Company number 03568010 (England and Wales)

# Microsaic Systems plc

## Annual Report and Accounts

## 31 December 2023

## CORPORATE INFORMATION AND ADVISORS

| | |
|---|---|
| **Directors:** | Robert ('Bob') Moore (Executive Chairman)<br>Dr Nigel Burton (Non-Executive Director) |
| **Company Secretary:** | John Mottram |
| **Company number:** | 03568010 |
| **Registered office:** | York Eco Business Centre<br>Amy Johnson Way<br>York<br>YO30 4AG |
| **Auditors:** | Saffery LLP<br>Chartered Accountants<br>71 Queen Victoria Street<br>London<br>EC4V 4BE |
| **Bankers:** | HSBC Bank plc<br>95 Gloucester Road<br>London<br>SW7 4SX |
| **Solicitors:** | Freeths<br>1 Vine Street<br>Mayfair<br>London<br>W1J 0AH |
| **Nominated Adviser and Joint Broker:** | Singer Capital Markets<br>1 Bartholomew Lane<br>London<br>EC2N 2AX |
| **Joint Broker:** | Turner Pope Investment (TPI) Limited<br>3 Queen Street<br>London<br>W1J 5PA |
| **Registrars:** | Neville Registrars Limited<br>Neville House<br>Steelpark Road<br>Halesowen<br>B62 8HD |
| **Company website:** | www.microsaic.com |

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## CHAIRMAN'S STATEMENT
**For the year ended 31 December 2023**

**Dear Shareholders,**

I hereby present the Company's audited annual report and accounts for the year ended 31 December 2023. The year 2023 commenced with the Company continuing its transition from an R&D focused instrument business with the development of the innovative miniaturised mass spectrometers to a more commercially focused service business, but the Company ran into significant financial difficulties arising from the cessation of trading with the Company's largest related business party, DeepVerge plc. The unexpected failure of this major customer had a serious and material financial impact on the business during 2023 and its ability to then operate as a going concern, which inevitably resulted in a suspension of the Company's shares from trading on AIM in June 2023.

During the second half of 2023 the Company implemented a major restructuring programme, affecting the Board, senior management and staff. We subsequently successfully refinanced the business bringing financial stability and a return to trading of the shares on AIM in January 2024. The shares were again suspended from trading on AIM from 1 July 2024 due to the delay in publishing these accounts. The shares are expected to return to trading on AIM immediately following publication of both these accounts and the interim results to 30 June 2024.

As part of the restructuring programme I took over as Executive Chair in September 2023 and once we had completed the refinancing the goal of the Board was to undertake a strategic and operational review leading to the restructuring and reset of the Company.

The restructuring included the resignation of one executive director and a major reduction of the cost-base. The Company also successfully acquired the Modern Water business in January 2024 to broaden its future offering and enhance its revenue stream opportunities. The acquisition is becoming transformational for the Company in both the short and long term and will be an important part of resetting and accelerating the business performance.

**Financial Highlights:**

- Total revenue decreased by 70% on the previous year to £0.49m (2022: £1.57m) reflecting the absence of sales to DeepVerge plc;
- Operating expenses decreased to £2.88m (2022: £3.27m) reflecting the inclusion of certain restructuring and closure costs, which were more than offset by low impairment charges of £6k in contrast to 2022 debt impairment charges of £1.13m arising entirely due to the insolvency of DeepVerge plc;
- Operating loss of £2.60m (2022: £2.55m);
- Loss before tax of £2.60m (2022: £2.53m) after providing for:
  - Impairment of related party debt of £6k (2022: £1.13m);
  - Share-based payments of £21k (2022: £0.23m);
  - Depreciation and amortisation of £286k (2022: £281k);
- Cash and cash equivalents at 31 December 2023 of £0.17m (2022: £1.24m);
- Net cash balance at 4 October 2024 was £0.45m.

**Post-year end events:**

- On 12 January 2024 the Company announced the intention to acquire certain assets and elements of the Modern Water business from DeepVerge plc subject to successful fundraising;
- On 15 January 2024 the Company announced the successful placing of £1.8m in new shares;
- On 16 January 2024 the Company shares were restored and relisted on the AIM market;

- On 25 January 2024 the Company announced the completion of the acquisition of the Modern Water business from DeepVerge plc for a consideration of £100,000.
- On 16 February 2024 the Company announced the reactivation of the Modern Water laboratory and production facilities in smaller premises at Sand Hutton, York, England. The Company is also working with a large OEM in the United States to optimise the Company's PFAS system for commercial use.
- On 27 March 2024 the Company announced that it had agreed terms with GX Group, based in Usk Wales, for the continued manufacturing and further development of Continuous Toxicity Monitoring instruments ("CTMs") and related consumables previously sold by the Modern Water business.
- On 14 June the Company announced that it had reached non-binding heads of terms with Aptamer Group plc (AIM: APTA) ("Aptamer") for the development of a range of Optimer® binders to be used in its newly developed Pathogen Detector to be adapted for the detection of multiple pathogens of serious concern to public health that can be found in water in addition to Covid-19 (the "Agreement").
- On 25 June the Company announced that it had received a research and development tax credit from HMRC of £262,000 for qualifying costs expended in 2022.

**Corporate governance**

I was appointed as an independent Non-Executive Director in March 2022 and following the resignation of the former Executive Chair Mr Brandon on 25 September 2023, I was appointed as Executive Chair. Alongside the strategic review and business reset the Board is collectively committed to a high standard of corporate governance. We intend to recruit an independent Non-Executive Chair and at least one more Non-Executive Director. With the support of this strengthened Board, I intend to move to the executive CEO role to accelerate our growth and business development always maintaining proper and good governance of the Company.

**Outlook**

As part of the Company's reset, it has successfully raised net £1.8m, moved its headquarters to York England on a much-reduced cost base and has engaged a new management and operations team. The new streamlined business and acquisition of the Modern Water business has greatly expanded and diversified the potential sales and client base of the Company. The Modern Water acquisition has enabled the Company to access a wide range of valuable IP, instrumentation and consumables for water and effluent discharge toxicity monitoring and water security. These newly acquired capabilities are expected to provide the Company with growth and revenue opportunities in the short term. The assets of and equipment supplied by Modern Water are also complementary to the Company's miniaturised mass spectrometer which can be adapted and integrated into a broader and wider range of testing solutions away from the laboratory including localised PFAS detection and measurement. The outlook for water related security, toxicity measurement and remedial actions is one of the highest sector growth areas. The Company is committed to becoming a major water toxicity solutions provider with our extensive range of instruments and services and through collaborative ventures in the sector.

The acquisition of the Modern Water business is having a transformational impact on the Company. Previously the Company was reliant on sales and servicing limited to usage of our mini-mass spectrometers but with limited ongoing after sales revenue with no consumables. Now post-acquisition the Company has increasing revenue streams from a much broader range of instruments and products. We now have servicing and revenue from sales of our Microtox® brand consumable reagents used in the suite of Modern Water toxic water measuring instruments. These instruments include the laboratory LX, portable FX and our automated online Continuous Toxic Monitoring device. We manufacture sector leading Microtox® reagents for both laboratory and in-field Modern Water instrument use. Furthermore, the Company has acquired the rights to build and market the Pathogen Detector that we intend to expand from proven Covid-19 detection in water to a groundbreaking multi pathogen device to identify a much wider range of pathogens, including viruses, in water. During the current year, the Modern Water business is expected to produce the majority of the Company's revenues.

As Executive Chairman, I would like to acknowledge the support shown by new and existing shareholders, stakeholders, suppliers to the business and by our talented management and staff. We look forward to demonstrating the strategic and operational progress of the business through 2024 and beyond.

**Bob Moore**
Executive Chairman
10 October 2024

**STRATEGIC REPORT**
**For the year ended 31 December 2023**

**Progress during 2023**
The results for 2023 need to be considered on the basis that no further payments and no further revenues were received from DeepVerge plc.

2023 revenues were £0.49m, a 70% decrease on the prior year (2022: £1.57m). If sales to DeepVerge plc are excluded from these figures, the resulting sales to customers excluding DeepVerge plc were £0.43m, being 34% higher than in prior year (2022: £0.32m). This quantum of business was far below that needed to achieve profitability and accordingly the business reported substantial losses.

The overall gross margin reflected the blend of low margins on equipment sales, medium margins on consulting services and higher margins on consumables. The gross profit declined commensurately with the decline in sales.

**Operational Highlights**
- Microsaic's products and services in applications such as water monitoring of chemicals and pathogens have been installed in Ireland, UK, Japan and the US
- Laboratory services for toxic shock, insulin and a range of metabolites carried out under contract by Microsaic as mass spectrometry services
- Mass spectrometry units have been installed and demonstrated in mobile monitoring vehicles

**Strategic Focus**
Historically the Company has served Human Health, Environmental Health and Diversified markets with equipment and design services for mass detection technology, which can be used at the point of need to drive better informed, faster decisions in real time and to solve real-world problems.

Typical point of need markets and applications include process analytical technology for the detection of PFAS (forever chemicals) in the food chain, manufacture of high value biologic drugs and food contamination, including Acrylamide, screening. The Company is also developing a longer-term capability in point of care diagnostics.

Microsaic's technology can also be used in standard laboratory settings, for example in the established pharmaceutical, academic and chemical industries.

With the acquisition of the Modern Water business in January 2024 the company has reset and repositioned itself in the increasingly important water security and safety market. The ability to bring the rapidity of MicroTox® toxicity testing in combination with the discrimination possible using mass spectrometry gives a unique offering that covers both a rapid warning of a problem with the water supply and the subsequent identification of the cause of the problem. The senior management of the company also see areas to add additional techniques, both developed in-house and in collaboration with strategic partners to expand to a fully realised total solution to the water industry. This has considerably extended the reach of the Company with access to new markets to offer a much wider range of technologies and services.

**Business Model**
In 2023, the Company made a successful transition from reliance on the sale of its Mass Spectrometer instruments, consumables and spare parts to a balanced including solutions for end-users such as design, development and enhancement of third-party equipment to integrate with partner hardware and software.

Shortly after the year-end the Company raised £1.8m in new equity to provide working capital funding which also enabled the acquisition of the assets of the Modern Water business from DeepVerge plc. The immediate priority in 2024 was to adopt, integrate and progress the Modern Water work-in-progress and customer order book in tandem with fulfilling legacy Microsaic customer orders, and this work is ongoing.

As of mid-year 2024 the MicroTox® reagent production laboratories were fully functional with freeze dried new product being shipped worldwide, with increasing sales revenues. Pre-orders are being taken for a new production run, scheduled to start the end of 2024, of the LX laboratory instrument that underpins the use of the MicroTox® reagents. The Continuous Toxic Monitoring (CTM) project in Qatar is progressing well with 27 Continuous Toxic Monitoring Machines commissioned in Q3 2024 to monitor the water purity throughout Doha. This success of this flagship project is expected to result in increased sales of CTMs and services in the Gulf States region during 2025.

Moving forward the Company will look to engage in strategic relationships in key areas to progress new products and introduce existing ones to wider markets both in the UK with domestic water companies and water authorities internationally. The objective of the Company is to be technology driven with a social purpose focussing on the rapidly growing sector to monitor toxins in water and water pollution.

**Stakeholder Engagement**

Section 172 of the Companies Act 2006 ("S.172") recognises that companies are run for the benefit of shareholders, but that the long-term success of a business is dependent on maintaining relationships with stakeholders and considering the external impact of the Company's activities.

Microsaic's key stakeholders are our employees, shareholders, partners (including distributors, OEMs and collaborators on new products), and our key suppliers such as our manufacturing contractors and key R&D subcontractors. By working with all stakeholder groups, the Company can unlock the potential of the business and maximise the value created. The key principles and values adopted by the Company are detailed under Principle 8 of the QCA Corporate Governance Code (2018).

For Microsaic, engagement with our key stakeholders is part of how we operate as a business. Actively seeking to understand the concerns and aspirations of our employees, how we can better engage with them, how we can work more closely with the partners who distribute our products and those that we collaborate with, plus the challenges faced by our manufacturing partner and other suppliers.

The Company has shifted the focus to growth in commercial sales across both product and service offerings targeting solutions to meet the requirements of existing clients and investigating markets to capitalise on the value of the new business model. The Directors continue to engage with shareholders and key stakeholders keeping them up to date on progress.

Under S.172, a company's directors have a duty to discharge their responsibilities having regard to:

a) *the likely consequences of any decision in the long term* – The focus of the Board during 2023 was the restructuring of the business to ensure economic viability and to deliver a more commercial focus with emphasis on delivery of solutions, beyond equipment sales.

b) *the interests of the company's employees* – The Board regards the expertise and contributions of its employees as critical to its future success. Executive management regularly update employees on the progress of the business. The Board seeks to remunerate its employees fairly and has adopted a flexible working hours policy to cater for employee needs. Full and fair consideration is given to applications for employment received regardless of age, gender, colour, ethnicity, disability, nationality, religious beliefs or sexual orientation.

During the year under review, major restructuring changes were made to address the more commercial focus of the business model. These changes were made with full consultation with team members. We ensured that supportive HR systems were in place and decisions on new personnel were made in collaboration with the team and an appropriate consultation process. Although most employees left the company, the process enabled our commitments to them to be met, which would not have been possible without the restructuring and refinancing of the business.

c) *the need to foster the company's business relationships with suppliers, customers and others* – Customer satisfaction and trust are critical for our success. By providing a high quality product, solution or service to meet those demands, we increase customer satisfaction. Over a 22 year period, this has allowed us to build trust within the community we operate in and with our customers showing our commitment to quality and continuous improvement. This includes our ongoing commitment to ensure that our suppliers continued to be paid on time.

d) *the impact of the company's operations on the community and the environment* – The Company meets operational efficiencies and systematic processes that come with our certification of ISO 9001 leading indirectly to positive community and environmental impacts.

As part of the ISO 9001 process, we are required to consistently monitor and manage our operations. This has led to improvements in efficiency and effectiveness.

ISO 9001 requires us to have a process for selecting and managing suppliers. This has led us to selecting suppliers who also have a commitment to sustainability, thus extending the environmental and community impact.

ISO 9001 requires us to identify and address risks in our daily operations, which indirectly benefit the environment and the community by preventing incidents that could have negative effects.

e) *the desirability of the company maintaining a reputation for high standards of business conduct* – the Company acted in a professional manner during 2023 liaising with key stakeholders and followed the principles and values of the Company as outlined on pages 25 to 33 of the Corporate Governance Report.

f) *the need to act fairly as between members of the company* – the Board treated shareholders fairly and made sure it kept them up to date through regular press releases. Significant shareholders were given the opportunity to meet and discuss with senior management and members of the Board.

