

16 January 2024

Microsaic Systems plc

("Microsaic", "Microsaic Systems" or the "Company")

Interim Results for the six months ended 30 June 2023

Chairman's Statement

We would like to thank our existing shareholders and new investors for the support they have shown for the refinancing of the Company and its growth plans which include the acquisition of the Modern Water business, both in early 2024.

We are delighted that the Company has been able to remain solvent after a total reset and by retaining our admission to trading on AIM the Company now has the necessary financing to complete the acquisition and provide capital to invest in and develop the enlarged business. The assets acquired are complementary to the existing Microsaic business model. Using the acquired assets we intend to restart the manufacture of the MicroTox® bio-reagents for water testing in the near term. Post acquisition we will seek positive cash generation from these new activities and look to benefit from growth opportunities and potential synergies over the longer term.

Microsaic's cost base has been dramatically reduced and we will now operate a much leaner, more efficient outsourced manufacturing and servicing model for our existing and acquired testing machine technologies. 2024 will prove to be a busy year. The objective is to reset and redesign the Company around a new and much more efficient cost model based on the integration of the enlarged business to optimise growth of sales, solutions and services income to be generated by the combined entities.

**STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2023**

	Notes	6 months to 30 June 2023 Unaudited £	6 months to 30 June 2022 Unaudited £	Year to 31 December 2022 Audited £
Revenue	4	139,404	734,914	1,567,697
Cost of sales	5	(145,494)	(301,538)	(618,330)
Gross profit		(6,090)	433,376	949,367
Other operating income		-	-	-
Research and development expenses		(312,637)	(219,491)	(404,043)
Impairment of related party debt		-	-	(1,130,169)
Other operating expenses		(852,726)	(914,819)	(1,731,749)
Total operating expenses		(1,165,363)	(1,134,310)	(3,265,961)
Loss from operations before share-based payments		(1,171,453)	(700,394)	(2,316,594)
Share-based payments	11	-	(126,002)	(234,749)
Loss from operations after share-based payments		(1,171,453)	(826,936)	(2,551,343)
Financial cost		(873)	(4,104)	(7,013)
Finance income		12,592	7,083	23,423
Loss before tax		(1,159,734)	(823,957)	(2,534,933)
Tax on loss on ordinary activities		81,207	119,246	246,224
Total comprehensive loss for the period		(1,078,527)	(704,711)	(2,288,709)

**Loss per share attributable to the equity holders of
the Company**

Basic and diluted loss per ordinary shares	6	(0.017)p	(0.011)p	(0.036)p
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Note that the above revenues in the 6 months to 20 June 2023 include £65,826 to DeepVerge plc subsidiaries (1H 2022: £546,718, FY22 £1,248,828). Although DeepVerge made payments to cover the revenues in the period, on 26 June 2023, DeepVerge announced that it would no longer be able to support its subsidiaries and was anticipating a sale or liquidation of these assets. The results above, subsequent performance in 2023 and expectations or forecasts for 2024 and beyond therefore need to be considered on the basis that no further payments and no further revenues are expected to be received from DeepVerge.

**STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS AT 30 JUNE 2023**

	Notes	30 June 2023 Unaudited	30 June 2022 Unaudited	31 December 2022 Audited
		£	£	£
ASSETS				
Non-current assets				
Intangible assets		60,546	66,637	69,160
Property, plant and equipment		286,609	296,342	380,272
Right of use assets		38,018	90,554	54,005
Total non-current assets		385,173	453,533	503,437
Current assets				
Inventories		283,771	255,346	274,045
Trade and other receivables		448,392	1,112,605	594,364
Corporation tax receivable		342,519	387,032	514,009
Cash and cash equivalents		587,024	2,562,741	1,241,480
Total current assets		1,661,706	4,317,724	2,623,898
TOTAL ASSETS		2,046,879	4,771,257	3,127,335
EQUITY AND LIABILITIES				
Equity				
Share capital		1,731,413	1,731,413	1,731,413
Share premium		28,262,518	28,262,518	28,262,518
Share-based payment reserve		2,316,048	2,817,181	2,400,796
Retained losses		(30,669,247)	(28,616,601)	(29,675,468)
Total Equity		1,640,732	4,194,511	2,719,259
Current liabilities				
Trade and other payables		218,984	379,382	236,445
Lease liability		17,929	73,699	52,918
Total current liabilities		236,913	453,081	289,363
Non-current liabilities				
Provision	9	148,649	105,045	115,385
Lease liability		20,584	18,620	3,328
Total non-current liabilities		169,233	123,665	118,713
Total liabilities		406,146	576,746	408,076
TOTAL EQUITY AND LIABILITIES		2,046,879	4,771,257	3,127,335

**STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
AS AT 30 JUNE 2023**

	Share capital £	Share premium £	Share based payment reserve £	Retained Losses £	Total equity £
At 1 January 2022	1,702,913	28,006,018	2,888,707	(28,024,418)	4,573,220
Total comprehensive loss for the period	-	-	-	(704,711)	(704,711)
Transactions with owners					
Shares issued	28,500	256,500	-	-	285,000
Transfer in respect of lapsed share options	-	-	(112,528)	112,528	-
Share based payments share options	-	-	41,002	-	41,002
At 30 June 2022	1,731,413	28,262,518	2,817,181	(28,616,601)	4,194,511
At 1 July 2022	1,731,413	28,262,518	2,817,181	(28,616,601)	4,194,511
Total comprehensive loss for the period	-	-	-	(1,583,998)	(1,583,998)
Transactions with owners					
Transfer in respect of directors warrants exercised	-	-	(300,075)	300,075	-
Transfer in respect of lapsed share options	-	-	(225,056)	225,056	-
Share based payments-share options	-	-	108,746	-	108,746
At 31 December 2022	1,731,413	28,262,518	2,400,796	(29,675,468)	2,719,259
At 1 January 2023	1,731,413	28,262,518	2,400,796	(29,675,468)	2,719,259
Total comprehensive loss for the period	-	-	-	(1,078,527)	(1,078,527)
Transactions with owners					
Transfer in respect of lapsed share options	-	-	(84,748)	84,748	-
Share based payments share options	-	-	-	-	-
At 30 June 2023	1,731,413	28,262,518	2,316,048	(30,669,247)	1,640,732

**STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2023**

	Notes	6 months to 30 June 2023 Unaudited £	6 months to 30 June 2022 Unaudited £	Year to 31 December 2022 Audited £
Cash flows from operating activities				
Cash absorbed by operations	12	(870,893)	(997,506)	(2,133,332)
Corporation tax received		252,697	-	-
Net cash used in operating activities		(618,196)	(997,506)	(2,133,332)
Cash flows from investing activities				
Purchases of intangible assets		(5,307)	(6,331)	(26,880)
Purchases of property, plant and equipment		(23,397)	(65,019)	(208,495)
Interest received		12,592	5,850	23,423
Net cash used in investing activities		(16,112)	(65,500)	(211,952)
Cash flows from financing activities				
Proceeds from share issues		-	200,000	200,000
Share issue costs		-	-	-
Repayment of lease liabilities		(20,148)	(39,130)	(78,112)
Net cash from/(used in) financing activities		(20,148)	160,870	121,888
Net increase/(decrease) in cash and cash equivalents		(654,456)	(902,136)	(2,223,396)
Cash and cash equivalents at beginning of the year		1,241,480	3,464,876	3,464,876
Cash and cash equivalents at the end of the period		587,024	2,562,741	1,241,480

NOTES TO THE INTERIM FINANCIAL INFORMATION (UNAUDITED)

1. Nature of Operations

Microsaic Systems plc (the "Company") is registered in England and Wales. The Company's registered office is 1-7 Park Road, Caterham, Surrey CR3 5TB, with effect from 11 January 2024. The Company has no subsidiaries, so the financial information relates to the Company only. Microsaic is a high technology company developing compact, chip-based mass spectrometers that are designed to improve the efficiency of pharmaceutical R&D.

2. Basis of preparation

The interim financial statements of the Company for the six months ended 30 June 2023, which are unaudited, have been prepared in accordance with the accounting policies set out in the annual report and accounts for the year ended 31 December 2022, which were prepared under International Financial Reporting Standards ("IFRS").

This report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006 and has not been audited. The financial information for the full preceding year is based on the statutory accounts for the year ended 31 December 2022. Those statutory accounts have been published and will shortly be filed with the Registrar of Companies. The auditor's report on those statutory accounts was unqualified.

As permitted, this interim report has been prepared in accordance with the AIM Rules for Companies and not in accordance with IAS 34 "Interim Financial Reporting" and therefore it is not fully compliant with IFRS.

