

THEOLYTICS LTD

FINANCIAL STATEMENTS

INFORMATION FOR FILING WITH THE REGISTRAR

FOR THE YEAR ENDED 31 OCTOBER 2020

THEOLYTICS LTD
REGISTERED NUMBER: 11001290

BALANCE SHEET
AS AT 31 OCTOBER 2020

	Note	2020 £	2019 £
Fixed assets			
Intangible assets	5	37,479	27,605
Tangible assets	6	150,253	183,366
		187,732	210,971
Current assets			
Debtors: amounts falling due within one year	7	398,621	289,793
Cash at bank and in hand	8	1,149,881	1,029,252
		1,548,502	1,319,045
Current liabilities			
Creditors: amounts falling due within one year	9	(1,553,494)	(147,965)
		(4,992)	1,171,080
Net current (liabilities)/assets			
		182,740	1,382,051
Total assets less current liabilities			
		182,740	1,382,051
Net assets			
		182,740	1,382,051
Capital and reserves			
Called up share capital	10	110	110
Share premium account		2,499,990	2,499,990
Share option reserve		379,185	247,722
Profit and loss account		(2,696,545)	(1,365,771)
		182,740	1,382,051
		182,740	1,382,051

THEOLYTICS LTD
REGISTERED NUMBER: 11001290

BALANCE SHEET (CONTINUED)
AS AT 31 OCTOBER 2020

The financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime and in accordance with the provisions of FRS 102 Section 1A - small entities.

The financial statements have been delivered in accordance with the provisions applicable to companies subject to the small companies regime.

The Company has opted not to file the statement of comprehensive income in accordance with provisions applicable to companies subject to the small companies' regime.

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

C Casebourne Mills

Director

Date: 30 March 2021

The notes on pages 4 to 13 form part of these financial statements.

THEOLYTICS LTD

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 OCTOBER 2020**

	Called up share capital	Share premium account	Share option reserve	Profit and loss account	Total equity
	£	£	£	£	£
At 1 November 2019	110	2,499,990	247,722	(1,365,771)	1,382,051
Loss for the year	-	-	-	(1,330,774)	(1,330,774)
Transfer to/from profit and loss account	-	-	131,463	-	131,463
At 31 October 2020	110	2,499,990	379,185	(2,696,545)	182,740

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 OCTOBER 2019**

	Called up share capital	Share premium account	Share option reserve	Profit and loss account	Total equity
	£	£	£	£	£
At 1 November 2018	110	2,499,990	-	(338,897)	2,161,203
Loss for the year	-	-	-	(1,026,874)	(1,026,874)
Transfer to/from profit and loss account	-	-	247,722	-	247,722
At 31 October 2019	110	2,499,990	247,722	(1,365,771)	1,382,051

The notes on pages 4 to 13 form part of these financial statements.

THEOLYTICS LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2020

1. General information

Theolytics Ltd is a private company limited by shares, registered in England and Wales. The Company's registered office is Innovation Building, Roosevelt Drive, Headington, Oxford, England, OX3 7FZ.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Section 1A of Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Going concern

During the year the Company made a loss of £1,330,774 and had a net asset position of £182,740 at 31 October 2020. At that date, the Company was in the process of raising a round of investment, which was subsequently completed post year end, with a total of £5.0 million raised. Included within those funds was the conversion of loan notes of £1.3 million. On the basis of this fundraise post year end and the Company's forecasts, the directors have prepared these accounts on a going concern basis.

2.3 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in profit or loss within 'other operating income'.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2020**

2. Accounting policies (continued)

2.4 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes.

2.5 Operating leases: the Company as lessee

Rentals paid under operating leases are charged to profit or loss on a straight line basis over the lease term.

2.6 Research and development

Expenditure on research and development is written off in the year in which it is incurred.

Research and development tax credit

The research and development tax credit is recognised when it is certain that a tax credit in relation to research and development carried out will be received.

2.7 Government grants

Grants are accounted for under the accruals model as permitted by FRS 102. Grants relating to expenditure on tangible fixed assets are credited to profit or loss at the same rate as the depreciation on the assets to which the grant relates. The deferred element of grants is included in creditors as deferred income.

Grants of a revenue nature are recognised in the Statement of comprehensive income in the same period as the related expenditure.