Performance Measurement

The ongoing performance of the Company is managed and monitored using several key financial and non-financial performance indicators as detailed below:

| **Revenue** | Year to 31 December 2023 £000s | Year to 31 December 2022 £000s | Increase/ (Decrease) £000s |
|---|---|---|---|
| Products | 286 | 207 | 80 |
| Consumables and spare parts | 98 | 138 | (40) |
| Product support services income | 48 | 55 | (8) |
| Consultancy services income | 60 | 1,168 | (1,108) |
| Total | 492 | 1,568 | (1,076) |

The Company's revenue declined in 2023 due to the cessation of Consultancy and related sales to DeepVerge plc which comprised £1.25m in 2022. Revenue comprises the sale of products, consumables and spare parts, product support services income and consultancy services income (comprising science and engineering consultancy, laboratory services and monitoring services). The Board reviews trading results and monitors cash on a monthly basis.

| **Profit/(Loss) & Cash Metrics** | Year to 31 December 2023 £000s | Year to 31 December 2022 £000s | Increase/ (Decrease) £000s |
|---|---|---|---|
| Loss from operations before share-based payments, interest, and tax | (2,583) | (2,317) | (266) |
| Net cash used in operating and investing activities | (1,010) | (2,345) | 1,335 |
| Cash and cash equivalents | 173 | 1,241 | (1,068) |

The Company's profitability is monitored against budget on a monthly basis. Revenue decreased year on year while other operating expenses decreased and there were no further costs in relation to corporate transactions. The Company monitors its cash position closely, and forecasts are updated on a regular basis.

Non-financial key performance indicators measure a number of key areas, including commercial and operational targets, such as number of sales orders, unit production, new products transferred to manufacturing, number of collaborations, agreements signed with new customers and quality measures from the Company's ISO 9001:2015 system. Given the significant change in business model throughout 2023 and 2024, direct analysis has not been possible but these metrics are being monitored going forward.

### Financial Results - 2023

*Income and expenditure*

Total revenue of £492k decreased 70% compared to the prior year (2022: £1,568k) due principally to the substantial decline in consulting revenues due to the absence of any sales to DeepVerge plc.

The large decline in gross profit in 2023 to £299k (2022: £950k) was commensurate with the decline in revenue arising above.

Total operating expenses (excluding share-based payments and impairment) of £2,876k (2022: £2,136k), increased by £740k driven by the costs of restructuring the business during Q4 2023. Impairment costs decreased substantially from £1.13m in 2022 to £6k in 2023 as the receivable from DeepVerge plc was impaired in the prior year.

Share based payments of £21k were £214k lower than the prior year (2022: £235k) and reflect limited activity comprising the vesting of 280 million EMI options in February 2023 which subsequently lapsed as staff left employment. No options or warrants were exercised during the year and all had lapsed by 31st December 2023 to leave a zero balance on the share based payment reserve.

Finance costs of £5k were slightly lower than the prior year (2022: £7k). These costs comprised £3k in penalty interest for late HMRC filings and £2k of interest on lease liabilities.

Finance income of £13k decreased compared with the prior year (2022: £23k) as higher interest rates on bank deposits were more than offset by reducing cash balances.

The R&D tax credit for development activities conducted during 2023 has not yet been compiled and accordingly the amount recognised in the financial statements is £nil. (2022: £246k credit recognised in the statement of comprehensive income). The R&D tax credit claim for 2022 was successfully received in full during the first half of 2024.

The total comprehensive loss for the year of £2,597k was higher than the prior year (2022: £2,289k). The significant decline in gross profits in 2023 arising from the absence of any sales to DeepVerge plc coupled with business restructuring costs gave rise to substantially higher losses than in 2022 offset partially by an absence of any significant debt impairment charges in 2023. The basic loss per share was 0.041 pence versus 0.036 pence per share in 2022.

*Balance Sheet*
Total non-current assets decreased £337k to £166k (2022: £503k). This was principally due to an absence of any asset additions during the year and a number of asset divestments and scrappings pursuant to the reorganisation of the company and the closure of the Woking office.

Current assets at £547k were down £2,076k (2022: £2,623k). The decrease was mainly due to a substantially lower cash balance of £173k (down £1,068k) as business losses were absorbed coupled with rationalisations to inventory and trade debtors.

Total assets at £713k at year end were £2,414k lower than the prior year (2022: £3,127k), reflecting the impact of the loss for the year reducing current assets at the year-end as set out above.

Total equity at £144k was £2,576k less than the prior year (2022: £2,720k), reflecting absorption of the year's post-tax loss and the release of the share based payment reserve.

Total liabilities of £570k were £163k higher than in the prior year (2022: £407k) due to the timing of the restructuring programme which generated significant closure and severance-related costs with some remaining outstanding at 31 December 2023 and becoming settled shortly thereafter.

*Cash Flow*
Net cash used in operating activities in 2023 of £1,058k was substantially lower than the previous year (2022: £2,133k) and reflected the efforts of the Directors to improve the financial position of the company with a concerted effort towards cost-cutting and as well as a favourable swing in working capital as the Company's operations reduced towards the end of the year.

After allowing for the general absence of asset purchases in the year and the receipt of £48k from the sale of assets, there was a net cash inflow from investing activities of £48k (2022: net cash used £212k).

Net cash used by financing was £59k (2022: £122k generated) due to no major funding initiatives during 2023 in contrast to 2022.

The net decrease in cash for the year of £1,069k (2022: £2,223k) resulted in a cash balance as at 31 December 2023 of £173k (2022: £1,241k)

*Going Concern*
The Company is loss making and has raised funds in the past by issuing equity in discrete tranches. The most recent fundraises were completed on 5 February 2021 and January 2024 where the Company raised £5.2m and £1.8m respectively after expenses from new and existing shareholders.

At 31 December 2023, the company held cash balances totalling £173k and net current assets of £20k. Combined with operating losses of £2.6m in each of the years ended 31 December 2022 and 2023, the ability of the Company to settle liabilities as they fall due was therefore in doubt.

Following the January 2024 fundraise the directors restructured the business to reduce the cost base and utilised £0.1m of the fundraise to purchase the trade and assets of the Modern Water business and have focused on reviving Microsaic's pipeline of sales alongside the production and sale of reagents and instruments for Modern Water.

As a result of the investment and the Company continuing to be loss making, the cash balance at 4 October 2024 was £0.45m. The Company has been generating negative EBITDA since the end of December 2023.

In assessing the ability of the company to continue as a Going Concern, the directors have reviewed sales projections and cashflow forecasts to 31 December 2025 alongside a thorough review of the Company's reserves and working capital requirements from the date of approval of the financial statements. Under the base case forecast, the directors anticipate sales of instruments and reagents to be sufficient over the 14 month period to 31 December 2025 to allow the Company to meet its liabilities as they fall due. Of these sales, the Company has secured a Qatar contract as discussed in the Strategic Report (valued at €571k), with cash inflows expected to commence in Q4 of 2024, although the timing of this inflow is uncertain.

The directors acknowledge there are significant uncertainties inherent in forecasting future sales, given the requirement of the Company to effectively restart trading during 2024 and volatile trading environments. It is possible that the sales assumptions underpinning these forecasts may not be achieved, or that margin assumptions may not be met. Consequently, the directors have explored sensitivities to the above base case to model the impact of reduced sales, including a "severe but plausible" downside scenario.

Sensitivity Analysis

The directors believe that a severe but plausible downside scenario, whereby no instrument sales are included for the second half of 2025, would still allow the Company to maintain positive cash headroom to 31 December 2025. However, in the event that none of the unconfirmed sales (being sales not currently contracted) realise, the Company would have insufficient working capital to continue in operation past February 2025.

In addition to the scenarios described above, the Directors have performed a reverse stress test ("Reverse Stress Test") to quantify the level of sales decline and cost increases that can be absorbed.

The Reverse Stress Test only considers cost savings from directly attributable variable costs associated with the reduction in sales, including production costs, Directors salaries and marketing costs. No other cost savings are assumed to be delivered. The Directors note however that the Company has been able to make significant cost savings in the past with short lead times.

The directors have concluded that, applying the above conditions in the Reverse Stress Test, a minimum sales level of approximately £84k per month, in addition to the Qatar contract, is required to enable the Company to remain liquid and with positive cash headroom over the going concern assessment period. While the directors consider this to be an achievable target, it is acknowledged that this exceeds the level of turnover experienced in the year ending 31 December 2023 or in 2024 to date.

While the directors remain confident that there is a reasonable possibility that the forecast sales pipeline can be converted into new customers and be cash generative for the Company, at the date of this report the future required minimum sales levels have not been achieved. Accordingly, there is a material uncertainty that may cast significant doubt over the Company's ability to continue as a going concern.

Mitigating actions

The Directors consider the scenario envisaged under the Reverse Stress Test arising to be unlikely, and that in the event it did arise the Company has demonstrated its ability to deliver cost savings and seek alternative capital.

If performance deviates materially from the base case, there are several actions that the Company could undertake to mitigate the liquidity and profit impact. These include:

- Cost savings initiatives with a focus on areas of discretionary spend such as marketing, travel and certain professional fees. These cost savings are included within the existing forecasts
- Reduction in stock purchases and manufacturing levels to reflect the lower sales projections
- Reduction in project, IT and CAPEX spend which for a short period of time would not adversely impact our sales and customer proposition.

Going Concern Assessment
Having considered the forecasts noted above, the mitigating actions available to management, recent trading performance and having regard to the macroeconomic risks and uncertainties to which the Company is exposed, the Directors have a reasonable expectation that the Company has adequate resources to continue operating for the foreseeable future and to operate for a period of at least 12 months from the date of these financial statements. Accordingly, the financial statements have been prepared on a going concern basis.

Stakeholders should be aware that there is a material uncertainty arising on this assessment in respect of the inherent uncertainty attached to the future sales pipeline and projections, and the associated timing of cash receipts. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

## Outlook

The impact of the related party issues, in particular the failure of DeepVerge plc to pay the £1.1m owed to the Company and to implement a debt reduction plan, fundamentally changed the outlook for the Company. DeepVerge plc became technically bankrupt in mid 2023 extinguishing any likelihood of any recovery of this debt. A very significant cost reduction exercise was implemented in Q4 2023 to transform the Company to remain as an operating business, with access to sufficient resources (including external contractors) to maintain production of the current mass spectrometer machines and continue existing trading relationships.

Shortly after the year end the Company raised £1.8m in January 2024 to facilitate these sales and allow operations to continue on a much-reduced cost base and to remain on AIM. A main objective of the fund raise was to acquire the Modern Water business which the board considered to be an essential acquisition for the Company to be able to remain as a going concern. As a result of the successful fund raise the Company was able to stabilise and resurrect relationships and sales with previous Modern Water customers. A principal contract to implement commissioning of the 27 Continuous Toxic Measurement (CTM) machines already delivered to Qatar was resurrected. The Company signed a new purchase order for commissioning of and training on these CTMs and for supply of Microtox® reagent consumables to Qatar. These Microtox® reagents are manufactured at our newly opened laboratory near York England. The Company was invited and participated on the Great Britain & Northern Ireland Department of Business and Trade sponsored stand at the Singapore International Water Week as part of our revised marketing plan to supply comprehensive and industry leading toxic water testing solutions with the new brand name of 'Tethys Purity'.

We are substantially rebuilding and redesigning our organisation as a slimmer and leaner operation, focusing on the sale of our water toxicity testing equipment and consumables recently acquired from Modern Water together with our mini mass spectrometer marketed as complimentary technologies. This broader and more diverse capability of the Company is designed to deliver much better economic growth for the Company.

Due to market demand for Modern Water laboratory equipment the business plan has been accelerated to include production of the LX instrument this year with initial sales expected late 2024 into 2025.

Additionally, we are working with an external partner to restart production of the QuickChek SRB kit again due to market demand in the Gulf region.

Further demand of the CTM systems in Qatar and surrounding region is confidently expected in 2025.

The Strategic Report was approved by the Board of Directors on 10 October 2024 and signed on its behalf by:

**Bob Moore**
Executive Chairman

## DIRECTORS' REPORT

The Directors present their report for the year ended 31 December 2023.

**Principal activity, business review and business risks**

Until January 2024 the principal activity of the Company was the commercialisation and development of miniaturised micro-engineering equipment, originally for mass spectrometry instruments. Now post-acquisition of the Modern Water business the Company is now principally focussed on monitoring water for toxins and pathogens by integrating the wider equipment portfolio together with manufacture of specialised Microtox® reagent consumables. A review of the business is contained within the Strategic Report.

**Results and dividends**

The results for the Company are given in the statement of comprehensive income set out on page 40. The Company is currently making losses and has retained losses which have to be recovered before it can pay a dividend. Therefore, the Directors do not recommend the payment of a dividend (2022: £nil).

**Business Development & Sales**

Revenues are made through OEM and distribution sales channels with direct and collaboration partners currently in place, covering North America, Europe, China, Southeast Asia and Japan.

**Research and development ("R&D")**

R&D is important for the Company's success and has led to the filing of over 80 patents to date. The Company conducts periodic reviews of its patent portfolio to align it with current business strategy. After the most recent review in 2023, the active patent portfolio has reduced to 51 patents with 7 additional patents applications in the filing process.

**Directors**

Between 1 January 2023 and 31 December 2023, the following Directors held office:

Gerard Brandon, Non-Executive Chairman (Age 61) [1]
Dr Nigel Burton, Non-Executive Director (Age 66)
Bob Moore, Independent Non-Executive Director (Age 67) [2]

[1] Resigned as a Director on 25 September 2023. Age at date of resignation.
[2]Appointed as a Director on 15 March 2022. Appointed as Executive Chairman 25 September 2023.

**Directors' interests**

The Directors' historic interests in the shares of the Company were:

| | Ordinary shares of 0.01p at 31 December 2023 | | Ordinary shares of 0.01p at 31 December 2022 | | Ordinary shares of 0.25p at 31 December 2021 | |
|---|---|---|---|---|---|---|
| | Number | % | Number | % | Number | % |
| Gerard Brandon[1] | 190,000,000 | 2.99 | 190,000,000 | 2.99 | 140,000,000 | 2.30 |
| Dr Nigel Burton | 300,500,000 | 4.72 | 300,500,000 | 4.72 | 65,500,000 | 1.08 |
| Bob Moore | - | - | - | - | - | - |
| | 490,500,000 | 7.71 | 490,500,000 | 7.71 | 205,500,000 | 3.38 |

[1] Resigned 25 September 2023. This figure includes 50,000,000 shares by a person closely associated with Gerard Brandon.

The above table highlights the historic director's shareholding interests in the company at 31 December 2023 and prior years. In January 2024 all of the company's 6,361 million ordinary shares were subjected to a 625:1 consolidation to result in 10.2 million shares in total and 10.2 million deferred shares issued in order to maintain the nominal value of equity, with such deferred shares holding almost no rights. A capital raise then took place with the issuance of 169 million additional ordinary shares for a net cash consideration after costs of £1.8million. The resulting number of ordinary shares in the company after these events in January 2024 was 178 million. The table below highlights the major shareholders at suspension of trading on 30 June 2024 and includes the holdings of all Directors.

