SourceBio International Limited
(formerly SourceBio International plc)
Company Registration: 10269474

Annual Report & Accounts
for the year ended 31 December 2022

SourceBio International Limited
Contents

SourceBio International Limited
Strategic Report

The Directors present their Strategic Report for the year ended 31 December 2022.

Review of the business

A review of the business is summarised below

2022 has been a year of material progress with significant changes in the business successfully made, primarily to pivot away from COVID-19 PCR testing, which had been so dominant in 2020 and 2021, to focus the Group towards addressing attractive growth initiatives in its core base business units, both organically and via acquisition. Notably, the Group completed its acquisition of LDPath limited ("LDPath") in March 2022, expanding the Group's offering for Clinical Pathology and Digital Pathology and demonstrating the Group's capability to secure strategic acquisitions that accelerate revenue and profit growth in its core business units. Business line reviews were undertaken in the year throughout the Group, which precipitated a significant reduction in headcount, primarily within COVID-19 PCR testing, but elsewhere to "right-size" resourcing to the requirements of the core business units going forward.

The Company cancelled its admission to AIM in December 2022, allowing the Group to focus energies towards growth initiatives for 2023 and beyond in the core business units, without the distractions of the public markets. Associated with this cancellation, the Company offered shareholders a share buyback facility, which was taken up approximately 54% and £6.9 million was returned to shareholders.

The key performance indicators currently used by the Group are revenue, gross profit, adjusted EBITDA and cash resources. Revenues for the year totalled £38.1 million, a decrease of 59% on the prior year revenues of £92.4 million, largely due to the reduced levels of COVID-19 PCR testing in the year. Excluding these COVID-19 PCR testing revenues and other non-core revenues, revenues for the year totalled £31.4 million, an increase of 80% on the prior year revenue of £17.4 million.

Gross profit was £13.8 million, a decrease of 62% on the prior year gross profit of £36.2 million. Excluding COVID-19 PCR testing and other non-core business lines, gross profit was £13.2 million, an increase of 63% on the prior year gross profit of £8.1 million.

Adjusted EBITDA[1] was £4.2 million, a decrease of 83% on the prior year adjusted EBITDA of £24.1 million, the reduction largely due to the significant reduction in COVID-19 PCR testing volumes and earnings as demand fell.

Cash balances at the year-end date totalled £9.4 million with no bank or shareholder borrowings, compared to cash of £33.3 million at the prior year-end date, the reduction largely driven by the reduced level of earnings as described above, secondly by the cash consideration of £15.6 million paid on completion for the acquisition of LDPath, and finally by the net of funds returned to shareholders of £6.9 million and the proceeds of a convertible loan note issued of £4.0 million, both of which occurred ahead of the cancellation of the Group's admission to AIM.

The Board is very grateful for the hard work and dedication of the entire SourceBio team in 2022 in what has certainly been a year of substantial change and refocus. The Board is also appreciative of shareholders for their continued strong support.

Business review

The business comprises three core business units: Healthcare Diagnostics, Genomics, and Stability Storage plus a number of non-core services including the provision of COVID-19 PCR testing services. 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.

[1] Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation ('EBITDA') adjusted for exceptional items and share based payments

Healthcare Diagnostics (continued)

The principal revenue stream within Healthcare Diagnostics is Cellular Pathology testing, which involves the examination of patient tissue pre- and post-operative. This business opportunity has rapidly grown in recent years with the structural shortage of pathologists together with the well-publicised increase in the national elective surgery waiting lists, or backlog, creating strong market demand. The level of business has incrementally increased through 2022. The acquisition of LDPath was completed in March 2022, adding significant strength to the Group's Digital Pathology offering and a complementary strong presence with private healthcare clients.

This acquisition has accelerated inroads into the market. In aggregate, Healthcare Diagnostics services generated revenues totalling £18.9 million (2021: £6.4 million) and a gross profit of £6.7 million (2021: £2.1 million), equating to a gross margin percentage of 35.5% (2021: 33.2%), the increase driven by the increased volumes of business. The LDPath acquisition contributed £6.4 million of these revenues and £1.9 million of the gross margin.

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. Both revenue streams are a focus of growth, although there has been a strategic decision to pursue a greater element of NGS work.

In aggregate, these services generated revenues totalling £6.0 million (2021: £5.0 million) and a gross profit of £2.1 million (2021: £1.9 million), equating to a gross margin percentage of 35.4% (2021: 38.7%), the reduction largely caused by a change in mix.

Stability Storage

The Stability Storage business unit comprises two offerings: Stability Storage Services and Service and Validation.

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%.

SourceBio also provides Service and Validation services to established clients who have previously purchased and installed SourceBio or other manufacturers' equipment. These services comprise regular and periodic servicing and testing of installed storage equipment at customer premises to ensure adherence to relevant regulatory standards.

The Group stopped in-house manufacture of temperature and humidity-controlled equipment in the year and any manufacturing revenues have been classified for 2022 and reclassified for 2021 as non-core revenues.

In aggregate, these activities generated revenues totalling £6.5 million (2021: £6.1 million) and a gross profit of £4.4 million (2021: £4.1 million), equating to a gross margin percentage of 67.6% (2021: 67.4%).

Non-core services

The Group also generated Infectious Disease Testing revenues, largely in the first half of 2022, from its COVID-19 PCR testing services.

These services generated revenues totalling £6.5 million (2021: £73.6 million) and a gross profit of £0.7 million (2021: £28.5 million), equating to a gross margin percentage of 10.1% (2021: 38.8%), the reduction caused by the dramatic decline in volumes to sub-optimal levels.

Other non-core business includes modest revenues from the sale of manufactured storage equipment and certain other legacy products. In aggregate, these activities generated revenues totalling £0.2 million (2021: £1.4 million) and a gross loss of £0.1 million (2021 gross loss: £0.4 million).

Strategy and business model

SourceBio's strategy is to build shareholder value through aggressive growth in all three of its core business units through organic and potential inorganic initiatives. The primary focus is Healthcare Diagnostics where market demand appears very buoyant. Specifically, the Directors have identified clear strategic initiatives to generate shareholder value. Where relevant, the Group may selectively execute on attractive and appropriate acquisition opportunities.

Outlook

The Board believes there are attractive growth opportunities in all three core business units. Having re-invested some of the cash proceeds generated by the provision of COVID-19 PCR testing services, the business units all have additional capacity and resources for growth, with relatively modest further capital expenditures anticipated.

Corporate social responsibility

The Board has responsibility for all matters relating to corporate social responsibility. The Directors recognise the importance of corporate social responsibility and aim to consider the interests of all stakeholders, including its shareholders, customers, suppliers and employees. The Board believes that encouraging an environment where employees act in an ethical and socially responsible way is critical to the Group's long-term success. The Group respects the laws of all the countries in which it operates.

People

The Group believes that attracting, motivating and rewarding employees is key to its long-term success. Policies established by the Group are in line with best practice and define that there should be no discrimination, but equal opportunities for all. The Group employs staff on the basis of their abilities and qualifications with no regard to their age, disability, gender, marriage or civil partnership, pregnancy or maternity, or their race, religion or sexual orientation. Promotion is on the basis of merit only. Applications for employment by disabled persons are always fully considered, bearing in mind the specific aptitudes of the applicant involved.

Values

The Group's values comprise:

- Integrity, to act with honesty and fairness;
- Energy, hard work and commitment;
- Recognition, to recognise individual and team efforts in achieving the Group's goals; and
- Quality, to deliver high quality results.

Involvement

The Group places great value on the involvement of its employees and they are regularly briefed on the Group's activities. The Group closely monitors staff attrition rates which it seeks to keep at low levels and aims to structure staff compensation levels at competitive rates in order to attract and retain high calibre personnel. Employees are regularly provided with information and progress updates about the Group, through monthly newsletters or through line management briefings.

Health and safety

The Group is committed to protecting the health and safety of its employees and works hard to build and maintain an effective and safe working environment and culture. The Group continually monitors its health and safety procedures to ensure they are adequate and reflect latest best practice.

Ethical, community and social policies

The Group is a laboratory services provider and, as such, operates in highly regulated ethical environments. The Board recognises that the Group has a duty to be a good corporate citizen and to respect the laws, and where appropriate the customs and culture of the territories in which it operates.

Corporate social responsibility (continued)

The Group has a clear anti-bribery policy and is committed to combatting slavery and human trafficking. Its Modern Slavery Act statement is published on its website.

Environment

The Directors consider that the nature of the Group's activities is not inherently detrimental to the environment. The Group is committed to minimising any effect on the environment caused by its operations and it seeks, where possible, to make energy savings which are environmentally responsible and cost effective and to comply with applicable environmental legislation. There have been no significant new initiatives to reduce emissions or energy consumption adopted during the year.

Greenhouse gas emissions

In order to determine the emissions of carbon dioxide in tonnes, the Group uses the GHG Protocol Corporate Accounting and Reporting Standard and reports on emissions arising from sources over which the Group has operational control. The Group has not adopted any significant initiatives in the year to reduce emissions. The disclosures below encompass:

Scope 1: includes emissions from combustion of fuel and operation of facilities (excluding combustion from Group vehicles); and

Scope 2: includes emissions from purchased electricity for the Group's own use.

The Group has not included Scope 3, emissions from vehicles and any purchased electricity and gas that are not included in Scope 2, as they are immaterial.

	2022	**% relates to UK**	2021	% relates to UK
Scope 1 (tonnes)	**329.1**	**92%**	355.6	92%
Scope 2 (tonnes)	**672.0**	**71%**	736.8	75%
Total carbon footprint (tonnes of CO_2e)	**1,001.1**		1,092.4	
Intensity Ratio (tonnes of CO_2e per £ million of revenue)	**26.3**		11.8	
Revenue, in £ millions	**38.1**		92.4	

In order to express emissions in a quantifiable factor, an intensity ratio has been calculated which shows emissions reported per £ millions of revenue generated by the Group. The Board recognised that whilst the Group's carbon footprint has modestly decreased, the reduced revenue throughput through broadly similar premises drove an increase in the intensity ratio to 26.3 (2021: 11.8).

Consumed energy

The kWh data in the table below are the quantities of energy from activities for which the Group is responsible worldwide and the annual quantity of energy consumed resulting from the purchase of electricity, gas and vehicle fuel by the Group for its own use and arising from those sources over which it has operational control. No significant new initiatives to reduce energy consumption were introduced during the year.

	2022	**% relates to UK**	2021	% relates to UK
Scope 1	**415,508**	**92%**	458,500	92%
Scope 2	**3,165,003**	**71%**	3,470,000	75%
Total kWh	**3,580,511**		3,982,500	

Section 172 Statement

The Directors are required by the Companies Act 2006 to act in the way they consider, in good faith, would be most likely to promote success of the Group for the benefit of its stakeholders as a whole and in doing so are required to have regard for the following:

- the likely long term consequences of any decision;
- the interests of the Group's employees;
- the need to foster the Group's business relationships with suppliers, customers and others;
- the impact of the Group's operations on the community and the environment;
- the desirability of the Group maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between different stakeholders of the Group.

The Strategic Report on pages 3 to 11 describes the Group's activities, strategy and future prospects, including the considerations for long-term decision making. The Corporate Social Responsibility Statement set out on pages 5 and 6 describes the Group's view and actions across a number of areas.

The Board considers its major stakeholders to be its employees, suppliers, customers, and shareholders. When making decisions, the interests of these stakeholders is considered informally as part of the Board's discussions.

The Board has a good relationship with the Group's employees. The Board maintains constructive dialogue with employees through the Executive Directors. Appropriate remuneration schemes are maintained to align employees' objectives with those of the Group. The Group consults with employees on a regular basis, individually, in teams or company-wide, so that their views can be taken into account in making decisions which is likely to affect their interests. The Group operates a suggestion box scheme, whereby employees' suggestions are reviewed at monthly meetings of the Executive Team.

The Board ensures that the Group endeavours to maintain good relationships with its suppliers by contracting on their standard business terms and paying them promptly, within agreed and reasonable terms. The Group discusses arrangements and any issues with key suppliers regularly and where required audit their activities to ensure that materials are delivered effectively in a timely and cost-efficient manner. These principles ensure that the Group's and key significant suppliers' interests are aligned.

The Executive Directors and senior managers meet key customers and partners regularly and encourage a dialogue with them and commercial teams as appropriate. The Board receives regular reports on progress with significant customer relationships to ensure that their decision making takes into account the needs of the customer base.

