5 April 2022

SourceBio International plc
("SourceBio", the "Company" or the "Group")

Final Results

Record revenues, profits and cash generation
Re-investment in core Healthcare Diagnostics business unit via LDPath acquisition

SourceBio International plc (AIM: SBI), a leading international provider of integrated state-of-the-art laboratory services and products, announces its final results for the year ended 31 December 2021.

Corporate highlights

- In March 2022, the Group completed the strategic acquisition of LDPath Limited, a pioneer in digital scanning technology for histopathology. The acquisition strengthens SourceBio's position to become the leading outsourced partner providing Cellular Pathology and Digital Pathology testing services to NHS Trusts and private healthcare providers in the UK
- The enlarged Group will target the conversion of both NHS and private clients to the Digital Pathology offering, including the use of Artificial intelligence ("AI") to further streamline the reporting of more routine pathology cases and to ensure the highest quality of reporting

Financial highlights

- Revenue increased by 82% to £92.4 million (2020: £50.7 million)
- Gross profit increased by 77% to £36.2 million (2020: £20.5 million)
- Adjusted EBITDA[1] increased by 70% to £24.1 million (2020: £14.2 million)
- Basic and diluted EPS increased by 325% to 22.5 pence per share (2020: 5.3 pence per share)
- Cash generated from operations increased by 420% to £33.3 million (2020: £6.4 million)
- Cash balance increased by £24.9 million to £33.3 million (2020: £8.4 million) with no bank borrowings

[1] Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation, share based payments and exceptional costs

Operational highlights

2021

- Significant scale-up of the Nottingham laboratory facilities, initially for increased COVID-19 PCR testing volumes, now being repurposed towards Cellular Pathology as actual and anticipated volumes increase
- Further enhanced the management team, including strategic marketing, as the Group's focus moves from high-volume COVID-19 PCR testing towards aggressive growth in the core business units
- Successful UKAS audit and full accreditation renewal, with superlative feedback

Post year end

- Solid start to the new year's trading in the core business units

- Launch of a Precision Medicine business line within the Genomics business unit, capitalising on the Group's existing Reference Laboratory offering and its clinical trials work
- Successful UKAS accreditation of SourceBio's Digital Pathology Platform
- Integration of the LDPath acquisition is well underway. The enlarged team, branded as SourceLDPath, are spearheading an aggressive campaign to roll-out the Group's Digital Pathology offering to both NHS and private healthcare clients

Jay LeCoque, Executive Chairman, commented: *"I am pleased to report to shareholders record revenues and profits in an extremely busy year for SourceBio. The results have been dominated by the provision of COVID-19 PCR testing services which has been pivotal in allowing us to re-invest in our core Healthcare Diagnostics business unit, through acquisition. It is particularly encouraging to see our core business units meeting or beating pre-COVID-19 levels of trading. In particular, our Cellular Pathology business is seeing material month-on-month growth in volumes and revenues, fuelled by the return of elective surgeries and the Government initiatives to reduce the enormous backlog of patient waiting lists. This was the rationale for our recent acquisition of LDPath, which provides us with the wet laboratory and Digital capacity to accelerate growth in market share and profitability. The integration of LDPath will take the best of the best from each of SourceBio and LDPath to create an unparalleled combined new business opportunity. The Board is appreciative of the dedication and efforts from all its staff in a very challenging year and is also grateful for the support from its shareholders."*

Contacts:

SourceBio International plc — www.sourcebiointernational.com
Jay LeCoque, Executive Chairman — Via Walbrook PR
Tony Ratcliffe, Chief Financial Officer

Liberum (Nominated Advisor and Broker) — Tel: 020 3100 2000
Richard Lindley / William Hall

Walbrook PR Limited — Tel: 020 7933 8780 or sourcebio@walbrookpr.com
Paul McManus / Sam Allen — Mob: 07980 541 893 / 07502 558 258

About SourceBio International plc www.sourcebiointernational.com

SourceBio is a leading international provider of integrated state-of-the-art laboratory services and products with clients in the healthcare, clinical, life science research and biopharma industries, with a focus on improving patient diagnosis, management and care. Group revenues are derived from four business units:

- **Healthcare Diagnostics** - histopathology cancer screening and clinical diagnostic services for the NHS and private healthcare providers across the UK and Ireland, including Digital Pathology
- **Genomics** - DNA sequencing services and Precision Medicine offering for pharmaceutical and biotechnology companies, academia, contract research organisations (CROs) and other research groups in the UK, Europe and North America
- **Stability Storage** - shelf-life testing services and equipment for pharmaceutical and biotechnology companies, contract manufacturers and analytical testing companies from around the world but primarily in the UK, Ireland and the USA

- **Infectious Disease Testing** - a range of COVID-19 testing services for commercial enterprises, private healthcare groups and the NHS, including PCR testing under ISO 15189 accreditation. SourceBio also provides employee testing solutions to industry, direct to consumer home test kits and venue testing.

More details on Group operations can be found here: www.sourcebioscience.com
SourceBio International plc (SBI) is listed on the AIM market of the London Stock Exchange.

Executive Chairman's Review

Summary of 2021

I am pleased to report 2021 as a year of significant growth and achievement in the business, indeed a record trading year for the Group. The Group has delivered substantial progress and has reported very strong financial results for 2021 that will fuel further growth initiatives in its core base business units, both organically and via acquisition.

The key performance indicators currently used by the Group are revenue, gross profit, adjusted EBITDA and cash resources. Revenues for the year totalled £92.4 million, an increase of 82% on the prior year revenues of £50.7 million, gross profit was £36.2 million, an increase of 77% on the prior year gross profit of £20.5 million, and adjusted EBITDA was £24.1 million, an increase of 70% on the prior year adjusted EBITDA of £14.2 million. Cash balances at the year-end date totalled £33.3 million with no bank or shareholder borrowings, compared to cash of £8.4 million at the prior year-end date, highlighting the Group's very strong cash conversion. Further details of the financial performance can be found in the Chief Financial Officer's Review and within the financial statements.

The continued impact of the COVID-19 pandemic in 2021 has clearly provided many ongoing challenges across the globe. SourceBio mitigated the challenges by offering large-scale laboratory based COVID-19 PCR testing services from its Nottingham facility, delivered from a newly created Infectious Disease Testing business unit. It grew the scale of this operation through 2020 and further in 2021. This enabled the Infectious Disease Testing business unit to provide a significant component of revenue, gross margin and cash generation in the year. The acquisition of LDPath in March 2022, a digital leader in histopathology, demonstrated the Group's capability to secure strategic acquisitions that accelerate revenue and profit growth in its core business units. A more detailed review of the year, by business unit, is presented below.

The Board is very grateful for the significant hard work and dedication of the entire SourceBio team in 2021 and for the many achievements in what has certainly been a uniquely challenging backdrop. The Board is also appreciative of shareholders for their continued strong support.

