
Administrative costs	3	**(2,614)**	(2,368)
Trading loss		**(4,913)**	(5,426)
Impairment of intangible assets		**(2,379)**	–
Operating Loss	3	**(7,292)**	(5,426)
Finance costs	6	**(195)**	(1,071)
Loss on ordinary activities before taxation		**(7,487)**	(6,497)
Taxation on ordinary activities	7	**1,051**	582
Loss for the financial year		**(6,436)**	(5,915)
Total Comprehensive Expense for the financial year		**(6,436)**	(5,915)
Loss per share (pence)			
– Basic	9	**(34.9)**	(56.2)
– Diluted	9	**(34.9)**	(56.2)

All of the activities of the Group are classed as continuing.

The Company has taken advantage of section 408 of the Companies Act 2006 not to publish its own Income Statement.

CONSOLIDATED BALANCE SHEET

As at 30 June 2017

	Note	30 June 2017 £'000	30 June 2016 £'000
Assets			
Non-current assets			
Plant and equipment	11	**568**	713
Intangible assets	10	**3,038**	6,273
		3,606	6,986
Current assets			
Inventory	12	**444**	202
Trade and other receivables	13	**1,654**	2,797
Current tax asset	7	**1,213**	757
Cash and cash equivalents	14	**5,129**	1,114
		8,440	4,870
Liabilities			
Current liabilities			
Deferred revenue	15	**(98)**	(88)
Trade and other payables	16	**(2,058)**	(1,774)
		(2,156)	(1,862)
Net current assets		**6,284**	3,008
Total assets less current liabilities		**9,890**	9,994
Deferred consideration payable in shares	17	**(1,250)**	(1,250)
Convertible Bond	18	**(5,199)**	(4,991)
		(6,449)	(6,241)
Net assets		**3,441**	3,753
Capital and reserves			
Called-up equity share capital	23	**281**	158
Share premium account	23	**25,988**	20,088
Employee share incentive plan reserve		**(229)**	(240)
Share options reserve		**1,382**	1,281
Reverse acquisition reserve		**(2,484)**	(2,484)
Accumulated losses		**(21,497)**	(15,050)
Total equity		**3,441**	3,753

The financial statements were approved by the board of directors and authorised for issue on 17 October 2017. They were signed on its behalf by:

David Budd
Chief Executive Officer

Matthew Fowler
Chief Financial Officer

genedrive plc
Company number: 06108621

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2017

	Called-up equity 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 30 June 2015	158	20,088	(196)	1,197	(2,484)	(9,218)	9,545
Allotment of ordinary shares	–	–	–	–	–	–	–
Purchase of own shares (SIP)	–	–	(44)	–	–	–	(44)
Lapsed share options	–	–	–	(83)	–	83	–
Forfeit of share options	–	–	–	(6)	–	–	(6)
Equity-settled share-based payments	–	–	–	173	–	–	173
Total comprehensive expense for the year	–	–	–	–	–	(5,915)	(5,915)
Balance at 30 June 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
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**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2017

All on continuing operations		Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Cash flows from operating activities			
Operating loss for the year		**(7,292)**	(5,426)
Depreciation, amortisation and impairment		**3,451**	1,174
ATL Research credits		**(162)**	(151)
Share-based payment expense		**101**	167
Operating loss before changes in working capital and provision		**(3,902)**	(4,236)
Increase in inventories		**(242)**	(39)
Decrease/ (Increase) in trade and other receivables		**1,256**	(606)
Increase decrease in deferred revenue		**10**	38
Increase in trade and other payables		**284**	651
Net cash outflow from operations		**(2,594)**	(4,192)
Tax received		**757**	691
Net cash outflow from operating activities		**(1,837)**	(3,501)
Cash flows from investing activities			
Finance income		**14**	7
Acquisition of plant and equipment and intangible assets		**(70)**	(164)
Net cash outflow from investing activities		**(56)**	(157)
Cash flows from financing activities			
Proceeds from share issue	23	**6,023**	–
Finance costs – interest paid		**–**	(304)
Share Investment Plan – purchase of own shares		**–**	(44)
Net inflow/(outflow) from financing activities		**6,023**	(348)
Net increase/(decrease) in cash equivalents		**4,129**	(4,006)
Effects of exchange rate changes on cash and cash equivalents		**(115)**	192
		4,015	(3,814)
Cash and cash equivalents at beginning of year		**1,114**	4,928
Cash and cash equivalents at end of year		**5,129**	1,114
Analysis of net funds			
Cash at bank and in hand	14	**5,129**	1,114
Net funds		**5,129**	1,114

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

General Information
genedrive plc (the Company) is a company incorporated in the UK which changed its name from Epistem Holdings Plc on 22 July 2016.

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

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. The Genedrive® platform and MTB/RIF test have been launched in India and a Genedrive® HCV test has been successfully assessed by the Institut Pasteur, Paris. The Group also provides contract research services to drug development companies under the Epistem brand name.

1. Significant accounting policies
This note provides a list of the principal accounting policies adopted in the preparation of these consolidated financial statements. 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 Standards Interpretations Committee (IFRS IC) 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.

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 the value of Intangible Assets requires a judgement about the extent to which the relevant asset will be brought into economic use by the Company. R&D expenditure will generally be expensed unless associated income can be identified.
- 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.
- Determining the value of deferred income and expenditure requires an assessment of the duration of the contract to which the deferred income and expenditure relates, and informs decisions as to when to recognise revenue and whether to carry forward costs.
- 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.
- Determining the value of a Derivative requires a judgement as to the most appropriate valuation model to be used. The Board seeks the opinion of experts in making this judgement.
- Determining the fair value of share options requires a judgment as to the most appropriate valuation model to be used. In applying the model requires a judgement as to the most appropriate interest rate and volatility level of the market value of the Company's shares.

Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for 12 months from the balance sheet date. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. In arriving at this conclusion the Directors have reviewed detailed forecast models for the Company and the Group. These models are based on best estimates of future performance and have been adjusted to reflect various scenarios and outcomes that could potentially impact the forecasts. The model outputs support the Directors' conclusion.

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.

On 16 March 2007 genedrive plc (formerly Epistem Holdings Plc) merged with Epistem Ltd, and on that date the shareholders of Epistem Ltd exchanged their shares for equivalent shares in Epistem Holdings Plc. As Epistem Holdings Plc was newly incorporated at the time of the transaction under the terms of IFRS 3 'Business Combinations', this transaction was accounted for as a reverse acquisition, on the basis that the shareholders of Epistem Ltd gained a controlling interest in the Group. The financial statements therefore represent a continuation of the financial statements of Epistem Ltd.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

Continued

1. Significant accounting policies continued

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.

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.

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 20.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

Continued

1. Significant accounting policies continued

Share Incentive Plan (SIP)

The Company operates a SIP scheme and has a policy not to issue new shares to settle the liability, but rather offer 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 realisable value. Cost is calculated on a first in and first out basis and includes bought in cost and, where appropriate, other direct costs. Net realisable value represents the estimated selling price less applicable selling costs. Where applicable, provision is made for slow-moving and obsolete inventory.

Trade and other receivables

Trade and other debtors are recognised and carried forward at invoiced amounts less provisions for any 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.

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 18, 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 6.

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. The following amendments have been adopted in the year:

- IFRS 1 “Clarification of the meaning of ‘effective IFRSs’”
- IFRS 3 “Clarification of the scope exclusion for joint ventures”
- IFRS 13 “Clarification of the scope of the portfolio exemption”
- IAS 40 “Clarification of the relationship between IFRS 3 and IAS 40”
- Annual improvements to IFRSs 2010-2012 cycle (Dec 2014)
- Annual improvements to IFRSs 2011-2013 cycle (Dec 2013)

The above interpretations and revised standard have not had any material impact on the amounts reported in these financial statements or the disclosures required.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

Continued

1. Significant accounting policies continued

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
- IFRS 14 Regulatory deferral accounts
- IFRS 15 Revenue from contracts with customers
- IFRS 16 Leases
- IRFIC 22 Foreign currency transactions and advance consideration
- Amendments to IAS 1 Disclosure initiative
- 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 IAS16 and 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 9 will impact both the measurement and disclosures of financial instruments; IFRS 15 may have an impact on revenue disclosures but is unlikely to impact significantly the financial statements; and IFRS 16 will impact the recognition, measurement and disclosure of operating leases. It is considered that the amount of lease assets and liabilities requiring recognition on the Group Balance Sheet as the lessee recognises a 'right-of-use' asset for all leases will not be material. It is anticipated that finance charges will require reclassification in the Group income statement. Beyond the information above, it is not practicable to provide a reasonable financial estimate of the effect of these standards until a detailed review has been completed.

2. Segment information

For internal reporting and decision making, the Group is organised into three operating divisions – Preclinical Research Services, Pharmacogenomic Services and Diagnostics. Preclinical Research Services provides pre-clinical testing services. Pharmacogenomic Services specialises in molecular measures of biological effect. Diagnostics is commercialising the Genedrive® Point of Need molecular testing platform.

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 three operating divisions of the Group are detailed below.

Business segments	Preclinical Research Services £'000	Pharmaco-genomics Services £'000	Diagnostics Segment £'000	Administrative earnings £'000	Total £'000
Year ended 30 June 2017					
Revenue	2,069	1,097	2,619	–	5,785
Segment EBITDA	246	14	(1,592)	(2,510)	(3,842)
Less depreciation and amortisation	(118)	(51)	(811)	(91)	(1,071)
Impairment of intangible assets	–	–	–	(2,379)	(2,379)
Operating profit/(loss)	**128**	**(37)**	**(2,403)**	**(4,980)**	**(7,292)**
Net Finance costs					(195)
Loss on ordinary activities before tax					**(7,487)**
Taxation					1,051
Loss for the financial year					**(6,436)**

	Preclinical Research Services £'000	Pharmaco-genomics Services £'000	Diagnostics Segment £'000	Administrative earnings £'000	Total £'000
Year ended 30 June 2016					
Revenue	2,010	1,147	1,906	–	5,063
Segment EBITDA	113	(38)	(1,995)	(2,332)	(4,252)
Less depreciation and amortisation	(62)	(141)	(885)	(86)	(1,174)
Operating profit/(loss)	**51**	**(179)**	**(2,880)**	**(2,418)**	**(5,426)**
Net Finance costs					(1,071)
Loss on ordinary activities before tax					**(6,497)**
Taxation					582
Loss for the financial year					**(5,915)**

	Preclinical Research Services £'000	Pharmaco-genomics Services £'000	Diagnostics Segment £'000	Administrative earnings £'000	Total £'000
Year ended 30 June 2017					
Segment assets	612	985	3,783	6,666	12,046
Segment liabilities	(402)	(429)	(686)	(7,082)	(8,605)
Year ended 30 June 2016					
Segment assets	1,072	1,303	7,454	2,027	11,856
Segment liabilities	(248)	(328)	(467)	(7,060)	(8,103)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

Continued

2. Segment information continued

Geographical segments

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

All on continuing operations	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
United Kingdom	**1,674**	1,035
Europe	**430**	365
United States of America	**3,651**	3,529
Rest of world	**30**	134
	5,785	5,063

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

(a) £2,233k revenue was derived from the US Department of Defense with revenue included within the Diagnostics Segment (2016: £1,739k);

(b) £585k revenue was derived from a major international pharmaceutical company, with revenue included within the Preclinical Research Services (2016: £460k).