The Board does not believe that the Group has a significant impact on the communities and environments within which it operates. The Board recognises that the Group has a duty to minimise harm to the environment and to contribute as far as is practicable to the local communities in which it operates.

The Board recognises the importance of maintaining high standards of business conduct with its customers, suppliers and with other business partners. The Group operates appropriate policies on business ethics and provides mechanisms for whistleblowing and complaints and operates in accordance with Section 172.

The Board endeavours to maintain good relationships with its shareholders and treat them equally.

Risk management

The Board recognises that effective risk management is essential to the successful delivery of the Group's strategy. As the business continues to grow, the Board believes that it is important to further develop and enhance the risk management processes and control environment on an ongoing basis and ensure it remains fit for purpose. The Board is committed to continuing to identify and manage risks across the Group in a consistent and robust manner.

Overview of risk management approach

Each business area is responsible for identifying, assessing and managing the risks in their respective area. Risks are identified and assessed by all business areas on a periodic basis, and are measured against a defined set of criteria, considering likelihood of occurrence, and potential impact.

The Executive Board members have also conducted a strategic risk identification and assessment exercise to identify risks, including those that could impact the business model, future performance, solvency or liquidity. This risk information is combined with a consolidated view of the business area risks. The Board has overall accountability for ensuring that risk is effectively managed across the Group and, therefore, ensuring that it is comfortable with the nature and extent of the principal risks faced in achieving its strategic objectives.

Principal risks and uncertainties

Set out below are the principal risks which we believe could materially affect the Group's ability to achieve its financial and operating objectives and control or mitigating activities adopted to manage them. The risks are not listed in order of significance.

Contractual arrangements with pathologists

Within the Group's Healthcare Diagnostics business unit, the Group uses a network of self-employed specialist pathologists, contracting with the Group as contractors or consultants. The Directors believe that the self-employed, contractor status of these pathologists is based not only on the contractual structure of these arrangements but also on the way in which the arrangements operate in practice. Notwithstanding the Directors' belief as to the proper classification of these individuals as contractors, there is a risk, however, that these pathologists could be deemed by tax and other governmental authorities in the relevant jurisdictions to be employees of the relevant member of the Group instead of contractors or consultants. This would result in additional future costs to the Group, as well as potential historical liabilities for the Group in terms of PAYE and national insurance contributions (or the equivalent in any relevant jurisdiction) and associated interest and penalty charges. This would be likely to have an adverse effect on the Group's financial performance and position and more generally on the Group's business model. The Group regularly reviews the working arrangements in the light of the relevant legislation and will take appropriate action in the future as required.

Risks specific to the Group's Healthcare Diagnostics business unit

The Group's diagnostic activities for public healthcare applications are dependent upon the ability to maintain ISO 15189 accredited status. Whilst operations could still continue without this accreditation, it is the accreditation that provides the Group with significant commercial and operational advantages within the competitive landscape and is a key factor for clients to work with the Group. The Group has implemented clear policies and procedures throughout its business aimed at ensuring compliance with ISO 15189 requirements as well as other quality standards and the UK National External Quality Assessment Service scheme. Whilst responsibility for compliance with such policies and procedures rests with operational management, the Group also employs a Quality Manager who oversees compliance.

The Group is also subject to regular audits and inspections from the regulatory bodies responsible for such accreditations. The Group's ISO 15189 accreditation was renewed in November 2021 following a satisfactory audit inspection, after which it was recommended that the Group's accreditation be renewed for a further four years, with assessments to continue annually. Although the Group currently has ISO 15189 accredited status there is no guarantee that the Group will have this in the future or indeed retain its accreditation of any other quality standards or that quality standards advisory boards will not increase the level of standards for compliance potentially resulting in the loss of the Group's accreditation or in the Group incurring additional costs in maintaining such accreditations. The Group invests heavily in staff and procedures to ensure compliance with best practice and its regulatory bodies.

Medical data handled by the Group could contain sensitive details extracted from patients' medical records

The General Data Protection Regulation ("GDPR") came into force on 25 May 2018 and introduced a number of more onerous obligations on data controllers and rights for data subjects, as well as new and increased fines and penalties for breaches of the data privacy obligations of data controllers.

Holding sensitive customer data poses a risk for the Group (including negative publicity associated with, for instance, a breach of customer confidentiality or unauthorised disclosure of personal data). Whilst the Group has procedures to minimise the occurrence of such events, any associated negative publicity or threat of litigation against the Group could have a material adverse effect on the Group's performance, financial condition or business prospects.

In addition, if any personal data (whether relating to patients or other data subjects such as employees) were to be stolen or leaked to a third party, then there is the potential for consequences for both the data subject and the Group. The penalties for loss of personal data are extremely high, reflecting the seriousness of such a breach. For example, penalties for non-compliance with GDPR include fines of up to 4% of annual global turnover or €20 million, whichever is greater. Other corrective powers and sanctions include imposing a temporary or permanent ban on data processing, ordering the rectification, restriction or erasure of data, and suspending data transfers to third parties or other countries. If the Group were to experience a data breach or a loss of personal data, then any sanctions imposed, as well as associated loss in customer confidence and reputational damage could have an adverse impact on the Group's business, prospects, results of operations and financial condition.

Further, the Court of Justice of the European Union judgement in Schrems II has implications for international data transfers to countries outside of the EEA. Companies can no longer rely upon (i) the US Privacy Shield, (ii) standard contractual clauses or (iii) Binding Corporate Rules to ensure compliance with GDPR, without specific consideration being given to a country's domestic laws and whether those supersede an individual's data rights under GDPR.

Competition

The Group's current and potential competitors have established, or may establish, financial and strategic relationships amongst themselves or with existing or potential customers or other third parties to increase the ability of their offerings to address customer needs. Accordingly, it is possible that new competitors or alliances amongst competitors could emerge and acquire significant market share. Existing and/or increased competition could, therefore, adversely affect the Group's market share and/or force the Group to reduce the price of its offerings, which could have an adverse impact on the Group's business, prospects, results of operations and financial condition. The Group works hard to ensure close contact with all its customers, which helps assess competitive new threats.

The Group's performance is linked to political attitudes and decisions affecting healthcare

There are numerous factors which may affect the success of the Group's business which are beyond its control, including changes in political conditions and attitudes towards the funding of healthcare. In many countries, healthcare is centrally funded by governments, such as the funding of the NHS by the UK Government, and if there is a change in government, there may be a shift in government policy in relation to the funding of healthcare. For example, if there is a change in government in the UK, it is likely that a new government would alter the amount of funding available for healthcare and/or the allocation of resources available to the NHS, including the potential for a reduction in the amount of services outsourced to the private sector. These outcomes may result in some of the Group's key contracts being terminated, not renewed or negatively impacted.

There is no guarantee that changes, if any, in funding policies for healthcare or shifts in political attitudes to healthcare in countries in which the Group currently operates, or may operate in the future, would not materially adversely affect the Group's business. The occurrence of such changes cannot be accurately predicted and could have an adverse impact on the Group's business, prospects, results of operations and financial condition. The Group is able to at least partially reduce the overall impact of any change by having a diversified offering across its three business units.

IT infrastructure, cyber-attacks and other risks relating to data security

Due to the nature of its operations, the Group is highly dependent on the effective operation of its IT systems and infrastructure. Any major systems failure, including failures relating to the Group's network, software, laboratory information management system ("LIMS"), internet or hardware could have a material adverse effect on the Group's ability to fulfil its obligations to customers and to maintain the platform, in addition to harming customer relationships and diminishing the Group's goodwill. Such an event could therefore have an adverse impact on the Group's business, prospects, results of operations and financial condition.

The Group and its software are at risk from cyber-attacks. Cyber-attacks can result from deliberate attacks or unintentional events and may include (but are not limited to) malicious third parties gaining unauthorised access to the Group's software for the purpose of misappropriating financial assets, intellectual property or sensitive information (such as patient data), corrupting data, or causing operational disruption.

Whilst the Directors consider that the Group has taken appropriate steps to protect its systems, there can be no assurance that its efforts will prevent service interruptions or security breaches in its systems or the unauthorised or inadvertent wrongful access or disclosure of confidential information that could have an adverse impact on the Group's business, prospects, results of operations and financial condition or result in the loss, dissemination, or misuse of critical or sensitive information. If the Group suffers from a cyber-attack, whether by a third-party or an insider, it may incur significant costs, including liability for stolen assets or information, as well as repairing any damage caused to the Group's network infrastructure and systems. The Group may also suffer reputational damage and loss of investor confidence. If the Group suffers a cyber-attack, this could expose the Group to potential financial and reputational harm.

For practical reasons, the Group may continue to house some or all of its own computer installations in dedicated third-party hosting facilities or employ preconfigured computer hardware from third-party providers. These computing resources by their nature will include electronic records containing confidential information and other operational information. Any failure in the security systems employed to protect such information or any other exposure of the electronic information contained in the Group's computing resources could enable others to produce competing services, use the Group's proprietary technology and/or adversely affect its business position.

The Group continues to invest in high quality people, equipment and procedures to minimise such risks.

Regulatory risk

The Group's services are regulated by national and regional medical regulations. Additionally, the Group is required to comply with ongoing regulatory requirements, such as to maintain a quality system pursuant to these regulations which subjects it to periodic inspections, scheduled and unscheduled. Failure to pass an inspection, recall or the loss of clearance to market a particular service, could have an immediate and negative impact on the Group's revenues and prospects. The Group's prospects for the foreseeable future will depend heavily on its ability to successfully obtain regulatory approval necessary for it to be able to provide its services.

The applicable rules, regulations and guidance in the various countries also change frequently and are subject to interpretation. Change of rules applicable to a new service or as related to a currently marketed service could mean that the Group needs to conduct additional studies and re-submit services to the regulatory authorities for re-examination/re-assessment, which may impact the Group's ability to generate revenue in certain markets. Furthermore, if any examination/assessment is not favourable, the Group may not be able to continue to market and sell the service.

There is a risk that the Group's employees, consultants and commercial partners may engage in misconduct or other improper activities, including non-compliance with regulatory standards and/or applicable law. It is not always possible to identify and deter misconduct by employees, independent contractors, consultants, suppliers, commercial partners and vendors, and the precautions the Group takes to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses, or in protecting the Group from governmental investigations or other actions, or claims stemming from a failure to be in compliance with such laws or regulations. If any such actions are initiated against the Group, and the Group is not successful in defending itself or asserting its rights, those actions could have an adverse impact on the Group's business, prospects, results of operations and financial condition, including the imposition of significant fines or other sanctions, and its reputation.

Acquisition risk

The Group has ambitious growth plans, which include seeking and integrating suitable acquisition targets. The Group completed its acquisition of LDPath Limited in March 2022. The Group recognise that identifying a potential acquisition target, completing appropriate legal agreements and then subsequently incorporating the target into the Group operations all carry additional risks. These are mitigated as far as reasonably possible by detailed due diligence, performed by the Company and its advisors, robust legal processes and by establishing an integration team with representatives from the Group and from the target company, who mutually agree integration plans with the objective of taking the best initiatives and processes from each organisation.

The Strategic Report was approved by the Board on 25/05/23 and signed on its behalf by:

Jay LeCoque

Jay LeCoque
Executive Chairman

SourceBio International Limited
Report of the Directors

The Directors are pleased to present their Annual Report together with the audited consolidated financial statements of SourceBio International Limited for the year ended 31 December 2022.

Corporate details

SourceBio International Limited is incorporated and registered in England and Wales with registration number 10269474. The Company re-registered from SourceBio International plc on 18 January 2023 following its delisting from the AIM market. The registered office is 1 Orchard Place, Nottingham Business Park, Nottingham, NG8 6PX.

Principal activities

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

- Healthcare Diagnostics - histopathology cancer screening (Cellular and Digital Pathology) and clinical diagnostic services for the NHS and private healthcare across the UK and Ireland;
- 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; and
- Stability Storage - controlled environmental storage services and laboratory equipment validation services for pharmaceutical industry in the UK, Ireland and North America

In addition, in the earlier part of the year the Group also benefitted from the tail end of the market demand for its Infectious Disease Testing offering - primarily high volume COVID-19 PCR testing under ISO 15189 accreditation. Testing levels reduced to immaterial levels in the second half and all such revenues generated in 2022 and 2021 have been treated as non-core.

Information included in other reports

The Company has chosen, in accordance with the Companies Act 2006 s414C(11), to set out in the Strategic Report and Corporate Governance Statement, certain information required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 Sch. 7 to be contained in the Directors' Report (Financial risk management disclosures are detailed in note 29). The Company's Strategic Report includes information on likely future developments of the business and disclosures concerning greenhouse gas emissions that would otherwise be required to be disclosed in this Directors' Report. The Company's Strategic Report also includes information on principal risks and uncertainties that the Group faces.