Business review

The business comprises three core business units – Healthcare Diagnostics, Genomics, Stability Storage plus a fourth business unit, Infectious Disease Testing, as noted above. Starting with Healthcare Diagnostics, a brief review of each business unit is detailed below.

Healthcare Diagnostics

Healthcare Diagnostics provides a complete histopathology and clinical diagnostics service for the sectioning, processing, staining and analysis of tissue samples on self-prepared and pre-prepared slides. SourceBio operates ISO 15189 accredited medical laboratories and has built a significant network of specialist consultant pathologists, all registered with the Royal College of Pathologists and the General Medical Council. SourceBio maintains service level agreements with over 130 NHS departments, private healthcare providers and pharma and biotech customers.

The principal revenue stream within Healthcare Diagnostics is Cellular Pathology testing, which involves the examination of patient tissue pre- and post-operative. This business had rapidly grown in recent years, at approximately 40% per annum in 2018 and 2019. The arrival of the COVID-19 pandemic in the first quarter of 2020 and its continued impact had a material effect on the quantity of elective surgeries in the UK and thus the value of Cellular Pathology revenues in the latter nine months of 2020 and for the first half of 2021. The growing size of the national elective surgery waiting lists, or backlog, has been very well publicised in the media and the Group prepared itself for a material scale-up in activity. The level of business increased through 2021, as efforts were made to tackle the mounting backlog of elective surgeries.

The second quarter of 2021 delivered revenues nearly 80% higher than the first quarter, the third quarter of 2021 then delivered revenues nearer 60% higher than the second quarter. The momentum of growth did slow to a degree in the final quarter of 2021 as the Omicron variant of COVID-19 caused further challenges, causing revenues to dip approximately 11% below those generated in the third quarter, although still approximately 150% higher than the first quarter.

In aggregate, these services generated revenues totalling £6.4 million (2020: £4.4 million) and a gross profit of £2.1 million (2020: £1.0 million), equating to a gross margin percentage of 33.3% (2020: 23.6%), the increase driven by the increased volumes of business.

Genomics

Genomics is the study of genes to help progress research and clinical discovery for the pharmaceutical and healthcare industries. SourceBio offers both traditional Sanger Sequencing, which for many years has been the industry accepted standard for sequencing single strands of DNA at a time, and Next Generation Sequencing ("NGS"), which allows the sequencing of millions of strands of DNA at once. NGS sequencing projects are typically larger in scale and complexity but fewer in number. Following the strategic investment in state-of-the-art NGS equipment in late 2019, the 2020 NGS revenues increased from 25% to 33% of total Genomics revenues and this further increased to 41% of total Genomics revenues in 2021. Genomics revenue streams were impacted by COVID-19 in 2020 but bounced back quickly.

In aggregate, these services generated revenues totalling £5.0 million (2020: £4.2 million) and a gross profit of £1.9 million (2020: £1.7 million), equating to a gross margin percentage of 38.7% (2020: 41.1%).

Stability Storage

The Stability Storage business unit comprises three offerings: Stability Storage Services, Manufacturing, Service and Validation.

The largest of these offerings is Stability Storage Services, which generated 54% (2020: 52%) of this business unit's revenues, with revenue increasing to £3.8 million in the year (2020: £3.5 million). SourceBio delivers outsourced temperature and humidity-controlled environment storage services for stability trials at all ICH (International Council for Harmonization of Technical Requirements for Pharmaceuticals for Human Use) specified conditions as well as at bespoke conditions as required. Environmentally controlled stability storage is the gateway for a number of products to be released and to stay on the market. These products range from drug products, medical devices, consumer products and packaging. The Group is well established in this market with accredited facilities in Rochdale, UK as well as in Tramore, Ireland and San Diego, USA. Business is secured on recurring contracts which are typically of three-year duration. By its nature, this business line therefore provides highly visible recurring revenue at gross margin levels of approximately 80% - indeed this business line has been relatively robust throughout COVID-19.

For those clients wishing to perform shelf-life testing in-house, the Group manufactures temperature and humidity-controlled equipment such as cabinets (low-volume storage), reach-in rooms and walk-in rooms (high-volume storage) for installation at customers' premises. This activity generated 14% (2020: 16%) of this business unit's revenue with revenue decreasing to £1.0 million in the year (2020: £1.2 million). Sales of capital equipment are naturally variable and subject to economic confidence.

SourceBio also provides Service and Validation services to established clients which have previously purchased and installed SourceBio equipment. These services comprise regular and periodic servicing and testing of installed storage equipment at customer premises to ensure adherence to relevant regulatory standards. This activity generated 32% (2020: 32%) of this business unit's revenue, with revenue increasing to £2.3 million in the year (2020: £2.2 million) although both 2020 and 2021 have faced challenges caused by COVID-19 travel restrictions.

In aggregate, these activities generated revenues totalling £7.0 million (2020: £6.9 million) and a gross profit of £3.6 million (2020: £3.9 million), equating to a gross margin percentage of 50.6% (2020: 56.1%).

Infectious Disease Testing

As recorded in the 2020 Annual Report, following the start of the COVID-19 pandemic, SourceBio quickly leveraged its scientific capabilities and existing accreditations, reconfigured its laboratory space and capitalised on its staff expertise to set up a COVID-19 PCR testing capability which launched in May 2020. The Group performed over 758,000 tests by the end of 2020, with a peak hitting 10,517 tests in one day. Investments were made to further increase capacity in 2021, allowing the Group to perform approximately 2,100,000 tests in the year, with a peak throughput hitting 20,298 tests in one day.

Daily test volumes fluctuated significantly through the year, largely driven by Government policy, particularly regarding the testing requirements for travel. There were a number of changes in policy in the year and this fluid backdrop has continued into early 2022. The customer base in the year comprised travel related companies, high street pharmacies, certain NHS trusts and other NHS constituents, as well as private healthcare groups and commercial clients.

High-volume COVID-19 PCR laboratory-based tests formed the vast bulk of the business unit's revenues for 2021 although modest revenues were also secured from the sale of lateral flow tests and from mobile based PCR testing.

These services generated aggregate revenues totalling £73.6 million (2020: £34.5 million) and a gross profit of £28.5 million (2020: £13.7 million), equating to a gross margin percentage of 38.8% (2020: 39.6%).

Other non-core services

The Group also offered additional legacy products that it sees as non-core and have now been fully wound down. These products comprised the supply of a set of library clones for research purposes, the market for which is generally declining, and the manufacture and supply of blood and tissue serological products to a limited customer base.

In aggregate, these activities generated revenues totalling £0.4 million (2020: £0.8 million) and a gross profit of £0.1 million (2020: £0.2 million), equating to a gross margin percentage of 21.8% (2020: 20.4%).

Board and Governance

There have been no changes to the Board in the year. The Board reviewed its composition and other arrangements in the year and continues to believe that the current make-up of the Board is appropriate to the Group's needs and to meet its governance commitments.

Outlook

The Group closed a record year of business in 2021, with material growth in revenues, gross margin and cash generation. It started the new year with a very strong cash balance of £33 million and with no bank or shareholder borrowings.