The interim financial statements are presented in pounds sterling.

3. Critical accounting estimates and judgements

Accounting estimates and judgements are continually evaluated and are based on past experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates could, by definition, differ from the actual outcome.

Estimates and adjustments that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities are set out in the annual report and accounts for the year ended 31 December 2022, and no additional items have been identified.

4. Revenues

IFRS 15 provides a single, principles based, five-step model to be applied to all contracts with customers. The five-step framework includes:

Identify the contract(s) with a customer;
Identify the performance obligations in the contract; Determine the transaction price;
Allocate the transaction price to the performance obligations in the contract; and Recognise revenue

when the entity satisfies a performance obligation.

The Company recognises revenue from the following four sources:

Sale of products;

Sale of consumables and spare parts; Product service and product support; and Consultancy services.

All revenues and trade receivables arise from contracts with customers. Revenue is measured based on the consideration which the Company expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The sale of products, consumables and spare parts is recognised when the sole performance obligation is met which is usually on delivery to the customer. For product service, product support and consultancy services revenue, the performance obligation is satisfied over the duration of the service period and revenue is recognised in line with the satisfaction of the performance obligation.

Sale of products

The Company sells compact mass spectrometers (Microsaic 4500 MiD®) mainly through OEMs and Distributors. A small proportion of its sales are direct to the customer. Discounts are offered and agreed as part of the contractual terms. Terms are generally Ex Works so control passes when the customer collects the goods. Payment terms are generally 30 days from the date of invoice.

Sales of consumables and spare parts

The Company sells consumables and spare parts mainly through OEMs and Distributors. Terms are generally Ex Works so control passes when the customer collects the goods. Discounts are offered and agreed as part of the contractual terms. Payment terms are generally 30 days from the date of invoice.

Product service and product support revenue

Service and support to our OEMs and Distributors includes training their sales and service teams and servicing the products from time to time. Discounts are offered and agreed as part of the contractual terms. Terms are Ex Works so control passes when the customer receives the service. Payment terms are generally 30 days from the date of invoice.

Usually, there is no obligation on the Company for returns, refunds or similar arrangements. Also, the Company does not manufacture specific items to a customer's specification and no financing component is included in the terms with customers.

The Company provides assurance warranties which are 15 months from the date of shipment for OEMs and Distributors. These warranties confirm that the product complies with agreed-upon specifications. The Company is looking to provide service warranties in the future to direct customers in Europe, where the revenue from such warranties will be recognised over the period of the service agreement.

Consultancy services revenue

Consultancy services comprise science and engineering consultancy, laboratory services and monitoring services. These services are delivered over a period of time usually in accordance with a master services agreement and/or statement of works with an agreed outcome at the end of the project or project phase.

Consultancy services revenue is recognised by reference to the stage of completion of the project or project phase at the balance sheet date as follows:

- Where there are defined project or project phase milestones, the revenue is recognised in full on

completion of the project or project phase and on a time basis for the stage of completion where the project or project phase is not completed at the balance sheet date. The stage of completion is recognised as the proportion of time spent on the project or project phase compared with the total time anticipated to complete the project or project phase; and/or

- Where the project is defined with the client in terms of time spent, the revenue is recognised on the basis of consulting time spent on the project by the Company at the time-based rates agreed with the client.

The geographical analysis of revenues (by location of shipment) was as follows:

	6 months to 30 June 2023 Unaudited £	6 months to 30 June 2022 Unaudited £	Year to 31 December 2022 Audited £
UK	11,251	634,200	1,354,872
USA	2,185	50,703	103,752
EU	71,636	29,610	67,646
China	54,332	12,122	30,631
ROW	-	8,279	10,796
	<u>139,404</u>	<u>734,914</u>	<u>1,567,697</u>

The product group analysis of revenues was as follows:

	6 months to 30 June 2023 Unaudited £	6 months to 30 June 2022 Unaudited £	Year to 31 December 2022 Audited £
Product/Unit	47,087	165,011	206,915
Consumables and spares	13,596	67,586	137,397
Service and support income	78,721	502,317	1,223,385
	<u>139,404</u>	<u>734,914</u>	<u>1,567,697</u>

Note that the above revenues in the 6 months to 20 June 2023 include £65,826 to DeepVerge subsidiaries (1H 2022: £546,718, FY22 £1,248,828). However, on 26 June 2023, DeepVerge plc announced that it would no longer be able to support its subsidiaries and was anticipating a sale or liquidation of these assets. The results above, subsequent performance in 2023 and expectations or forecasts for 2024 and beyond therefore need to be considered on the basis that no further payments and no further revenues are expected to be received from DeepVerge.