Employee engagement statement

Details of the Group's communication with employees, providing information on matters of concern to them as employees and achieving a common awareness of the financial and economic factors affecting the performance of the Group are detailed in the Strategic Report. The Group consults with employees on a regular basis, individually, in teams or company-wide, so that their views can be taken into account in making decisions which are likely to affect their interests.

Results and dividend

Revenue for the year was £38.1 million (2021: £92.4 million). Adjusted EBITDA for the year was £4.2 million (2021: £24.1 million) and loss after tax was £12.4 million (2021: profit after tax of £16.7 million).

The detailed results for the year and the financial position as at 31 December 2022 are shown in the Consolidated Statement of Comprehensive Income and the Statement of Financial Position. A review of the results of the year is shown in the Strategic Report.

The Directors do not recommend the payment of a dividend for the year to 31 December 2022 (2021: £nil).

Cancellation of admission to AIM and purchase of Ordinary Shares

With shareholder approval, the Company purchased a total of 5,981,364 Ordinary Shares on 22 December 2022 which were subsequently cancelled. At a price of 115 pence per Ordinary Share, this amounted to a cost of £6,879,000 excluding related professional fees. The Company cancelled its admission to AIM on 30 December 2022 and subsequently re-registered as a private limited company on 18 January 2023.

Directors

The Directors of the Company who held office during the year and up to the date of this report are as follows:

Executive Directors

Jay LeCoque

Tony Ratcliffe

Non-Executive Directors

Sir Ian Carruthers OBE

Simon Constantine

Marco Fumagalli

Rob Giles (appointed 18 January 2023)

Christopher Mills

As permitted by sections 232 to 235 of the Companies Act 2006, and consistent with the Company's Articles of Association, the Company has maintained insurance cover for its Directors and Officers under a Directors' and Officers' Liability Policy. The Directors may exercise their powers pursuant to the Articles of Association, the Companies Act 2006 and related legislation, as well as any resolution of the shareholders. The Articles of Association are available for review at the Company's registered office.

The Company Secretary is Tony Ratcliffe.

Employment and equal opportunities

The Group places considerable importance on involving its employees in the evolution of the Group's policies and procedures and matters affecting them as employees. The Board strives to keep employees informed on such matters to the extent regulations allow and good practice indicates. Participation of employees in contributing to the growth of the Group is encouraged through meetings between management and staff who have an opportunity to discuss progress, plans, performance and issues affecting them or the Group.

The Group has an equal opportunities policy under which SourceBio is committed to ensuring that everyone should have the same opportunities for employment and promotion based on their ability, qualifications and suitability for the work in question; seeking excellence in employees through the implementation of recruitment, incentivisation, performance review, development and promotion processes that are fair to all; and capitalising on the added value that diversity brings. Discrimination in the workplace on the basis of age, gender, disability, ethnic origin, nationality, sexual orientation, gender reassignment, religion or belief, marital status, pregnancy or maternity is unacceptable and will not be tolerated. The Group has a policy for full and fair consideration for applications for employment from disabled people, a policy for the training, career development and promotion of disabled people, and a policy of continuing employment and training of employees who have become disabled while employed by the Group.

Supplier payments

The Group is committed to obtaining the best terms for all types of business. Consequently, there is no single policy as to the terms used. It is the Group's policy to confirm the terms of payment with suppliers when agreeing the terms of the transaction to ensure that suppliers are aware of these terms and abide by them. The number of days purchases represented by Group trade creditors at 31 December 2022 was 45 days (2021: 31 days).

Share capital

At 1 January 2022 the Company had 74,183,038 Ordinary Shares of 0.15p each.

Following the Company's purchase of 5,981,364 Ordinary Shares on 22 December 2022 and subsequent cancellation of the shares, the Company had 68,201,674 Ordinary Shares of 0.15p each at 31 December 2022.

Each share carries the right to one vote at general meetings of the Company.

Share schemes

ESOP

In 2021, the Company established an Executive Share Ownership Plan ("ESOP") and issued 4,750,000 share options, being 6.4% of the then issued share capital, to selected senior management. Following the Company's cancellation of admission to AIM in December 2022, this plan was closed. No options were exercised under this plan.

SAYE scheme

In 2021, the Company launched a Save As You Earn ("SAYE") scheme. This scheme was open to all UK employees with at least three months of service. A total of 145,984 share options, being 0.2% of the then issued share capital, were issued in relation to this scheme. Following the Company's cancellation of admission to AIM in December 2022, this scheme was closed. No options were exercised under this scheme.

Financial risk management

The Company holds all cash balances in no-notice accounts. The Company's policy on the use of financial instruments and the management of financial risks is set out in note 29 of the financial statements.

Research and development

The Company is essentially a service provider but does incur modest research and development expenditure in relation to certain projects and in relation to development of its IT systems, most notably its LIMS (Laboratory information management system). During the year and the prior year, all such expenditure meeting the required criteria under IAS 38 was capitalised within intangible assets.

Donations

During the year, the Group responded to the humanitarian crisis that unfolded in Ukraine and made donations of trauma kits and COVID-19 lateral flow tests to the region, totalling £170,000. Due to the significance and one-off nature of this donation, it has been shown as an exceptional expense.

Going concern statement

The Directors have prepared detailed monthly budgets and forecasts covering the period to 31 December 2024. These plans take into account all reasonably foreseeable circumstances.

The Group is expected to generate cash 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.

Bribery Act

In response to the Bribery Act 2010, the Board continues to risk assess all the relevant procedures and processes, implementing and reinforcing the Group's Anti Bribery and Corruption Policy with employees, suppliers and customers.

Independent auditors

RSM UK Audit LLP is the appointed auditor, in accordance with section 489 of the Companies Act 2006.

The Directors who held office at the date of approval of this Report confirm that so far as they are each aware, there is no relevant information of which the Group's auditor is unaware, and each Director has taken all the steps that ought to be taken as a Director to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

By order of the Board

Tony Ratcliffe
Company Secretary

25/05/23

SourceBio International Limited
Statement of Directors' Responsibilities

In respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Strategic Report, the Report of the Directors and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare Group and Company financial statements for each financial year. The Directors have elected under company law to prepare the Group and Company financial statements in accordance with UK-adopted International Accounting Standards and applicable law.

The Group and Company financial statements are required by law and UK-adopted International Accounting Standards to present fairly the financial position of the Group and the Company and the financial performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of their profit or loss of the Group for that period.

In preparing each of the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with UK-adopted International Accounting Standards; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report to the members of SourceBio International Limited

Opinion

We have audited the financial statements of SourceBio International Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2022 which comprise the Consolidated Statement of Profit and Loss and Other Comprehensive Income, the Consolidated Statement of Financial Position, the Company Statement of Financial Position, the Statements of Changes in Equity, Statements of Cash Flows and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted International Accounting Standards and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2022 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted International Accounting Standards;
- the Parent Company financial statements have been properly prepared in accordance with UK-adopted International Accounting Standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's or the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 16 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

The extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

Independent Auditor's Report to the members of SourceBio International Limited (continued)

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the Group audit engagement team:

- obtained an understanding of the nature of the industry and sector, including the legal and regulatory frameworks that the Group and Parent Company operate in and how the Group and Parent Company are complying with the legal and regulatory frameworks;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud.

As a result of these procedures we consider the most significant laws and regulations that have a direct impact on the financial statements are UK-adopted IAS, the Companies Act 2006 and tax compliance regulations. We performed audit procedures to detect non-compliances which may have a material impact on the financial statements which included reviewing financial statement disclosures, inspecting correspondence with local tax authorities and evaluating advice received from external tax advisors.

The most significant laws and regulations that have an indirect impact on the financial statements are those in relation to ISO standards for medical services and GDPR. We performed audit procedures to inquire of management and those charged with governance whether the Group is in compliance with these laws and regulations.

The Group audit engagement team identified the risk of management override of controls and revenue recognition as the areas where the financial statements were most susceptible to material misstatement due to fraud. Audit procedures performed included but were not limited to:

- testing manual journal entries and other adjustments using data analytics software;
- evaluating the business rationale in relation to significant, unusual transactions and transactions entered into outside the normal course of business; and
- cut-off testing and substantive testing procedures using financial data analytics software to validate revenue recognition throughout the year.

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

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Neil Stephenson

Neil Stephenson (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
Suite A, 7th Floor
East West Building
2 Tollhouse Hill
Nottingham
NG1 5FS

25/05/23

SourceBio International Limited
Consolidated Statement of Profit and Loss and Other Comprehensive Income
For the year ended 31 December 2022

Continuing operations:	Note	**Year ended 31 December 2022 £'000**	Year ended 31 December 2021 £'000
Revenue	4,5	**38,133**	92,397
Cost of sales		**(24,357)**	(56,184)
Gross profit	4	**13,776**	36,213
Distribution costs		**(2,580)**	(3,651)
Administrative expenses		**(24,836)**	(11,573)
Other operating income	11	**1,061**	118
Adjusted EBITDA		**4,195**	24,115
Depreciation	16	**(3,409)**	(2,843)
Amortisation	15	**(747)**	(88)
Share based payments	23	**(2,185)**	(77)
Exceptional costs	6	**(10,433)**	-
Operating (loss)/profit	7	**(12,579)**	21,107
Finance income	12	**21**	21
Finance costs	12	**(1,151)**	(442)
(Loss)/profit before tax		**(13,709)**	20,686
Taxation	13	**1,265**	(3,971)
(Loss)/profit attributable to equity shareholders of the Company		**(12,444)**	16,715
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss:			
- Exchange differences on translation of foreign operations		**(332)**	(318)
Total comprehensive income attributable to equity shareholders of the Company		**(12,776)**	16,397

The notes on pages 25 to 61 are an integral part of these consolidated financial statements.

SourceBio International Limited
Consolidated Statement of Financial Position
As at 31 December 2022

	Note	**31 December 2022 £'000**	31 December 2021 £'000
Assets			
Non-current assets			
Intangible assets – goodwill	15	**25,677**	9,993
Intangible assets – other	15	**8,503**	192
Property, plant and equipment	16	**9,162**	8,226
Right-of-use assets	17	**10,790**	10,347
Deferred tax asset	27	**-**	79
Total non-current assets		**54,132**	28,837
Current assets			
Inventories	18	**807**	4,999
Trade and other receivables	19	**6,848**	7,242
Corporation tax receivable		**1,388**	777
Cash and cash equivalents	20	**9,443**	33,304
Total current assets		**18,486**	46,322
Total assets		**72,618**	75,159
Equity attributable to equity shareholders of the Company			
Share capital	21	**102**	111
Share premium account	22	**33,189**	33,189
Share allotment reserve	22	**4,000**	-
Capital redemption reserve	22	**9**	-
Foreign exchange reserve	22	**(479)**	(147)
Share option reserve	22	**-**	77
Retained earnings	22	**(1,982)**	15,078
Total equity		**34,839**	48,308
Liabilities			
Non-current liabilities			
Trade and other payables	24	**6,514**	339
Lease liabilities	26	**14,275**	11,946
Deferred tax	27	**1,480**	-
Provisions	28	**-**	137
Total non-current liabilities		**22,269**	12,422
Current liabilities			
Trade and other payables	24	**13,769**	13,362
Lease liabilities	26	**1,741**	1,049
Provisions	28	**-**	18
Total current liabilities		**15,510**	14,429
Total liabilities		**37,779**	26,851
Total equity and liabilities		**72,618**	75,159

The notes on pages 25 to 61 are an integral part of these consolidated financial statements. Company registered number: 10269474

The financial statements were approved by the Board on 25/05/23 and signed on its behalf by:

Jay LeCoque

Jay LeCoque
Executive Chairman

Tony Ratcliffe
Chief Financial Officer

SourceBio International Limited
Company Statement of Financial Position
As at 31 December 2022

	Note	**31 December 2022 £'000**	31 December 2021 £'000
Assets			
Non-current assets			
Investments in subsidiary undertakings	17	**15,380**	15,207
Total non-current assets		**15,380**	15,207
Current assets			
Trade and other receivables	19	**39,719**	19,102
Total current assets		**39,719**	19,102
Total assets		**55,099**	34,309
Equity attributable to equity shareholders of the Company			
Share capital	21	**102**	111
Share premium account	22	**33,189**	33,189
Share allotment reserve	22	**4,000**	-
Capital redemption reserve	22	**9**	-
Share option reserve	22	**-**	77
Retained earnings	22	**15,827**	(99)
Total equity		**53,127**	33,278
Liabilities			
Current liabilities			
Trade and other payables	24	**1,972**	1,031
Total current liabilities		**1,972**	1,031
Total liabilities		**1,972**	1,031
Total equity and liabilities		**55,099**	34,309

The notes on pages 25 to 61 are an integral part of these consolidated financial statements.