Trading in the early months of 2022 for the core business units has been solid and in line with the Board's expectation.

The Board believes that its three core business units, Healthcare Diagnostics, Genomics and Stability Storage all offer both near-term and longer-term sustained growth potential. In particular, whilst elective surgeries were significantly and very publicly delayed for many months during 2020 and 2021, coupled with the continuing shortage of pathologists, the backlog of potential work for our Cellular Pathology teams appears to have grown very substantially. HM Government has announced cash and initiatives that will be directed to help solve this issue. Volumes of Cellular Pathology work began returning to the Group in more meaningful volumes in the second half of 2021 and this has continued to accelerate in the early months of 2022. The Board is very optimistic of securing significant future volumes of work and believes that the current market conditions are supportive and provide an excellent backdrop for the

Group's acquisition of LDPath, which completed in March 2022. The Group's Cellular Pathology capabilities have significantly increased following this acquisition, as the Group has an enlarged customer mix of both NHS and private healthcare clients and SourceBio expects to lead the market migration towards its Digital Pathology platform.

The Group has identified attractive growth opportunities in the Precision Medicine marketplace and this will be a focus of attention in 2022, as a discrete offering neatly building on existing offerings, including personalised tests from the Reference Laboratory which was previously within the Healthcare Diagnostics business unit, and clinical trials work undertaken in the Genomics business unit.

In response to declining demand, the Group is in the process of materially scaling down its COVID-19 PCR testing operations and other COVID-19 offerings, with its focus aimed clearly at repurposing equipment, laboratory space and inventory and re-aligning people as far as possible to drive growth from the three core business units - Healthcare Diagnostics, Genomics and Stability Storage.

Given the current market environment, the Board believes that SourceBio is well positioned to deliver further attractive growth in revenue and margin from these core business units in 2022. The Group is pleased to have strengthened its position in Cellular Pathology with the LDPath acquisition and will continue to seek further strategically attractive acquisition opportunities.

We look forward to updating shareholders further during the year.

Jay LeCoque
Executive Chairman

Chief Financial Officer's Review

Revenue

Revenue for 2021 was £92.4 million (2020: £50.7 million), an increase of 82%, summarised across the business units as below:

Business unit	**2021 £'000**	2020 £'000
Healthcare Diagnostics	**6,411**	4,424
Genomics	**4,960**	4,219
Stability Storage	**7,037**	6,880
Core operations	**18,408**	15,523
Infectious Disease Testing	**73,567**	34,463
Non-core operations, now wound down	**422**	751
Total	**92,397**	50,737

The Group comprises four business units, Healthcare Diagnostics, Genomics, Stability Storage and Infectious Disease Testing. The three core business units of Healthcare Diagnostics, Genomics and Stability Storage were all impacted by COVID-19 from early 2020, with Genomics and Stability Storage returning to normal levels of operations during 2020 and Healthcare Diagnostics returning to pre COVID-19 levels of business during 2021. The Infectious Disease testing business unit was established in May 2020 to launch and commercialise COVID-19 PCR testing services which peaked during 2021.

- The Healthcare Diagnostics business unit included revenues of £4.9 million (2020: £2.7 million) from Cellular Pathology testing, where volumes were heavily impacted by well publicised delays in elective surgeries in 2020 which continued until mid-2021. As elective surgeries returned with more volume in the second half of 2021, the volume of Cellular Pathology testing increased. However, the pace of this return of business did slow in the fourth quarter of 2021 as the Omicron variant of COVID-19 had a marked impact on the level of elective surgeries. The Reference Laboratory delivered revenues of £1.5 million (2020: £1.7 million), the modest reduction being largely as a result of one-off evaluation work carried out in 2020;
- Genomics comprises traditional Sanger Sequencing, which delivered revenues of £2.9 million (2020: £2.8 million) and Next Generation Sequencing ("NGS"), which delivered revenues of £2.0 million (2020: £1.4 million). The Company invested in state-of-the-art equipment in 2019 as part of the strategic objective of skewing business towards a greater proportion of NGS work. This had already proved successful in 2020 and the trend of skewing further to NGS continued in 2021;
- Stability Storage comprises Stability Storage Services which delivered revenues of £3.8 million (2020: £3.6 million), Service and Validation which delivered revenues of £2.3 million (2020: £2.2 million) and Manufacturing which delivered revenues of £0.9 million (2020: £1.1 million). Stability Storage Services, which are sold on a recurring revenue model, have been particularly robust throughout COVID-19. Service and Validation work was impacted in 2020 and 2021 by the restrictions to travel, whilst equipment sales, being capital purchase items, are naturally more variable in nature; and
- Infectious Disease Testing comprises primarily high-volume laboratory based PCR testing services delivered from the Group's Nottingham laboratories. The Group has offered a fuller portfolio of COVID-19 offerings which included the resale of lateral flow tests and the provision of mobile based testing services. PCR testing services delivered revenues of £71.8 million (2020: £34.5 million). The supply of lateral flow tests and the provision of mobile testing services delivered combined revenues of £1.8 million (2020: £nil).

Gross profit

Overall gross profit for the year was £36.2 million (2020: £20.5 million), representing a gross margin percentage of 39.2% (2020: 40.3%). Although the quantum and mix of revenue dramatically changed in the year, overall gross margin

percentage levels were largely maintained. Of particular highlight is that market pressure materially impacted COVID-19 PCR pricing, particularly in the second half of 2021, with average pricing of £33.13 per PCR test (excluding carriage, test kit and other sales) achieved during the year compared to average pricing of £43.17 in 2020. This amounted to a 23% pricing reduction which was almost entirely mitigated by efficiencies and procurement savings derived from economies of scale.

Expenses

Total expenses for the year were £15.1 million (2020: £9.8 million), an increase of £5.3 million. The main driver of this was an increase in commercial and administrative expenses in order to scale the business to achieve the substantial increase in revenues. The largest component of this increase was higher non-direct staff costs of £3.3 million, driven by both a required increase in headcount and a marked impact of wage inflation to secure and retain the talented team. The Company also incurred a full year of costs related to being a public company. There were no exceptional items in 2021 and a total of £1.5 million of exceptional expenses were incurred in relation to the Company's Admission to AIM in 2020. The total charge for depreciation of tangible fixed assets and amortisation of intangible fixed assets increased to £2.9 million (2020: £2.0 million) due primarily to the increased laboratory equipment depreciation. The Group incurred a share based payment charge of £0.1 million (2020: £nil) following the creation of the two employee share schemes in October 2021.

Adjusted EBITDA

The Board's key measure of underlying business profitability and assessing trends across periods is adjusted earnings before interest, tax, depreciation and amortisation, share based payments and exceptional items (adjusted EBITDA). In 2021, the Group achieved an adjusted EBITDA of £24.1 million (2020: £14.2 million), an increase of 70%. This translated to an adjusted EBITDA percentage in the year of 26.1% (2020: 27.9%). There were share based payments in the year of £0.1 million (2020: £nil) and no exceptional items in the year (2020: £1.5 million in relation to the Company's Admission to AIM). The principal driver for the material growth in adjusted EBITDA was the increased volume of COVID-19 PCR testing which drove substantial levels of COVID-19 testing revenues and gross profits in the year.