3. Operating loss

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

	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Research and development expenditure	**5,086**	4,836
ATL Research Credit (note 7)	**(162)**	(151)
Amortisation of intangible assets	**856**	934
Depreciation of owned tangible fixed assets	**216**	240
Impairment of intangible assets	**2,379**	–
Cost of inventories consumed	**263**	248
Auditors' remuneration		
– as auditors	**87**	48
– for other services	**–**	5
Operating lease costs – property rent	**458**	398

The current year auditors' remuneration includes a £17.5k under accrual from the 2016 audit and £18,500 of audit costs related to the Convertible Bond amendment. The basic audit fee for the year ending 30 June 2017 is £51,350 which includes a limited review of the Interim Accounts. Other services in the prior year related to grant claim work.

4. Particulars of employees

The average number of staff (including Directors) employed by the Group during the financial year was:

	Year ended 30 June 2017 Number	Year ended 30 June 2016 Number
Contract services	**32**	36
Research and Development	**34**	28
Administration	**13**	15
	79	79

The aggregate employee costs (including Directors) were:

	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Salaries and other short-term employee benefits	**3,649**	3,818
Social security costs	**414**	396
Equity-settled share-based payments	**102**	167
Pension cost-defined contribution plans	**61**	154
Cost of SIP matching shares provision	**43**	52
	4,269	4,587

5. Directors' remuneration (key management)

	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Salaries and other short-term employee benefits	**1,146**	899
Social security cost	**147**	124
Equity-settled share-based payments	**105**	122
Pension cost-defined contribution plans	**18**	7
Cost of SIP matching shares provision	**12**	8
	1,428	1,160

For the current year the key management of the Company is the executive team. The executive teams includes the four Executive Board members plus three members of the senior staff. For the prior year there was no equivalent and so the key management is defined as the Directors of the Company. Full details of the Directors' remuneration and Directors' options are contained in the Directors' Remuneration Report.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

Continued

6. Finance income/(costs)

Group	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Interest income on bank deposits	**13**	7
Gain on amendment to Convertible Bond	**380**	–
Movement in fair value of derivative embedded in Convertible Bond	**30**	37
Finance cost of Convertible Bond	**(308)**	(304)
Unwind of discount on Convertible Bond	**(209)**	(272)
Foreign exchange movement in Convertible Bond	**(101)**	(539)
	(195)	(1,071)

7. Taxation on ordinary activities

(a) Recognised in the income statement

Group	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Current tax:		
Research and development tax credits	**(1,220)**	(763)
Less: recognised as ATL Research Credit	**162**	151
Adjustments in respect of prior years	**7**	–
Total current tax	**(1,051)**	(612)
Total deferred tax	**–**	30
Total tax credit for the year	**(1,051)**	(582)

(b) Reconciliation of the total tax charge

The tax assessed on the profit on ordinary activities for the year is higher (2016: higher) that the weighted average applicable tax rate for the year ended 30 June 2017 of 19.75% (2016: 20%). The differences are explained below:

	2017 £'000	2016 £'000
Loss before tax	**(7,487)**	(6,497)
Tax using the UK corporation tax rate of 19.75%	**(1,478)**	(1,299)
Adjustment in respect of R&D tax credit recognised above the line 'ATL'	**162**	151
Adjustment in respect of R&D tax credit claimed	**(585)**	(397)
Items not deductible for tax purposes – permanent	**24**	5
Items not deductible for tax purposes – temporary	**29**	21
Deferred tax not recognised	**790**	937
Adjustment relating to a previous year	**7**	–
Total tax credit for the year	**(1,051)**	(582)

No deferred tax assets are recognised at 30 June 2017 (2016: £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 losses, as computed for tax purposes, of approximately £9,455k (2016: £8,513k) available to carry forward to future periods.

A change to the UK corporation tax rate was announced in the Chancellor's Budget on 16 March 2016. The change announced is to reduce the main tax rate to 17% from 1 April 2020. Changes to reduce the UK corporation tax rate to 19% from 19% from 1 April 2017 and to 18% from 1 April 2020 had already been substantially enacted on 26 October 2015.

As the change to 17% had not been substantially enacted at the Balance Sheet date, its effects are not included in these financial statements. If the change had applied to the deferred tax balance at the Balance Sheet date, the overall effect on both 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 the year ended 30 June 2017 is £1,220k (2016: £763k) which includes £162k (2016: £151k) disclosed as ATL Research Credit deducted from Research and Development Costs with the balance of £1,051k (2016: £582k) disclosed within Taxation on ordinary activities as detailed above.

8. Profit attributable to members of the Parent Company

The loss dealt with in the accounts of the Parent Company was £24,812k (2016: loss of £1,378k).