Company registered number: 10269474

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes. The profit for the Parent Company for the year was £20,542,000 (2021: loss of £1,701,000).

The financial statements were approved by the Board on 25/05/23 and signed on its behalf by:

Jay LeCoque

Jay LeCoque
Executive Chairman

Tony Ratcliffe
Chief Financial Officer

SourceBio International Limited
Statements of Changes in Equity
For the year ended 31 December 2022

Consolidated	Share capital £'000	Share premium account £'000	Share allotment reserve £'000	Capital redemption reserve £'000	Foreign exchange reserve £'000	Share option reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2021	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	48,308
Loss for the year	-	-	-	-	-	-	(12,444)	(12,444)
Other comprehensive income	-	-	-	-	(332)	-	-	(332)
Total comprehensive income for the year	-	-	-	-	(332)	-	(12,444)	(12,776)
Transactions with owners recorded directly in equity:								
Employee share schemes	-	-	-	-	-	2,185	-	2,185
Transfer of share option reserve to retained earnings	-	-	-	-	-	(2,262)	2,262	-
Advance share subscription	-	-	4,000	-	-	-	-	4,000
Cancellation of ordinary shares	(9)	-	-	9	-	-	(6,878)	(6,878)
Total transactions with owners	(9)	-	4,000	9	-	(77)	(4,616)	(693)
Balance at 31 December 2022	**102**	**33,189**	**4,000**	**9**	**(479)**	**-**	**(1,982)**	**34,839**

Company	Share capital £'000	Share premium account £'000	Share allotment reserve £'000	Share option reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total Equity £'000
Balance at 1 January 2021	111	33,189	-	-	-	1,602	34,902
Loss and total comprehensive income for the year	-	-	-	-	-	(1,701)	(1,701)
Transactions with owners, in their capacity as owners							
Employee share schemes	-	-	-	77	-	-	77
Total transactions with owners	-	-	-	77	-	-	77
Balance at 31 December 2021	111	33,189	-	77	-	(99)	33,278
Profit for the year and total comprehensive income for the year	-	-	-	-	-	20,542	20,542
Transactions with owners recorded directly in equity:							
Employee share schemes	-	-	-	2,185	-	-	2,185
Transfer of share option reserve to retained earnings	-	-	-	(2,262)	-	2,262	-
Advance share subscription	-	-	4,000	-	-	-	4,000
Cancellation of ordinary shares	(9)	-	-	-	9	(6,878)	(6,878)
Total transactions with owners	(9)	-	4,000	(77)	9	(4,616)	(693)
Balance at 31 December 2022	**102**	**33,189**	**4,000**	**-**	**9**	**15,827**	**53,127**

The notes on pages 25 to 61 are an integral part of these consolidated financial statements

SourceBio International Limited
Statements of Cash Flows
For the year ended 31 December 2022

	Group		Company	
	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000	**Year ended 31 December 2022 £'000**	Year ended 31 December 2021 £'000
Cash flows from operating activities				
(Loss) / profit for the year	**(12,444)**	16,715	**20,542**	(1,701)
Adjustments for:				
Depreciation of property, plant and equipment and right-of-use assets	**3,409**	2,843	**-**	-
Amortisation	**747**	88	**-**	-
Profit on disposal of fixed assets	**(30)**	(147)	**-**	
Impairment of fixed assets	**3,132**	-	**-**	-
Finance costs	**1,151**	442	**-**	-
Finance income	**-**	(21)	**-**	
Taxation	**(1,265)**	3,971	**-**	-
Other operating income	**(81)**	(118)	**-**	-
Share based payment charges	**2,185**	77	**2,012**	54
Working capital adjustments:				
Decrease / (increase) in inventories	**4,233**	(1,401)	**-**	-
Decrease in provisions	**(155)**	(2)	**-**	-
Decrease / (increase) in trade and other receivables	**1,798**	3,228	**(20,617)**	680
(Decrease) / increase in trade and other payables	**(1,440)**	7,618	**941**	967
Cash inflow from operations	**1,240**	33,293	**2,878**	-
Income tax (paid)	**(151)**	(4,509)	**-**	-
Net cash inflows / (outflow) from operating activities	**1,089**	28,784	**2,878**	-
Cash flows from investing activities				
Purchase of subsidiary, net of cash acquired (see note 32)	**(16,064)**	-	**-**	-
Purchase of property, plant and equipment	**(3,215)**	(2,975)	**-**	-
Purchase of intangible assets	**(794)**	(40)	**-**	-
Proceeds on disposal of property, plant and equipment	**36**	647	**-**	-
Net cash (outflow) from investing activities	**(20,037)**	(2,368)	**-**	-
Cash flows from financing activities				
Repayment of CBILs loans acquired with LDPath	**(675)**	-	**-**	-
Purchase of own shares	**(6,878)**	-	**(6,878)**	-
Advance share subscription	**4,000**	-	**4,000**	-
Payment of lease liabilities	**(1,431)**	(1,501)	**-**	-
Net cash outflow from financing activities	**(4,984)**	(1,501)	**(2,878)**	-
Net (decrease) / increase in cash and cash equivalents	**(23,932)**	24,915	**-**	-
Net foreign exchange difference on cash and cash equivalents	**71**	(46)	**-**	-
Cash and cash equivalents at the beginning of year	**33,304**	8,435	**-**	-
Cash and cash equivalents at the end of year	**9,443**	33,304	**-**	-

The notes on pages 25 to 61 are an integral part of these consolidated financial statements.

1. General information

SourceBio International Limited (the "Company" or "SourceBio") is a company incorporated in England and Wales and domiciled in the UK. The Company changed its name from SourceBio international plc on 18 January 2023. The Ordinary Shares of the Company were traded on the AIM Market of the London Stock Exchange until 29 December 2022. 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 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 2022
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
The Parent Company and consolidated accounts of SourceBio International Limited have been prepared in accordance with UK-adopted International Accounting Standards (IFRS) and the requirements of the Companies Act 2006.

The consolidated financial statements have been prepared under the historical cost convention.

The consolidated financial statements are presented in Sterling which is the functional and presentational currency of the Group and Company and are rounded to the nearest thousand, £'000, except where otherwise indicated.

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 2022. 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 monthly budgets and forecasts covering the period to 31 December 2024. These plans take into account all reasonably foreseeable circumstances.

The Group is expected to generate cash 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, which all work to a year-end date of 31 December. 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.

2. Summary of significant accounting policies (continued)

Investments in subsidiaries
Investments in subsidiaries are recorded at cost less any impairment provisions in the Statement of Financial Position. They are tested for impairment when there is objective evidence of impairment. Any impairment losses are recognised in profit or loss in the period they occur.

Business combinations
The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises:

- the fair values of the assets transferred;
- the liabilities incurred to the former owners of the acquired business;
- the equity interests issued by the Group;
- the fair value of any asset or liability resulting from a contingent consideration arrangement; and
- the fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Acquisition-related costs are expensed as incurred and included within exceptional costs. The excess of the consideration transferred over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified as a financial liability and subsequently remeasured to fair value, with changes in fair value recognised in profit or loss as an exceptional item. The amounts due under the contingent consideration arrangements are discounted at a rate that reflects current market assessments of the time value of money and the risks specific to the acquisition.

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.

2. Summary of significant accounting policies (continued)

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
- IT Development costs: 4 years
- Customer relationships: 4 to 6 years
- Trade names: 10 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.

2. Summary of significant accounting policies (continued)

Impairment of non-current assets (continued)

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.

2. Summary of significant accounting policies (continued)

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 number of defined contribution money purchase pension schemes 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, 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.

2. Summary of significant accounting policies (continued)

Leases (continued)

The Group leases properties in Nottingham, Cambridge, Chichester and London in the UK, San Diego in the USA, as well as Tramore 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 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 Cellular and Digital pathology, Sanger Sequencing and COVID-19 PCR testing contracts are recognised when the services are provided, which is when a test result is delivered to the customer.

Products

Revenue from non-core sales of products, typically environmental storage equipment and genomic reagents 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 formerly 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.

2. Summary of significant accounting policies (continued)

Revenue recognition (continued)

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.

2. Summary of significant accounting policies (continued)

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.

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share based payment charge recognised in its consolidated financial statements with the corresponding credit being recognised directly in equity.

3. Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The preparation of the financial statements requires the Directors to make estimates and judgements that affect the reported amounts of assets, liabilities, costs and revenue in the historical consolidated financial information. Actual results could differ from these estimates. The judgements, estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Key areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed below:

Depreciation
The assessment of the useful economic lives, residual values and the method of depreciating of tangible fixed assets (including right-of-use assets) requires judgement. Depreciation is charged to profit or loss based on the useful economic life selected, which requires an estimation of the period and profile over which the Group expects to consume the future economic benefits embodied in the assets. Useful economic lives and residual values are re-assessed annually, and amended as necessary, when changes in their circumstances are identified. The carrying value of tangible assets at the year-end is £19,952,000 (2021: £18,573,000). There was depreciation in the year of £3,409,000 (2021: £2,843,000).

Revenue: Deferred voucher income
An assessment is made of the amount of revenue to be recognised in relation to payments received. For example, where customers purchase pre-paid vouchers for Sanger Sequencing services, an assessment is made of the likely future redemption rate to estimate the quantum of deferred income to be recognised as a liability and revenue to be recognised. The value of deferred voucher income at the year-end is £1,158,000 (2021: £1,018,000).

3. Critical accounting estimates and judgements (continued)

Revenue: Deferred COVID-19 PCR testing revenue
Where pre-paid PCR test kits have been sold where there is a right to receive a future PCR test, an assessment is made of the amount of revenue to be recognised and the amount of revenue to be deferred based on the shelf-life of the kits' consumables, any estimated rate of redemption of the associated PCR testing service based on the data available, or if there is insufficient historic data, the revenue is deferred until it is highly probable that the kit is unlikely to be returned for testing. As PCR testing has dramatically declined during the year, the value of COVID-19 PCR testing deferred revenue at the year-end is £nil (2021: £3,849,000), making this item a critical accounting estimate for the prior year only.

Impairment of trade receivables
The Group's policy on recognising an impairment of the trade receivables balance follows a review of individual receivable balances, their ageing and management's assessment of realisation. This review and assessment is conducted on an ongoing basis and any material change in management's assessment of trade receivable impairment is reflected in the carrying value of the asset.

Impairment of goodwill
Impairment tests have been undertaken in respect of goodwill using an assessment of the value in use of the respective CGUs. This assessment requires a number of assumptions and estimates to be made including the allocation of assets of CGUs, the expected future cash flows from each CGU and also the selection of a suitable discount rate in order to calculate the present value of those cash flows. There was no impairment in the year. The carrying value of goodwill at the year-end was £25,677,000 (2021: £9,993,000).

Lease liabilities
The Group makes judgements to estimate the incremental borrowing rate used to measure lease liabilities based on expected third-party financing costs when the interest rate implicit in the lease cannot be readily determined. This is explained further in the leases accounting policy. The rates used have varied between 3.1% and 6.8% per annum. Where leases include break dates the management have made a judgement that these will not be exercised.

Share based payments
The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Judgement is required in determining the most appropriate valuation model and the most appropriate inputs into the model including the level of volatility and the expected life of the option. Further information is given in note 23.

Inventory provisions
The Group's policy on recognising an impairment of inventory balance follows a review of individual inventory lines compared to management's latest forecast of volumes required. This review is conducted on an ongoing basis and any material change in management's assessment of inventory impairment is reflected in the carrying value of inventory. A provision of £1,435,000 (2021: £2,096,000) was made at the year-end date, primarily due to a continued reduced outlook for COVID-19 PCR testing services.

Business combinations - intangible assets
The Group initially measures the separable intangible assets acquired in a business combination at their fair value at the date of acquisition. Management judgement is required in deriving a number of assumptions which are used in assessing the fair value of each acquisition intangible including the timing and amount of future incremental cash flows expected to be generated by the asset and in calculating an appropriate cost of capital. Management judgement is also required in assessing the useful economic lives of these assets for the purposes of amortisation.