**Significant shareholdings**

In January 2024 the shares were subject to a 625 to 1 consolidation followed by a placing. Further to this, the significant shareholdings in the company including Directors' interests were as follows at suspension of trading on 30 June 2024.

| **Ordinary shares of 0.001p each at 10 September 2024** | | |
|---|---|---|
| **Holder** | **Shares** | **%** |
| Bob Moore | 9,040,000 | 5.05% |
| Nigel Burton | 2,480,800 | 1.38% |
| Premier Miton Group | 16,000,000 | 8.93% |
| Unicorn | 1,200,000 | 0.67% |
| Spreadex | 8,000,000 | 4.46% |
| Nick Slater | 8,000,000 | 4.46% |
| Edale Capital LLP (Edale Europe Absolute Master Fund) | 8,000,000 | 4.46% |

**Employees**

The Board regards the expertise and contributions of its employees as critical to its future success. Executive management regularly update employees on the progress of the business. The Board seeks to remunerate its employees fairly and has adopted a flexible working hours policy to cater for employee needs. Full and fair consideration is given to applications for employment received regardless of age, gender, colour, ethnicity, disability, nationality, religious beliefs or sexual orientation.

The Board would like to thank all the Company's employees for their contributions to date.

**Company share ownership plans**

During the year the Company operated two Employee Share Option Schemes ("ESOS"), an approved scheme and an unapproved scheme.

The ESOS were formed to enable the incentivisation of employees to be aligned to the performance of the Company. Under the ESOS the Company grants employees options to acquire the Company's ordinary shares subject to:

- Vesting periods (normally three years for new grants) and an exercise period of up to ten years from the date of grant;
- The exercise price is normally the market price of the ordinary shares at the close of business the day before the date of grant unless the award is linked to an equity fundraise; and
- Performance and time-based vesting conditions as appropriate.

Options are granted up to the maximum amount allowed under the limits of the Enterprise Management Incentive ("EMI") Scheme – these options are called 'Approved Options'. The EMI Scheme is subject to the provisions of Schedule 5 of the Income Tax (Earnings and Pensions) Act 2003 and has tax advantages for the employee and employer. There is an unapproved scheme, which has no tax advantages, for those awards which do not qualify under the Approved Option scheme.

No options were awarded in 2023. As a result of the restructuring programme during Q4 2023, the Company had no remaining employees at 31 December 2023 and hence no share options were in existence at this date.

**Management of risk**
The management of operational risk is covered in the Corporate Governance Report while financial risk is detailed under note 27 Financial Instruments.

**Health and safety and the environment**
The Company is committed to providing a safe environment for its staff and other parties for whom it has a responsibility. It has set up systems and processes to ensure compliance with health and safety legislation and the Board reviews an update on health and safety matters at each main Board meeting.

The Company is also mindful of its corporate responsibilities concerning the impact of its activities on the environment and seeks to minimise this impact where practicable.

**Quality management system**
The Company's mission is to deliver miniaturised micro-electronic equipment and Internet of Things designed to analyse data, using AI analytical services, demanded by clients that include, but are not exclusively related to miniaturised micro-electronic instruments that provide innovative compact detection with high quality and reliability.

The Company's quality policy applies to the development, marketing and support of our products. In all its activities the Company is strongly focused on commitment to the requirements of its customers including:

- Management of risks to prevent operational and product problems that may adversely impact customer satisfaction and the interests of other parties; and
- Management of any externally provided products and services to ensure that they meet specified requirements including changing needs.

To help management achieve its policy, the business management system has been developed using a process approach including a Plan-Do-Check cycle, risk-based thinking, and a fundamental commitment to the continual improvement of the system and its effectiveness and integration into the Company's activities.

The Company's Quality Management System is based on ISO 9001:2015. This standard puts considerable emphasis on risk management and management involvement within the quality management system.

**Directors' indemnity and insurance**
The Company has granted an indemnity to its Directors and Officers under which the Company indemnifies them, subject to the terms of the deed of indemnity, against costs, charges, losses, damages and liabilities incurred by them in the performance of their duties. The Company also maintains Directors and Officers liability insurance against the consequences of actions brought against them in relation to their duties for the Company.

**Related party transactions**
The interests of the Directors are shown in the Directors' Report while their remuneration is detailed in the Directors' Remuneration Report. Other related party transactions involving the Directors during the 2023 financial year are included in note 28.

**Directors' responsibilities**
The Directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Company financial statements in accordance with International Financial Reporting Standards as adopted by the United Kingdom. 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 Company and the profit or loss of the Company for that period.

In preparing the financial statements the Directors are required to:

- Properly select and apply accounting policies ;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRS's are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- Make an assessment of the Company's ability to continue as a going concern.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Statement of disclosure to auditors**
So far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware. Additionally, the Directors have taken all the steps that they should have taken to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

**Auditors**
Saffery LLP has expressed its willingness to remain in office as auditors of the Company, and a resolution for its re-appointment will be proposed at the forthcoming Annual General Meeting.

**Future developments**

An indication of likely future developments in the business of the Company is included in the Strategic Report.

This Directors' Report was approved by the Board of Directors on 10 October 2024 and signed on its behalf by:

**Bob Moore**
Executive Chairman
Company number 03568010

**DIRECTORS' REMUNERATION COMMITTEE REPORT**
**For the year ended 31 December 2023**

Dear Shareholders

Dr Nigel Burton chairs the Remuneration Committee which includes Bob Moore.

Gerard Brandon was acting CEO and Executive Chairman and resigned on 25 September 2023. Dr Nigel Burton continued as a Non-Executive Director and Bob Moore was appointed Executive Chairman following Mr Brandon's resignation.

This report has been prepared with reference to the Quoted Companies Alliance guide "Remuneration Committee Guide for Small and Mid-Size Quoted Companies." The Company has sought to comply with the overarching principles of the guidance, although not all recommended disclosures have been included on the basis that they are not relevant to the current circumstances of the Company.

This report sets out the Company's policy on the remuneration of Executive and Non-executive Directors, together with details of Directors' remuneration packages and service contracts.

**Remuneration policy**
The remuneration policy for Executive Directors, determination of their individual remuneration packages and their performance appraisals have been delegated to the Board's Remuneration Committee.

**Remuneration of the Executive Directors**
In setting the remuneration for the Executive Directors, the Remuneration Committee considers several factors including:

- Basic salaries and benefits available to Executive Directors of comparable companies;
- Need to pay Executive Directors a competitive salary in line with the nature and complexity of their work;
- Need to attract and retain Executive Directors of an appropriate calibre;
- Need to ensure Executive Directors' commitment to the continued success of the Company by means of incentive schemes; and
- Need for the remuneration awarded to reflect performance.

The remuneration of the Executive Directors consists of basic salary. There are no other payments currently in place. A discretionary bonus scheme based on performance against individual and business objectives did not operate during the year (2022 bonus: Nil).

**Remuneration of the Non-Executive Chairman and Non-Executive Directors**
The Chairman of the Remuneration Committee discusses the remuneration of the Non-Executive Directors with the Executive Directors. The remuneration is then discussed and agreed by the Board (excluding Directors with a conflict of interest) following recommendation by the Remuneration Committee, having a view to rates paid in comparable organisations. The Non-executive Directors do not receive any pension, bonus or other Company benefits.

**Share options and shares**
There were no new share options granted to the Directors during 2023.

Details of the shares held by Directors are listed in the Directors' Report.

**Implementation of the remuneration policy in 2023**

The following long term warrant awards were part of the reorganisation of the Company to incentivise the new Directors appropriately. These warrants are exercisable at the placing price of 0.1 pence per ordinary share for 5 years from 5 February 2021, provided that the ordinary shares have traded at a Volume Weighted Average Price (VWAP) at or above a 50% premium to the placing price for 20 consecutive business days, at any time since their issue, or on a change of control of the Company. The vesting conditions were met in March 2021 and these options and warrants became exercisable in full at that point. On 11 February 2022 Dr Burton exercised all of his warrants.

| Director | Number of Options | Number of Warrants |
|---|---|---|
| Gerard Brandon (lapsed on resignation on 25 September 2023) | 0 | 250,000,000 |
| Dr Nigel Burton (warrants exercised 11 February 2022) | 0 | 200,000,000 |

**Directors' notice periods**

Details of the Director's notice periods as per their service contract are as follows:

| | Contract date | Term | Notice period |
|---|---|---|---|
| Nigel Burton | 5 February 2021 | Three years[1] | 3 months |
| Gerard Brandon | 5 February 2021 | Three years[2] | 3 months |
| Bob Moore | 15 March 2022 | Twelve months[3] | 3 months |

[1] Notice cannot be given by the Directors during the first two years of their appointment except to the end of the period to which their fees have been paid in advance.

[2] Mr Brandon resigned on 25 September 2023 and waived his rights to notice pay.

[3] The initial term is the earlier of 12 months or the first AGM. Subject to re-election at AGM, the appointment is anticipated to last at least 3 years.

**Directors' emoluments**

Directors' remuneration in 2023 is detailed below.

| | Salaries & fees £ | Non-cash payments £ | Pension contributions £ | Share-based payments £ | Year to 31 December 2023 £ | Year to 31 December 2022 £ |
|---|---|---|---|---|---|---|
| Gerard Brandon[1] | 97,820 | - | - | - | 97,820 | 50,000 |
| Nigel Burton | 35,000 | - | - | - | 35,000 | 35,000 |
| Bob Moore[2] | 30,000 | - | - | - | 30,000 | 23,750 |
| Glenn Tracey[3] | - | - | - | - | - | 38,826 |
| TOTAL | 162,820 | - | - | - | 162,820 | 147,576 |

[1] Resigned as a Director on 25 September 2023.

[2] Appointed as a Director on 15 March 2022.

[3] Resigned as a Director on 31 March 2022.

**Directors' share options**

There were no Share options or warrants over the Company's ordinary shares held by the Directors at the year-end .

The share-based payment charge in relation to the share option grants to Directors and lapsed options during the year was £nil (2022: £nil).

The Directors' Remuneration Report was approved by the Board of Directors on 10 October 2024 and signed on its behalf by:

Nigel B

**Dr Nigel Burton**
Chairman of the Remuneration Committee

**DIRECTORS' FINANCE & AUDIT COMMITTEE REPORT**
**For the year ended 31 December 2023**

**Introduction**
This report details how the Finance & Audit Committee ("the Committee") has met its responsibilities under its terms of reference. The Committee is a sub-committee of the Board. As Non-Executive Directors, the members of the Committee are, together with the Board as a whole, responsible for the integrity and probity of the Company. The work of the Committee is aimed at supporting the creation of long-term value for shareholders.

The Committee continues to act as an oversight sub-committee of the Board, considering and challenging but not itself performing the relevant processes. The ultimate responsibility for reviewing and approving the Annual Report and Accounts and interim financial statements remains with the Board.

The Committee does not believe there is a requirement for an internal audit function due to the Company's size and level of complexity.

**Role and Responsibilities**
The Board has established a Finance & Audit Committee to monitor the integrity of the Company's financial statements and the effectiveness of the Company's internal financial controls. The Committee's role and responsibilities are set out in the terms of reference which are available from the Company's website. The terms of reference are reviewed regularly and amended where appropriate. During the year, the Committee worked with management and the external auditors in fulfilling these responsibilities.

The Committee report deals with the key areas in which it plays an active role and has responsibility. These areas are as follows:

i. Financial reporting and related primary areas of judgement;
ii. The external audit process;
iii. Risk management and internal controls; and
iv. Whistleblowing procedures.

The members of the Finance & Audit Committee are Dr Nigel Burton and Bob Moore. The Board considers that the Committee has an appropriate and experienced blend of commercial, financial and industry expertise to enable it to fulfil its duties.

**Financial Reporting and External Audit Process**
The Chairman of the Committee participated in the Audit Planning meeting held in March 2024 with the external auditors to plan the financial audit, discussed potential key audit matters and along with the Committee reviewed the Audit Strategy Document.

The Board as a whole, reviewed the going concern paper prepared by management including detailed financial forecasts for the period 2024 to 2025, related assumptions, risks and opportunities, sensitivities, and areas for mitigation. The outcome of the Board's discussions on going concern is explained in more detail in note 3.

The Committee has satisfied itself that the 2023 Annual Report and Accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the United Kingdom, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

**Risk Management and Internal Controls**

The Board considered as part of its review of risks those risks detailed in the Strategic Report including mitigating actions. At the date of this report, the Company continues to be a going concern (subject to material uncertainty around future revenues, as set out in Note 3). As announced on 3 November 2023 and explained above, the Company implemented a significant cost reduction exercise and in January 2024 raised £1.8m in funds to provide additional working capital, including to remain on AIM.

Another key responsibility of the Committee is to review the Company's internal control systems, including internal financial controls. An independent and qualified chartered accountant was contracted to review and update the Company's Financial Procedures Manual to ensure it was in line with current practice. There were no reported instances of fraud during the year.

The Company's auditors are encouraged to raise comments on internal control in their management letter following the annual audit. The points raised and actions arising are monitored through to completion by the Finance & Audit Committee.

**Whistleblowing**
The Committee had no whistleblowing incidents reported during 2023. Dr Nigel Burton was appointed Primary Designated Officer during the year.

**Committee Meetings**
The Committee met twice in the year. Both meetings related to the Annual Report and Accounts which the external auditors attended.

**Auditors Fees and Non-Audit Services**
The Committee reviewed and agreed to the proposed audit fee of £62k (2022: £31k). Fees for other audit related services during the year amounted to £4k (2022: £4k). These fees included the review of 2023 interims and the provision of information around accounting standards.

**Auditor Independence**
The Committee satisfied itself on the auditors' independence. Mr Roger Weston has completed his five annual audits of the Company in the capacity as partner in charge, and now rotates off the audit this year to maintain independence and is replaced by Stuart Macdougall. No non-audit services have been provided in the current financial year.

The Report of the Finance & Audit Committee was approved by the Board of Directors on 10 October 2024 and signed on its behalf by:

Nigel B

**Dr Nigel Burton**
Chairman of the Finance & Audit Committee

**CORPORATE GOVERNANCE REPORT**
**For the year ended 31 December 2023**

**Board composition**

Gerard Brandon was acting CEO and Executive Chairman until his resignation on 25 September 2023. Dr Nigel Burton continued as a Non-Executive Director and Bob Moore was promoted from Senior Independent Non-Executive Director to Executive Chairman following Mr Brandon's resignation. Their biographies are detailed under Principle 6 in this Report.

**Board Committees**

The Finance & Audit and Remuneration Committees are chaired by Dr Nigel Burton, and Bob Moore is a member of both committees, as was Mr Brandon until his resignation. Bob Moore was the Senior Independent Non-Executive Director until his appointment as Executive Chairman following Mr Brandon's resignation.

**Chairman's Corporate Governance Statement**

The full corporate governance statement is published and maintained up to date on the Company's website at https://www.microsaic.com/investors/#corporate_governance. This extract from that statement is included in the Annual Report & Accounts as required by the Quoted Companies Alliance's ("QCA") Corporate Governance Code for small and mid-size quoted companies (2018) (the "2018 Code").

The Board is committed to maintaining high standards of corporate governance and, with effect from 26 September 2018, the Board adopted the 2018 Code.

The 2018 Code sets out ten broad principles of corporate governance. It states what are considered to be appropriate corporate governance arrangements for growing companies and requires companies to provide an explanation about how they are meeting the principles through certain prescribed disclosures.

The Chairman leads the Board and is responsible for its overall effectiveness in directing the Company. He manages the Board agenda and ensures that all Directors receive accurate, timely and clear information and effectively contribute their various talents and experience in the development and implementation of the Company's strategy. He ensures that the nature and extent of the significant risks which the Company is willing to embrace in the implementation of its strategy are challenged and determined by the Board. The Chairman is responsible for ensuring that the Board implements, maintains and communicates effective corporate governance processes and for promoting a culture of openness and debate designed to foster a positive governance culture throughout the Company.