9. Earnings per share

Group	2017 £'000	2016 £'000
Loss for the year after taxation	**(6,436)**	(5,915)

Group	2017 Number	2016 Number
Weighted average number of ordinary shares in issue	**18,466,232**	10,564,546
Weighted average number of SIP matching shares not vested	**–**	(32,931)
Adjusted weighted average number of ordinary shares in issue	**18,466,232**	10,531,615
Dilutive ordinary shares from options and warrants in issue	**–**	3,385
Dilutive weighted average number of ordinary shares	**18,466,232**	10,535,000
(Loss) per share		
– basic	**(34.9)p**	(56.2)p
– diluted	**(34.9)p**	(56.2)p

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

As the Company is loss making, no potentially dilutive options have been added into the EPS calculation. Had the Company made a profit in the period: there would be no potentially dilutive share options because as shown in note 19, all share options in issue are underwater and there would be 90,175 of dilutive SIP shares, (as described in note 19, the total accrued shares under the SIP is 217,967 and the Company holds 127,801 to meet the SIP commitments).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

Continued

10. Intangible assets

Group	Patents £'000	Acquired Intellectual Property £'000	Developed Intellectual property £'000	Total £'000
Cost				
At 1st July 2016	717	3,193	4,001	7,911
Additions	–	–	–	–
At 30 June 2017	**717**	**3,193**	**4,001**	**7,911**
Accumulated amortisation				
At 1 July 2016	363	509	766	1,638
Charge for the year	68	358	430	856
Impairment	256	252	1,871	2,379
At 30 June 2017	**687**	**1,119**	**3,067**	**4,873**
Net book value				
At 30 June 2016	354	2,684	3,235	6,273
At 30 June 2017	**30**	**2,074**	**934**	**3,038**
Cost				
At 1st July 2015	717	3,177	4,001	7,895
Additions	–	16	–	16
At 30 June 2016	717	3,193	4,001	7,911
Accumulated amortisation				
At 1 July 2015	362	85	257	704
Charge for the year	1	424	509	934
At 30 June 2016	363	509	766	1,638
Net book value				
At 30 June 2015	355	3,092	3,744	7,191
At 30 June 2016	354	2,684	3,235	6,273

The net book value of Intangible assets all relates to the Genedrive® unit and assays (2016: £6,273k). The charges for amortisation are included in the Contract and Research and Development expense headings. During the year to 30 June 2017, the cost of the Company's Patents assessed as not being available for economic use amounted to £nil (2016: £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 years two and three and then deflated down to zero in year four – as the estimated useful economic life of the assets in their current state without further investment is three and a half years. These projected cash flows were discounted at a pre-tax discount rate of 12.5%. As a result of this analysis the carrying value of the intangible assets at 30 June 2017 was reduced to £3,038k (2016: £6,273k) and an impairment charge of £2,379k (2016: £nil) was booked during the period. The Group has conducted sensitivity analysis on the impairment test. An increase in the pre-tax discount rate to 16.5% would still support the carrying value of the intangible assets of £3,038k. A reduction in the year two and year three growth rate of 7.5% would still support the carrying value of the intangible assets of £3,038k.

11. Plant and equipment

Group	Lab equipment £'000	Fixtures & fittings £'000	Other equipment £'000	Total £'000
Cost				
At 1 July 2016	1,957	185	418	2,560
Additions	42	2	33	77
Disposals	(7)	–	(2)	(9)
At 30 June 2017	**1,992**	**187**	**449**	**2,628**
Accumulated Depreciation				
At 1 July 2016	1,480	88	279	1,847
Charge for the year	125	35	56	216
Depreciation on disposed assets	(2)	–	(1)	(3)
At 30 June 2017	**1,603**	**123**	**334**	**2,060**
Net book value				
At 30 June 2016	477	97	139	713
At 30 June 2017	**389**	**64**	**115**	**568**

Group	Lab equipment £'000	Fixtures & fittings £'000	Other equipment £'000	Total £'000
Cost				
At 1 July 2015	1,922	131	364	2,417
Additions	35	54	59	148
Disposals	–	–	(5)	(5)
At 30 June 2016	1,957	185	418	2,560
Accumulated Depreciation				
At 1 July 2015	1,325	50	237	1,612
Charge for the year	155	38	47	240
Depreciation on disposed assets	–	–	(5)	(5)
At 30 June 2016	1,480	88	279	1,847
Net book value				
At 30 June 2015	597	81	127	805
At 30 June 2016	477	97	139	713

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

Continued

12. Inventories

Group	2017 £'000	2016 £'000
Raw materials	332	202
Finished goods	112	–
	444	202

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

13. Trade and other receivables

Group	2017 £'000	2016 £'000
Trade receivables	1,376	2,290
Less: provisions for impairment	(218)	–
Trade receivables - net	1,158	2,290
Other receivables	86	217
Prepayments	410	290
	1,654	2,797

Analysis of trade receivables

	2017 £'000	2016 £'000
Neither impaired nor past due	472	1,338
Past due but not impaired	686	952
Trade receivables	1,158	2,290

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

Group	2017 £'000	2016 £'000
Not overdue	472	1,338
Less than 1 month overdue	203	112
Later than 1 month less than 3 months overdue	147	409
Later than 3 months overdue	336	431
Total	1,158	2,290

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

Group	2017 £'000	2016 £'000
Opening provision	–	–
Charge for the year	218	–
Closing provision at 30 June	218	–

Ageing of impaired receivables

Group	2017 £'000	2016 £'000
Greater than 3 months	**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.

14. Cash and cash equivalents

Group	2017 £'000	2016 £'000
Cash at bank and in hand	**5,129**	952
Short term bank deposits	**–**	162
	5,129	1,114

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.

15. Deferred revenue

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

Group	2017 £'000	2016 £'000
Amounts to be recognised within 1 year	**98**	88

16. Trade and other payables

Group	2017 £'000	2016 £'000
Trade payables	**816**	914
Accruals	**923**	675
Other payables	**319**	185
	2,058	1,774

17. Deferred consideration payable in shares

Group	2017 £'000	2016 £'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 2017, the Directors reviewed the terms of the earn-out milestones and consider that the criteria will be met during a period greater than twelve months but less than five years following the Balance Sheet date. The liability is therefore classified as non-current.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

Continued

18. Convertible Bond

Group	2017 £'000	2016 £'000
Derivative	4	–
Debt host	5,195	4,991
	5,199	4,991

Collaboration and Convertible Bond Purchase Agreement

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 five 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 and financial default; undertakings relating to maintenance of appropriate records; undertakings relating to standards of social responsibility and ethical behaviour.