Business combinations - contingent consideration
The Group estimated the contingent consideration related to LDPath, based on the quantum and mix of revenues from the acquisition date to 31 December 2024 based on management's financial forecasts at the date of the acquisition and discounted these back to their fair value at the date of acquisition. This exercise has been reviewed at the year-end date using actual revenues from the date of acquisition to the year-end date and management's updated forecasts or revenue and revenue mix for 2023 and 2024. Management judgement is required in preparing each set of financial forecasts as they contain a number of variables which can only be estimated. In addition, the movement in fair value of the contingent consideration is calculated using discount rates which also rely on management's judgement.

4. 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.

	2022		2021 reanalysed	
	Revenue	**Gross profit**	Revenue	Gross profit
	£'000	**£'000**	£'000	£'000
Healthcare Diagnostics	**18,918**	**6,713**	6,411	2,134
Genomics	**6,009**	**2,129**	4,960	1,918
Stability Storage	**6,499**	**4,396**	6,059	4,086
Core business units	**31,426**	**13,238**	17,430	8,138
Non-core Infectious Disease Testing	**6,529**	**656**	73,567	28,509
Other non-core operations	**178**	**(118)**	1,400	(434)
Total	**38,133**	**13,776**	92,397	36,213

Revenue and gross margins for 2021 have been re-analysed to show Infectious Disease testing as non-core and to transfer the now ceased Manufacturing revenues from Stability Storage to non-core operations.

Due to the shared nature of many assets, assets and liabilities, for both 2022 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 6.

5. 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.

	2022	2021
	£'000	£'000
United Kingdom	**34,932**	88,727
Europe	**2,241**	2,285
USA	**948**	1,337
Rest of world	**12**	48
Total	**38,133**	92,397

5. Revenue (continued)

The Group details below significant customers who have contributed to more than 10% of Group revenue in either than current or prior years:

	2022 £'000	2021 £'000
Customer A	**298**	14,453
Customer B	**2,143**	12,750
Customer C	**266**	12,151

Group revenue has been recognised according to time as below:

	2022 £'000	2021 £'000
Recognised at a point in time	**31,634**	86,338
Recognised over time	**6,499**	6,059
Total	**38,133**	92,397

The Group has recognised the following assets and liabilities in relation to contracts with customers:

Assets	**2022 £'000**	2021 £'000
Contract assets relating to Healthcare Diagnostics contracts	**-**	120
Contract assets relating to Stability Storage contracts	**11**	215
Contract assets relating to Genomics contracts	**104**	22
Contract assets relating to non core Infectious Disease Testing contracts	**-**	50
Contract assets relating to non core Clones contracts	**-**	6
Total	**115**	413

Liabilities	**2022 £'000**	2021 £'000
Contract liabilities relating to pre-paid Sanger Sequencing vouchers in Genomics	**1,158**	1,018
Contract liabilities relating to Stability Storage contracts	**805**	627
Contract liabilities relating to other Genomics contracts	**58**	51
Contract liabilities relating to pre-paid COVID-19 PCR tests, non-core	**-**	3,849
Contract liabilities relating to Healthcare Diagnostics contracts	**13**	-
Total	**2,034**	5,545

Set out below is the amount of revenue recognised from amounts previously included within contract liabilities at the start of the year:

	2022 £'000	2021 £'000
Total	**2,653**	1,424

5. Revenue (continued)

For 2021, the largest contract liability balance referred to a number of COVID-19 PCR tests which were purchased by consumers from one of the Group's customers and a number which were purchased directly from the Group's website, but which had not yet been returned to the Group's laboratory for processing.

Management expects that approximately 95% (2021: 95%) of the contract liabilities relating to pre-paid Sanger Sequencing vouchers at the year-end date will be recognised as revenue during 2023, the balance in 2024. Management expects that all of the contract liabilities relating to Stability Storage and Genomics contracts at the year-end date will be recognised as revenue during 2023.

Management expects that approximately 100% (2021: 100%) of the contract assets will be recognised as cash during 2023.

6. Exceptional items

	2022	2021
	£'000	£'000
Professional fees in relation to the acquisition of LDPath in the year[1]	**681**	-
Reorganisation costs[2]	**940**	-
Inventory provision on closure of Manufacturing business line[3]	**240**	-
Provision related to scale down of COVID-19 activities, primarily PCR testing and ceasing to supply lateral flow tests – inventory provision	**1,572**	-
Provision related to scale down of COVID-19 activities, primarily PCR testing and ceasing to supply lateral flow tests – impairment of tangible fixed assets	**1,666**	-
Impairment of right-of-use assets[5]	**1,466**	-
Adjustment to contingent consideration estimates in relation to the acquisition of LDPath[4]	**3,076**	-
Donation of medical supplies to the people of Ukraine	**170**	-
Fees in relation to the cancellation of admission on AIM and purchase of Ordinary Shares	**622**	-
Total	**10,433**	-

[1] The professional fees relate to the legal and advisory fees in relation to the acquisition of LDPath Limited in March 2022.

[2] The reorganisation costs relate to reductions in headcount, principally in relation to COVID-19 PCR testing as the throughput declined significantly from its peak in 2021, as well as reductions in sales, general and administration headcount as the business right-sized its expense base as COVID-19 PCR testing declined.

[3] The Manufacturing inventory provisions relate to provisions against inventory relating to the discontinued but immaterial business line of Manufacturing and supply of Storage equipment.

[4] The adjustment to contingent consideration relates to the increased aggregate fair value of contingent consideration expected to be payable to the vendors of LDPath, based on higher 2022 revenues than originally forecasted at the time of the acquisition and updated estimates financial forecasts of revenues for 2023 and 2024.

[5] The impairment of right-of-use assets relates to leased property in Source BioScience Inc.

7. Operating profit

Group	**2022 £'000**	2021 £'000
The following items have been charged / (credited) in arriving at operating profit:		
Depreciation of property, plant and equipment owned (see note 16)	**1,875**	1,804
Depreciation of property, plant and equipment leased (see note 16)	**1,534**	1,039
Amortisation of intangible assets (see note 15)	**747**	88
Profit on disposal of tangible assets	**(30)**	(147)
Expenses relating to short-term leases (included within cost of sales)	**81**	83
Exchange gain	**(430)**	(261)

No research and development expenditure was expensed in the year (2021: £nil).

8. Staff costs

	Group		Company	
Staff costs during the year	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000
Wages and salaries	**9,375**	12,699	**582**	508
Social security costs	**1,057**	1,262	**42**	47
Pension costs - defined contribution	**430**	421	**19**	23
Share based payments (see note 23)	**2,185**	77	**2,012**	54
Total	**13,047**	14,459	**2,655**	632

	Group		Company	
Average monthly employees (including Directors)	**2022 Number**	2021 Number	**2022 Number**	2021 Number
Laboratory services	**204**	239	**-**	-
Products	**17**	27	**-**	-
Central services	**71**	73	**6**	6
Total	**292**	339	**6**	6

Staff costs in the Company derive from the costs of the Directors. The Executive Chairman is employed by a wholly owned subsidiary company, Source BioScience Inc.

9. Key management and Directors

Directors' remuneration	**2022 £'000**	2021 £'000
Salaries and fees	**590**	590
Bonuses	**222**	330
Benefits-in-kind	**49**	47
Pension costs - defined contribution	**42**	58
Total	**903**	1,025

At the year-end two Directors (2021: two) had retirement benefits accruing under defined contribution pension schemes.

9. Key management and Directors (continued)

Remuneration above includes the following amounts paid to the highest paid Director:

Highest paid Director's remuneration	2022 £'000	2021 £'000
Salary	**250**	250
Bonus	**122**	188
Benefits-in-kind	**40**	39
Pension costs - defined contribution	**23**	35
Total	**435**	512

Consolidated Key management remuneration	2022 £'000	2021 £'000
Salaries and short-term employee benefits	**861**	1,192
Employer's national insurance charges	**88**	87
Share based payments (see note 23)	**1,510**	52
Pension costs - defined contribution	**42**	86
Total	**2,501**	1,417

The key management figures given above comprise Executive and Non-Executive Directors together with the Chief Operating Officer (up until August 2021).

The increase in share based payment charges has been caused by the closure of the ESOP scheme in December 2022 following the cancellation of admission to AIM, which accelerated the recognition of the full share based payment charges, which would otherwise have been spread out over the life of the underlying share options.

10. Pension commitments

The Group operates a number of defined contribution pension schemes and makes payments to other, personal defined contribution pension scheme arrangements on behalf of certain employees. The charges in the year amounted to:

Group	2022 £'000	2021 £'000
Defined contribution schemes	**430**	421

The year-end creditor amounted to £52,000 (2021: £61,000).

11. Other operating income

	2022 £'000	2021 £'000
Settlement in relation to dispute with former employee	**526**	-
Termination of an onerous customer contract	**454**	-
Research and development expenditure credit (RDEC)	**81**	118
Total	**1,061**	118

12. Finance costs and finance income

Finance costs

Group	2022 £'000	2021 £'000
On deferred consideration on the acquisition of LDPath	**(619)**	-
On lease liabilities	**(532)**	(442)
Total	**(1,151)**	(442)

Finance income

Group	2022 £'000	2021 £'000
Bank and other interest receivable	**21**	21
Total	**21**	21

13. Taxation

Current tax	**2022 £'000**	2021 £'000
UK corporation tax on profits for the current year	**(717)**	3,548
Adjustment in respect of previous years	**(118)**	7
Foreign taxation	**85**	100
Total current tax	**(750)**	3,655
Deferred tax		
Origination and reversal of timing differences	**(592)**	382
Adjustment in respect of previous years	**77**	52
Effect of tax rate change on opening balance	**-**	(118)
Total deferred tax	**(515)**	316
Total (credit) / charge	**(1,265)**	3,971

13. Taxation (continued)

Reconciliation of tax expense

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 19% (2021: 19%).

	2022	2021
	£'000	£'000
(Loss) / profit on ordinary activities before taxation	**(13,709)**	20,686
(Loss) / profit on ordinary activities by rate of tax	**(2,605)**	3,930
Expenses not deductible for tax purposes	**214**	126
Share options not deductible for tax purposes	**415**	-
Non-deductible costs in relation to the acquisition of LDPath Limited	**667**	-
Ineligible depreciation	**22**	18
Plant and machinery super deduction	**(108)**	(132)
Movement in deferred tax not recognised	**449**	106
Adjustment in respect of prior periods	**(46)**	59
Effect of change in deferred tax rate	**-**	(118)
Effect of CT rate being lower than deferred tax rate	**(222)**	92
Overseas tax rate being different to UK corporation tax rate	**(58)**	(55)
Other	**7**	(55)
Tax (credit) / charge on profit or loss	**(1,265)**	3,971

In addition to the taxable loss incurred in 2022, the Group overpaid UK corporation tax of £771,000 in 2021. Total corporation tax recoverable at the year end is £1,388,000 (2021: £777,000).

The Group had £1,286,000 (2021: £380,000) 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.

14. Services provided by the Group's auditor and network firms

During the year the Group obtained the following services from the Group's auditor as detailed below:

	2022	2021
	£'000	£'000
Audit services:		
Statutory audit of Company's and subsidiaries' financial statements	**151**	121
Tax services:		
Advisory services prior to Admission to AIM	**-**	2

15. Goodwill and other intangible assets

Consolidated	Goodwill £'000	Software £'000	IT development costs £'000	Trade name £'000	Customer relationships £'000	Total other intangible assets £'000	Total £'000
Cost							
At 1 January 2021	61,331	34	1,303	-	185	1,522	62,853
Additions	-	-	40	-	-	40	40
Disposals	-	-	(512)	-	-	(512)	(512)
At 31 December 2021	61,331	34	831	-	185	1,050	62,381
Additions	-	25	769	-	-	794	794
Acquisition of LDPath (see note 32)	15,684	-	3,511	3,481	1,290	8,282	23,966
Disposals	-	-	(18)	-	-	(18)	(18)
At 31 December 2022	**77,015**	**59**	**5,093**	**3,481**	**1,475**	**10,108**	**87,123**
Amortisation and impairment							
At 1 January 2021	51,338	6	982	-	185	1,173	52,511
Amortisation charge	-	9	79	-	-	88	88
Disposals	-	-	(403)	-	-	(403)	(403)
At 31 December 2021	51,338	15	658	-	185	858	52,196
Amortisation charge	-	2	375	270	100	747	747
At 31 December 2022	**51,338**	**17**	**1,033**	**270**	**285**	**1,605**	**52,943**
Net book value							
At 31 December 2021	9,993	19	173	-	-	192	10,185
At 31 December 2022	**25,677**	**42**	**4,060**	**3,211**	**1,190**	**8,503**	**34,180**

Amortisation is charged within administrative expenses in the Statement of Comprehensive Income.