The Board has considered how each principle is applied and provides below an explanation of the approach taken in relation to each principle and how they support the Company's medium to long-term success.

The Board agenda is regularly reviewed to ensure that all matters which the Board should consider are addressed. This allows for presentations from the Management Team so that the Board benefits from their input.

The Company includes a Remuneration Committee Report and a Finance & Audit Committee Report in its Annual Report and Accounts.

Following the Board changes in September 2023, provided that the Company remains public, the Board intends to recruit a further independent Non-Executive Director and at least one executive director so that Mr Moore can return to his Non-Executive role. The Head of Finance and Company Secretary role was contracted to Anthony Clayden of Strategic Finance Director Limited, although in November 2023 he was replaced in both roles by John Mottram.

Save in respect of Principle 5 in consideration of the independence of the Non-executive Directors, which is considered in more detail below, the Board considers that it does not depart from any of the principles of the 2018 Code.

## PRINCIPLES TO DELIVER GROWTH

**PRINCIPLE 1:** Establish a strategy and business model which promote long-term value for shareholders.

**Strategy:**
Microsaic's strategic aim is to capitalise on its strengths in point of need detection systems, and access high-growth and emerging Life Science and Environmental applications, as well as niches in traditional small molecule markets. The Company intends to achieve its strategy with a business model built on customer focus, collaborations, and technology innovation subject to the available resources.

**Business Model:**
The Company's business model is outlined on page 7 of the Strategic Report.

**Challenges:**

**Staying relevant to future customer needs**
Customer needs evolve rapidly. Future product specifications are driven by end-user requirements and the Company has identified water toxicity monitoring as its main target sector particularly given there is a greatly increased public awareness for the essential need for pure and safe potable water. This will inform Microsaic's product strategy as its Mass Spectrometer detectors move from customer laboratories into production and front-line operating environments including the potentially large market for PFAS (forever chemicals) monitoring . Microsaic aims to ensure that its strategic product development remains focused on meeting demanding life sciences and Modern Water's toxic water testing applications.

**Remaining innovative in an advancing technological landscape**
Microsaic has successfully developed and implemented advanced technology with over 80 patents to date and has acquired additional intellectual property and instrument designs with the acquisition of the Modern Water business. This has led to a solid foundation serving scientists in the laboratory i increasingly in life and environmental science markets. The Company conducts periodic reviews of its patent portfolio to align it with current business strategy. After the most recent review in 2023, the active patent portfolio has reduced to 51 patents with 7 additional patents applications in the filing process.

The Company has recently made substantial cost reductions via a major restructuring programme in Q4 2023. As a result, the new and substantially smaller organisation will continue to operate selective elements of the Microsaic Systems business with a focus on developing this in conjunction with the Modern Water portfolio.

The Company has extended its product capabilities further through the acquisition of the assets of the Modern Water business from DeepVerge plc and will invest in this business subject to available resources.

**PRINCIPLE 2:** Seek to understand and meet shareholder needs and expectations. See the website for further disclosures concerning how the Company seeks to engage with shareholders and how successful this has been.

**PRINCIPLE 3**: Consider wider stakeholder and social responsibilities and their implications for long-term success. See the website for further disclosures.

**PRINCIPLE 4**: Embed effective risk management, considering both opportunities and threats, throughout the organisation.

The Board aims to ensure that the Company's risk management framework identifies and addresses all relevant risks in order to execute and deliver the strategy.

The Directors recognise their responsibility for the Company's systems of internal control and have established systems to ensure that an appropriate and reasonable level of oversight and control is provided. The Company's systems of internal controls are designed to help the Company meet its business objectives by appropriately managing and wherever possible mitigating risks faced by the Company. The controls can only provide reasonable, not absolute, assurance against material misstatement or loss.

The Company's new Management Team, which reports into the Executive, meets regularly to review commercial, technical, operational, and financial risks facing the business. These risks are assessed according to their nature and magnitude based on the seriousness of the risk and the likelihood of the risk occurring. The effectiveness of the controls implemented to minimise the risks are also reviewed. The aim of these reviews is to provide reasonable assurance that material risks are identified, and appropriate action is taken at an early stage to minimise or eliminate them. From this review the Company maintains its internal risk register which is being amended to take in to account the acquisition of the Modern Water business.

**Risk Management**

The Company manages risk from an operational perspective, where it assesses and weighs up the potential risks to the business and how it can mitigate these risks. The Board has identified the following risks and associated mitigating actions as follows:

| Description | Risk | Risk rating pre-mitigation | Mitigating actions | Risk rating post-mitigation |
|---|---|---|---|---|
| Unable to grow sales required to achieve sustainable profitability | Sales growth is too slow to achieve targets | HIGH | Pursuing a new strategy involving services and investing in solution-based business development to promote these as well as developing new sales channels. | MEDIUM |
| Unable to raise additional funds if required in the future | Inability to continue as a going concern | MEDIUM | Communicate effectively with shareholders and potential investors. Ensure the business plan is implemented effectively with the focus on expanding sales channels and growing revenues, whilst adjusting variable costs in line with actual revenues. | MEDIUM |
| Reliance on third party manufacturing facilities | A replacement manufacturer is necessary | MEDIUM | Work closely with our manufacturing partner and hold regular review meetings. Ensure contingency plans are prepared and reviewed. | MEDIUM |

| | | | | |
|---|---|---|---|---|
| Retention and recruitment of key employees | Loss of key employees and subsequent difficulty in recruiting suitable replacements | MEDIUM | Ensure the Company's remuneration package is competitive and aligned to performance. Retain key staff by investing in their development. | MEDIUM |
| Loss of competitive advantage in miniaturised mass spectrometry | Competitors developing competing products | MEDIUM | The Company continues to innovate, invest in IP, and focus on its core strengths around point of care, ease of use and simplicity of maintenance. | MEDIUM |

The annual budget is reviewed and approved by the Board. Financial results, with comparisons to budget, and latest forecasts are reported monthly to the Board together with a report on operational achievements, objectives and issues encountered. Significant variances from plan are discussed at Board meetings and actions set in place to address them.

Measures continue to be taken to review and improve internal controls and risk management procedures. The Company has a Financial Procedures Manual which includes approval levels for authorisation of expenditure, potential fraud scenarios, payment approval process, expenses guidelines etc. This is updated as necessary.

The Company's auditors are encouraged to raise comments on internal control in their management letter following the annual audit. The points raised and actions arising are monitored through to completion by the Finance & Audit Committee.

## PRINCIPLES TO MAINTAIN A DYNAMIC MANAGEMENT FRAMEWORK

**PRINCIPLE 5:** Maintain the Board as a well-functioning, balanced team led by the Chairman.

The Board currently consists of one Executive Chairman, and one Non-Executive Director. An independent Non-Executive Director, Bob Moore, was appointed in March 2022, although following the resignation of the former Executive Chairman Mr Brandon on 25 September 2023, Mr Moore was appointed as Executive Chairman. Provided that the Company remains public, the Board intends to recruit a further independent Non-Executive Director and at least one executive director so that Mr Moore can return to his Non-Executive role. Mr John Mottram replaced Mr Anthony Clayden as Head of Finance (non-board level) in November 2023.

The Company held 10 Board meetings during 2023 (2022: 8).

The Company has an equal opportunity policy to recruitment at Board level and within the Company at large and seeks diversity as opportunities arise, within the framework of selecting the most suitable person, based on relevant skills, abilities, experience and location, as required for the role.

The principal role of the Chairman of the Board is to manage and provide leadership to the Board of Directors of the Company. The Chairman is accountable to the Board and acts as a direct liaison between the Board and the management of the Company. The Chairman acts as the communicator for Board decisions where appropriate.

Given the Chairman's current capacity as an Executive Chairman, the other NED provides the appropriate level of challenge to both the Chairman and management. The recent changes resulting from the resignation of Mr Brandon will be addressed by the recruitment of further directors to achieve the appropriate Board and management structure.

The Chairman is responsible for the effective leadership, operation and governance of the Board and its Committees. He ensures that all Directors contribute effectively to the development and implementation of the Company's strategy, while ensuring that the nature and extent of the significant risks the Company is willing to embrace in the implementation of its strategy are determined and challenged.

The Board believes that the advice, behaviour and character of its Chairman and Non-executive Director are always in the best interests of the Company and its shareholders. In addition, the skills and business judgement which they possess and regularly exercise contributes to the efficient and effective running of the Company.

The Company appreciates that circumstances which might or might appear to affect a Director's judgement may well include financial dependence on the Company and whether the Director is, or represents, a major shareholder. The Chairman and Non-Executive Director are not financially dependent on the Company as they have other sources of income, although Dr Burton became a significant shareholder during 2022 following his exercise of his warrants. Mr Moore does not represent a significant shareholder; however, Mr Brandon did have a material interest in share warrants of the Company as detailed below until his resignation on 25 September 2023. Dr Burton is also a Director of DeepVerge plc and Mr Brandon was also a Director of DeepVerge plc until December 2022, which although not a shareholder of the Company, was strategically important to the future success of Microsaic throughout 2022 and until its well-publicised difficulties emerged in April and June 2023. Under the QCA Guidelines the independence of Mr Brandon whilst Chairman and Dr Burton as a Non-Executive Director could be challenged under the following areas, but in all cases the Board believes that they act in an independent manner and where a conflict of interest could arise or be perceived to arise, they abstain from voting. Bob Moore was appointed as Senior Independent Non-Executive Director in March 2022, and remained in that role until his appointment to replace Mr Brandon as Executive Chairman in September 2023.

| **Name and position** | **Potential issue** | **Comments** |
|---|---|---|
| Gerard Brandon<br><br>Chairman (until 25 September 2023) | Held a material interest of 250 million share warrants in the Company.<br><br>Former Director of DeepVerge plc<br><br>Temporary Executive Director capacity | This award was required to attract a Chairman of the appropriate calibre to the Company. The award was approved by shareholders at a General Meeting<br><br>DeepVerge plc was strategically important to the success of the Company in 2022 and early 2023<br><br>Elevated senior management to develop and implement strategy and consulting with the Non-Executive Directors who had oversight during the period |

| | | |
|---|---|---|
| Dr Nigel Burton<br>Non-Executive Director | Significant shareholder in the Company following the exercise of warrants<br><br>Director of DeepVerge plc | The warrants were awarded to attract a Non-Executive Director of the appropriate calibre to the Company. The award was approved by shareholders at a General Meeting<br><br>DeepVerge plc was strategically important to the success of the Company in 2022 and early 2023 |

The Board recognises the importance of good governance arrangements.

The Board has an established Finance & Audit Committee and Remuneration Committee. The Company believes it is currently too small to have a separate Nominations Committee, so this role is taken on by the Board of Directors as a whole.

Details and links to the terms of reference of the Finance & Audit Committee and Remuneration Committee are set out under Principle 9 on the website.

Details of Directors and their time commitment are set out under Principle 6 below. The attendance of the Directors at the regular Board and Committee Meetings during the year ended 31 December 2023 were as follows.

| Name | Position during 2023 | Regular Board Meetings | Finance & Audit Committee | Remuneration Committee |
|---|---|---|---|---|
| Gerard Brandon[1] | Executive Chairman until 25 September 2023 | 6 (6) | 1 (2) | 0 (0) |
| Nigel Burton | Non-Executive Director | 8 (8) | 2 (2) | 0 (0) |
| Bob Moore[2] | Non-Executive Director.<br>Executive Chairman from 25 September 2023 | 8 (8) | 1 (2) | 0 (0) |

[1] Resigned as a Director on 25 September 2023. Age at date of resignation.
[2]Appointed as a Director on 15 March 2022. Appointed as Non-Executive Chairman 25 September 2023.

Numbers in brackets denote the total number of meetings that each Director was eligible to attend during the year.

**PRINCIPLE 6:** Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities.

Biographical details of the Board of Directors, their skills, suitability and availability are set out below.

**Gerard Brandon, Executive Chairman**
*Term of office:* Appointed a Director on 5 February 2021, resigned on 25 September 2023. Gerard was also a member of the Finance & Audit Committee and the Remuneration Committee until his resignation.

*Background and suitability for the role:* Gerard Brandon is Chief Executive Officer of Cellulac plc and was CEO of DeepVerge plc until November 2022. In 1996 he became founder and CEO of Alltracel Pharmaceuticals plc ("Alltracel"), where he built a team which oversaw numerous patents granted on refined cellulose. Alltracel was admitted to trading on AIM in 2001. In 2004, he was appointed as a Managing Partner for Farmabrand Private Equity. In March 2020, he was appointed as Non-executive Chairman of Modern Water plc, which was subsequently acquired by DeepVerge plc (formerly Integumen plc) in November 2020. Gerard is a Fellow of the Ryan Academy of Entrepreneurs in Dublin.

**Dr Nigel Burton, Non-executive Director**
*Term of office:* Appointed a Director on 5 February 2021 at a General Meeting of the Company. Dr Burton is also Chairman of the Finance & Audit Committee and the Remuneration Committee.

*Background and suitability for the role:* Nigel is currently a Non-Executive Director of BlackRock Throgmorton Trust plc and several AIM listed companies including eEnergy Group plc and Sorted Group Holdings plc. Nigel was a Non-Executive Director of DeepVerge plc until becoming interim CEO in November 2022. He spent over 14 years as an investment banker at leading City institutions including UBS Warburg and Deutsche Bank, including as the Managing Director responsible for the energy and utilities industries. Nigel also spent 15 years as Chief Financial Officer or Chief Executive Officer of a number of private and public companies.

**Mr Robert Moore, Executive Chairman (formerly Non-Executive Director)**
*Term of office:* Appointed a Director on 15 March 2022 by the Board of directors of the Company. Mr Moore is also a member of the Finance & Audit Committee and the Remuneration Committee. Mr Moore was Senior Independent Non-Executive until 25 September 2023, when he replaced Mr Brandon following his resignation.

*Background and suitability for the role:* Bob is a UK qualified lawyer and brings over 35 years' commercial and legal experience to the Board. Bob has acted as Head of International Legal Affairs at Enterprise Oil plc (a UK FTSE 100 company prior to its acquisition by Shell in 2002) and as co-founder and Commercial Director of Granby Oil & Gas plc, which was listed on AIM from 2005 until its sale in 2008. Bob subsequently co-founded, and is Managing Director of, private oil and gas exploration company Ardent Oil Ltd (operating in the UK, Denmark and Luxembourg). Bob also acts as Non-Executive Chairman of Mobile Streams plc, an AIM listed company, having been appointed to the role in July 2021.

**The Company uses external advisers.**
The Board has retained the services of the following advisers:

- Singer Capital Markets as Nominated Adviser and Joint Broker;
- Turner Pope Investments as Joint Broker;
- Saffery LLP for annual audit;
- Freeths as solicitors for the Company;
- Neville Registrars Ltd as the Company's registrar; and
- Menzies LLP for ongoing advice on Corporation tax, R&D tax credits, VAT and PAYE.