Deed of Amendment to Convertible Bond Purchase Agreement

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 extended 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. 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%.

	Host £'000	Derivative £'000	Bond £'000
Balance at 30 June 2015	3,988	37	4,025
Increase/(Decrease) in fair value	272	(37)	235
Increase in liability caused by foreign exchange movements	731	–	731
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**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

Continued

19. Share-based payments

(A) Share options outstanding at 30 June 2017

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.

Share Options

Award	Number of awards	Exercise price	Period within which options are exercisable	Fair value per option	Fair value £
EMI – Unapproved	127,847	1.20	10 Jan 2006 to 09 Jan 2018	£0.43p	54,974
EMI – Approved	83,333	1.20	10 Jan 2006 to 09 Jan 2018	£0.43p	35,833
EMI – Approved	22,603	1.67	27 Jul 2007 to 26 Jul 2017	£0.39p	8,815
EMI – Unapproved	57,727	1.60	15 Oct 2007 to 14 Oct 2017	£0.36p	20,782
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	7,750	4.03	10 Dec 2013 to 09 Dec 2020	£1.64p	12,710
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	9,500	3.60	10 Feb 2015 to 09 Feb 2022	£1.46p	13,870
2007 Epistem Share Option Scheme	19,265	5.50	28 Mar 2016 to 27 Mar 2023	£2.23p	42,961
2007 Epistem Share Option Scheme	79,300	3.22	29 Jan 2017 to 28 Jan 2024	£1.21p	95,953
2007 Epistem Share Option Scheme	200,000	3.25	25 Mar 2017 to 24 Mar 2024	£1.21p	242,000
2007 Epistem Share Option Scheme	32,500	3.25	12 Aug 2017 to 11 Aug 2024	£0.60p	19,500
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	64,000	1.20	11 Dec 2018 to 19 Sep 2025	£0.33p	21,120
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	22,000	0.82	02 May 2019 to 01 May 2026	£0.27p	5,940
2007 Epistem Share Option Scheme	50,000	0.90	01 Jun 2019 to 31 May 2026	£0.31p	15,550
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	118,750	0.80	01 Oct 2019 to 01 Oct 2026	£0.11p	13,063
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	7,083.30
2007 Epistem Share Option Scheme	70,589	0.43	04 Apr 2020 to 03 Apr 2027	£0.06p	4,235.34
Epistem Unapproved Share Option	427,001	0.43	04 Apr 2020 to 03 Apr 2027	£0.06p	25,620.06

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
EMI – Unapproved	10 Jan 2006	5 years	0	60	4.50	Note [e]
EMI – Approved	10 Jan 2006	5 years	0	60	4.50	None
EMI – Approved	27 Jul 2007	5 years	0	45	5.50	None
EMI – Unapproved	15 Oct 2007	5 years	0	45	5.75	None
2007 Epistem Share Option Scheme	31 Jul 2008	5 years	0	40	5.00	Note[h]
2007 Epistem Share Option Scheme	10 Dec 2010	5 years	0	50	0.50	Note[h]
2007 Epistem Share Option Scheme	10 May 2011	5 years	0	50	0.50	Note[h]
2007 Epistem Share Option Scheme	10 Feb 2012	5 years	0	50	0.50	Note[h]
2007 Epistem Share Option Scheme	26 Mar 2013	5 years	0	50	0.50	Note[i]
2007 Epistem Share Option Scheme	29 Jan 2014	5 years	0	43	0.50	Note[h]
2007 Epistem Share Option Scheme	25 Mar 2014	5 years	0	43	0.50	Note[h]
2007 Epistem Share Option Scheme	12 Aug 2014	5 years	0	43	0.50	Note[h]
2007 Epistem Share Option Scheme	20 Sep 2014	5 years	0	43	0.50	Note[g]
2014 Unapproved Share Options	17 Dec 2014	5 years	0	43	0.50	Note[h]
2007 Epistem Share Option Scheme	11 Dec 2015	5 years	0	30	0.50	Note[g]
2007 Epistem Share Option Scheme	07 Apr 2016	5 years	0	36	0.50	Note[g]
Epistem Unapproved Share Option Scheme	07 Apr 2016	5 years	0	36	0.50	Note[g]
2007 Epistem Share Option Scheme	02 May 2016	5 years	0	37	0.50	Note[g]
2007 Epistem Share Option Scheme	01 Jun 2016	5 years	0	39	0.50	Note[g]
2007 Epistem Share Option Scheme	14 Jul 2016	3 years	0	19	0.25	Note[g]
2007 Epistem Share Option Scheme	1 Oct 2016	3 years	0	19	0.25	Note[g]
2007 Epistem Share Option Scheme	15 Oct 2016	3 years	0	19	0.25	Note[g]
2007 Epistem Share Option Scheme	31 Oct 2016	3 years	0	19	0.25	Note[g]
2007 Epistem Share Option Scheme	22 Dec 2016	3 years	0	12	0.25	Note[g]
2007 Epistem Share Option Scheme	04 Apr 2017	3 years	0	20	0.25	Note[g]
Epistem Unapproved Share Option Scheme	04 Apr 2017	3 Years	0	20	0.25	Note[g]

(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 vest on dates dependant on anniversaries of commencing employment with the Group which commenced 1 September 2005 with the final tranche vesting on 1 September 2008;

(f) The performance conditions for these options to vest were satisfied in 2010;

(g) These options are subject to performance criteria which are appropriate to the option holders' role within the Company and which are assessed by the Remuneration Committee.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

