

THEOLYTICS LTD

FINANCIAL STATEMENTS

INFORMATION FOR FILING WITH THE REGISTRAR

FOR THE YEAR ENDED 31 OCTOBER 2022

THEOLYTICS LTD
REGISTERED NUMBER: 11001290

BALANCE SHEET
AS AT 31 OCTOBER 2022

	Note	2022 £	2021 £
Fixed assets			
Intangible assets	5	60,576	44,236
Tangible assets	6	405,199	347,727
		465,775	391,963
Current assets			
Debtors: amounts falling due within one year	7	1,328,495	798,397
Cash at bank and in hand	8	7,322,094	6,551,235
		8,650,589	7,349,632
Current liabilities			
Creditors: amounts falling due within one year	9	(5,917,859)	(483,109)
Net current assets		2,732,730	6,866,523
Total assets less current liabilities		3,198,505	7,258,486
Net assets		<u>3,198,505</u>	<u>7,258,486</u>
Capital and reserves			
Called up share capital	10	44	44
Share premium account		11,494,197	11,494,197
Capital redemption reserve		90	90
Other reserves		1,284,319	514,310
Profit and loss account		(9,580,145)	(4,750,155)
		3,198,505	7,258,486
		<u>3,198,505</u>	<u>7,258,486</u>

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: 5 April 2023

The notes on pages 3 to 14 form part of these financial statements.

THEOLYTICS LTD

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 OCTOBER 2022

	Called up share capital £	Share premium account £	Capital redemption reserve £	Share option reserve £	Profit and loss account £	Total equity £
		11,494,197				
At 1 November 2021	44		90	514,310	(4,750,155)	7,258,486
Loss for the year	-	-	-	-	(4,829,990)	(4,829,990)
Transfer to/from profit and loss account	-	-	-	770,009	-	770,009
		<u>11,494,197</u>				
At 31 October 2022	<u>44</u>	<u>11,494,197</u>	<u>90</u>	<u>1,284,319</u>	<u>(9,580,145)</u>	<u>3,198,505</u>

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 OCTOBER 2021

	Called up share capital £	Share premium account £	Capital redemption reserve £	Share option reserve £	Profit and loss account £	Total equity £
At 1 November 2020	110	2,499,990	-	379,185	(2,696,545)	182,740
Loss for the year	-	-	-	-	(2,053,610)	(2,053,610)
Purchase of own shares	-	-	90	-	-	90
Shares issued during the year	24	8,994,207	-	-	-	8,994,231
Shares redeemed during the year	(90)	-	-	-	-	(90)
Transfer to/from profit and loss account	-	-	-	135,125	-	135,125
	<u>44</u>	<u>11,494,197</u>	<u>90</u>	<u>514,310</u>	<u>(4,750,155)</u>	<u>7,258,486</u>
At 31 October 2021	<u>44</u>	<u>11,494,197</u>	<u>90</u>	<u>514,310</u>	<u>(4,750,155)</u>	<u>7,258,486</u>

The notes on pages 3 to 14 form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2022**

1. General information

Theolytics Ltd is a private company limited by shares, registered in England and Wales. The Company's registered office is The Sherard Building, Edmund Halley Road, Oxford Science Park, Oxford, England, OX4 4DQ.

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 for the period of £4,829,990 and at 31 October 2022 had a net assets of £3,198,505. The Company is currently in the process of fundraising and letters of intent have been signed by existing investors for sums exceeding the next twelve months committed spend. The Directors expect to receive sufficient investment to support the Company for the foreseeable future, but this is inherently uncertain.

On the basis of the letters of intent and a review of forecasts for the Company, the Directors are therefore satisfied that it is appropriate to prepare the financial statements on a going concern basis, but recognise that the reliance on future investment represents a material uncertainty.

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 2022**

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 the 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 2022

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 2022**

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 disposal 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:

Lease improvements	- 5 years
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 profit or loss.

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 2022

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2022

2. Accounting policies (continued)

2.16 Financial instruments (continued)

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 shares, 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.

4. Employees

The average monthly number of employees, including directors, during the year was 26 (2021 - 20).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2022**

5. Intangible assets

	Patents
	£
Cost	
At 1 November 2021	54,067
Additions	22,323
At 31 October 2022	76,390
Amortisation	
At 1 November 2021	9,831
Charge for the year	5,983
At 31 October 2022	15,814
Net book value	
At 31 October 2022	60,576
At 31 October 2021	44,236

THEOLYTICS LTD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2022

6. Tangible fixed assets

	Lease improvements £	Lab Equipment £	Office equipment £	Computer equipment £	Total £
Cost or valuation					
At 1 November 2021	19,177	454,259	8,811	46,628	528,875
Additions	3,407	160,737	12,817	23,271	200,232
Disposals	-	(8,244)	(1,350)	-	(9,594)
At 31 October 2022	22,584	606,752	20,278	69,899	719,513
Depreciation					
At 1 November 2021	1,278	162,394	1,983	15,493	181,148
Charge for the year	4,252	106,364	3,804	19,837	134,257
Disposals	-	(978)	(113)	-	(1,091)
At 31 October 2022	5,530	267,780	5,674	35,330	314,314
Net book value					
At 31 October 2022	17,054	338,972	14,604	34,569	405,199
At 31 October 2021	17,899	291,865	6,828	31,135	347,727