**PRINCIPLE 7:** Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement.

**Board Evaluation Process**
The Board believes that, in addition to dealing with any matters as they arise, it is appropriate to carry out a formal evaluation of the performance of the Board each year. This is intended to ensure that the Board remains effective, well-informed and able to make high quality and timely decisions for the benefit of all stakeholders in the Company.

The usual evaluation involves each Director completing an evaluation questionnaire which covers effectiveness from multiple angles including: Board structure and committees; Board arrangements, frequency and time; content of Board meetings; Board culture; Board evaluation and succession; and individual contributions. The completed questionnaires are anonymised and collated independently into a summary, and comments and any areas of concern are highlighted for discussion with the Board.

No formal evaluation process took place in 2023.

**Succession Planning**
As is common with many small AIM quoted companies, the Company does not have internal candidates to succeed the Executive Directors. This will be kept under review, especially when recruiting for senior roles as vacancies arise. However, the Board does not believe it is appropriate to recruit additional Directors or senior personnel solely for the purpose of Board succession planning.

**Training of Directors**
It is recognised that there continues to be more regulation of which Directors need to be aware. The Board will continue to ensure that Directors receive appropriate support to keep up to date.

**PRINCIPLE 8:** Promote a culture that is based on ethical values and behaviours.

The Company is committed to achieving the highest possible ethical standards in conducting its business. The Company expects all employees and Directors to maintain the same high standards. To achieve these ends, Microsaic encourages freedom of expression and speech whilst not accepting prejudice of any kind.

Ethics is based on a set of principles and clear moral and ethical values. The Company takes its principles and values very seriously and expects staff at all levels to look to these principles and values for guidance.

**Principles:**
The Board has adopted the following four principles:

1. Management must lead by example. Good ethics should be most noticeable at the top. Every employee must be accountable to the same rules.
2. Corporate values must be implemented throughout the Company. Every forum and medium should be used to spread the message and, most of all, the Company must practice what it preaches.
3. Meetings with staff (both one on one and group) to discuss the values and what they mean to each employee must be undertaken when implementing a value system. This will help to get everyone in the Company on the same page and committed.
4. The values of the Company must endure changes in leadership. The longer ethical values last, the more ingrained they will become.

**Values**
The Company conducts its business around seven core values:

1. *Integrity – applying high ethical standards and being honest.* The Company will conduct its business with honesty to all stakeholders and will uphold high moral principles.
2. *Mutual respect, empathy and trust in dealing with others*. An environment of mutual respect, empathy and trust is necessary to promote integrity. Trust in the workplace is critical to organisational success.
3. *Innovation – a passion to experiment and deliver new solutions*. A focus on research and development is very important to the future success of the Company. The Company is continually looking to deliver innovative solutions and has a collaborative approach to meeting customer needs.

4. *Teamwork – drives high performance.* Microsaic relies heavily on teamwork. A team approach is more efficient, faster, benefits from multi-skills especially in problem solving, increases learning opportunities and encourages a sense of belonging, which often translates to a greater sense of ownership and accountability for the work.
5. *Quality – we take pride in everything we do.* The Company is strongly focused on quality from the products it produces to the processes it operates. The Company is ISO 9001:2015 compliant.
6. *Customer focus – go the extra mile for our customers.* The Company assigns the highest priority to customer satisfaction. We listen to our customers and create solutions for unmet customer needs.
7. *Shareholder value – striving to deliver value to shareholders.* The key objective of the Company is achieving sustainable profitability. Every employee understands how they fit into the profitability picture. Everyone's common goal is to build a strong, profitable Company that will endure and provide a reasonable return to shareholders.

**PRINCIPLE 9:** Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board.

See the website for further disclosures at https://www.microsaic.com/investors/governance-new/

**PRINCIPLE 10:** Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

The following committee reports are included in these Annual Report & Accounts as shown below. They include details of the work of those committees:

- The Directors' Remuneration Committee Report – pages 20 to 22; and
- The Directors' Finance & Audit Committee Report – pages 23 to 24.

The Corporate Governance Report was approved by the Board of Directors on 10 October 2024 and signed on its behalf by:

**Bob Moore**
Executive Chairman

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MICROSAIC SYSTEMS PLC
**For the year ended 31 December 2023**

### Opinion

We have audited the financial statements of Microsaic Systems plc (the 'company') for the year ended 31 December 2023 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement 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.
In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2023 and its loss for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- 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 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 as applied to listed entities, 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.

### Our approach to the audit

We tailored the scope of our audit to ensure that we obtained sufficient evidence to support our opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at areas where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Except for the matter described in the material uncertainty related to going concern section, we have determined that there are no other key audit matters to be communicated in our report.

**Our application of materiality**

We apply the concept of materiality in planning and performing our audit, in evaluating the effect of misstatements and in forming our opinion. Our overall objective as auditor is to obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. We consider materiality to be magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatement below this level will not necessarily be evaluated as immaterial as we also take account of the qualitative nature of identified misstatements, and the circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, and taking into account the possible metrics used by investors and other readers of the accounts, we applied a materiality of £55,000 (2022: £55,000). This was based on 2% of operating expenditure in the unaudited trial balance at the planning stage of the audit for the year ended 31 December 2023. Performance materiality was set at 75% of materiality.

Our triviality level was set at £6,000 and any uncorrected audit differences below this level were not reported to management, unless warranted under qualitative grounds.

**Material uncertainty relating to going concern**

We draw attention to note 3 in the financial statements, which indicates that the company's ability to continue as a going concern is dependent upon achieving future sales beyond those currently contracted.

Given the inherent uncertainty of securing future sales, which are as yet unagreed and unable to be substantiated, we concur with the directors' assessment, as stated in note 3, that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern through to 31 December 2025. Our opinion is not modified in respect of this matter.

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

Our evaluation of the directors' assessment of the entity's ability to continue to adopt the going concern basis of accounting included:

- Obtaining and critically assessing for arithmetical accuracy and consistency the Company's Board approved going concern assessment used to model future financial performance;
- Reviewing the projected cashflows and other available evidence to assess the ability of the company to continue in operation for at least 12 months from the date of signing this report;
- Identifying the key assumptions within the forecast, being the existence of sales opportunities, and timing of related cash flows and challenged management on the appropriateness of these;
- Obtaining corroborative support for the key assumptions and estimates used in the cashflow forecast;
- Reviewing the directors' sensitivity analysis on the key assumptions underlying their going concern assessment and extended with our own analyses;

- Obtaining corroborating evidence for the existence of the sales pipeline and likelihood of conversion through review of correspondence with sales prospects, to the extent possible given the material uncertainty set out above;
- Assessing the sales pipeline for contradictory evidence over the likelihood and value of future sales, by considering accuracy of previous sales forecasts;.
- Considering the impact of mitigating actions in the event that forecast sales were not in line with projections, including a reduction in recruitment and sales activity and alternative production arrangements for Microsaic instruments, and assessing the feasibility of implementing these actions;
- Stress testing the model to identify the minimum level of cash sales required to enable the Company to meet liabilities as they fell due;
- Enquiring with the directors regarding events after the reporting date to assess their impact on the going concern assumption, including comparison of the post year end cash balances to forecast positions and understanding future plans and cash headroom; and
- Reviewing the disclosures relating to going concern included within these financial statements to ensure they are consistent with the requirements of UK-adopted international accounting standards, and that they present a true and fair view to readers of the financial statements.

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. 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 company and its 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 15, 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 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 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The specific procedures for this engagement and the extent to which these are capable of detecting irregularities, including fraud are detailed below.

Identifying and assessing risks related to irregularities:
We assessed the susceptibility of the company's financial statements to material misstatement and how fraud might occur, including through discussions with the directors, discussions within our audit team planning meeting, updating our record of internal controls and ensuring these controls operated as intended. We evaluated possible incentives and opportunities for fraudulent manipulation of the financial statements. We identified laws and regulations that are of significance in the context of the company by discussions with directors and updating our understanding of the sector in which the company operates.

Laws and regulations of direct significance in the context of the company include The Companies Act 2006, and UK Tax legislation, the AIM Rules for Companies and UK Tax legislation, particularly with reference to Research Development Expenditure Credits.

Audit response to risks identified:
We considered the extent of compliance with these laws and regulations as part of our audit procedures on the related financial statement items including a review of financial statement disclosures. We queried management on any of breaches of laws and regulations and reviewed minutes of meetings to identify potential material misstatements arising. We discussed the company's policies and procedures for compliance with laws and regulations with members of management responsible for compliance.

During the planning meeting with the audit team, the engagement partner drew attention to the key areas which might involve non-compliance with laws and regulations or fraud. We enquired of management whether they were aware of any instances of non-compliance with laws and regulations or knowledge of any actual, suspected or alleged fraud. We addressed the risk of fraud through management override of controls by testing the appropriateness of journal entries and identifying any significant transactions that were unusual or outside the normal course of business. We assessed whether judgements made in making accounting estimates gave rise to a possible indication of management bias. At the completion stage of the audit, the engagement partner's review included ensuring that the team had approached their work with appropriate professional scepticism and thus the capacity to identify non-compliance with laws and regulations and fraud.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities is available on the Financial Reporting Council's website at: 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.

**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.

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Stuart Macdougall (Senior Statutory Auditor)
for and on behalf of Saffery LLP

Statutory Auditors

71 Queen Victoria Street
London
EC4V 4BE

**10 October 2024**

**STATEMENT OF COMPREHENSIVE INCOME**
**For the year ended 31 December 2023**

| | Notes | Year to 31 December 2023 £000s | Year to 31 December 2022 £000s |
|---|---|---|---|
| **Revenue** | 5 | 492 | 1,568 |
| Cost of sales | | (193) | (618) |
| **Gross profit** | | 299 | 950 |
| | | | |
| Impairment of related party debt | 28 | (6) | (1,130) |
| Other operating expenses | | (2,876) | (2,136) |
| **Total operating expenses** | 6 | (2,882) | (3,266) |
| | | | |
| **Loss from operations before share-based payments** | | (2,583) | (2,317) |
| Share-based payments | 25 | (21) | (235) |
| **Loss from operations after share-based payments** | 6 | (2,604) | (2,551) |
| Financial cost | 8 | (5) | (7) |
| Finance income | 8 | 13 | 23 |
| **Loss before tax** | | (2,597) | (2,535) |
| Tax on loss on ordinary activities | 9 | - | 246 |
| **Total comprehensive loss for the year** | | (2,597) | (2,289) |
| | | | |
| **Loss per share attributable to the equity holders of the Company** | | | |
| Basic and diluted loss per ordinary share (pence) | 10 | (0.041)p | (0.036)p |

The notes on pages 44 to 70 form part of these financial statements.

**STATEMENT OF FINANCIAL POSITION**
**As at 31 December 2023**

| | Notes | 31 December 2023 £000s | 31 December 2022 £000s |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | 11 | 53 | 69 |
| Property, plant and equipment | 12 | 113 | 380 |
| Right of use assets | 13 | - | 54 |
| **Total non-current assets** | | 166 | 503 |
| **Current assets** | | | |
| Inventories | 14 | 103 | 274 |
| Trade and other receivables | 15 | 10 | 594 |
| Corporation tax receivable | 9 | 261 | 514 |
| Cash and cash equivalents | | 173 | 1,241 |
| **Total current assets** | | 547 | 2,623 |
| **TOTAL ASSETS** | | 713 | 3,127 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 19 | 1,731 | 1,731 |
| Share premium | 21 | 28,263 | 28,263 |
| Share-based payment reserve | | - | 2,401 |
| Retained losses | | (29,850) | (29,675) |
| **Total equity** | | 144 | 2,720 |
| **Current liabilities** | | | |
| Trade and other payables | 16 | 519 | 236 |
| Lease liability | 13 | 8 | 53 |
| Total current liabilities | | 527 | 289 |
| **Non-current liabilities** | | | |
| Provisions | 17 | 30 | 115 |
| Lease liability | 13 | 13 | 3 |
| **Total non-current liabilities** | | 43 | 118 |
| **Total liabilities** | | 570 | 407 |
| **TOTAL EQUITY AND LIABILITIES** | | 713 | 3,127 |

The financial statements were approved for issue by the Board of Directors on 10 October 2024 and signed on its behalf by:

**Bob Moore,** Executive Chairman
Company number 03568010

The notes on pages 44 to 70 form part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY
**For the year ended 31 December 2023**

| | Notes | Share capital £000s | Share premium £000s | Share -based payment reserve £000s | Retained Losses £000s | Total Equity £000s |
|---|---|---|---|---|---|---|
| **At 1 January 2022** | | 1,703 | 28,006 | 2,889 | (28,024) | 4,574 |
| Total comprehensive loss for the year | | - | - | - | (2,289) | (2,289) |
| **Transaction with owners:** | | | | | | |
| Shares issued— placing | 19 | 28 | 257 | - | - | 285 |
| Transfer in respect of directors warrants exercised | | - | - | (300) | 300 | - |
| Transfer in respect of lapsed share options | | - | - | (338) | 338 | - |
| Share-based payments-share options | 25 | - | - | 150 | - | 150 |
| **At 31 December 2022** | | 1,731 | 28,263 | 2,401 | (29,675) | 2,720 |
| Total comprehensive loss for the year | | - | - | - | (2,597) | (2,597) |
| **Transaction with owners:** | | | | | | |
| Shares issued | | - | - | - | - | - |
| Transfer in respect of lapsed warrants | 26 | - | - | (1,503) | 1,503 | - |
| Transfer in respect of lapsed share options | 25 | - | - | (919) | 919 | - |
| Share-based payments options | 25 | - | - | 21 | - | 21 |
| **At 31 December 2023** | | 1,731 | 28,263 | - | (29,850) | 144 |

The notes on pages 44 to 70 form part of these financial statements.

## STATEMENT OF CASH FLOWS
**For the year ended 31 December 2023**

| | Note | Year to 31 December 2023 £000s | Year to 31 December 2022 £000s |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash absorbed by operations | 31 | (1,311) | (2,133) |
| Corporation tax received | | 253 | - |
| **Net cash used in operating activities** | | (1,058) | (2,133) |
| **Cash flows from investing activities** | | | |
| Purchases of intangible assets | 11 | (11) | (27) |
| Purchases of property, plant and equipment | 12 | (2) | (208) |
| Proceeds from sale of Non-current assets | | 48 | - |
| Interest received | | 13 | 23 |
| **Net cash used in investing activities** | | 48 | (212) |
| **Cash flows from financing activities** | | | |
| Proceeds from share issues | | - | 200 |
| Share issue costs | | - | - |
| Repayment of lease liabilities | 13 | (59) | (78) |
| **Net cash generated by / (used in) financing activities** | | (59) | 122 |
| **Net (decrease) / increase in cash and cash equivalents** | | (1,069) | (2,223) |
| Cash and cash equivalents at the beginning of the year | | 1,241 | 3,465 |
| **Cash and cash equivalents at the end of the year** | | 173 | 1,241 |

The notes on pages 44 to 70 form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**
**For the year ended 31 December 2023**

The principal activity of the Company continues to be the research, development and commercialisation of miniaturised mass spectrometry instruments that are designed to improve the efficiency of pharmaceutical R&D. The Company is incorporated as a public limited company (plc) in England and its registered address is GMS House, Boundary Road, Woking, Surrey, GU21 5BX. The Company has no subsidiaries, so the financial information relates to the Company only.