Finance costs

Finance costs for the year were £0.4 million (2020: £7.9 million), a decrease of £7.5 million. The decrease was principally caused by the conversion of PIK loan notes to equity and the settlement of shareholder and bank loans, both in late 2020, which together accounted for £7.6 million of interest charges in 2020. The finance costs of £0.4 million (2020: £0.3 million) related to finance leases charges. At the year-end date the Group had no borrowings other than leases.

Tax

An income tax charge arose amounting to £4.0 million (2020: credit of £0.2 million). The vast majority of the taxable profits were generated in the UK, where the Group was liable to corporation tax on a large company quarterly payment basis. Historic UK trading tax losses were fully utilised in 2020 and the Group has trading losses of £2.0 million (2020: £1.1 million) in its USA subsidiary available for carry forward beyond the year-end date.

Earnings per share

The basic and diluted earnings per share in the year amounted to 22.5 pence per share (2020: 5.3 pence per share), an increase of 325%. Adjusted earnings per share is an Alternative Performance Measure and calculated by dividing the profit for the year attributable to ordinary shareholders, excluding interest expense attributable to the shareholder loans and PIK loan notes and expenses related to exceptional items and share based payments, as well as the tax effect of these items, by the weighted average number of ordinary shares in issue during the year. The adjusted earnings per share in the year amounted to 22.6 pence per share (2020: 19.8 pence per share), an increase of 14%.

Intangible assets

Goodwill at the year-end date remained at £10.0 million, with no impairment charged in the year and other intangible assets decreased to a net book value of £0.2 million (2020: £0.3 million).

Property, plant and equipment and right-of-use assets

Net book value of property, plant and equipment at the year-end date amounted to £8.2 million (2020: £7.0 million), an overall increase of £1.2 million. Right-of-use assets at the year-end date amounted to £10.3 million (2020: £9.5 million), an overall increase of £0.8 million.

Additions in the year totalled £5.0 million, comprising leasehold improvements of £0.7 million and laboratory equipment of £4.3 million, which were primarily required to support the creation and capacity build-up of COVID-19 PCR testing services. It is expected that this equipment will be repurposed as COVID-19 PCR testing levels decline.

Inventories

Inventories at the year-end date amounted to £5.0 million (2020: £3.6 million), the increase largely due to increased stockholding of COVID-19 testing consumables. This balance is after including a stock provision totalling £2.1 million (2020: £nil), which reflects the materially reduced level of COVID-19 PCR testing now expected in 2022 and the need to consider both the shelf-life and expected usage of inventory levels on hand at the year-end date.

Trade and other receivables

Trade and other receivables at the year-end date amounted to £7.2 million (2020: £10.5 million), the decrease driven by the phasing of receivables within the Infectious Disease Testing business unit and a very strong focus on cash collection throughout the year. The credit losses provision at the year-end date amounted to £146,000 (2020: £34,000), the increase driven by the increased revenues. Overall, debtor days outstanding at the year-end date were 34 days (2020: 42 days) and during the year averaged 43 days (2020: 37 days).

Lease liabilities

Total lease liabilities at the year-end date amounted to £13.0 million (2020: £12.1 million), an increase of £0.9 million, due to additional laboratory equipment purchased in the year under lease.

Cash and working capital

Cash generation from operations was strong at £33.2 million (2020: £6.4 million). Cash and cash equivalents at the year-end date amounted to £33.3 million (2020: £8.4 million). Borrowings (excluding leases) have remained at zero through the year as the Group redeemed and converted its outstanding PIK loan notes into equity and repaid all of its bank and shareholder borrowings in late 2020. The strong funding position of the Group was driven principally by the increased profitability of the business fuelled by the increase in COVID-19 PCR testing services, together with a strong focus on cash conversion and working capital management. Cash balances were also positively impacted by payments made for COVID-19 PCR travel tests where revenues totalling £3.8 million (2020: £nil) have been deferred. The Group had no bank borrowings or debt facilities in place at the end of the year.

Net assets

Net assets at the year-end date amounted to £48.3 million (2020: £31.8 million), the improved position arising from the strong level of earnings generated during the year.

Contingent liability

As detailed further in note 14, the Group is in dispute with HM Revenue & Customs ("HMRC") who have challenged the Group's VAT treatment of COVID-19 PCR testing services provided. On professional advice, the Group has treated the accounting for COVID-19 PCR services as VAT exempt. HMRC has suggested that some of those services should have been treated as standard rated for VAT purposes. The Group has continued to take advice, which supports the accounting treatment adopted, and remains in communication with HMRC to address their comments raised. The Board believes that HMRC's arguments are flawed and unlikely to succeed, and there is also uncertainty over any potential liability, so no provision has been made at the year-end date.

Share buyback programme

As announced on 8 March, the Company intends to seek shareholder approval at the forthcoming AGM to implement a share buyback programme. Further details will be announced in due course.

Tony Ratcliffe
Chief Financial Officer

Consolidated Statement of Profit and Loss and Other Comprehensive Income
For the year ended 31 December 2021

Continuing operations:	Note	**Year ended 31 December 2021 £'000**	Year ended 31 December restated 2020 £'000
Revenue	3,4	**92,397**	50,737
Cost of sales		**(56,184)**	(30,284)
Gross profit	3	**36,213**	20,453
Distribution costs		**(3,651)**	(2,180)
Administrative expenses		**(11,573)**	(7,574)
Other operating Income	6	**118**	-
Adjusted EBITDA		**24,115**	14,155
Depreciation		**(2,843)**	(1,890)
Amortisation		**(88)**	(102)
Share based payments		**(77)**	-
Exceptional costs	5	**-**	(1,464)
Operating profit		**21,107**	10,699
Finance income	7	**21**	-
Finance costs	7	**(442)**	(7,908)
Profit before tax		**20,686**	2,791
Taxation	8	**(3,971)**	201
Profit attributable to equity shareholders of the Company		**16,715**	2,992
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss:			
- Exchange differences on translation of foreign operations		**(318)**	208
Total comprehensive income attributable to equity shareholders of the Company		**16,397**	3,200
Earnings per share			
Basic and diluted earnings per ordinary share	9	**22.5p**	5.3p

Restatement of 2020

Following a reassessment of the classification of costs in 2021, the 2020 comparatives for distribution costs (increase of £607,000) and administrative expenses (decrease of £607,000) have been restated to be comparable.