Continued

19. Share-based payments continued

The number of options and their weighted average exercise prices are as follows:

	Number		Weighted average exercise price (£)		Weighted average remaining contracted life - Years	
Group	**2017**	2016	**2017**	2016	**2017**	2016
Outstanding as at 1 July	**1,908,274**	1,821,252	**2.22**	2.27		
Granted during the year	**797,506**	441,194	**0.53**	1.16		
Exercised during the year	**–**	–	**–**	–		
Forfeited during the year	**–**	(9,900)	**–**	1.69		
Lapsed during the year	**(645,105)**	(294,272)	**2.12**	2.23		
Outstanding as at 30 June	**2,060,675**	1,958,274	**1.48**	2.22	**7.31**	5.54
Options exercisable at 30 June	**833,225**	1,005,130	**1.03**	2.23	**1.78**	2.47

There were no options exercised in the year ended 30 June 2017 (2016: 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 three 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 2017 the number of partnership shares earnt by employees was 73,350. The total number of potential Matching Shares provided for employees at 30 June should all the employees meet the three year vesting rule was 144,626. Of the 144,626 shares 27,540 have vested under the three 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 127,801 (2016: 134,046) 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	**2017 £'000**	2016 £'000
Brought forward	**240**	196
Transferred out to participants	**(11)**	–
Purchase of own shares to settle future share liabilities	**–**	44
Outstanding at 30 June	**229**	240

20. 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 18. 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.

	Decrease in the basis points	Effect on loss before tax and equity £'000
2017		
Cash and cash equivalents	25	14
2016		
Cash and cash equivalents	25	3

An increase 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 23.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2017
Continued

20. Financial risk management objectives and policies continued

Credit risk

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

Amounts shown in the Balance Sheet best represent the maximum credit risk exposure in the event that other parties fail to perform their obligations under financial instruments. The credit status of the Trade Receivables is detailed below:

	2017 £'000	2016 £'000
Government related agencies	**261**	1,081
Independent Biotechnology companies	**897**	996
India distributor	**–**	213
	1,158	2,290

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 are detailed below:

	2017 £'000	2016 £'000
Payable within 1 year	**2,058**	1,862
Payable within 1 – 2 years	**1,250**	1,250
Payable within 3 – 5 years	**5,199**	4,991
	8,507	8,103

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 (2016: £nil) to manage foreign currency risk.

Balances which are denominated in US Dollars are detailed below:

Group	2017 £'000	2016 £'000
Trade and other receivables	**476**	1,087
Cash and cash equivalents	**438**	172
Less: Convertible Bond	**(5,199)**	(4,991)
	(4,285)	(3,732)

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
2017		
Trade and other receivables	**5%**	**24**
Cash and cash equivalents	**5%**	**22**
Convertible Bond	**5%**	**(260)**
2016		
Trade and other receivables	5%	54
Cash and cash equivalents	5%	9
Convertible Bond	5%	(250)

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.

21. Commitments under operating leases

At 30 June 2017 the Group had commitments under non-cancellable operating leases as set out below.

	Land and buildings	
Group	**2017 £'000**	2016 £'000
Operating leases which expire:		
Within 1 year	**542**	390
1 year to 2 years	**–**	–

22. Related party transactions

Other than items relating Director's remuneration and employment, there were no related party transactions during the year (2016: nil.)

At the Balance Sheet date, in respect of I Gilham and R Nolan, Trade and Other payables included amounts of £5,732 (2016: £5,964) and £1,700 (2016: £1,700), respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

Continued

23. Called-up equity share capital

Allotted and called up:

	2017 Number	2017 £'000	2016 Number	2016 £'000
Brought forward at 1 July	**10,564,446**	**158**	10,564,446	158
Share issue July 2016	**8,125,000**	**123**	–	–
Ordinary shares of £0.015 each	**18,689,446**	**281**	10,564,446	158

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

1. Note 17 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 2017 share price of 42.5p the number of shares required to satisfy this consideration would be 2,941,176.

2. Note 18 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 (2016: 1,513,821).

24. 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 127, 801 shares in Epistem Holdings Plc (2016: 134,046 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 2017 was £54,315 (2016: £120,641). The nominal value held at 30 June 2017 was £1,917 (2016: £2,011).

The separate financial statements of genedrive plc are presented on pages 65 to 70.

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclose Framework (FRS101) and in accordance with applicable accounting standards. They are therefore presented separately to the Group consolidated financial statements which have been prepared under International Financial Reporting Standards.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GENEDRIVE PLC

Report on the audit of the company financial statements

Opinion

In our opinion, genedrive plc's company financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 30 June 2017 and of its cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and 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 company balance sheet, the company statement of changes in equity, and the company statement of cash flows; 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.

Our audit approach

Overview

- £89,900 (2016: £46,170)
- based on 1% of total assets.

- All material financial statement line items were audited.

- Accounting treatment related to convertible bond
- Going concern

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.