## 1. Accounting policies

The following principal accounting policies have been used consistently in the preparation of these financial statements.

**Basis of preparation**
These financial statements have been prepared in accordance with UK-adopted international accounting standards (IFRS) in conformity with the requirements of the Companies Act 2006.

The financial statements have been prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £000.

These financial statements have been prepared under the historical cost basis.

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

1) Identify the contract(s) with a customer;
2) Identify the performance obligations in the contract;
3) Determine the transaction price;
4) Allocate the transaction price to the performance obligations in the contract; and
5) Recognise revenue when the entity satisfies a performance obligation.

The Company recognises revenue from the following four sources:

1) Sale of products;
2) Sale of consumables and spare parts;
3) Product support services; and
4) 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 support services 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 support services revenue*
Product support services 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 Europe customers, where the revenue from such warranties will be recognised over the period of the service agreement.

*Consultancy services revenue*

Consultancy services comprises 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. Payment terms are generally 30 days from the date of invoice.

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.

**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 support services*
The cost of sales of product support services income is the time-based apportionment of the employment costs of the relevant staff spent on the delivery of the product support services 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 cost of sales does not include share-based payments nor any apportionment of training or overheads.

*Cost of sales of consultancy services*
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.

**Segmental reporting**
The Company currently has one business segment, being the research, development and commercialisation of scientific instruments. This is undertaken wholly within the United Kingdom. Revenue by geographical market is analysed in note 5.

**Intangible assets**
Trademarks and patents are stated at historic cost of registration less accumulated amortisation and any accumulated impairment losses. Amortisation is charged to operating expenses and calculated to write off the cost in equal annual instalments over five years, which is a prudent estimate of their useful economic lives.

Certain software is stated at historic cost less accumulated amortisation and any accumulated impairment losses. Amortisation is charged to operating expenses and calculated to write off the cost in equal annual instalments over three years, which is considered to be a prudent estimate of its useful economic life.

**Property, plant and equipment**
Items of property, plant and equipment are stated at cost of acquisition or production costs less accumulated depreciation and impairment losses. Depreciation is charged to the statement of comprehensive income on a straight-line basis to write-off the carrying value of each asset to residual value over its estimated useful economic life as follows:

Plant and equipment - 33.3% on a straight line basis
Fixtures and fittings - 33.3% on a straight line basis
Software - 33.3% on a straight line basis

**Pensions**
The Company has an auto-enrolment pension scheme for employees. Contributions are charged to the statement of comprehensive income in the period they are payable.

**Inventories**
Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their present location and condition. The cost of finished goods and work in progress comprises raw materials, direct labour and other direct costs. Net realisable value is the estimated selling price in the ordinary course of business less applicable selling expenses. The inventory provision is based on identifying slow moving stock

items from recent historic and anticipated future sales and providing where appropriate for those items which may be surplus to anticipated or identifiable demand.

**Taxation**

Current taxes are based on the results of the Company and are calculated according to local tax rules using the tax rates that have been enacted by the balance sheet date.

The Company recognises research and development tax credits receivable in cash as a current asset under the heading corporation tax receivable. Any difference to amounts received are dealt with as adjustments to prior period tax. In respect of the year-ending 31st December 2023 the R&D tax credit claim has not yet been made and no amount has been recognised.

Deferred tax is provided in full using the balance sheet liability method for all taxable temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax is measured using currently enacted or substantially enacted tax rates. Deferred tax assets are recognised to the extent the temporary difference will reverse in the foreseeable future and that it is probable that future taxable profit will be available against which the asset can be utilised.

**Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of transaction, or forward contract rate, if applicable. All differences are taken to the statement of comprehensive income.

**Financial instruments**

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Examples of the Company's financial instruments include:

*Cash and cash equivalents*

The fair value of cash and cash equivalents is considered to be their carrying amount due to their short-term maturity.

*Trade receivables*

The Company's trade receivables do not carry a significant financing element as defined by IFRS 15. Therefore, trade receivables are recorded at transaction price (e.g., invoice amount excluding costs collected on behalf of third parties) and throughout the life of the receivable at an amount equal to lifetime expected credit losses ("ECL"). The Company has applied a simplified formula for calculating expected credit losses as a practical expedient.

Under IFRS 9 impairment for receivables including trade receivables is assessed using an expected loss model. For trade receivables this focuses on the risk that, and an extent to which, a receivable will default. Accordingly, the Company calculates the allowance for credit losses by considering the cash shortfalls it would incur in various default scenarios and multiplying the shortfalls by the probability of each scenario occurring. The Company only has short-term receivables and has adopted a simplified approach in assessing impairment.

The Company has applied a simplified formula for calculating expected losses as a practical expedient (e.g., for trade receivables), as the Directors believe that this is consistent with the general principles for measuring expected losses. The formula is based on an entity's historical default rates over the expected life of the trade receivables and is adjusted for forward-looking estimates.

Given the immaterial value of trade receivables at 31st December 2023 the Company is not disclosing the details of its simplified formula for calculating expected credit losses.

The risk profile of related party debts is considered to differ from the wider trade receivables pool, and so the simplified formula is not applied to the amounts owed by DeepVerge plc subsidiaries.

*Financial liability and equity*
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all its liabilities.

*Bank borrowings*
The Company had no bank borrowings at 31 December 2023 and 2022.

*Trade payables*
Trade payables are not interest bearing and are stated at their nominal value.

*Equity instruments*
Equity instruments issued by the Company are recorded at the value of the proceeds received net of direct issue costs including the fair value of any warrants issued in lieu of issue costs. The Company has no derivative financial assets or investments in equity instruments.

**Leases**
For all leases, the Company recognises a right of use asset and corresponding lease liability on the balance sheet, which are depreciated and amortised respectively over the lease term. However, where leases are low value or of less than 12 months old, the Company has taken advantage of the practical expedient allowing the expense to be recognised on a straight line basis over the lease term.

**Research and development**
Expenditure on research is recognised as an expense in the period in which it is incurred.

Development costs incurred on specific projects are capitalised when all the following conditions are satisfied:

- Completion of the intangible asset is technically feasible so that it will be available for use or sale;
- The Company intends to complete the intangible asset and use or sell it;
- The Company has the ability to use or sell the intangible asset;
- The intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits;
- There are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The expenditure attributable to the intangible asset during its development can be measured reliably.

Costs incurred which do not meet all of the above criteria are expensed as incurred. No development costs have been capitalised to date.

**Share-based payments**
In accordance with IFRS 2 "Share-based payments", the Company reflects the economic cost of awarding shares and share options to Directors, employees and advisors by recording an expense in the statement of comprehensive income equal to the fair value of the benefit awarded; fair value being determined by reference to option pricing models. The expense is recognised in the statement of comprehensive income over the vesting period of the award.

The fair value of warrants issued to advisors as remuneration for their services in a fundraising will be charged to share premium over the vesting period of the award.

**2. Adoption of new and revised standards**

During the financial year, the Company has adopted the following new IFRSs (including amendments thereto) and IFRIC interpretations, that became effective for the first time.

| Standard | Effective date, annual period beginning on or after |
|---|---|
| IFRS 17 - *Insurance Contracts* | 1 January 2023 |
| Amendments to IFRS 17 - *Insurance Contracts;*<br>and Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4 *Insurance Contracts)* | 1 January 2023 |
| Disclosure of Accounting Policies (Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements)* | 1 January 2023 |
| Definition of Accounting Estimates (Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*) | 1 January 2023 |
| Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 *Income Taxes*) | 1 January 2023 |
| International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12) | 1 January 2023 |

Their adoption has not had any material impact on the disclosures or amounts reported in the financial statements.

**Standards issued but not yet effective:**

At the date of authorisation of these financial statements, the following standards and interpretations relevant to the Company and which have not been applied in these financial statements, were in issue but were not yet effective.

| Standard | Effective date, annual period beginning on or after |
|---|---|
| Lease Liability in a Sale and Leaseback (Amendments to IFRS 16) | 1 January 2024 |
| Classification of Liabilities as Current or Non-Current, Non-current Liabilities with Covenants: *amendments to IAS 1* | 1 January 2024 |
| Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7) | 1 January 2024 |

The directors are evaluating the impact that these standards will have on the financial statements of the Company.

At the date of authorisation of these financial statements, the following standards and interpretations relevant to Company and which have not been applied in these financial statements, have not been endorsed for use in the UK and will not be adopted until such time as endorsement is confirmed.

| Standard | Effective date, annual period beginning on or after |
|---|---|
| Lack of Exchangeability (Amendments to IAS 21) | 1 January 2025 |
| IFRS 18 – *Presentation and Disclosure in Financial Statements* | 1 January 2027 |
| IFRS 19 – *Subsidiaries without Public Accountability: Disclosures* | 1 January 2027 |

The directors are evaluating the impact that these standards will have on the financial statements of the Company.

### 3. Going concern

The Company is loss making and has raised funds in the past by issuing equity in discrete tranches. The most recent fundraises were completed on 5 February 2021 and January 2024 where the Company raised £5.2m and £1.8m respectively after expenses from new and existing shareholders.

At 31 December 2023, the company held cash balances totalling £173k and net current assets of £20k. Combined with operating losses of £2.6m in each of the years ended 31 December 2022 and 2023, the ability of the Company to settle liabilities as they fall due was therefore in doubt.

Following the January 2024 fundraise the directors restructured the business to reduce the cost base and utilised £0.1m of the fundraise to purchase the trade and assets of the Modern Water business and have focused on reviving Microsaic's pipeline of sales alongside the production and sale of reagents and instruments for Modern Water.

As a result of the investment and the Company continuing to be loss making, the cash balance at 4 October 2024 was £0.45m. The Company has been generating negative EBITDA since the end of December 2023.

In assessing the ability of the company to continue as a Going Concern, the directors have reviewed sales projections and cashflow forecasts to 31 December 2025 alongside a thorough review of the Company's reserves and working capital requirements from the date of approval of the financial statements. Under the base case forecast, the directors anticipate sales of instruments and reagents to be sufficient over the 14 month period to 31 December 2025 to allow the Company to meet its liabilities as they fall due. Of these sales, the Company has secured a Qatar contract as discussed in the Strategic Report (valued at €571k), with cash inflows expected to commence in Q4 of 2024, although the timing of this inflow is uncertain.

The directors acknowledge there are significant uncertainties inherent in forecasting future sales, given the requirement of the Company to effectively restart trading during 2024 and volatile trading environments. It is possible that the sales assumptions underpinning these forecasts may not be achieved, or that margin assumptions may not be met. Consequently, the directors have explored sensitivities to the above base case to model the impact of reduced sales, including a "severe but plausible" downside scenario.

Sensitivity Analysis

The directors believe that a severe but plausible downside scenario, whereby no instrument sales are included for the second half of 2025, would still allow the Company to maintain positive cash headroom to 31 December 2025. However, in the event that none of the unconfirmed sales (being sales not currently contracted) realise, the Company would have insufficient working capital to continue in operation past February 2025.

In addition to the scenarios described above, the Directors have performed a reverse stress test ("Reverse Stress Test") to quantify the level of sales decline and cost increases that can be absorbed.

The Reverse Stress Test only considers cost savings from directly attributable variable costs associated with the reduction in sales, including production costs, Directors salaries and marketing costs. No other cost savings are assumed to be delivered. The Directors note however that the Company has been able to make significant cost savings in the past with short lead times.

The directors have concluded that, applying the above conditions in the Reverse Stress Test, a minimum sales level of approximately £84k per month, in addition to the Qatar contract, is required to enable the Company to remain liquid and with positive cash headroom over the going concern assessment period.

While the directors consider this to be an achievable target, it is acknowledged that this exceeds the level of turnover experienced in the year ending 31 December 2023 or in 2024 to date.

While the directors remain confident that there is a reasonable possibility that the forecast sales pipeline can be converted into new customers and be cash generative for the Company, at the date of this report the future required minimum sales levels have not been achieved. Accordingly, there is a material uncertainty that may cast significant doubt over the Company's ability to continue as a going concern.

Mitigating actions

The Directors consider the scenario envisaged under the Reverse Stress Test arising to be unlikely, and that in the event it did arise the Company has demonstrated its ability to deliver cost savings and seek alternative capital.

If performance deviates materially from the base case, there are several actions that the Company could undertake to mitigate the liquidity and profit impact. These include:

- Cost savings initiatives with a focus on areas of discretionary spend such as marketing, travel and certain professional fees. These cost savings are included within the existing forecasts
- Reduction in stock purchases and manufacturing levels to reflect the lower sales projections
- Reduction in project, IT and CAPEX spend which for a short period of time would not adversely impact our sales and customer proposition.

Going Concern Assessment

Having considered the forecasts noted above, the mitigating actions available to management, recent trading performance and having regard to the macroeconomic risks and uncertainties to which the Company is exposed, the Directors have a reasonable expectation that the Company has adequate resources to continue operating for the foreseeable future and to operate for a period of at least 12 months from the date of these financial statements. Accordingly, the financial statements have been prepared on a going concern basis.

Stakeholders should be aware that there is a material uncertainty arising on this assessment in respect of the inherent uncertainty attached to the future sales pipeline and projections, and the associated timing of cash receipts. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

## 4. 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.

The estimates and assumptions that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are summarised below:

***Carrying value of inventories***

It is the intention of the directors that the Company will move away from the sale of goods as its primary revenue stream, instead developing new lines of service revenue. As such, there is a risk that the inventory holding may not recover its full carrying value.

On closure of the Company's Woking office, inventories were reviewed and disposed of where felt unlikely to be sellable. Additionally, the inventory has recently been reviewed in detail and the carrying value of remaining obsolete items has been written down to zero. As such, the directors believe that all inventories held at 31 December 2023 will ultimately be sold above their carrying value, and the provision for stock obsolescence at 31st December 2023 was £nil (2022: £62k).

The detailed breakdown of inventories can be seen in note 14.

***Allocation of staff benefit expense to Cost of Sales***

In line with the Company's disclosed accounting policies, an element of staff benefit expense is allocated to Cost of Sales to reflect the time-based apportionment of the employment costs of the relevant staff spent on the delivery of product support and consultancy services income. In the current year, this allocation has been estimated based on the level of service income in the current year and prior year, and the gross margin achieved on service income in the prior year. The resultant reallocation was £35k (2022: £420k).

These assumptions are reviewed at each balance sheet date and amended if required.

## 5. Revenue

Throughout 2023, the Company operated in one business segment, that of research, development and commercialisation of mass spectrometry instruments. Revenue comprises the sale of products and the supply of services. Products are sold ex-works and the attribution of revenue is based on the country or group of countries to where the goods are shipped. Services are generally delivered at the customer's site of installation. In 2023 the revenue of our largest customer amount to 45% of the total Company sales (2022: 79.7%).