5. Cost of sales

Cost of sales of products

The cost of sales of mass spectrometers and related equipment is the bought in purchase cost of the product or the transfer value from stock value if a unit has been previously written down. Usually, the sale is made on an Ex-Works basis but if it were not the cost of delivery to the customer is also included in cost of sales.

Cost of sales of consumables and spare parts

The cost of sales of consumable and spare parts is the bought in purchase cost of the consumable or spare part or the transfer value from stock value if an item has been previously written down. Usually, the sale is made on an Ex-Works basis but if it were not the cost of delivery to the customer is also included in cost of sales.

Cost of sales of product service and product support income

The cost of sales of service and support income is the time-based apportionment of the employment costs of the relevant staff spent on the delivery of the service and support income plus any related costs of fulfilment such as travel expenses and any externally incurred direct costs. For the purposes of cost of sales, the employment costs are considered to be salaries, pensions and employers national insurance but does not include share-based payments nor any apportionment of training or overheads.

Cost of sales of consultancy services revenue

The cost of sales of consultancy services (comprising science and engineering consultancy, laboratory services and monitoring services) is the time-based apportionment of the employment costs of the relevant staff spent on the delivery of this revenue plus any related costs of fulfilment such as travel expenses and any externally-incurred direct costs. For the purposes of cost of sales, the employment costs are considered to be salaries, pensions and employers national insurance but does not include share-based payments nor any apportionment of training or overheads.

6. Loss per share

	6 months to 30 June 2023 Unaudited	6 months to 30 June 2022 Unaudited	Year to 31 December 2022 Audited
Comprehensive loss attributable to equity shareholders (£)	(1,078,527)	(704,711)	(2,288,709)
Weighted average number of ordinary 0.01p (2022: 0.01p) shares for the purpose of basic and diluted loss per share	6,324,666,516	6,287,359,621	6,324,666,516
Basic and diluted loss per ordinary share (p)	(0.017)p	(0.011)p	(0.036)p

The basic loss per share has marginally increased when compared with H1 2022. This was due to a 56% increase in the comprehensive loss, arising mainly from the 81% reduction in revenues.

Potential ordinary shares are not treated as dilutive as the Company is loss making, therefore the weighted average number of ordinary shares for the purposes of the basic and diluted loss per share are the same.

7. EBITDA Adjusted Loss

A key indicator of performance for the Company is Adjusted EBITDA Loss (Loss of earnings before interest, tax, depreciation, amortisation and other items such as share-based payments and exceptional one-off expenditure). Detailed below is the Adjusted EBITDA Loss for the period:

	6 months to 30 June 2023 Unaudited	6 months to 30 June 2022 Unaudited	Year to 31-Dec 2022 Unaudited
	£	£	£
Comprehensive loss for period	(1,078,527)	(704,711)	(2,288,709)
Adjust for:			
Tax on loss on ordinary activities	(81,207)	(119,246)	(246,224)
Depreciation of property, plant and equipment	95,250	74,364	178,102
Depreciation of right of use assets	37,797	35,980	72,528
Amortisation of Intangibles	13,921	14,099	30,487
Net finance cost/(income)	(10,176)	(2,979)	16,410
Share-based payments (excluding fee shares)	-	41,002	234,749
EBITDA Adjusted Loss	(1,022,942)	(661,491)	(2,002,657)

8. Employees and employment related costs

	6 months to 30 June 2023 Unaudited	6 months to 30 June 2022 Unaudited	Year to 31 December 2022 Audited
Staff Numbers			
Directors	2	3	3
Other staff	21	19	19
Average Headcount	23	22	22
	£	£	£
Employment costs (including Directors)			
Wages and salaries	526,258	514,539	985,734
Social security costs	57,000	74,710	133,630
Termination payments	4,854	21,125	21,125
Pension costs	70,954	77,578	144,038
Employment related share-based payments	21,277	82,943	234,749
	680,343	770,895	1,519,276

9. Provisions

	Dilapidations £	Warranties £	TOTAL £
Balance at 1 January 2023	91,619	23,766	115,385
Provided for/(reduced) during the period	25,907	7,357	33,264
Balance at 30 June 2023	117,526	31,123	148,649

The dilapidations provision has been updated for the estimated impact of inflation.