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. This is not a complete list of all risks identified by our audit.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GENEDRIVE PLC

Report on the audit of the company financial statements

Continued

Key audit matter	How our audit addressed the key audit matter
Accounting treatment related to convertible bond Refer to note 18. During the year, the company entered into a Deed of Amendment with the Global Health Investment Fund ('GHIF') that modified the terms of the USD 8m convertible bond issued in 2014. The modification has been treated as an extinguishment of the previous financial liability which has been de-recognised and a new financial liability recognised in its place. The difference between these two liabilities of £380k has been recorded as a gain. The new financial liability has been measured at amortised cost using management's estimate of a market interest rate for a similar instrument excluding the conversion option.	We read the Deed of Amendment and considered management's proposed accounting treatment. Our testing focussed on the key judgements and estimates as follows: • In concluding that the modification should be treated as an extinguishment of the previous financial liability, management calculated the impact on the future cash flows of the change in terms. We reviewed this analysis and found it to be appropriate. • We assessed the interest rate used in valuing the new financial liability and consider this to be within a reasonable range.
Going concern Refer to Basis of accounting note. The company financial statements have been prepared on the going concern basis, meaning that the Directors believe that the company will have the cash resources it requires to settle its liabilities for the period extending 12 months from the date of approval of the financial statements. In concluding on this basis of preparation, the Directors have prepared a cash flow forecast extending to October 2018 which is based on their best estimate of the expected financial performance of the company. In addition, the Directors have also prepared a sensitised cash flow forecast, covering the same period, that takes into account the financial impacts of a number of risks that the Directors believe have a reasonable likelihood of occurrence. The company recorded a net cash inflow during the year of £3,781k and ended the year with a cash balance of £4,105k. This net cash inflow was due to £6,023k of proceeds from the company's share issue during July 2016 and is offset by an operating cash outflow of £2,242k. The Directors have stated that the company's strategic focus is on the molecular diagnostic business and this is supported by investment in research and development included in the company's cash flow forecasts. Due to the fact that the Genedrive has not yet been commercialised, there is inherent uncertainty over the future profitability of the business and therefore the cash resources of the company are forecast to reduce to a relatively low level during the forecast period, whilst remaining positive throughout.	We evaluated and challenged the company's future cash flow forecasts and the process by which they were drawn up. We compared the company's forecasts to the latest Board approved budget and found them to be consistent. Our testing was focused on the key judgements and assumptions as follows: • We have compared significant forecast revenue streams to supporting information including correspondence confirming funding and purchase orders and found these to be consistent. Where significant revenue streams have been forecast with reference to previous performance, we have compared these forecasts to equivalent amounts recognised in previous years and discussed with management the reasons for any significant variances. • We have compared forecast costs to equivalent amounts incurred in previous years and discussed with management the reasons for any significant variances. • We have challenged management's sensitivity analysis in light of our understanding of the business and its environment, including matters that have arisen subsequent to the preparation of management's forecasts. In particular we have focussed on forecast revenue that is not yet secured and management's ability to control costs if necessary. We have found the sensitivity analysis performed to be sufficiently robust. • We have performed additional sensitivity analysis to ascertain the magnitude of change in key estimates required for the cash headroom to be eliminated. When considered along with the mitigating actions that management could execute to reduce cash outflows, we determined that adverse variances of this extent were unlikely.

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 company, the accounting processes and controls, and the industry in which it operates.

All material financial statement line items were audited.

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:

Overall materiality	£89,900 (2016: £46,170).
How we determined it	1% of total assets.
Rationale for benchmark applied	We believe that total assets is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £4,495 (2016: £2,430) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GENEDRIVE PLC

Report on the audit of the company financial statements

Continued

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 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the 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 company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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 financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Other matter

We have reported separately on the group financial statements of genedrive plc for the year ended 30 June 2017.

Hazel Macnamara (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
17 October 2017

COMPANY BALANCE SHEET
As at 30 June 2017

	Notes	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Assets			
Non-current assets			
Investment in subsidiaries	a	**4,101**	6,615
Current assets			
Amounts receivable from Group undertakings and other receivables	b	**784**	20,542
Cash and cash equivalents	c	**4,105**	314
		4,889	20,856
Liabilities			
Current liabilities			
Other payables		**144**	144
		144	144
Net current assets		**4,745**	20,712
Total assets less current liabilities		**8,846**	27,327
Non-current liabilities			
Deferred consideration payable in shares	a	**1,250**	1,250
Convertible Bond	d	**5,198**	4,991
		6,448	6,241
Net assets		**2,398**	21,086
Capital and reserves			
Called-up equity share capital		**281**	158
Share premium account		**25,988**	20,088
Share options reserve	a	**1,683**	1,582
Accumulated losses:			
At 1 July		**(742)**	636
Total comprehensive expense for the year		**(24,812)**	(1,378)
		(25,554)	(742)
Total shareholders' funds equity		**2,398**	21,086

These financial statements were approved by the Directors and authorised for issue on 17 October 2017 and are signed on their behalf by:

David Budd
Chief Executive Officer

Matthew Fowler
Chief Finance Officer

genedrive plc
Company number: 06108621

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2017

	Called-up equity share capital £'000	Share premium account £'000	Share options reserve £'000	Accumulated Losses £'000	Total equity £'000
At 1 July 2015	158	20,088	1,365	636	22,247
Recognition of equity settled share based payments	–	–	223	–	223
Forfeit of share options	–	–	(6)	–	(6)
Total comprehensive expense for the year	–	–	–	(1,378)	(1,378)
At 30 June 2016	158	20,088	1,582	(742)	21,086
Balance at 1 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
Total comprehensive expense for the year	–	–	–	(24,812)	(24,812)
At 30 June 2017	**281**	**25,988**	**1,683**	**(25,554)**	**2,398**

COMPANY STATEMENT OF CASH FLOWS

For the year ended 30 June 2017

	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Cash flows from operating activities		
Operating loss for the year	**(24,615)**	(115)
Impairment of assets	**24,615**	–
Operating profit before changes in working capital and provisions	**–**	(115)
Increase in amount receivable from Group companies	**(2,242)**	(3,026)
Increase in trade and other payables	**–**	45
Net cash outflow from operations	**(2,242)**	(3,096)
Proceeds from issue of share capital	**6,023**	–
Interest received	**–**	7
Interest paid	**–**	(304)
Net cash inflow/(outflow) from financing activities	**6,023**	(297)
Net increase/(decrease) in cash equivalents	**3,781**	(3,393)
Effects of exchange rate changes on cash and cash equivalents	**10**	–
Cash and cash equivalents at beginning of year	**314**	3,707
Cash and cash equivalents at end of year	**4,105**	314
Analysis of net funds		
Cash at bank and in hand	**4,105**	314
Net funds	**4,105**	314

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 30 June 2017

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 Standards Interpretations Committee (IFRS IC) 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.