15. Goodwill and other intangible assets (continued)

Following initial recognition, goodwill is subject to impairment reviews, at least annually, and measured at cost less accumulated impairment losses. Any impairment is recognised immediately in the Consolidated Statement of Comprehensive Income and is not subsequently reversed.

A business unit summary of the allocation of goodwill is shown below:

	2022 **£'000**	2021 £'000
Healthcare Diagnostics	**17,142**	1,458
Genomics	**2,596**	2,596
Stability Storage	**5,939**	5,939
Total	**25,677**	9,993

In accordance with IAS 36, a CGU to which goodwill has been allocated shall be tested for impairment annually and whenever there is indication of impairment by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit.

Number of years of cash flows used and budgeted growth rate
The recoverable amount of the CGU is based on a value in use calculation using specific cash flow projections over a three or five-year period and a terminal growth rate thereafter.

The forecast is prepared considering the Directors' expectations based on market knowledge, numbers of new engagements and the pipeline of opportunities. The principal assumptions are that underlying growth is expected in the Healthcare Diagnostics, Genomics and Stability Storage business units. In particular, a continued strong increase in demand for Cellular Pathology and Digital Pathology testing services. Detailed line by line monthly forecasts have been prepared from 2023 through 2025 or 2026. Sensitivities of the forecast have been evaluated. A reduction in the forecasted revenues of approximately 40% in the core business units of Healthcare Diagnostics, Genomics and Stability Storage in each year from 2023 to 2026 would result in an impairment.

Discount rate
The Group's weighted average cost of capital has been used to calculate a discount rate, which reflects current market assessments of the time value of money for the period under review and the risks specific to the Group. The discount rate used in each of the periods under review is 11.7% (2021: 11.9%).

Terminal growth rate
An appropriate terminal growth rate is selected, based on the Directors' expectations of growth beyond the detailed forecast period. The growth rate used post the forecast period is 2.0% (2021: 3.3%) based on published GDP growth rates.

The following table shows the theoretical discount rate or growth rate before the recoverable amount of the CGU would reduce to the carrying value of goodwill.

	2022	2021
Theoretical discount rate	43.0%	118.1%
Terminal growth rate	n/a	n/a

The growth rate beyond the five-year period is not applicable because the discounted cashflows in this period are forecasted to exceed the carrying value of the investment.

For the year ended 31 December 2022

16. Property, plant and equipment

Consolidated	Freehold property £'000	Leasehold property £'000	Plant, fixtures, fittings and equipment £'000	Motor vehicles £'000	Right-of-use assets £'000	Total £'000
Cost						
At 1 January 2021	3,715	937	7,930	16	10,942	23,540
Additions	-	656	2,319	-	2,030	5,005
Disposals	(932)	(113)	(3,435)	(11)	(126)	(4,617)
Exchange differences	-	13	(52)	-	(6)	(45)
At 31 December 2021	2,783	1,493	6,762	5	12,840	23,883
Additions	8	244	2,964	-	3,752	6,968
Acquisition of LDPath (note 32)	-	-	526	-	579	1,105
Lease modification[1]	-	-	-	-	(295)	(295)
Disposals	-	(21)	(1,488)	-	(114)	(1,623)
Exchange differences	-	132	218	-	5	355
At 31 December 2022	**2,791**	**1,848**	**8,982**	**5**	**16,767**	**30,393**
Depreciation						
At 1 January 2021	1,015	231	3,902	16	1,464	6,628
Charge for the year	48	126	1,630	-	1,039	2,843
Disposals	(438)	(113)	(3,545)	(11)	(10)	(4,117)
Exchange differences	-	7	(51)	-	-	(44)
At 31 December 2021	625	251	1,936	5	2,493	5,310
Charge for the year	46	135	1,694	-	1,534	3,409
Disposals	-	(21)	(1,537)	-	(59)	(1,617)
Impairment (note 6)	-	-	1,124	-	2,008	3,132
Exchange differences	-	8	198	-	1	207
At 31 December 2022	**671**	**373**	**3,415**	**5**	**5,977**	**10,441**
Net book value						
At 31 December 2021	2,158	1,242	4,826	-	10,347	18,573
At 31 December 2022	**2,120**	**1,475**	**5,567**	**-**	**10,790**	**19,952**

[1] The lease modification refers to a renegotiated lease termination date

16. Property, plant and equipment (continued)

The net book value has been allocated in the balance sheet as below:

	2022	2021
	£'000	£'000
Non-current assets		
Property, plant and equipment	**9,162**	8,226
Right-of-use assets	**10,790**	10,347
Total net book value	**19,952**	18,573

The net book value of right-of-use assets by asset type is as below:

Leasehold property	**9,350**	8,340
Plant, fixtures, fittings and equipment	**1,440**	2,007
Total net book value	**10,790**	10,347

The Company holds no tangible fixed assets (2021: £nil). Depreciation is charged to administrative expenses within profit or loss.

17. Investments in subsidiaries

Company	**Shares in Group undertakings**
	£'000
Cost	
At 1 January 2021	65,898
Capital contributions – share based payments	23
At 31 December 2021	65,921
Capital contributions – share based payments	173
At 31 December 2022	**66,094**
Impairment	
At 1 January 2021 and 31 December 2021	(50,714)
At 31 December 2022	**(50,714)**
Net book value	
At 31 December 2021	15,207
At 31 December 2022	**15,380**

The registered office of all subsidiaries is 1 Orchard Place, Nottingham Business Park, Nottingham, NG8 6PX except for:
Source BioScience Inc
6696 Mesa Ridge Road, San Diego, California, CA 92121, USA
SourceBio International Inc (incorporated in December 2022)
251 Little Falls Drive, Wilmington, New Castle, Delaware DE 19808, USA
Source BioScience Ireland Limited
Riverstown 5 Complex, Riverstown Industrial Estate, Tramore, Co. Waterford
Select Pharma Laboratories Limited and Source BioScience Scotland Limited
3rd Floor, 2 Semple Street, Edinburgh EH3 8BL

17. Investments in subsidiaries (continued)

The subsidiary undertakings (all of which the Company owns a 100% interest in) and their respective activities were as follows as during the year and as at 31 December 2022:

Subsidiary undertaking	*Country of incorporation*	*Principal activity*
Source BioScience Inc	United States	Provision of controlled environment storage services
SourceBio International Inc	United States	Non-trading (incorporated in December 2022)
Source BioScience Ireland Limited	Ireland	Provision of controlled environment storage services
Source BioScience (Storage) Limited	England and Wales	Provision of controlled environment storage services
Source BioScience UK Limited	England and Wales	Provision and distribution of diagnostic and genomic services
Source Genomics Limited	England & Wales	Non-trading (incorporated in December 2022)
LDPath Limited	England & Wales	Provision and distribution of diagnostic services (acquired in March 2022)
Source BioScience (Healthcare) Limited	England and Wales	Holding company
Source BioScience Limited	England and Wales	Holding company (held directly by the Company)
Select Pharma Laboratories Limited	Scotland	Non-trading
Source BioScience (Orchard Place) Limited	England and Wales	Non-trading
Source BioScience (Cryobank) Limited	England and Wales	Non-trading
Geneservice Limited	England and Wales	Non-trading
Fairfield Imaging Limited	England and Wales	Non-trading
Fairfield Telepathology Limited	England and Wales	Non-trading
0Kinetic Imaging Limited	England and Wales	Non-trading
0000Medical Solutions (Leeds) Limited	England and Wales	Non-trading (dissolved during the year)
Cryobank Guarantor Limited	England and Wales	Non-trading
Quinoderm Limited	England and Wales	Non-trading (dissolved during the year)
Select Storage Solutions (Scotland) Limited	Scotland	Non-trading (dissolved during the year)
Source BioScience Scotland Limited	Scotland	Non-trading

The Group has agreed to guarantee the liabilities of Source Bioscience (Orchard Place) Limited (registered number 06670095), thereby allowing this company to take exemption from audit under section 479A of the Companies Act 2006.

For the year ended 31 December 2022

18. Inventories

Group	2022 £'000	2021 £'000
Raw materials	**807**	4,616
Finished goods and goods for resale	**-**	383
Total	**807**	4,999

Inventories recognised as an expense during the year ended 31 December 2022 amounted to £7,135,000 (2021: £37,638,000). 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 £1,435,000 for the year (2021: £2,096,000) were deducted from gross inventories in the amounts above, of which £nil were shown in cost of sales (2021: £2,096,000) and £1,572,000 were shown within exceptional items (2021: £nil). These provisions were principally made against COVID-19 PCR related testing materials, in the light of a large reduction in anticipated demand following changes in Government guidelines.

19. Trade and other receivables

	Group		Company	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Amounts falling due within one year:				
Trade receivables	**5,855**	5,989	**-**	-
Less: provision for impairment of receivables	**(77)**	(146)	**-**	-
Net trade receivables	**5,778**	5,843	**-**	-
Amounts owed by subsidiary undertakings		-	**39,458**	18,982
Other receivables	**148**	185	**227**	-
Contract assets	**115**	413	**-**	-
Prepayments	**807**	801	**34**	120
Total	**6,848**	7,242	**39,719**	19,102

Intra-Group borrowings are interest-free with amounts due repayable on demand. No provision is considered to be required on the amounts owed by subsidiary undertakings under IFRS 9.

Credit risk is assessed by reference to the customer base and is considered low. Any trade receivables or contract assets that are overdue are assessed for impairment and provision made where applicable. Historically low default levels give rise to specific provision only where responses to collection methods have given rise to such a view. In determining the recoverability of trade receivables, the Group considers any changes in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date. The trade receivables that are neither past due nor impaired relate to customers that the Group has assessed to be creditworthy based on the credit evaluation process performed by management, which considers both customers' overall credit profile and its payment history with the Group. Having considered the impact of IFRS 9 the Directors concluded that the implementation would not materially impact on the provision already recognised. There was also no provision considered to be required on the contract assets in the current or prior year.

19. Trade and other receivables (continued)

An analysis of the Group trade receivables is as follows:

	2022 Gross £'000	**2022 Net of impairment £'000**	**2022 provision applied %**	2021 Gross £'000	2021 Net of impairment £'000	2021 provision applied %
Not past due	**1,495**	**1,487**	**0.5%**	4,680	4,676	0.1%
Past due 0 – 30 days	**2,702**	**2,689**	**0.5%**	730	728	0.3%
Past due 31 – 60 days	**1,098**	**1,093**	**0.4%**	327	317	3.1%
Past due 61 – 90 days	**456**	**453**	**0.7%**	201	122	39.3%
Past due 90+ days	**104**	**56**	**45.1%**	51	-	100.0%
Total	**5,855**	**5,778**	**1.3%**	5,989	5,843	2.4%

The movement in the provision is summarised below:

Group	**2022 £'000**	2021 £'000
Provision at start of the year	**146**	34
Charge for the year	**77**	146
Utilised in the year	**(146)**	(34)
Provision at end of the year	**77**	146

20. Cash and cash equivalents

	Group		**Company**	
	2022 £'000	2021 £'000	**2022 £'000**	2021 £'000
Cash and cash equivalents				
Cash at bank	**9,443**	33,304	**-**	-

21. Share capital

Group and Company

The share movements in 2022 are detailed below:

Issued and fully paid shares of 0.15p each	0.15p Ordinary Shares Number	£'000
At 1 January 2021, 31 December 2021 and 1 January 2022	74,183,038	111
Cancellation of Ordinary Shares	(5,981,364)	(9)
At 31 December 2022	**68,201,674**	**102**

Following the Company's Tender Offer, a total of 5,981,364 Ordinary Shares were purchased by the Company on 22 December 2022 and subsequently cancelled. The Ordinary Shares were acquired at £1.15p and at a total cost of £6,878.568.60

22. Description of the nature of each reserve within equity

Share capital
Share capital represents the value of all called up, allotted and fully paid shares of the Parent Company.

Share premium account
The share premium account represents amounts received in excess of the nominal value of shares on the issue of new shares, net of any direct costs of any shares issued.

Share allotment reserve
The share allotment reserve is used to show contributions to equity, not yet allotted.