Consolidated Statement of Financial Position
As at 31 December 2021

	Note	**31 December 2021 £'000**	31 December 2020 £'000
Assets			
Non-current assets			
Intangible assets – goodwill		**9,993**	9,993
Intangible assets – other		**192**	349
Property, plant and equipment		**8,226**	6,959
Right-of-use assets		**10,347**	9,478
Deferred tax asset		**79**	395
Total non-current assets		**28,837**	27,174
Current assets			
Inventories	11	**4,999**	3,598
Trade and other receivables	12	**7,242**	10,472
Corporation tax receivable		**777**	-
Cash and cash equivalents		**33,304**	8,435
		46,322	22,505
Assets classified as held for resale		**-**	475
Total current assets		**46,322**	22,980
Total assets		**75,159**	50,154
Equity attributable to equity shareholders of the Company			
Share capital	10	**111**	111
Share premium account		**33,189**	33,189
Foreign exchange reserve		**(147)**	171
Share option reserve		**77**	-
Retained earnings		**15,078**	(1,637)
Total equity		**48,308**	31,834
Liabilities			
Non-current liabilities			
Trade and other payables	13	**339**	394
Lease liabilities		**11,946**	11,602
Provisions		**137**	141
Total non-current liabilities		**12,422**	12,137
Current liabilities			
Trade and other payables	13	**13,362**	5,494
Corporation tax payable		**-**	126
Lease liabilities		**1,049**	547
Provisions		**18**	16
Total current liabilities		**14,429**	6,183
Total liabilities		**26,851**	18,320
Total equity and liabilities		**75,159**	50,154

Consolidated Statement of Changes in Equity
For the year ended 31 December 2021

	Share capital	Share premium account	Foreign exchange reserve	Share option reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2020	2,906	-	(37)	-	(80,117)	(77,248)
Profit for the year	-	-	-	-	2,992	2,992
Other comprehensive income	-	-	208	-	-	208
Total comprehensive income for the year	-	-	208	-	2,992	3,200
Transactions with owners recorded directly in equity						
- Redemption of PIK loan notes in consideration for issuance of shares	72,658	-	-	-	-	72,658
- Reduction in share capital	(75,488)	-	-	-	75,488	-
- Proceeds from shares issued	3	-	-	-	-	3
- Proceeds from shares issued on Admission to AIM	32	34,968	-	-	-	35,000
- Costs of share issue	-	(1,779)	-	-	-	(1,779)
Total transactions with owners	(2,795)	33,189	-	-	75,488	105,882
Balance at 31 December 2020	111	33,189	171	-	(1,637)	31,834
Profit for the year	-	-	-	-	16,715	16,715
Other comprehensive income	-	-	(318)	-	-	(318)
Total comprehensive income for the year	-	-	(318)	-	16,715	16,397
Transactions with owners recorded directly in equity:						
- Employee share schemes	-	-	-	77	-	77
Total transactions with owners	-	-	-	77	-	77
Balance at 31 December 2021	**111**	**33,189**	**(147)**	**77**	**15,078**	**48,187**

Consolidated Statement of Cash Flows
For the year ended 31 December 2021

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Cash flows from operating activities		
Profit for the year	**16,715**	2,992
Adjustments for:		
Depreciation of property, plant and equipment and right-of-use assets	**2,843**	1,890
Amortisation	**88**	102
Profit on disposal of property, plant and equipment	**(147)**	-
Finance costs	**442**	7,908
Finance income	**(21)**	-
Taxation	**3,971**	(201)
Other operating income	**(118)**	-
Issue costs of new shares	**-**	1,464
Share based payment charges	**77**	-
Working capital adjustments:		
(Increase) in inventories	**(1,401)**	(2,782)
(Decrease) in provisions	**(2)**	(18)
Decrease / (increase) in trade and other receivables	**3,228**	(5,245)
Increase in trade and other payables	**7,618**	278
Cash generated from operations	**33,293**	6,388
Income tax paid	**(4,509)**	(48)
Net cash inflows from operating activities	**28,784**	6,340
Cash flows from investing activities		
Purchase of property, plant and equipment	**(2,975)**	(3,870)
Purchase of intangible assets	**(40)**	(140)
Proceeds on disposal of property, plant and equipment	**647**	5,000
Net cash (used in) / generated by investing activities	**(2,368)**	990
Cash flows from financing activities		
Gross proceeds from issue of shares	**-**	35,003
Costs of Admission to AIM and new share issuance	**-**	(3,243)
New borrowings secured	**-**	2,000
Repayment of borrowings	**-**	(30,253)
Interest paid	**(56)**	(2,750)
Payment of lease liabilities	**(1,445)**	(894)
Net cash (used in) financing activities	**(1,501)**	(137)
Net increase in cash and cash equivalents	**24,915**	7,193
Net foreign exchange difference on cash and cash	**(46)**	7
Cash and cash equivalents at the beginning of year	**8,435**	1,235
Cash and cash equivalents at the end of year	**33,304**	8,435

Notes to the Consolidated Financial Information

For the year ended 31 December 2021

1. General information

SourceBio International plc (the "Company" or "SourceBio") is a company incorporated in England and Wales and domiciled in the UK. The ordinary shares of the Company are traded on the AIM Market of the London Stock Exchange. The address of the registered office is 1 Orchard Place, Nottingham Business Park, Nottingham, NG8 6PX.

SourceBio is the ultimate parent Company of a number of subsidiaries whose principal activity is as an international provider of integrated state-of-the-art laboratory services and products to the healthcare and clinical, life and applied sciences and biopharma industries.

2. Summary of significant accounting policies

Accounting policies for the year ended 31 December 2021
The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

Basis of preparation
In accordance with Section 435 of the Companies Act 2006, the Group confirms that the financial information for the years ended 31 December 2021 and 2020 are derived from the Group's audited financial statements and that these are not statutory accounts and, as such, do not contain all information required to be disclosed in the financial statements prepared in accordance with UK-adopted International Accounting Standards. The statutory accounts for the year ended 31 December 2020 have been delivered to the Registrar of Companies. The statutory accounts for the year ended 31 December 2021 have been audited and approved but have not yet been filed.

The financial statements for the year ended 31 December 2021 (including the comparatives for the year ended 31 December 2020) were approved by the Board of Directors on 4 April 2022. The Group's audited financial statements for the year ended 31 December 2021 received an unqualified audit opinion and the auditor's report contained no statement under section 498(2) or 498(3) of the Companies Act 2006.

The Group financial statements, which consolidate those of SourceBio International PLC and all of its subsidiaries, have been prepared under the historical cost convention and under the basis of going concern.

SourceBio has prepared its Report and accounts for the year ended 31 December 2021, in accordance with UK-adopted International Accounting Standards ("IFRS"). The principal accounting policies adopted are consistent with those disclosed in the financial statements for the year ended 31 December 2020, and are detailed below.

New standards, amendments and interpretations issued
For the purposes of the preparation of these consolidated financial statements, the Group has applied all standards and interpretations that are effective for accounting periods beginning on or after 1 January 2021. There was no significant impact of new standards and interpretations adopted in the year.

Any new or amended accounting standards or interpretations that are not yet mandatory have not been early adopted. None of the new standards or interpretations issued but not yet adopted are expected to have a material impact on the Group.