2.8 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in profit or loss when they fall due. Amounts not paid are shown in accruals as a liability in the Balance sheet. The assets of the plan are held separately from the Company in independently administered funds.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2020

2. Accounting policies (continued)

2.9 Share based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to profit or loss over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each Balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the Company keeping the scheme open or the employee maintaining any contributions required by the scheme).

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees, profit or loss is charged with fair value of goods and services received.

2.10 Taxation

Tax is recognised in profit or loss except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

The Company receives research and development tax credits relating to ongoing expenditure on research and development. Tax credits are recognised to the extent that reliable estimates have been calculated by management and are pending HMRC approval.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2020

2. Accounting policies (continued)

2.11 Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

The estimated useful lives range as follows:

Patents - 10 years

At each reporting date the Company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'administrative expenses' in the Statement of Comprehensive Income.

2.12 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Lab equipment	- 3-10 years
Office equipment	- 4 years
Computer equipment	- 4 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of comprehensive income.

2.13 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2020**

2. Accounting policies (continued)

2.14 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.15 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.16 Financial instruments

The Company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or in case of an out-right short-term loan that is not at market rate, the financial asset or liability is measured, initially at the present value of future cash flows discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost, unless it qualifies as a loan from a director in the case of a small company, or a public benefit entity concessionary loan.

Non-derivative, financial liabilities within the scope of FRS102 S.12 are measured at fair value which is deemed to be the transaction price adjusted for transaction costs.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

In the application of accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the presentation and carrying amounts of assets and liabilities that are not readily apparent from other sources. The following are the critical judgements that the directors have made in the process of applying the company's accounting policies.

Fair value of share options granted

The assessment of the fair value of share options at their grant date is independently determined using the Black Scholes Model which takes into account the exercise price, the term of the option, the impact of dilution (where material), the share price at grant date and expected price volatility of underlying share, the expected dividend yield, the risk free interest rate for the year of the option and the correlations and volatilities of the peer group companies.

There is significant judgement in determining the inputs such as expected volatility and share prices as the Company's shares are not publicly traded.

THEOLYTICS LTD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2020

4. Employees

The average monthly number of employees, including directors, during the year was 18 (2019 - 11).

5. Intangible assets

	Patents £
Cost	
At 1 November 2019	28,635
Additions	13,801
At 31 October 2020	42,436
Amortisation	
At 1 November 2019	1,030
Charge for the year	3,927
At 31 October 2020	4,957
Net book value	
At 31 October 2020	37,479
At 31 October 2019	27,605

THEOLYTICS LTD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2020

6. Tangible fixed assets

	Lab Equipment £	Office equipment £	Computer equipment £	Total £
Cost or valuation				
At 1 November 2019	217,059	1,998	17,620	236,677
Additions	12,957	-	4,249	17,206
Disposals	(413)	-	(402)	(815)
At 31 October 2020	229,603	1,998	21,467	253,068
Depreciation				
At 1 November 2019	49,821	466	3,024	53,311
Charge for the year	44,355	499	4,899	49,753
Disposals	(53)	-	(196)	(249)
At 31 October 2020	94,123	965	7,727	102,815
Net book value				
At 31 October 2020	135,480	1,033	13,740	150,253
At 31 October 2019	167,238	1,532	14,596	183,366

7. Debtors

	2020 £	2019 £
Other debtors	38,703	37,943
Prepayments and accrued income	86,918	54,658
Tax recoverable	273,000	197,192
	398,621	289,793

8. Cash and cash equivalents

	2020 £	2019 £
Cash at bank and in hand	1,149,881	1,029,252
	1,149,881	1,029,252

THEOLYTICS LTD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2020

9. Creditors: Amounts falling due within one year

	2020 £	2019 £
Convertible loan notes	1,300,000	-
Trade creditors	64,135	63,997
Other taxation and social security	64,433	21,438
Other creditors	5,145	3,014
Accruals and deferred income	119,781	59,516
	<u>1,553,494</u>	<u>147,965</u>

The convertible loan notes were issued for a maximum period of 36 months. The loans incur interest at a set rate of 8% per annum.