The geographical analysis of revenue (by shipment destination) was as follows:

| | Year to 31 December 2023 £000s | Year to 31 December 2022 £000s |
|---|---|---|
| UK | 109 | 1,354 |
| USA | 10 | 104 |
| EU | 137 | 68 |
| China | 215 | 31 |
| ROW | 21 | 11 |
| | 492 | 1,568 |

The analysis of revenue by product or service was as follows:

| | Year to 31 December 2023 £000s | Year to 31 December 2022 £000s |
|---|---|---|
| Equipment units | 286 | 207 |
| Consumables | 63 | 12 |
| Service spares | 35 | 108 |
| Accessories | - | 18 |
| Product support | 48 | 55 |
| Consulting services | 60 | 1,168 |
| Total Reported Sales | 492 | 1,568 |
| Less: Sales to DeepVerge plc | (65) | (1,249) |
| Total Sales to customers (excluding DeepVerge plc) | 427 | 319 |

## 6. Expenses by nature

| Loss from operations after share-based payments is stated after charging/(crediting): | Year to 31 December 2023 £000s | Year to 31 December 2022 £000s |
|---|---|---|
| Amortisation and impairment of intangible assets | 27 | 30 |
| Depreciation of right of use assets | 76 | 73 |
| Impairment of related party debt | 6 | 1,130 |
| Expected credit losses (excluding impairment of related party debt) | - | (3) |
| Movement in inventory provision | (62) | (28) |
| Loss on disposal of fixed assets | (48) | - |
| Inventory items expensed | 158 | 313 |
| Staff benefit expense | 1,186 | 1,375 |
| Depreciation of property, plant and equipment | 183 | 178 |
| Research and development expenses | 87 | 784 |
| Professional fees (including audit fees detailed below) | 267 | 221 |
| Pension costs | 132 | 144 |
| Exchange loss/(gain) | - | 1 |
| Directors' emoluments (before pensions and share based payments) | 96 | 60 |

## 7. Expenses by nature

| | Year to 31 December 2023 £000s | Year to 31 December 2022 £000s |
|---|---|---|
| **Services provided by the Company's auditors** | | |
| Fees payable to the Company's auditors for the audit of the financial statements | 62 | 31 |
| Fees payable in respect of prior years | - | 7 |
| Fees payable to the Company's auditors for other services | | |
| - Audit related services | 4 | 4 |
| | 66 | 42 |

## 8. Finance income and Finance cost

| | Year to 31 December 2023 £000s | Year to 31 December 2022 £000s |
|---|---|---|
| Bank interest receivable | 13 | 23 |
| Interest cost under IFRS 16 | (2) | (7) |
| Other Interest | (3) | - |
| | (5) | (7) |

## 9. Tax on loss on ordinary activities

| | Year to 31 December 2023 | Year to 31 December 2022 |
|---|---|---|
| **Domestic current period tax** | £000s | £000s |
| UK corporation tax charge | - | (246) |
| **Tax on loss on ordinary activities** | - | (246) |

| Factors affecting the current tax credit for the period: | Year to 31 December 2023 £000s | Year to 31 December 2022 £000s |
|---|---|---|
| Loss before tax | (2,597) | (2,535) |
| Loss before tax multiplied by standard rate of UK corporation tax of 23.5% (9months at 25% and 3 months at 19%) (2022: 19%) | (610) | (482) |
| Effects of: | | |
| Expenses not deductible for tax purposes | 2 | 29 |
| Fixed asset differences | 1 | (7) |
| Additional deduction for R&D expenditure | - | (194) |
| Movement in deferred tax not recognised | 642 | 318 |
| Other tax adjustments, reliefs and transfers | (37) | (8) |
| Surrender of tax losses for R&D tax credit refund | - | 81 |
| Adjustments to tax charge in respect of previous periods | 2 | 15 |
| Current tax credit | - | (248) |

The Company has estimated tax losses of £29,236k (2022: £26,930k) available for carry forward against future trading profits. Deferred tax is detailed in note 18.

## 10. Basic and diluted loss per ordinary share

| | Year to 31 December 2023 | Year to 31 December 2022 |
|---|---|---|
| Loss after tax attributable to equity shareholders £000s | (2,597) | (2,289) |
| Weighted average number of ordinary 0.01p shares for the purpose of basic and diluted loss per share | 6,361,365,146 | 6,324,666,516 |
| Basic and diluted loss per ordinary share | (0.041)p | (0.036)p |

The basic loss per share increased to 0.040p per share versus 0.036p per share in the prior year. This reflects the increase in the loss after tax to equity shareholders in the year ended 31 December 2023 compared to year ended 31 December 2022.

Under IAS33 the calculation of basic and diluted earnings / (loss) per ordinary share is adjusted retrospectively when the number of issued ordinary shares changes after the balance sheet date but before the financial statements are authorised for issue. As detailed in Note 30, existing shares were subject to a 625:1 consolidation into 10,178,185 new ordinary shares of 0.001p nominal value and then 169,000,000 new ordinary shares of 0.001p nominal value were then issued. This brings the total issued ordinary shares to 179,178,185. The basic and diluted loss per share taking into account the consolidation and number of new ordinary shares in existence at the date of publishing the Annual Report and Accounts would be 1.449 pence. (computed as £2,597k loss divided by 179,178,185 shares).

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.

## 11. Intangible assets

Intangible assets comprise patents, trademarks and software owned by the Company. The cost is amortised on a straight-line basis over their estimated useful life.

| Year ended 31 December 2023: | £000s |
|---|---|
| **Cost** | |
| At 1 January 2023 | 628 |
| Additions | 11 |
| Disposals | (15) |
| At 31 December 2023 | 624 |
| **Amortisation** | |
| At 1 January 2023 | 558 |
| Charge for the year | 27 |
| Disposals | (15) |
| At 31 December 2023 | 570 |
| **Net book value** | |
| At 31 December 2023 | 53 |

| Year ended 31 December 2022 | £000s |
|---|---|
| **Cost** | |
| At 1 January 2022 | 621 |
| Additions | 27 |
| Disposals | (21) |
| At 31 December 2022 | 627 |
| **Amortisation** | |
| At 1 January 2022 | 547 |
| Charge for the year | 30 |
| On Disposals | (19) |
| At 31 December 2022 | 558 |
| **Net book value** | |
| At 31 December 2022 | 69 |

## 12. Property, plant and equipment

Year ended 31 December 2023:

| | Plant and equipment £000s | Fixtures and fittings £000s | Total £000s |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2023 | 1,277 | 178 | 1,455 |
| Additions | 2 | - | 2 |
| Transfers | - | - | - |
| Disposals | (240) | (178) | (418) |
| At 31 December 2023 | 1,039 | - | 1,039 |

| | Plant and equipment £ | Fixtures and fittings £ | Total £ |
|---|---|---|---|
| **Depreciation** | | | |
| At 1 January 2023 | 896 | 178 | 1,074 |
| Charge for the year | 183 | - | 183 |
| Disposals | (154) | (178) | (332) |
| At 31 December 2023 | 925 | - | 925 |
| **Net book value** | | | |
| At 31 December 2023 | 113 | - | 113 |

Year ended 31 December 2022:

| | Plant and equipment £000s | Fixtures and fittings £000s | Total £000s |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2022 | 1,068 | 178 | 1,246 |
| Additions | 208 | - | 208 |
| Transfers | 44 | - | 44 |
| Disposals | (43) | - | (43) |
| At 31 December 2022 | 1,277 | 178 | 1,455 |

| | Plant and equipment £000s | Fixtures and fittings £000s | Total £000s |
|---|---|---|---|
| **Depreciation** | | | |
| At 1 January 2022 | 761 | 178 | 939 |
| Charge for the year | 178 | - | 178 |
| Disposals | (43) | - | (43) |
| At 31 December 2022 | 896 | 178 | 1,074 |
| **Net book value** | | | |
| At 31 December 2022 | 380 | - | 380 |

Transfers from plant and equipment were moved to stock and then sold to a customer.

**13. Lease reporting**

**Right of use lease assets**

| | Server £000s | Property £000s | Equipment £000s | Total £000s |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2023 | - | 319 | 10 | 329 |
| Additions | 22 | - | - | 22 |
| Disposals | - | - | - | - |
| At 31 December 2023 | 22 | 319 | 10 | 351 |
| **Depreciation** | | | | |
| At 1 January 2023 | - | 270 | 4 | 274 |
| Charge for the year | 22 | 48 | 6 | 76 |
| Disposals | - | - | - | - |
| At 31 December 2023 | 22 | 318 | 10 | 350 |
| **Carrying amount** | | | | |
| At 31 December 2023 | - | - | - | - |

| | Server £000s | Property £000s | Equipment £000s | Total £000s |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2022 | - | 319 | 10 | 329 |
| Additions | - | - | - | - |
| Disposals | - | - | - | - |
| At 31 December 2022 | - | 319 | 10 | 329 |
| **Depreciation** | | | | |

| | | | | |
|---|---|---|---|---|
| At 1 January 2022 | - | 201 | 1 | 202 |
| Charge for the year | - | 69 | 3 | 72 |
| Disposals | - | - | - | - |
| At 31 December 2022 | - | 270 | 4 | 274 |
| **Carrying amount** | | | | |
| At 31 December 2022 | - | 49 | 6 | 55 |

| **Lease liability** | Server £000s | Property £000s | Equipment £000s | Total £000s |
|---|---|---|---|---|
| At 1 January 2023 | - | 50 | 6 | 56 |
| Repayment of lease liabilities | (5) | (51) | (3) | (59) |
| Additions | 22 | - | - | 22 |
| Interest on lease liabilities | 1 | 1 | - | 2 |
| Disposals | - | - | - | - |
| At 31 December 2023 | 18 | - | 3 | 21 |

| | Server £000s | Property £000s | Equipment £000s | Total £000s |
|---|---|---|---|---|
| At 1 January 2022 | - | 118 | 9 | 127 |
| Repayment of lease liabilities | - | (75) | (3) | (78) |
| Additions | - | - | - | - |
| Interest on lease liabilities | - | 7 | - | 7 |
| Disposals | - | - | - | - |
| At 31 December 2022 | - | 50 | 6 | 56 |

**Lease liability maturity analysis**

| | 2023 | | | 2022 | |
|---|---|---|---|---|---|
| | Server £000s | Property £000s | Equipment £000s | Property £000s | Equipment £000s |
| Gross lease payments due: | | | | | |
| Within one year | 5 | - | 3 | 52 | 3 |
| Between two and five years | 14 | - | - | - | 3 |
| | 19 | - | 3 | 52 | 6 |
| Less future financing charges | (1) | - | (-) | (2) | (-) |
| | 18 | - | 3 | 50 | 6 |

## 14. Inventories

| | Year to 31 December 2023 £000s | Year to 31 December 2022 £000s |
|---|---|---|
| Raw materials | 80 | 267 |
| Finished goods | 23 | 69 |
| Subtotal | 103 | 336 |
| Provision for inventories | (-) | (62) |
| Total | 103 | 274 |

Inventory consists of raw materials and finished goods which are held on consignment with two of the company's trading partners. During 2023, a significant amount of inventory was reviewed and written down to £nil value.

## 15. Trade and other receivables

| | Year to 31 December 2023 £000s | Year to 31 December 2022 £000s |
|---|---|---|
| **Amounts falling due within one year** | | |
| Trade receivables | 8 | 1,519 |
| Provision for expected credit losses | (6) | (1,130) |
| Other receivables | 8 | 205 |
| | 10 | 594 |

| | Year to 31 December 2023 £000s | Year to 31 December 2022 £000s |
|---|---|---|
| Not past due | 8 | 267 |
| 1 to 30 days past due | - | 145 |
| 31 to 60 days past due | - | 137 |
| 61 to 90 days past due | - | 120 |
| 91 to 120 days past due | - | 217 |
| 121 to 150 days past due | - | 147 |
| 151 to 180 days past due | - | 77 |
| Over 180 days past due | - | 409 |
| | 8 | 1,519 |

| | Year to 31 December 2023 £000s | Year to 31 December 2022 £000s |
|---|---|---|
| **Provision for expected credit losses on trade receivables:** | | |
| Balance brought forward | (1,130) | (3) |
| Utilised in year | 1,130 | |
| Written back to P&L during the year | - | - |
| Provided during the year | (6) | (1,127) |
| Balance carried forward | (6) | (1,130) |

The provision for expected credit losses on trade receivables is mandatorily measured at an amount equal to the lifetime expected credit losses. The Company's approach to calculating the lifetime expected credit losses is described in note 1.

## 16. Trade and other payables

| | Year to 31 December 2023 £000s | Year to 31 December 2022 £000s |
|---|---|---|
| **Amounts falling due within one year** | | |
| Trade payables | 182 | 99 |
| Other taxes and social security | 92 | 44 |
| Other payables | 67 | 12 |
| Accruals and deferred income | 178 | 81 |
| | 519 | 236 |

Included within other payables is a sum of £65,000 in respect of an onerous contract which reflects the maximum amount that the Company might pay in settlement.

## 17. Provisions

| | Dilapidations £000s | Warranties £000s | TOTAL £000s |
|---|---|---|---|
| Balance at 1 January 2023 | 92 | 24 | 116 |
| Provided for/(reduced) during the year | (22) | (4) | (26) |
| Settled during the year | (60) | - | (60) |
| Balance at 31 December 2023 | 10 | 20 | 30 |

| | Dilapidations £000s | Warranties £000s | TOTAL £000s |
|---|---|---|---|
| Balance at 1 January 2022 | 76 | 24 | 100 |
| Provided for/(reduced) during the year | 16 | (-) | 15 |
| Balance at 31 December 2022 | 92 | 24 | 115 |

The provision for anticipated dilapidations is in respect of the Company's former leasehold premises at Woking which were vacated on 23 December 2023. The dilapidation charge was agreed in the amount of £70,000 and was substantially settled in December 2023 through the non-return of the deposit of £60,000 and a balance of £10,000 owing at the year-end.

The Company provides OEMs and distributors with a 15-month warranty on Mass Spectrometer products. The provision represents the anticipated cost of servicing those warranty claims. The provision is based on historical costs including product, replacement parts and the cost-of-service engineers that may have to be incurred over the warranty period. The provision for warranty at the end of the year was £20k (2022: £24k).

**18. Deferred tax**

Deferred taxation provided in the financial statements:

| | Year to 31 December 2023 £000s | Year to 31 December 2022 £000s |
|---|---|---|
| Accelerated capital allowances | 28 | 95 |
| Tax losses carried forward | (28) | (95) |
| | - | - |

A deferred tax asset in respect of tax losses has only been recognised to the extent of the deferred tax liability in respect of accelerated capital allowances at a tax rate of 25% (2022: 25%). The Company has estimated tax losses of £29,236k (2022: £26,930k) available for carry forward against future trading profits.

**19. Share capital**

The total share capital of the Company comprises Ordinary and Deferred shares as follows:

| | 2023 | 2023 | 2022 | 2022 |
|---|---|---|---|---|
| Allotted, called up and fully paid: | Number | £000s | Number | £000s |
| Ordinary shares of 0.01p each | 6,361,365,146 | 636 | 6,361,365,146 | 636 |
| Deferred shares of 0.24p each | 456,365,146 | 1,095 | 456,365,146 | 1,095 |
| As at 31 December | 6,817,730,292 | 1,731 | 6,817,730,292 | 1,731 |

The Ordinary share capital of the Company comprises:

| | 2023 | 2023 | 2022 | 2022 |
|---|---|---|---|---|
| Allotted, called up and fully paid: | Number | £000s | Number | £000s |
| Ordinary shares of 0.01p (0.25p) each as at 1 January | 6,361,365,146 | 636 | 6,076,365,146 | 608 |
| Effect of share split and deferment | - | - | - | - |
| Issue of ordinary share capital of 0.01p each | - | - | 285,000,000 | 28 |
| As at 31 December | 6,361,365,146 | 636 | 6,361,365,146 | 636 |

There were no issuances of equity during the year.