Going concern

The Directors have prepared detailed budgets and forecasts covering the period to 31 December 2023. These plans take into account all reasonably foreseeable circumstances and include consideration of trading results and cash flows on a month-by-month basis. This forecasting has considered the potential impact derived from the Infectious Disease Testing business unit, which is expected to continue to contribute, more modestly than in 2021, to the financial results going forward.

The Group is expected to generate cash and operating profits sufficient to meet its day-to-day operating needs and to support its planned capital expenditure. Taking into account the current level of cash balances and based on their enquiries and the information available to them in respect of the other risks and uncertainties set out herein, the Directors have a reasonable expectation that the Group has adequate resources to continue operating for the foreseeable future. Thus, they have adopted the going concern basis of accounting in preparing these financial statements.

Basis of consolidation

The Group's consolidated financial statements include the results of the Company and all its subsidiaries. Subsidiaries are all entities over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Intangible assets

Goodwill

Goodwill is initially measured at fair value, being the excess of the aggregate of the consideration transferred over the fair value of the net assets acquired, and any previous interest held over the net identifiable assets acquired and liabilities assumed. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. The goodwill is tested annually for impairment irrespective of whether there is an indication of impairment.

For the purposes of impairment testing, goodwill is allocated to the cash generating units ("CGUs") expected to benefit from the acquisition. CGUs to which goodwill has been allocated are tested for impairment at least annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

Intangible assets (other than goodwill)

Intangible assets acquired separately from a business are recognised at cost and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Intangible assets acquired on business combinations are recognised separately from goodwill at the acquisition date if the fair value can be measured reliably.

Amortisation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

- Software: 5 years
- Development costs: 4 years
- Customer relationships: 4 to 6 years

Research and development expenditure
Research expenditure is written off against profits in the year in which it is incurred. Identifiable development expenditure is capitalised to the extent that the technical, commercial and financial feasibility can be demonstrated. Development costs relate to a laboratory information management system that was developed internally by the Group.

Property, plant and equipment
Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses. Cost comprises purchase cost together with any incidental cost of acquisition.

Depreciation is provided to write down the cost less estimated residual value of all tangible fixed assets by equal instalments over their expected useful economic lives on a straight-line basis. The following useful lives are applied:

- Freehold buildings: 50 years
- Leasehold improvements: remaining lease term
- Plant, fixtures, fittings and equipment: 3 to 15 years
- Motor vehicles: 4 years

Right-of-use assets (included within property, plant and equipment) relate to leasehold buildings and office equipment and are depreciated over the lease term.

Impairment of non-current assets
At each reporting period-end date, the Group and Company reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognised immediately in the Statement of Comprehensive Income.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or CGU in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories
Inventory is stated at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first-in, first-out basis and includes costs associated with bringing the items to their present location and condition. Net realisable value is the estimated selling price less costs to complete and sell.

Financial instruments
The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. Financial

instruments are recognised on the date the Group becomes a party to the contractual provisions of the instrument. Financial instruments are recognised initially at fair value plus, in the case of a financial instrument not at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument. Financial instruments are derecognised on the trade date when the Group is no longer a party to the contractual provisions of the instrument.

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, lease liabilities and trade and other payables.

Trade and other receivables and trade and other payables

Trade and other receivables are initially recognised at fair value and subsequently at amortised cost using the effective interest method less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days. The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Trade and other payables are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, less any expected credit losses in the case of trade receivables. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

Contract assets
Contract assets are recognised when revenue is recognised but payment is conditional on a basis other than the passage of time. Contract assets are included in trade and other receivables.

Contract liabilities
Contract liabilities are recognised when payment from a customer is received in advance of performance obligations being satisfied. Contract liabilities are recognised in trade and other payables.

Interest-bearing borrowings
Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised costs using the effective interest method, less any impairment losses.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents, for the purpose only on the cash flow statement.

Provisions
A provision is recognised in the Statement of Financial Position when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability. Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value. When a provision is measured at present value, the unwinding of the discount is recognised as a finance cost in profit or loss in the period in which it arises.

Employee benefits
The Group operates a defined contribution money purchase pension scheme under which it pays contributions based upon a percentage of the members' basic salary. Contributions to defined contribution pension schemes are charged to the Statement of Comprehensive Income and differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments.

Finance income and expenses
Finance expenses comprise interest payable (including lease liability interest) and is recognised in the profit or loss using the effective interest method.

Finance income is recognised in the profit or loss as it accrues.

Leases
The Group leases various office and laboratory facilities, warehousing, as well as certain laboratory, IT and office equipment and a number of vehicles. Rental contracts are typically made for fixed periods of variable lengths. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

• fixed payments, less any lease incentives receivable;
• variable lease payments based on an index or a rate, initially measured using the index or rate as at the commencement date;
• amounts expected to be payable by the Group under residual value guarantees;
• the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
• payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases held by the Group, the Group uses an estimated incremental borrowing rate, being the rate that the individual lessee is estimated to have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

• the amount of the initial measurement of lease liability;
• any lease payments made at or before the commencement date less any lease incentives received;
• any initial direct costs; and
• any potential restoration costs.

In addition, the carrying amount of lease liabilities and right-of-use asset is remeasured if there is a modification, a change in the lease term or a change in the fixed lease payments. The remeasured lease liability (and corresponding right-of-use asset) is calculated using a revised discount rate, based upon a revised incremental borrowing rate at the time of the change.

The Group leases properties in Nottingham and Cambridge in the UK, San Diego in the USA, as well as Tramore and Dublin in Ireland. All such leases are accounted for by recognising a right-of-use asset and a lease liability.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise IT equipment and small items of office equipment.

Revenue recognition
Revenue is recognised when control of a service or product provided by the Group is transferred to the customer, in line with the Group's performance obligations in the contract, and at an amount reflecting the consideration the Group expects to receive in exchange for the provision of services.

The Group recognised revenue from the following activities:

Laboratory testing services
Revenues received or receivable for services, typically provided under contract pathology, COVID-19 PCR testing and Sanger Sequencing services are recognised when the services are provided, which is when a test result is delivered.

Products
Revenue from sales of products, typically provided under processed human tissue, genomic reagents and antibodies and serology is recognised when goods are delivered to and accepted by the customer.

Service agreements
Revenue relating to service contracts invoiced at the inception of the agreements is deferred such that the income is recognised over the contract life.

Contracts recognised over time and with multiple elements
The Group enters into certain contracts that are performed over time. These include Genomics, Validation Services and Manufacturing.

Under these contracts, revenue is recognised based on the stage of completion. The assets created do not have an alternative use and the Group has an enforceable right to payment for performance completed to date on such contracts.

Where the Group enters into contracts for the supply and installation of products, revenue is recognised based on the specific terms of each contract. In some instances, this requires the allocation of the transaction price between the supply of the product and the installation and commissioning. Where contracts require separation, the revenue is allocated based on the fair values attributable to the separate elements and the performance obligations being met.