7. Debtors

	2022 £	2021 £
Other debtors	123,208	79,506
Prepayments and accrued income	424,279	328,891
Tax recoverable	781,008	390,000
	<u>1,328,495</u>	<u>798,397</u>

8. Cash and cash equivalents

	2022 £	2021 £
Cash at bank and in hand	7,322,094	6,551,235
	<u>7,322,094</u>	<u>6,551,235</u>

THEOLYTICS LTD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2022

9. Creditors: Amounts falling due within one year

	2022 £	2021 £
Convertible loan notes	4,499,998	-
Trade creditors	611,143	110,505
Other taxation and social security	59,771	39,669
Other creditors	10,068	7,708
Accruals and deferred income	736,879	325,227
	<u>5,917,859</u>	<u>483,109</u>

The convertible loan notes were issued on the 19 April 2022 for a maximum period of 18 months. The loans incur interest at a set rate of 8% per annum.

10. Share capital

	2022 £	2021 £
Allotted, called up and fully paid		
24,300 (2021 - 24,300) Series A shares of £0.001 each	24	24
20,000 (2021 - 20,000) Ordinary shares of £0.001 each	20	20
	<u>44</u>	<u>44</u>

In the prior year, 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.

In the prior year, 90,000 Deferred Shares of £0.001 each were repurchased by the Company for a total consideration of £0.01 and were subsequently cancelled, in accordance with the Company's Articles of Association.

Series A Shares

Fixed cumulative cash preferential dividends, calculated at an annual rate of 6%, accrue on the Series A shares, but are only to become payable in the event of the Company carrying out an Exit (being a Share Sale, An Asset Sale or Initial Public Offering ("IPO")) or a Conversion of Series A shares in relation to an IPO. As a result, the shares are classed as a compound instrument. At 31 October 2022, the fair value of the dividend liability was assumed to be £nil (2021: £nil), due to the early stage of the Company and the consequent uncertainties at this stage as to whether the Company will enter into an Exit and the timing of this.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2022**

11. Share based payments

The Company operates an EMI approved and an unapproved option scheme for certain directors, consultants and employees. The share options are equity settled and 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 (pence) 2022	Number 2022	Weighted average exercise price (pence) 2021	Number 2021
Outstanding at the beginning of the year	1.0	2,526	1.0	2,571
Granted during the year	0.01	4,629	0	-
Forfeited during the year		-	1.0	(45)
Outstanding at the end of the year	1.0	7,155	1.0	2,526

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 £770,009 in the year (2021: £135,124), related to equity share based payment transactions.

	2022 Black-Scholes	2021 Black-Scholes
Option pricing model used		
Weighted average share price (pence)	34,724	27,346
Exercise price (pence)	1.0	1.0
Weighted average contractual life (days)	3,650	3,650
Expected volatility	89.1%	80.2%
Risk-free interest rate	2.7%	1.1%

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 £56,770 (2021 - £36,971). Contributions totalling £10,068 (2021 - £6,056) 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 2022**

13. Other financial commitments

There is a fixed charge over the deposit account of Theolytics Limited in respect of any current or future obligations associated with the business charge card.

14. Related party transactions

There is no ultimate controlling party of Theolytics Ltd.

During the year, the Company issued convertible loan notes to three companies with significant influence over the company for £4,499,998. The loan notes accrued interest of £193,315 during the year (2021: nil). The balance outstanding at the year end is £4,693,313 (2021: nil).

During the previous year, £600,000 of the convertible loan notes issued to a company with significant influence were converted into 1,988 Series A shares.

During the previous year, £50,000 of the convertible loan notes issued to a director were converted into 163 Series A shares.

During the previous year, £50,000 of the convertible loan notes issued to a company controlled by close family member of a director were converted into 163 Series A shares.

15. Controlling party

There is no single ultimate controlling party.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2022**

16. Auditor's information

The auditor's report on the financial statements for the year ended 31 October 2022 was unqualified.

In their report, the auditor emphasised the following matter without qualifying their report:

We draw attention to note 2.2 in the financial statements, which indicates that that may cast significant doubt on the Company's ability to continue as a going concern.

The Company recorded a loss for the period of £4,829,990 and at the 31 October 2022 had a net asset position of £3,198,505.

The financial statements have been prepared on a going concern basis, the validity of which depends upon the success of the Directors raising additional funding which is inherently uncertain. As explained in note 2.2 the Company is currently engaged in a funding round and existing investors have signed letters of intent for sums exceeding the next twelve months committed spend. The Company has prepared forecasts which indicate that this would be sufficient to enable it to continue to trade for at least a further 12 months from the date of the signing of the audit report.

The financial statements do not include adjustments that would be necessary if the Company was unable to continue as a going concern.

Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

The audit report was signed on 6 April 2023 by Sue Staunton MA FCA CF (Senior statutory auditor) on behalf of James Cowper Kreston Audit.

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.