The share allotment reserve comprises a convertible loan note of £4.0 million to North Atlantic Value GP 5 LLP on behalf of (and as a general partner for) Harwood Private Equity V LP. Following the cancellation of admission to AIM and the subsequent re-registration of the Company as a private limited company (which occurred on 18 January 2023), the convertible loan note converted into redeemable preference shares in the Company, held by North Atlantic Value GP 5 LLP on behalf of (and as general partner for) Harwood Private Equity V LP), on the basis of 115 pence per redeemable preference share. The convertible loan note is interest free and has been shown within equity which is consistent with the treatment of the redeemable preference shares.

Capital redemption reserve
The capital redemption reserve reflects the nominal value of shares repurchased by the Company.

Foreign exchange reserve
The foreign exchange reserve records the cumulative exchange differences arising from the translation of the financial statements of overseas subsidiaries.

Share option reserve
The share option reserve represents the accumulated balance of share based payment charges recognised in respect of share options granted by the Company less transfers to retained earnings in respect of share options exercised, cancelled or lapsed.

Retained earnings
Retained earnings comprises the Group's cumulative annual profits and losses.

23. Share based payments

At 31 December 2021 and 1 January 2022 share options granted to Directors and employees remain unexercised under two different arrangements, both of which were established in 2021. The share option arrangements comprise an unapproved Executive Share Option Plan ("ESOP") and a Save As You Earn ("SAYE") scheme. Following the decision to seek approval to cancel the admission to AIM, both the ESOP and the SAYE schemes were closed in December 2022 and all share options were cancelled. Therefore no share options remain outstanding at 31 December 2022.

ESOP
The Company had an Executive Share Option Plan which permitted the grant to Directors and senior management of share options in respect of Ordinary Shares in the Company. In 2021, a total of 4,750,000 options were granted under this scheme, which was unapproved for tax purposes. The Scheme was an equity-settled arrangement and options granted under the scheme had a maximum life of 10 years from the date of grant. Options were capable of being exercised in tranches. One third could be exercised one year after the grant date, a further third two years after grant date and all options were capable of being exercised three years from the grant date. All options were able to be exercised in the event of a takeover of the Company. All options had a performance threshold that the share price must be a minimum of 200 pence at the time of exercise and the options would ordinarily lapse on leaving employment with the Group. The following is a summary of the movements in outstanding share options under the ESOP:

23. Share based payments (continued)

	Number of share options	Weighted average exercise price pence
Outstanding at 1 January 2021	-	-
Issued in the year	4,750,000	154.5
Outstanding at 31 December 2021	**4,750,000**	154.5
Cancelled in the year	(4,750,000)	(154.5)
Outstanding at 31 December 2022	**-**	-

Of the options outstanding at 31 December 2021, 2,000,000 options had an exercise price of 162 pence, and 2,750,000 options had an exercise price of 140 pence. None of the share options were exercisable at 31 December 2021 and, as all share options were cancelled in the year, no share options remain outstanding at 31 December 2022.

The fair values of the options granted were estimated at the date of grant using a Monte Carlo simulation as the awards had market performance vesting conditions. The key inputs to the option pricing model in respect of any options which remained outstanding at 31 December 2021 are summarised below:

	Number of share options	
Number of options granted in the year	2,000,000	2,750,000
Date of grant	30 September 2021	30 September 2021
Share price at invitation date	140 pence	140 pence
Weighted average exercise price	162 pence	140 pence
Expected volatility	40.0%	40.0%
Expected dividend yield	0.0%	0.0%
Expected option life	6 years	6 years
Risk-free interest rate	0.7%	0.7%
Fair value of option	48 pence	52 pence

Future share price volatility was estimated by using historic share price volatility over the most recent period.

SAYE

The Company had an HMRC approved Save as You Earn Scheme which permitted the grant to eligible UK employees who had completed three months of service share options in respect of Ordinary Shares in the Company. In 2021, a total of 145,984 options were granted under this scheme. The 2021 share options had a contract start date of 1 December 2021 and the scheme was expected to run for a period of three years. Subject to the rules of the 2021 SAYE Scheme, participants would be able to exercise their share options within six months commencing from 1 December 2024. The share options had an exercise price of 132.5 pence, being the closing price on 12 October 2021, the trading day before the invitation to participate was made. The share options had no performance threshold but share options would ordinarily lapse on leaving employment with the Group. No issuance of share options was made in 2022. The following is a summary of the movements in outstanding share options under the SAYE:

	Number of share options	Weighted average exercise price pence
Outstanding at 1 January 2021	-	-
Issued in the year	145,984	132.5
Outstanding at 31 December 2021	**145,984**	132.5
Cancelled in the year	(145,984)	132.5
Outstanding at 31 December 2022	**-**	-

23. Share based payments (continued)

Of the options outstanding at 31 December 2021, all 145,984 options had an exercise price of 132.5 pence. None of the share options were exercisable at 31 December 2021 and, as all share options were cancelled in the year, no share options remain outstanding at 31 December 2022.

The fair values of the options granted were estimated at the date of grant using a Black-Scholes option pricing model as the awards had non-market performance vesting conditions. The key inputs to the option pricing model in respect of any options which remained outstanding at 31 December 2021 are summarised below.

	Number of share options
Number of options granted in the year	145,984
Date of grant	10 November 2021
Share price at grant date	127.5 pence
Exercise price	132.5 pence
Expected volatility	40.0%
Expected dividend yield	0.0%
Expected option life	3.6 years
Risk-free interest rate	0.7%
Fair value of option	37 pence

Future share price volatility was estimated by using historic share price volatility over the most recent period.

Effect of share options and the Share Incentive Scheme on the Group Statement of Comprehensive Income and Equity reserves

The total share based payment charge in the Group Statement of Comprehensive Income was as follows:

Group	**2022 £'000**	2021 £'000
ESOP	**2,146**	75
SAYE	**39**	2
Total	**2,185**	77

The increase in charges has been caused by the closure of both the ESOP and SAYE schemes in December 2022 following the cancellation of admission to AIM, which accelerated the recognition of the full share based payment charges, which would otherwise have been spread out over the life of the underlying share options. These charges have been credited to the share based payment reserve within equity. The balance has then been transferred to reserves. The balance on this reserve at 31 December 2022 amounted to £nil (2021: £77,000).

24. Trade and other payables

	Group		Company	
Current	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000
Trade payables	**6,286**	4,740	**154**	121
Other tax and social security	**443**	483	**-**	-
Accruals	**1,717**	2,933	**857**	395
Contract liabilities	**1,975**	5,206	**-**	-
Contingent consideration in relation to acquisition of LDPath	**3,348**	-	**-**	-
Amounts owed by subsidiary undertakings	**-**	-	**961**	515
Total	**13,769**	13,362	**1,972**	1,031
Non-current				
Contract liabilities	**59**	339	-	-
Deferred consideration in relation to acquisition of LDPath	**1,824**	-	-	-
Contingent consideration in relation to acquisition of LDPath	**4,631**	-	-	-
Total	**6,514**	339	-	-

The fair value of trade and other payables approximates to book value at each year-end. Trade payables are non-interest bearing and are normally settled monthly.

25. Borrowings

Bank loans and overdrafts

In anticipation of the Company's Tender Offer, the Group secured bank borrowing facilities with Barclays Bank PLC totalling £8.0 million with Barclays Bank PLC in November 2022. Details of these arrangements are summarised below.

(i) a term loan facility of £4,000,000 - this is repayable within three years, subject to an extension option of up to two years, this facility available for the purposes of the Tender Offer; and

(ii) a revolving credit facility of £4,000,000 - this is repayable within three years, subject to an extension option of up to two years, this facility available for working capital purposes.

The Board decided not to draw the term loan facility and therefore this facility is no longer available. At 31 December 2022, the Group had no borrowings but the revolving credit facility of £4 million remains available for potential future working capital purposes, and Barclays Bank PLC retains a fixed and floating charge over certain Group assets.

26. Lease liabilities

This note provides information for leases where the Group is a lessee. The balance sheet includes the following amounts in relation to leases:

	Group		Company	
	2022 £'000	2021 £'000	**2022 £'000**	2021 £'000
Current	**1,741**	1,049	**-**	-
Non-current	**14,275**	11,946	**-**	-
Total	**16,016**	12,995	**-**	-

The Group had total cash outflows for leases of £1,431,000 in 2022 (2021: £1,501,000). The lease liabilities are calculated based on a discounted total of future lease payments and therefore include an element of financing costs.

27. Deferred tax

The following are the deferred tax assets and liabilities recognised by the Group:

Group **Deferred tax (assets) / liabilities**	Accelerated tax depreciation £'000	Leases £'000	Acquired intangible assets £'000	Other £'000	Losses £'000	**Total £'000**
At 1 January 2021	234	(559)	-	(70)	-	(395)
(Credited) / charged to the profit and loss account	490	(215)	-	41	-	316
At 31 December 2021	724	(774)	-	(29)	-	(79)
Acquisition of LDPath	266	-	1,993	-	(185)	2,074
(Credited) / charged to the profit and loss account	(92)	(160)	-	(3)	(260)	(515)
At 31 December 2022	**898**	**(934)**	**1,993**	**(32)**	**(445)**	**1,480**

Following the March 2021 budget, legislation had been substantively enacted before the year end date for the main rate of corporation tax to increase from 19% to 25% from 1 April 2023. The deferred tax balances within these financial statements have therefore been calculated to reflect the rate increasing to 25%

The UK deferred tax balances within these financial statements have been calculated at 19% or 25% depending on when the related timing difference will reverse.

28. Provisions

Group	Onerous contract £'000
At 1 January 2021	157
Utilisation of provision	(2)
At 31 December 2021	155
Release of provision	(155)
At 31 December 2022	**-**

Group	Onerous contract £'000
Due in less than one year	18
Due in more than one year	137
At 31 December 2021	155

The provision disclosed above refers to an onerous contract provision relating to future expected losses on a long-term cryogenic storage contract where the associated direct costs over the contract period are expected to be in excess of the revenue. The contract was terminated during the year. The provision and the remaining deferred income was released during the year and shown within other operating income.

There were no provisions recorded in the Company (2021: £nil).

29. Financial instruments and risk management

The Group's financial instruments may be analysed as follows:

	2022 **£'000**	2021 £'000
Financial assets measured at amortised cost		
Cash and cash equivalents	**9,443**	33,304
Trade receivables	**5,778**	5,843
Contract assets	**115**	413
Other receivables	**148**	185
Total	**15,484**	39,745
Financial liabilities measured at amortised cost		
Trade payables	**6,286**	4,740
Other payables – deferred and contingent consideration	**9,803**	-
Accruals	**1,717**	2,933
Lease liabilities	**16,016**	12,995
Total	**33,822**	20,668

Financial assets measured at amortised cost comprise cash, trade receivables and other receivables.

Financial liabilities measured at amortised cost comprise bank loans and overdrafts, other loans, trade payables, other payables, accruals and lease liabilities.

The Group is exposed to a variety of financial risks through its use of financial instruments which result from its operating activities.

The Group does not actively engage in the trading of financial assets for speculative purposes. The most significant financial risks to which the Group is exposed are described below:

Credit risk
Generally, the Group's maximum exposure to credit risk is limited to the carrying amount of the financial assets recognised at the reporting date, as summarised below:

	2022 **£'000**	2021 £'000
Trade receivables	**5,778**	5,843
Other receivables	**148**	185
Contract assets	**115**	413
Cash and cash equivalents	**9,443**	33,304
Total	**15,484**	39,745

Credit risk is the risk of financial risk to the Group if a counterparty to a financial instrument fails to meet its contractual obligation. The nature of the Group's receivable balances, the time taken for payment by entities and the associated credit risk are dependent on the type of engagement.

SourceBio International Limited
Notes to the Financial Statements (continued)

For the year ended 31 December 2022

29. Financial instruments and risk management (continued)

Credit risk is minimised substantially by ensuring the credit worthiness of the entities with which it carries on business. Credit terms are provided on a case-by-case basis. The Group's trade and other receivables are actively monitored. The Group has not experienced any significant instances of non-payment from its customers.

Provisions made against receivables at the year-end were £77,000 (2021: £146,000).

Unbilled revenue is recognised by the Group only when all conditions for revenue recognition have been met in line with IFRS 15.

Liquidity risk

Liquidity risk represents the contingency that the Group is unable to gather the funds required with respect to its financial obligations at the appropriate time and under reasonable conditions in order to meet their current obligations. The Group attempts to manage this risk so as to ensure that it has sufficient liquidity at all times to be able to honour its current and future financial obligations under normal conditions and in exceptional circumstances. Financing strategies to ensure the management of this risk include the issuance of equity or debt securities as deemed necessary.