Testing kits
The price charged for the testing kits is specified in agreements negotiated with each customer. The price for the testing kits comprises an amount for laboratory consumables and reagents required to perform the tests and, where the systems are supplied on a rental basis, an equipment premium, which is equivalent to a rental charge, and an amount for maintenance of the systems during the term of the agreement. All contracts are for a fixed price and do not include variable consideration.

Revenue associated with the laboratory consumables and reagents is recognised when the testing kits are delivered and accepted by the customer. Revenue from the equipment premium and maintenance element is recognised over the period in which the customer is expected to benefit from the provision of these elements of the supply.

Where there is a delay in returning a testing kit to the laboratory for the testing service to be performed, the revenue is deferred until the likelihood of it not being returned is highly probable or if the testing kit reaches the end of its period of shelf-life.

Pre-paid vouchers
Vouchers are sold to customers in advance in return for the right to receive certain sequencing services in the future. These are not cash refundable. The revenue associated with these voucher sales is recognised when the services are performed and obligations met with an estimate made for a proportion of vouchers that are not expected to be redeemed, based on prior period redemption rates.

Taxes
Corporation tax, where payable, is provided on taxable profits at the current rate.

Deferred tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Foreign currency translation
Transactions in currencies other than the functional currency (foreign currency) are initially recorded at the exchange rate prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies are translated at the rate ruling at the date of the transaction, or, if the asset or liability is measured at fair value, the rate when that fair value was determined.

All translation differences are taken to profit or loss, except to the extent that they relate to gains or losses on non-monetary items recognised in other comprehensive income, when the related translation gain or loss is also recognised in other comprehensive income.

The functional currency of the Group is Sterling. Exchange differences arising from the translation of foreign operations are recognised in other comprehensive income and accumulated in a foreign currency translation reserve within equity.

Exceptional costs
The Group presents as exceptional items on the face of the Statement of Comprehensive Income those material items of income and expense which, because of the nature, expected infrequency and materiality of the events giving rise to them, merit separate presentation to allow shareholders to better understand the elements of financial performance in the year, so as to facilitate comparison with prior years.

Equity instruments
Equity instruments issued by the Group are recorded as the value of the proceeds received net of direct issue costs.

Share based payments
The cost of equity settled transactions with employees is measured by reference to the fair value on the date they are granted. Where there are no market conditions attaching to the exercise of the options, the fair value is determined using a range of inputs into a Black-Scholes pricing model. Where there are market conditions attaching to the exercise of the options a Monte Carlo model is used to determine fair value based on a range of inputs. The value of equity-settled transactions is charged to the Statement of Comprehensive Income over the period in which the service conditions are fulfilled with a corresponding credit to the share option reserve in equity.

On the exercise of share options, an amount equal to the fair value of the option at the date it was granted is transferred from the share option reserve into retained earnings.

3. Operating segments

Revenue and gross profit by business segment
Revenues and gross profits are presented for each business segment but, due to the shared nature of many expenses, expenses are not separately allocated across the business segments. There have been immaterial sales between business segments, and where these do occur, they are at arm's length pricing.

	2021		2020	
	Revenue	**Gross profit**	Revenue	Gross profit
	£'000	**£'000**	£'000	£'000
Healthcare Diagnostics	**6,411**	**2,134**	4,424	1,046
Genomics	**4,960**	**1,918**	4,219	1,734
Stability Storage	**7,037**	**3,560**	6,880	3,857
Core business units	**18,408**	**7,612**	15,523	6,637
Infectious Disease Testing	**73,567**	**28,509**	34,463	13,663
Non-core operations, wound down	**422**	**92**	751	153
Total	**92,397**	**36,213**	50,737	20,453

Due to the shared nature of many assets, assets and liabilities, for both 2020 and 2021, are not able to be separately allocated across the business segments but are reported to the Chief Operating Decision Maker ("CODM") on an aggregate basis.

Adjusted EBITDA (Alternative Performance Measure)
The CODM, Board and Executive Management team primarily use a measure of adjusted earnings before interest, tax, depreciation and amortisation, share based payments and exceptional items (EBITDA before share based payments and exceptional costs, or adjusted EBITDA) to assess the performance of the overall business. This is an Alternative Performance Measure. The reconciliation of adjusted EBITDA to operating profit is shown on the face of the Consolidated Statement of Profit and Loss.

Exceptional items are summarised in note 5.

4. Revenue

Geographical segments

The Group manages its business segments on a global basis. The operations are based primarily in the UK, with additional facilities in Europe and the USA.

The revenue analysis in the table below is based on the location of the customer.

	2021	2020
	£'000	£'000
United Kingdom	**88,727**	46,657
Europe	**2,285**	2,349
USA	**1,337**	1,731
Rest of world	**48**	-
Total	**92,397**	50,737

The Group details below significant customers who have contributed to more than 10% of Group revenue:

	2021	2020
	£'000	£'000
Customer A	**14,453**	10,700
Customer B	**12,750**	-
Customer C	**12,151**	-
Customer D	**1,200**	17,200

Group revenue has been recognised according to time as below:

	2021	2020
	£'000	£'000
Recognised at a point in time	**86,338**	44,984
Recognised over time	**6,059**	5,753
Total	**92,397**	50,737

5. Exceptional items

	2021	2020
	£'000	£'000
Costs in relation to the Company's Admission to AIM	**-**	1,464

The Company was admitted to AIM in 2020 and incurred total professional fees and transaction costs (including unrecoverable VAT) of £3,243,000, of which £1,779,000 was charged to the share premium account and £1,464,000 was recorded as exceptional costs in the profit and loss

6. Other operating income

	2021	2020
Group	**£'000**	£'000
Research & development expenditure credit	**118**	-

7. Finance costs and finance income

Finance costs

	2021	2020
	£'000	£'000
On bank and other loans	**-**	(7,677)
On lease liabilities	**(442)**	(231)
Total	**(442)**	(7,908)

Finance income

	2021	2020
	£'000	£'000
Bank and other interest receivable	**21**	-
Total	**21**	-

8. Taxation

	2021	2020
Current tax	**£'000**	£'000
UK corporation tax on profits for the current year	**3,548**	232
Adjustment in respect of previous years	**7**	(62)
Foreign taxation	**100**	54
Total	**3,655**	224
Deferred tax		
Origination and reversal of timing differences	**382**	(431)
Adjustment in respect of previous years	**52**	-
Effect of tax rate change on opening balance	**(118)**	6
Total	**316**	(425)
Total charge / (credit)	**3,971**	(201)

Reconciliation of tax expense

The tax assessed on the profit on ordinary activities for the year is higher (2020: lower) than the standard rate of corporation tax in the UK of 19% (2020: 19%)

	2021	2020
	£'000	£'000
Profit on ordinary activities before taxation	**20,686**	2,791
Profit on ordinary activities by rate of tax	**3,930**	530
Expenses not deductible for tax purposes	**126**	422

Ineligible depreciation	**18**	23
Leases including sale and leaseback	**(215)**	(559)
Movement in deferred tax not recognised	**106**	(1,402)
Adjustment in respect of prior periods	**59**	(62)
Interest not deductible under thin capitalisation rules	**-**	898
Effect of change in corporation tax rate	**(118)**	6
Effect of CT rate being lower than DT rate	**92**	-
Other	**(27)**	(57)
Tax charge / (credit) on profit or loss	**3,971**	(201)

As a consequence of quarterly estimates made during the year, the Group overpaid UK corporation tax of £771,000 which is recoverable.