10. Share capital

	2020 £	2019 £
Allotted, called up and fully paid		
10,000 (2019 - 10,000) Ordinary shares of £0.010 each	100	100
10,000 (2019 - 10,000) Ordinary A shares of £0.001 each	10	10
	<u>110</u>	<u>110</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2020**

11. Share based payments

The Company operates an EMI approved and an unapproved option scheme for certain directors, consultants and employees. Share options are exercisable for Ordinary shares at prices determined at the date of grant.

The movements in the option arrangements during the year were as follows:

	Weighted average exercise price (£) 2020	Number 2020	Weighted average exercise price (£) 2019	Number 2019
Outstanding at the beginning of the year	0.01	2,232	0.01	1,529
Granted during the year	0.01	544	0.01	761
Forfeited during the year	0.01	(205)	0.01	(58)
Outstanding at the end of the year		2,571		2,232

Fair value of share options granted in the year:

Options were priced using the Black Scholes option pricing model. Expected volatility was determined based on historic volatility of comparable companies.

The expected life of the expected period from grant to exercise is based upon management's best estimate.

The risk free return is the rate offered for UK gilt deposits at the time of the grant.

The Company recognised total expenses of £131,463 in the year (2019: £247,722), related to equity share based payment transactions.

	2020 Black-Scholes	2019 Black-Scholes
Option pricing model used		
Weighted average share price (pence)	27,545	25,000
Exercise price (pence)	1.0	1.0
Weighted average contractual life (days)	3,650	3,650
Expected volatility	80.2%	80.0%
Risk-free interest rate	1.1%	1.35%

12. Pension commitments

The Company operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £22,198 (2019 - £11,326). Contributions totalling £3,493 (2019 - £3,011) were payable to the fund at the balance sheet date and are included in creditors.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2020**

13. Related party transactions

During the year, £5,000 (2019: £5,000) was paid to Oxford Sciences Innovation Plc for director services. There were no balances due at the year end (2019: Nil). During the year, the Company issued a £600,000 convertible loan note to Oxford Sciences Innovation Plc. The whole balance is included as a liability at the year end. Oxford Sciences Innovation Plc is a shareholder of the Company.

During the year, the Company issued a £50,000 convertible loan note to Carsten Reinhardt. The whole balance is included as a liability at the year end. Carsten Reinhardt is a director of the Company and is employed as a consultant by Oxford Sciences Innovation Plc.

During the year £1,458 (2019: £14,797) of income was generated through equipment rentals to Macrophox Ltd. Further to this £6,712 (2019: Nil) was paid to Macrophox Ltd in relation to asset purchases. There were no balances due at the year end (2019: Nil). Oxford Sciences Innovation Plc is also a shareholder of Macrophox Ltd.

During the year, £111,979 (2019: £58,475) was paid to the University of Oxford and its subsidiaries in relation to rent and services. At the year end, there was £10,193 (2019: Nil) owed to the University of Oxford. The University of Oxford is a shareholder of the Company.

14. Post balance sheet events

On 18 December 2020, the shareholders of the Company resolved to restructure the existing 10,000 Ordinary Shares of £0.01 each, such that they have a nominal value of £0.001 by subdividing each into one new Ordinary Share of £0.001 (in aggregate 10,000) and nine Deferred Shares of £0.001 (in aggregate 90,000). Thereafter, immediately re-designating each existing A Ordinary Share as one Ordinary Share of £0.001.

An Innovate UK grant totalling £500,000 with 70% matched funding was awarded to the Company in October 2020. The project commenced in November 2020 and the first round of grant income is expected to be received in March 2021.

On the 22 December 2020, the Company secured a investment totalling £3,699,463 from Epidarex Capital III UK, LP and Taiho Ventures LLC. The investment was split as follows:

Epidarex Capital III UK, LP - subscribed a total of £2,499,763 in exchange for a total of 6,451 Series A shares.

Taiho Ventures LLC - subscribed a total of £1,199,700 in exchange for a total of 3,096 Series A shares.

In addition, £1,300,000 of convertible loan notes converted into 4,302 Series A shares on 22 December 2020.

15. Controlling party

There is no single ultimate controlling party.

16. Auditor's information

The auditor's report on the financial statements for the year ended 31 October 2020 was unqualified.

The audit report was signed on 30 March 2021 by Sue Staunton MA FCA CF (Senior statutory auditor) on behalf of James Cowper Kreston.

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