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities. The amounts disclosed in the tables are the contractual undiscounted cash flows.

Contractual maturities of financial liabilities as at 31 December 2022 are as follows:

	Less than 1 year £'000	Between 1 and 5 years £'000	Over 5 years £'000	Total £'000	Carrying value per balance sheet £'000
Trade and other payables	6,286	-	-	6,286	6,286
Accruals	1,717	-	-	1,717	1,717
Lease liabilities	2,316	6,397	12,538	21,251	16,016
Contingent consideration in relation to acquisition of LDPath	3,984	5,513	-	9,497	7,979
Deferred consideration in relation to acquisition of LDPath	-	2,172	-	2,172	1,824
Total	**14,303**	**14,082**	**12,538**	**40,923**	**33,822**

Contractual maturities of financial liabilities as at 31 December 2021 are as follows:

	Less than 1 year £'000	Between 1 and 5 years £'000	Over 5 years £'000	Total £'000	Carrying value per balance sheet £'000
Trade and other payables	4,740	-	-	4,740	4,740
Accruals	2,933	-	-	2,933	2,933
Lease liabilities	1,580	4,868	12,080	18,528	12,995
Total	**9,253**	**4,868**	**12,080**	**26,201**	**20,668**

29. Financial instruments and risk management (continued)

Impact of discounting on lease liabilities

Total lease liabilities showing the impact of discounting on cash flows are as follows:

	2022	2021
	£'000	£'000
Undiscounted lease liabilities	**20,676**	18,528
Effects of discounting	**(4,660)**	(5,533)
Discounted lease liabilities	**16,016**	12,995

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates. The Group's exposure to interest rate risk is based on short-term fixed interest rates for cash. No sensitivity has been provided as the impact of a change in interest rates on cash balances is not expected to be material.

Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily US Dollars and Euros. The Group monitors exchange rate movements closely to ensure adequate funds are maintained in appropriate currencies to meet known liabilities.

The Group exposure to foreign currency risk at the end of the respective reporting period was as follows:

	2022		2021	
	USD'000	**EUR'000**	USD'000	EUR'000
Cash	**265**	**2,366**	615	1,573
Other monetary assets and liabilities	**79**	**390**	(70)	257

Assets and liabilities include the monetary assets and liabilities of subsidiaries denominated in foreign currency.

The Group is exposed to foreign currency risk on the relationship between the functional currencies of Group companies and the other currencies in which the Group's material assets and liabilities are denominated. The table below summarises the effect on profit before tax had each foreign currency relevant to the Group weakened or strengthened against the Group's functional currency, with all other variables held constant.

	2022		2021	
10% weakening versus functional currency	**USD'000**	**EUR'000**	USD'000	EUR'000
Profit before tax	**32**	**271**	53	171

	2022		2021	
10% strengthening versus functional currency	**USD'000**	**EUR'000**	USD'000	EUR'000
Profit before tax	**(26)**	**(222)**	(44)	(140)

The impact of a change of 10% has been selected as this has been considered reasonable given the current level of exchange rates and the volatility observed both on historical bases and market expectations for future movements.

29. Financial instruments and risk management (continued)

Fair value of financial instruments
The fair values of all financial assets and liabilities approximates their carrying value.

Capital management
The Group's objectives when maintaining capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing services commensurately with the level of risk.

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets.

Consistent with others in the industry, the Group monitors capital on the basis of the debt to capital ratio. This ratio is calculated as net debt to capital as defined above. Net debt, being a negative number, is calculated as total debt (as shown in the Group Statement of Financial Position) less cash and cash equivalents.

Group	**2022** **£'000**	2021 £'000
Lease liabilities	**(16,016)**	(12,995)
Cash and cash equivalents	**9,443**	33,304
Net (debt) / cash	**(6,573)**	20,309

Share capital	**102**	111

Group	**2022** **£'000**	2021 £'000
Gross borrowings - fixed interest rates	**(16,016)**	(12,995)
Cash and cash equivalents	**9,443**	33,304
Net (debt) / cash	**(6,573)**	20,309

29. Financial instruments and risk management (continued)

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	At 1 January 2022	Cash flow	Other non-cash movements	Acquisition (note 32)	Exchange	At 31 December 2022
	£ '000	£ '000	£ '000	£ '000	£'000	£ '000
Cash and cash equivalents	33,304	(24,831)	-	899	71	9,443
CBILs borrowings	-	675	-	(675)	-	-
Lease liabilities	(12,995)	1,431	(3,873)	(579)	-	(16,016)
Net cash/(debt)	20,309	(22,725)	(3,873)	(355)	71	(6,573)

	At 1 January 2021	Cash flow	Other non-cash movements	Exchange	At 31 December 2021
	£ '000	£ '000	£ '000	£ '000	£ '000
Cash and cash equivalents	8,435	24,915	-	(46)	33,304
Lease liabilities	(12,149)	1,501	(2,347)	-	(12,995)
Net cash/(debt)	(3,714)	26,416	(2,347)	(46)	20,309

Other non-cash movements include new leases, interest on leases and changes due to lease reassessments and modifications.

30. Financial commitments

Group
Contracted, but not provided, capital commitments at the year-end was £nil (2021: £nil).

Company
The Company had no capital commitments at the year-end (2021: £nil).

31. Related party disclosures

Transactions with related parties
There were no transactions with entities with control, joint control or significant influence over the Group.

Remuneration
The remuneration of key management personnel of the Group, which includes the Directors, is disclosed in note 9.

Related companies
On 29 October 2020, a lease was granted by 1 Orchard Place (Freehold) Limited, a company incorporated in England and Wales, which was related by virtue of Christopher Mills being a common director, to Source BioScience UK Limited for a term of 25 years. The lease has a remaining term of 23 years at a current annual rent of £361,000 (excluding VAT), which increases annually at a rate of 3% on each anniversary of the lease term. During the year the Group incurred rental costs from 1 Orchard Place (Freehold) Limited totalling £362,000 (2021: £352,000) which were paid in the year.

The Group was related to EKF Diagnostics Holdings PLC ("EKF"), a company incorporated in England and Wales, by virtue of Christopher Mills being a common director. During the prior year the Group made no purchases of COVID-19 related consumables from EKF (2021: £96,000). An amount of £nil (2021: £nil) was due to EKF at the year-end date.

During the year, the Company issued a convertible loan note of £4,000,000 to North Atlantic Value GP 5 LLP on behalf of (and as a general partner for) Harwood Private Equity V LP which was related by virtue of Christopher Mills being a director of the Company and being a director of Harwood Capital Management Limited, which is a member of Harwood Capital LLP which is the fund manager for Harwood Private Equity V LP. The convertible loan note is interest free and has been shown within equity.

All transactions with related parties are measured at the exchange amounts, which are the amounts of consideration established and agreed to by the related parties.

32. Business Combination

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

The following table summarises the provisional fair values of the consideration paid for LDPath and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date. Acquisition costs of £681,000 have been included within administrative expenses and disclosed as an exceptional item.

32. Business Combination (continued)

	Book value £'000	Adjustments £'000	Fair value £'000
Consideration			
Cash	16,595	-	16,595
Deferred cash consideration re warranty retention	1,779	-	1,779
Deferred cash consideration re receivables retention	460	-	460
Contingent consideration	3,871	-	3,871
Total consideration	**22,705**	**-**	**22,705**
Recognised amounts of identifiable assets and liabilities acquired assumed			
Goodwill	83	(83)	-
Trade name - see note 15	-	3,481	3,481
Customer relationships - see note 15	-	1,290	1,290
IT development costs - see note 15	331	3,180	3,511
Plant, property and equipment	1,105	-	1,105
Cash	899	-	899
Inventories	41	-	41
Trade and other receivables	1,358	-	1,358
CBILs loans	(675)	-	(675)
Lease liabilities	(579)	-	(579)
Trade and other payables	(1,336)	-	(1,336)
Deferred tax	(248)	(1,826)	(2,074)
Total identifiable net assets	**979**	**6,042**	**7,021**
Goodwill			**15,684**

The contingent consideration on revenue performance is based on measures of LDPath revenue and any Digital Pathology revenue generated in the periods from the date of acquisition to 31 December 2022, calendar year 2023 and calendar year 2024, compared to agreed targets. Any amounts payable will be payable in the April following the relevant year-end date, based on audited results. The amount of deferred and contingent consideration has been discounted to take account of the time value of money.

The goodwill is attributable to the workforce and the high growth prospects of LDPath. It will not be deductible for tax purposes.

Outflow of cash to acquire subsidiary, net of cash acquired	**2022 £'000**
Cash consideration	16,595
Deferred cash consideration	368
Less: Balances acquired	
Cash	(899)
Net outflow of cash – investing activities	**16,064**

32. Business Combination (continued)

Subsequent to the completion of the acquisition of LDPath earlier in 2022 and following the updating of the revenue forecasts for 2023 and 2024, the Group recalculated its estimates of contingent consideration at the year-end date. This amounted to an increase in estimated contingent consideration of £3,076,000 which has been included with the income statement as an exceptional item.

The estimated undiscounted deferred and contingent consideration amounts to £11,669,000 for the three measurement periods noted above. The maximum potential undiscounted contingent consideration amounts to £15,000,000. The minimum potential undiscounted deferred consideration amounts to £2,172,000, being the amount calculated as due from the date of acquisition to 31 December 2022.

The acquired business contributed revenues of £6,428,000, adjusted EBITDA of £903,000 and net profit of £707,000 to the Group for the period from acquisition on 8 March 2022 to 31 December 2022. If the acquisition had occurred on 1 January 2022, consolidated proforma revenue, adjusted EBITDA and loss before tax for the year ended 31 December 2022 would have been £39,026,000, £4,211,000 and £11,798,000 respectively.

These amounts have been calculated using the subsidiary's results and adjusting them for any differences in the accounting policies between the Group and the subsidiary, and the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2022, together with the consequential tax effects.

33. Post Balance Sheet Events

On 18 January 2023, the Company re-registered as SourceBio International Limited, a private limited company and adopted new articles of association.

On 26 January 2023, the convertible loan note of £4,000,000 to North Atlantic Value GP 5 LLP on behalf of (and as a general partner for) Harwood Private Equity V LP converted into 3,478,261 redeemable preference shares of 0.15 pence each in the capital of the Company.

The preference shares are non-voting but will be entitled to participate in dividends declared by the Company. On a return of capital on liquidation or otherwise (except on a redemption or purchase by the Company of any shares), the surplus assets of the Company remaining after the payment of its liabilities shall be distributed first to the redeemable preference shareholders.

SourceBio International Limited
Directors, Officers and Advisors

Directors

Jay LeCoque
Executive Chairman

Tony Ratcliffe
Chief Financial Officer

Sir Ian Carruthers OBE
Senior Independent Non-Executive Director

Simon Constantine
Independent Non-Executive Director

Marco Fumagalli
Non-Executive Director

Rob Giles
Non-Executive Director

Christopher Mills
Non-Executive Director

Company Secretary
Tony Ratcliffe

Registered Office
1 Orchard Place
Nottingham Business Park
Nottingham
NG8 6PX

Registered Number
10269474

Advisors

Auditor
RSM UK Audit LLP
Suite A, 7th Floor
East West Building
2 Tollhouse Hill
Nottingham
NG1 5FS

Principal Banker
Barclays Bank plc
3 Hardman Street
1st Floor
Spinningfields
Manchester
M3 3HF

Legal Advisor
BDB Pitmans LLP
One Bartholomew Close
London
EC1A 7BL

Registrar
Equiniti Limited
Aspect House
Spencer Road
Lancing
BN99 6DA

SourceBio International plc
Group Locations

UK and Head Office
Nottingham
1 Orchard Place
Nottingham Business Park
Nottingham
NG8 6PX

Rochdale
John Boyd Dunlop Drive
Kingsway Business Park
Rochdale
OL16 4NG

Cambridge
Endeavour House
Chivers Way
Histon
Cambridge
CB24 9ZR

London
1st Floor
Cornwell House
21 Clerkenwell Green
London
EC1M 4NP

Chichester
Units 3,4 and 5 The Courtyard Lab
Vinnetrow Business Park
Vinnetrow Road
Runcton
Chichester
PO20 1QH

USA
6696 Mesa Ridge Road
San Diego
CA 92121
USA

Ireland
Riverstown 5 Complex
Riverstown Industrial Estate
Tramore
Republic of Ireland

www.sourcebiointernational.com