10. Commitments

As at 30 June 2023, purchase commitments relating to purchase orders placed on, and related contractual arrangements and obligations, with our third-party manufacturers amounted to £559,800 (31 December 2022: £651,944).

11. Share-based payments

The share-based payments charge comprises	6 months to 30 June 2023 Unaudited £	6 months to 30 June 2022 Unaudited £	Year to 31 December 2022 Audited £
Directors' fees settled in shares	-	41,941	85,000
Share options granted	-	41,002	149,749
Employment related share-based payments	-	82,943	234,749
Brokers' fees settled in shares	-	43,059	-
	-	126,002	234,749

There were no Directors' fees settled in shares in the 6 month period to 30 June 2023.

12. Cash absorbed by operations

	6 months to 30 June 2023 Unaudited £	6 months to 30 June 2022 Unaudited £	Year to 31 December 2022 Audited £
Total comprehensive loss for the year	(1,078,527)	(704,711)	(2,288,709)
Adjustments for:			
Amortisation of intangible assets	13,921	14,099	30,487
Depreciation of right of use assets	37,797	35,980	72,528
Depreciation of property, plant and equipment	95,250	74,364	178,102
Transfer of property, plant and equipment to cost of goods	-	-	(44,192)
Profit on disposal of right of use assets	-	-	1,638
Increase/(Decrease) in provision for dilapidation	25,907	8,199	(415)
Increase/(Decrease) in provision for warranty	7,357	(3,114)	15,840
Increase/(Decrease) in provision for expected credit losses	-	4,755	1,127,416
Share-based payments (inclusive of fees settled in shares)	-	126,002	234,749
Increase/(Decrease) in inventory provision	15,652	(14,033)	(28,152)
Tax on loss on ordinary activities	(81,207)	(119,246)	(246,224)
Interest on lease liability	2,416	4,104	7,013
Interest received	(12,592)	(5,850)	(23,423)
Cash absorbed by operations before movements in working capital	(974,026)	(579,451)	(963,342)
Movements in working capital:			
(Increase)/Decrease in inventories	(25,378)	42,587	38,008
(Increase)/Decrease in trade and other receivables	145,972	(485,413)	(1,089,832)
Increase/(Decrease) in trade and other payables	(17,461)	24,771	(118,166)
Cash absorbed by operations	(870,893)	(997,506)	(2,133,332)

13. Related party transactions

During the period, Microsaic and DeepVerge plc (“DeepVerge”) had two directors in common: Gerard Brandon and Nigel Burton. Gerard Brandon was Executive Chairman of Microsaic and CEO of DeepVerge until his resignation on 25 September 2023.

In the six months ended 30 June 2023, revenue from DeepVerge subsidiaries totalled £65,826 to (1H 2022: £546,718, FY22 £1,248,828). However, on 26 June 2023, DeepVerge plc announced that it would no longer be able to support its subsidiaries and was anticipating a sale or liquidation of these assets. The results above, subsequent performance in 2023 and expectations or forecasts for 2024 and beyond therefore need to be considered on the basis that no further payments and no further revenues are expected to be received from DeepVerge.

At 31 December 2022, £1,511,198 (2021: £247,412) inclusive of VAT was owed by DeepVerge to Microsaic relating to the supply of goods and services recognised as revenues for the year ended 31 December 2022. The Company had expected to receive material payments from DeepVerge beginning in December 2022, but in the absence of these and given the increasing levels of overdue payments from DeepVerge, the Company sought to reach a formal agreement with DeepVerge, as first announced in the RNS dated 18 April 2023. However, given the circumstances of DeepVerge’s financial position, it was not possible to obtain written agreement although DeepVerge made initial payments in line with the informally agreed plan – hence the outstanding balance reduced from £1.5m to approximately £1.4m gross in early 2023.

On 26 June 2023 DeepVerge issued an RNS casting significant doubt on its ability to settle this debt. In preparing the accounts to 31 December 2022, given that it was the opinion of the directors that the conditions leading to this were in existence at 31 December 2022, a provision for expected credit losses of £1,130,169 (2021: £0) was recognised against this debt in the accounts to 31 December 2022. This represented the amount of outstanding debt at 26 June 2023, less recoverable VAT. No further provisions were made in relation to DeepVerge in the six months ended 30 June 2023.