The Company is wholly owned subsidiary of genedrive plc and is included in the consolidated financial statements of genedrive plc which are publically available.

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for 12 months from the balance sheet date. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. In arriving at this conclusion the Directors have reviewed detailed forecast models for the Company and the Group. These models are based on best estimates of future performance and have been adjusted to reflect various scenarios and outcomes that could potentially impact the forecasts. The model outputs support the Directors' conclusion.

a. Investments
The Company is the holding company of the Group. The Company owns 100% of the issued share capital of Epistem Ltd, Epistem SIP Trustees Ltd and Epistem Inc. incorporated in the United States of America. The principal activities of the subsidiary companies are:

- Epistem Ltd - the provision of services to the biotechnology and pharmaceutical industries; incorporated in England[1]
- Epistem Inc. - the provision of services to the biotechnology and pharmaceutical industries; Incorporated in the USA[2]
- Epistem SIP Trustees Ltd - to act as trustee to the Epistem Share Incentive Plan; incorporated in England[1]
- On 28 July 2010, Epistem Holdings Plc acquired 100% of the share capital of Visible Genomics Ltd, whose

1 The Incubator Building, Grafton Street, Manchester, M13 9XX
2 One Broadway, 14th Floor, Cambridge, MA 02142, USA

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	2017 £'000	2016 £'000
Deferred consideration payable in shares		
· Achievement of commercial milestones relating to Genedrive sales	**1,250**	1,250

The commercial milestones referred to above and outstanding at 30 June 2017 £1,250k (2016:£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 five 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 2017, the value of further consideration of £1,250k (2016: £1.25m) was capable of assessment and provision for this liability has been made in these accounts. Based on the share price of 42.5p at 30 June 2017, this would result in the issue of 2,941,177 shares.

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**
Net book value	
At 30 June 2017	**4,101**
At 30 June 2016	6,615

Year ended 30 June 2016	Investment in subsidiaries £'000
Cost	
At 1 July 2015	6,398
Additions	217
At 30 June 2016	6,615
Net book value	
At 30 June 2016	6,615
At 30 June 2015	6,398

Additions in the year ended 30 June 2017 comprised the fair value of the share options issued to employees of the subsidiary undertaking during the period of £101k (2016: £217k). Full details of the share options issued are set out in note 19 to the consolidated financial statements. Following an impairment review, the carrying value of the investments were impaired by £2,615k (2016: £nil).

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 to five at a growth rate of 5% in each year. For years five to ten there was no growth assumed. These projected cash flows 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 2017 was reduced to £4,101k (2016: £6,273k) and an impairment charge of £2,615k (2016: £nil) was booked during the period. In addition the carrying value of receivables from Group undertakings was reduced to £784k (2016: £20,542k) and an impairment charge of £22,000k (2016: £nil) was booked during the period.

The Group has conducted sensitivity analysis on the impairment tests. An increase in the pre-tax discount rate to 15.5% or a reduction in the year two to five growth rate to 0% would still support the carrying value of investments and receivables in the Balance Sheet.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 30 June 2017

Continued

b. Amounts receivable from Group undertaking and other receivables

Company	2017 £'000	2016 £'000
Opening amounts receivable from Group undertakings	**20,542**	17,516
Additions in the year	**2,242**	3,026
Impairment provision to forgive amount owing from subsidiary	**(22,000)**	–
Closing amounts receivable from Group undertakings	**784**	20,542

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

During the period the carrying value of amounts receivable was subject to an annual impairment review. In the view of the Directors, an impairment provision of £22,000k was required at the Balance Sheet date (2016: £nil), and the receivable was forgiven down to £784k (2016: £20,542).

c. Cash and cash equivalents

Company	2017 £'000	2016 £'000
Cash at bank and in hand	**4,105**	152
Short term bank deposits	**–**	162
	4,105	314

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 18 of the main Company accounts.

e. Related party transactions

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

During the course of the year, Epistem SIP Trustee Ltd acquired nil (2016: 41,502) shares in genedrive plc on behalf of the Epistem Share Investment Plan at a cost of £nil (2016: £60k)

DIRECTORS, SECRETARY AND ADVISERS

Directors
Ian Gilham
David Budd
Catherine Booth
Allan Brown
Matthew Fowler
Roger Lloyd
Robert Nolan

Company Secretary
Matthew Fowler

Registrars
Neville Registrars Ltd
18 Laurel Lane
Halesowen B63 3DA

Legal Advisers
Covington & Burling LLP
265 Strand
London WC2R 1BH

Registered Office
The Incubator Building Grafton Street
Manchester M13 9XX
United Kingdom

Nominated Adviser & Broker
Peel Hunt Ltd LLP
Moor House
120 London Wall
London EC2Y 5ET

Principal Banker
NatWest Commercial Banking
1 Spinningfields Square
Deansgate
Manchester M3 3AP

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
101 Barbirolli Square
Lower Mosley Street
Manchester
M2 3PW

NOTES

MIX
Paper
FSC® C020704

Designed and produced by Emperor
emperor.works +44 (0)121 262 3830

genedrive

genedrive plc

48 Grafton Street
Manchester M13 9XX
United Kingdom

T +44 (0)161 606 7258
F +44 (0)161 606 7348

www.genedriveplc.com