Shortly after the year end the company executed a 625:1 share consolidation to yield 10,178,185 new shares of 0.001p and 10,178,185 deferred shares of 6.249p nominal value.

A fundraising took place immediately thereafter via a placing with the issuance of 169,000,000 new shares at a price of 1.25p raising total gross proceeds of £2.1m and net proceeds of £1.8m. The resulting number of shares immediately after this placing was 179,178,185.

The Deferred share capital of the Company comprised:

| | 2023 | 2023 | 2022 | 2022 |
|---|---|---|---|---|
| Allotted, called up and fully paid: | Number | £000 | Number | £000s |
| Deferred shares of 0.24p each as at 1 January | 456,365,146 | 1,095 | 456,365,146 | 1,095 |
| As at 31 December | 456,365,146 | 1,095 | 456,365,146 | 1,095 |

After the year end and as part of the share consolidation an additional 10,178,185 deferred shares of nominal value 6.249p were created.

**20. Reserves**

The share premium account represents the excess over the nominal value for shares allotted less issue costs. The share option reserve represents accumulated charges made under IFRS 2 in respect of share-based payments. Where share options that have vested expire, lapse or are exercised, the amounts within the share-based payments reserve relating to those options are transferred to retained earnings as shown in the Statement of Changes in Equity.

**21. Share premium**

| | Year to 31 December 2023 | Year to 31 December 2022 |
|---|---|---|
| | £000s | £000s |
| Opening balance brought forward | 28,263 | 28,006 |
| Share issue in the year | - | 257 |
| Share issue costs – Cash | - | - |
| Share issue costs – Broker Warrants | - | - |
| Closing balance carried forward | 28,263 | 28,263 |

**22. Commitments**

| | Year to 31 December 2023 | Year to 31 December 2022 |
|---|---|---|
| | £000s | £000s |
| Contracted for but not provided in the financial statements | 560 | 652 |

The commitment above relates to purchase orders placed on, and related contractual arrangements and obligations, with third-party manufacturers. Following the year end, a long term contract with a supplier responsible for assembling and testing Microsaic instruments was terminated, in return for the Company agreeing to make a modest monthly payment, allowed for in the going concern assessment, over the next 2 years. At the year end, the commitment relating to this contract was £0.5m, but subsequent to the year-end following negotiation a revised settlement agreement was reached.

**23. Directors' emoluments**

| | Year to 31 December 2023 £000s | Year to 31 December 2022 £000s |
|---|---|---|
| Salaries and fees | 163 | 60 |
| Non-cash payments | - | - |
| Pension costs | - | 2 |
| Employment related share-based payments | - | 85 |
| | 163 | 147 |

There are no key management personnel other than the Directors. The highest paid Director, Mr Gerard Brandon, received emoluments of £97,820 as disclosed in the Directors' Remuneration Report.

**24. Employees**

| | Year to 31 December 2023 Number | Year to 31 December 2022 Number |
|---|---|---|
| Directors | 3 | 3 |
| Other staff | 15 | 19 |
| Average Headcount | 18 | 22 |

| | Year to 31 December 2023 £000s | Year to 31 December 2022 £000s |
|---|---|---|
| **Employment costs (including Directors)** | | |
| Wages and salaries | 986 | 986 |
| Social security costs | 110 | 134 |
| Termination payments | 69 | 21 |
| Pension costs | 132 | 144 |
| Employment related share-based payments | 21 | 235 |
| | 1,318 | 1,520 |

## 25. Share-based payments

| The share-based payments charge comprises | Year to 31 December 2023 £000s | Year to 31 December 2022 £000s |
|---|---|---|
| Directors' fees settled in shares | - | 85 |
| Vesting of share options | 21 | 150 |
| Employment related share-based payments | 21 | 235 |
| Brokers' fees settled in shares | - | - |
| | 21 | 235 |

The Directors' fees settled in shares in respect of the previous financial year ended 31 December 2022 were in respect of fees incurred. The Directors' fees relate to annual fees.

**Share option schemes**

The Company operated an EMI and an unapproved share option scheme as a means of encouraging ownership and aligning interests of staff and shareholders. The table below shows the number of options outstanding and exercisable at 31 December 2023 and 31 December 2022 and the weighted average exercise price. All staff were made redundant during Q4 2023 and accordingly all share options have been forfeited.

| | Year to 31 December 2023 | | Year to 31 December 2022 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Outstanding at the beginning of the year | 605,000,000 | 0.1p | 1,125,000,000 | 0.1p |
| Granted during the year | - | - | - | - |
| Forfeited/expired during the year | (605,000,000) | 0.1p | (320,000,000) | 0.1p |
| Exercised during the year | - | - | (200,000,000) | 0.1p |
| Outstanding at 31 December | - | - | 605,000,000 | 0.1p |
| Exercisable at 31 December | - | - | 325,000,000 | 0.1p |

Options and warrants over 1,125 million ordinary shares were awarded to Directors, staff and a consultant on 5 February 2021. These options granted were exercisable at the price of 0.1p for five years from the 5 February 2021 but have now been forfeited.

The table below illustrates that there were no options in issue at the year-end:

| Date of grant | Exercise price | Latest exercise date | Estimated fair value | Number of options 31 December 2023 | Number of options 31 December 2022 |
|---|---|---|---|---|---|
| February 2021 | 0.1p | February 2026 | 0.150p | - | 325,000,000 |
| February 2021 | 0.1p | February 2026 | 0.153p | - | 280,000,000 |
| | | | | - | 605,000,000 |

The weighted average share price at the date of grant for share options was 0.25 pence. There were no outstanding options at 31st December 2023.

The estimated fair values of the share options were calculated by applying the Black Scholes or Monte Carlo models.

In line with the application guidance in IFRS 2, the Directors considered the most appropriate method of calculating volatility to be the use of the historical volatility of comparable listed companies. The model inputs are detailed below.

In respect of cancelled options that had vested, £919k (2022: £338k) was transferred from share-based payment reserve to the retained losses reserve. In respect of exercised options, £nil (2022: £300k) was transferred from share-based payment reserve to the retained losses reserve. The resulting balance on the share based payment reserve was £nil at 31 December 2023.

**26. Warrants**

Broker warrants to subscribe for up to 997,000,000 ordinary shares, which represented 20 per cent of the placing shares, were granted to Turner Pope Investments (TPI) Ltd as part of the fundraising in February 2021. The broker warrants were capable of exercise for a period of two years from 5 February 2021. These warrants lapsed during the year. The fair market value of the warrants charged to share based payment reserved was calculated at £1,503,008 based on the following inputs:

| Date of grant | Exercise price | Share price | Risk free rate | Expected volatility | Gross dividend yield |
|---|---|---|---|---|---|
| February 2021 | 0.1p | 0.25p | 0.03% | 33% | - |

The expected volatility for the February 2021 grant was based on the 2-year volatility of comparable companies.
In respect of lapsed warrants, £1,503k (2022: £nil) was transferred from the share-based payment reserve to the retained losses reserve.

**27. Financial instruments**

The Company's financial instruments comprise cash and various trade receivables and trade payables that arise directly from its operations. No trading in financial instruments is undertaken. The main risks arising from the Company's financial instruments are liquidity, currency and interest rate. The Board oversees the management of these risks, which are summarised below.

**Liquidity risk**
The Company finances its operations from equity funding provided by shareholders and revenues generated by the business. The Company seeks to manage liquidity risk to ensure enough funds are available to meet working capital requirements.

The Company invests its cash reserves in bank and money market deposits as a liquid resource to fund its operations. The Company's strategy for managing cash is to balance interest income with counterparty risk ensuring the availability of cash to match the profile of the Company's cash flows.

In reviewing the Company as a going concern, as outlined in note 3, management prepared alternative business scenarios where performance falls below management expectation. Contingency plans and mitigating actions have been identified in case actual results differ from the Company's business plans. The business scenarios include exploration of the use of export trade financing, short term debt, letters of credit, performance/surety bonds on larger orders and equity funding options. Reduction of overhead by staff reduction, suspend discretionary spend on projects under development and initiate contingency plans to address the potential need for additional resources to achieve cashflow positive. There can be no guarantee that the of the Company will be achieved.

**Inflationary risk**
The directors believe that the recent risks to the business arising from the higher inflationary environment have subsided as world economies have now emerged and progressed beyond the post-Covid recovery boom.

**Interest rate risk**
The Company does not face any significant interest rate risk as it has no borrowings. Surplus funds are invested to maintain a balance between accessibility of funds, competitive rates, and counterparty risk while investing funds safely.

**Credit risk**
The Company manages its credit risk in cash and cash equivalents by spreading surplus funds between creditworthy financial institutions. The Company is also exposed to credit risk attributable to trade and other receivables. The maximum credit risk in respect of the financial assets at each period end is represented by the balance outstanding on trade and other receivables. The Company monitors the credit worthiness of its customers on a regular basis.

Prior to the RNS of 26 June 2023 issued by DeepVerge plc, management had actively engaged to manage the outstanding debts. A repayment plan was in place to pay down the debt, and services provided in 2023 were settled in line with the standard payment terms.

Credit control with related parties is managed by direct communication with the counterparty and all significant transactions required the approval of the Board of Directors of the Company.

**Foreign currency risk**
The majority of the Company's transactions are denominated in pounds sterling. The Company has no long-term commitments to purchase goods or services in foreign currencies. Purchases denominated in foreign currency are expensed at the exchange rate prevailing at the date of the transaction and represents an immaterial proportion of the Company's total expenditure.

The only assets and liabilities denominated in foreign currencies relate to trade receivables and trade payables with overseas counterparties together with small balances of US dollar and Euro currencies to settle these liabilities. The risks and sums involved are immaterial.

**Fair values**
The Directors consider that there is no material difference between the book value and the fair value of the financial instruments on 31 December 2023 and 31 December 2022.

**Capital management**
The Company's capital base comprises equity attributable to shareholders. As the Company's focus has been on establishing itself as a successful supplier of equipment design and engineering services, the primary objective in managing cash spend has been to achieve progress on product development and commercialisation in a cost-efficient manner and in managing liquidity risk to ensure the Company continues as a going concern.

## 28. Related party transactions

Microsaic and DeepVerge plc had one director in common at the start of 2023: Nigel Burton. Nigel Burton is a Non-executive Director of Microsaic and was a Non-executive Director of DeepVerge plc until becoming interim CEO on 3 November 2022.

Microsaic traded with two subsidiaries of DeepVerge plc during the prior year, which for the purposes of this note are combined as a total. In summary for the year ended 31 December 2023, revenue from DeepVerge plc sales totalled £50k (2022: £1,248k) and purchases from DeepVerge plc totalled £57k (2022: £nil).

At 31 December 2023, £nil (2022: £1,511k) inclusive of VAT was owed by DeepVerge plc to Microsaic relating to the supply of goods and services recognised as revenues for the year ended 31 December 2022.

During the year DeepVerge plc issued an RNS casting significant doubt on its ability to settle this debt. It was the opinion of the directors that the conditions leading to this were in existence at 31 December 2022, and so a provision for expected credit losses of £1,130,169 (2021: £nil) was recognised against this debt in the prior year. This represented the amount of outstanding debt at 26 June 2023, less recoverable VAT. This debt was then written off in the current year, partially netted-off by the sum of £65k owing by Microsaic to DeepVerge plc.

## 29. Control

As at 31 December 2023, no individual shareholder had a controlling interest in the Company.

## 30. Events after the Reporting Date

Adjusting events subsequent to 31 December 2023:

- None

Non-adjusting events subsequent to 31 December 2023:

- On 12 January 2024 the company announced the intention to acquire certain assets and elements of the Modern Water business from DeepVerge plc subject to successful fundraising.
- On 15 January 2024 the company announced the successful placing of £1.8million via the issuance of 169,000,000 in new shares. This was pursuant to a capital reorganisation that had been announced on 3 December 2023 and implemented on 15 January 2024 to consolidate the existing shares of 6,361,365,625 by 625:1 into 10,178,185 shares. Accordingly, upon completion the company had 179,178,185 issued ordinary shares.
- On 16 January 2024 the company shares were restored and relisted on the AIM market.
- On 25 January 2024 the company announced the completion of the acquisition of the Modern Water business from DeepVerge plc. The transaction comprised the acquisition of various items of intellectual property including patents and the trading name as well as customer listings, customer contracts and adoption of work-in-progress. The total cost of the acquisition was £100,000 and the expected impact on the 2024 financial performance of the company is expected to be in the region of £300,000 in additional sales and £150,000 in additional gross profits.
- On 25 January 2024 the Company announced the completion of the acquisition of the Modern Water business from DeepVerge plc for a consideration of £100,000.
- On 16 February 2024 the Company announced the reactivation of the Modern Water laboratory and production facilities in smaller premises at Sand Hutton, York, England. The Company is also working with a large OEM in the United States to optimise the Company's PFAS system for commercial use.

- On 27 March 2024 the Company announced that it had agreed terms with GX Group, based in Usk Wales, for the continued manufacturing and further development of Continuous Toxicity Monitoring instruments ("CTMs") and related consumables previously sold by the Modern Water business.
- On 14 June the Company announced that it had reached non-binding heads of terms with Aptamer Group plc (AIM: APTA) ("Aptamer") for the development of Optimer® binders to be used for the detection of pathogens of serious concern to public health that can be found in water (the "Agreement").
- On 25 June the Company announced that it had received a research and development tax credit from HMRC of £262,000 for qualifying costs expended in 2022.

## 31. Cash absorbed by operations

| | Year to 31 December 2023<br>£000s | Year to 31 December 2022<br>£000s |
|---|---|---|
| Total comprehensive loss for the year | (2,597) | (2,289) |
| **Adjustments for:** | | |
| Amortisation of intangible assets | 27 | 30 |
| Depreciation of right of use assets | 76 | 73 |
| Depreciation of property, plant and equipment | 183 | 178 |
| Transfer of property, plant and equipment to cost of goods | - | (44) |
| Loss /(Profit) on disposal of fixed assets | 38 | 2 |
| Decrease / (Increase) in provisions for dilapidations & warranty | (85) | 16 |
| Increase in provision for expected credit losses | 6 | 1,127 |
| Share-based payments | 21 | 235 |
| Remuneration paid in shares | - | - |
| Tax on loss on ordinary activities | - | (246) |
| Interest on lease liability | 2 | 7 |
| Interest received | (13) | (23) |
| **Movements in working capital** | | |
| Decrease in inventories | 170 | 10 |
| Decrease/(Increase) in trade and other receivables | 577 | (1,090) |
| Increase/(Decrease) in trade and other payables | 282 | (118) |
| **Cash absorbed by operations** | (1,313) | (2,132) |