The Group had £380,000 (2020: £274,000) of deferred tax assets arising from tax losses within Source BioScience Inc. and other short-term timing differences which, based on the anticipated future profitability of the entity, have not been recognised.

9. Earnings per share

Basic earnings per share is calculated by dividing the result for the year attributable to ordinary shareholders of the Company by the weighted average number of shares in issue during the year. For 2020, the share numbers used were calculated consistently to take into account the 2020 share reorganisation in contemplation of Admission in October 2020, i.e. by assuming the various steps of the share reorganisation had been in effect through 2020.

Diluted earnings per share is calculated by dividing the result for the year attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year adjusted for the effects of dilutive options. For 2020, there were no options in issue, so diluted earnings per share were the same as basic earnings per share.

Adjusted earnings per share, an Alternative Performance Measure, is calculated by dividing the result for the year attributable to ordinary shareholders, which adds or deducts items that are typically adjusted for by users of financial statements. These items comprise interest expense attributable to the shareholder loans and PIK loan notes (which applied only in 2020), expenses related to exceptional items, share based payments as well as the tax effect of these items, by the weighted average number of ordinary shares in issue during the year.

The calculation of adjusted earnings, which includes any impact of taxation is as below:

	2021	2020
	£'000	£'000
Profit for the year	**16,715**	2,992
Interest payable on shareholder loans and PIK loan notes	**-**	7,677
Exceptional items	**-**	1,464
Share based payments	**77**	-
Tax effect of the above	**-**	(964)
Adjusted profit for the year	**16,792**	11,169

The reconciliation of the earnings and weighted average number of shares used in the calculations is set out below:

	2021			2020		
	Earnings £'000	**Weighted average number of shares 000's**	**Per share amount (pence)**	Earnings £'000	Weighted average number of shares 000's	Per share amount (pence)
Basic EPS						
Earnings attributable to ordinary shareholders of the Company	**16,715**	**74,183**	**22.5p**	2,992	56,307	5.3p
Effect of diluted share options	**-**	**37**		-	-	
Diluted EPS						
Earnings attributable to ordinary shareholders of the Company	**16,715**	**74,220**	**22.5p**	2,992	56,307	5.3p
Adjusted basic EPS						
Adjusted earnings attributable to ordinary shareholders of the Company	**16,792**	**74,183**	**22.6p**	11,169	56,307	19.8p

10. Share capital

	2021		2020	
Issued and fully paid ordinary shares of 0.15p each	**Number**	**£'000**	Number	£'000
At 31 December	**74,183,038**	**111**	74,183,038	111

There were no share movements in 2021.

11. Inventories

Group	**2021 £'000**	2020 £'000
Raw materials	**4,616**	3,598
Finished goods and goods for resale	**383**	-
Total	**4,999**	3,598

Inventories recognised as an expense during the year ended 31 December 2021 amounted to £37,638,000 (2020: £20,991,000). These were included in cost of sales. There is no material difference between the replacement cost of inventories and the amounts stated above.

Inventory provisions of £2,096,000 for the year (2020: £18,000) were deducted from gross inventories in the amounts above. These provisions were principally made against COVID-19 PCR related testing materials, in the light of

uncertainties of anticipated demand following recent changes in Government travel guidelines. The provision of £18,000 made in 2020 was reversed during 2021.

12. Trade and other receivables

	2021	2020
	£'000	£'000
Amounts falling due within one year:		
Trade receivables	**5,989**	8,686
Less: provision for impairment of receivables	**(146)**	(34)
Net trade receivables	**5,843**	8,652
Other receivables	**185**	148
Contract assets	**413**	1,115
Prepayments and accrued income	**801**	557
Total	**7,242**	10,472

13. Trade and other payables

	2021	2020
Current	**£'000**	£'000
Trade payables	**4,740**	2,400
Other payables	**-**	69
Other tax and social security	**483**	614
Accruals	**2,933**	797
Contract liabilities	**5,206**	1,614
Total	**13,362**	5,494
Non-current		
Contract liabilities	**339**	394

14. Contingent liability

In December 2021, HMRC issued a letter to the Group that challenged the Group's VAT treatment of COVID-19 PCR testing services provided. On professional advice, the Group has treated the accounting for COVID-19 PCR services as VAT exempt. HMRC has suggested that some or all of those services provided since 17 December 2020 should have been treated as standard rated for VAT purposes. The Group has continued to take advice, which supports the accounting treatment adopted, and remains in communication with HMRC to address their comments raised. Should all arguments presented by HMRC be held and based on draft calculations, the maximum potential cash liability payable by the Group would be £5.0 million in the event that none of the potential maximum VAT liability was recovered from customers. The maximum potential net cash benefit due to the Group would be £8.6 million in the event that all of the potential maximum VAT liability was recovered from customers. The Group believes that HMRC's claims are invalid and the Group will defend its position as necessary. The Board has concluded that it is probable that the Group will succeed in its defence of HMRC's claims and, in the light of this conclusion, coupled with the inherent uncertainty of any potential liability, no provision has been made in these financial statements.

15. Post Balance Sheet Event

On 8 March 2022, the Company purchased the entire issued capital of LDPath Limited ("LDPath"), a London based leader in Digital Pathology testing services.

Unaudited management accounts for the year to 31 January 2022 showed revenue of £4.6 million (a growth of 97% over the prior year revenues) and earnings before interest, taxes, depreciation and amortisation (EBITDA) of £0.4 million and profit before tax of £0.3 million.

The up-front consideration was £18.5 million, reduced by a retention of £1.9 million which will be held for a period of two years to cover any claims under customary representations and warranties. There was a further retention relating to the collection of certain receivables of £0.4 million. Following the reduction of these retentions, £16.2 million was paid in cash upon completion on 8 March 2022. This cash was available from the Group's existing cash resources.

The Company agreed to adopt the balance sheet on the completion date, which is estimated to show net working capital of £0.3 million and total net assets of £0.6 million, and to include net debt of £0.9 million.

Subject to exceeding individual revenue thresholds for the remainder of 2022 as well as for calendar years 2023 and 2024, additional consideration will be payable to the vendors of LDPath. The aggregate earn-out payments are capped to a technical ceiling of £15.0 million. Any earn-out payments will be paid in cash following completion of the audit of that relevant year.

The Group has not yet finalised its proposed purchase price allocation in respect of the acquisition, but expects to have a draft purchase price allocation available for inclusion in the interim results for the six months ended 30 June 2022.