

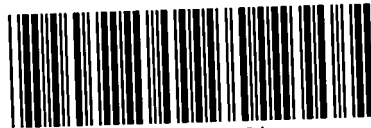
Base4 Innovation Limited

Financial statements for filing

Registered number 06389614

31 December 2017

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Balance Sheet

At 31 December 2017

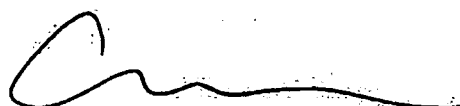
	Note	2017 £	2016 £
Fixed assets			
Tangible assets	6	463,901	545,594
Current assets			
Debtors	7	979,573	1,069,986
Cash at bank and in hand		3,859,830	1,646,004
		<u>4,839,403</u>	<u>2,715,990</u>
Creditors: amounts falling due within one year	8	<u>(366,064)</u>	<u>(547,907)</u>
Net current assets		<u>4,473,339</u>	<u>2,168,083</u>
Total assets less current liabilities		<u><u>4,937,240</u></u>	<u><u>2,713,677</u></u>
Capital and reserves			
Called up share capital	10	43	21
Share premium account		21,305,132	15,327,356
Other reserves		1,088,358	267,145
Profit and loss account		(17,456,293)	(12,880,845)
Shareholders' funds		<u><u>4,937,240</u></u>	<u><u>2,713,677</u></u>

The notes on page 5-12 form an integral part of these financial statements.

These accounts have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime.

The directors of the company have elected not to include a copy of the income statement within the financial statements in accordance with special provisions applicable to companies subject to the small companies' regime as permitted by section 444(5) of the Companies Act 2006.

These financial statements were approved by the board of directors on 25 September 2018 and were signed on its behalf by:



Cameron Frayling
Director

Company registered number: 06389614

Statement of Changes in Equity

	Called up Share capital	Share Premium account	Other reserves	Profit and loss account	Total equity
	£	£	£	£	£
Balance at 1 January 2016	19	11,062,785	2,193,685	(9,309,164)	3,947,325
Loss for the year	-	-	-	(3,571,679)	(3,571,679)
Issue of shares	2	4,264,569	(2,150,015)	-	2,114,556
Equity-settled share based payment transactions	-	-	223,475	-	223,475
Balance at 31 December 2016	21	15,327,354	267,145	(12,880,843)	2,713,677

	Called up Share capital	Share Premium account	Other reserves	Profit and loss account	Total equity
	£	£	£	£	£
Balance at 1 January 2017	21	15,327,354	267,145	(12,880,843)	2,713,677
Loss for the year	-	-	-	(4,575,450)	(4,575,450)
Issue of shares	22	5,977,778	-	-	5,977,800
Equity-settled share based payment transactions	-	-	821,213	-	821,213
Balance at 31 December 2017	43	21,305,132	1,088,358	(17,456,293)	4,937,240

Notes

(forming part of the financial statements)

1 Accounting policies

Base4 Innovation Limited (the "Company") is a private company, limited by shares and incorporated, domiciled and registered in England in the UK. The registered number is 06389614 and the registered address is Broers Building, 21 JJ Thomson Avenue, Cambridge, CB3 0FA.

These financial statements were prepared in accordance with Section 1A of Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("*FRS 102 1A*") as issued in August 2014. The amendments to FRS 102 issued in July 2015 have been applied. The presentation currency of these financial statements is sterling.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis.

1.2 Going concern

The Company made a loss of £4,575,450 in the year to 31 December 2017 (2016: £3,571,679), had operating cash outflow of £3,763,972 (2016: £3,659,851), net current assets of £4,473,339 as at 31 December 2017 (2016: £2,168,803) and had cash of £3,859,830 (2016: £1,646,004) at 31 December 2017.

As at 31 July 2018 the Company had cash of £1,511,396 and net assets of £1,822,489.

The Company has continued to invest exclusively in research and development of sequencing technology during and since the financial year ending 31 December 2017 and, until the conversion of this into a significant revenue stream is completed, it relies on continued shareholder funding. The technology continues to be developed with revenues expected to commence in 2020, and the Company will require the continued support of investors to develop the technology and build an infrastructure to deliver the final product to market. The Company is involved in continuing discussions with corporate and institutional investors to secure funding to take the Company through to revenue generation but these discussions are not yet finalised at the date of the signing of these financial statements.

In order to assess the support required from investors the directors regularly prepare and review forecasts of future cash requirements. To meet the Company's ongoing cash needs during this development phase £2.3m of additional funding will be required from the Company's investors within 12 months of the signing of these financial statements. The cash balance at 31 July 2018 (£1,511,396) will support ongoing trading until February 2019 based on the current spending run-rate which should be sufficient time to complete the next fundraising. However there are a number of potentially mitigating actions that can be taken including limiting spend in some areas of the business and securing new grant funding which could extend this period by 2-3 months if necessary.

The Directors have a reasonable expectation, as research is progressing as planned and is regularly communicated to shareholders, that the required levels of funding to support the Company's planned growth will be obtained. Funding discussions are ongoing with existing investors with a view to securing funding in excess of the Company's ongoing cash needs for the 12 months from the signing of these financial statements. It is anticipated that this funding will be secured before the end of 2018. However at this point there can be no certainty as to the final quantum, final sources and timing of this expected investment. This next fundraising is expected to secure funding to continue development of the instrument to a stage where it is producing sufficient data to secure either a partnership agreement with a major instrument developer or to secure significant direct funding with which is required to take the development stage through to a marketable instrument.

As a result of these conditions the Directors have identified a material uncertainty exists that may cast significant doubt over the Company's ability to continue as a going concern, and that therefore the Company may be unable to continue realising its assets and discharging its liabilities in the normal course of business. Nevertheless, based on discussions with investors to date, and the past history of obtaining investor financing, the Directors have a reasonable expectation that the Company will be successful in obtaining the additional financing required to continue in operational existence for at least 12 months from the date of signing of the financial statements. For these reasons, these financial statements have been prepared on a going concern basis and do not include any adjustments that would be necessary if this basis were inappropriate.

Notes (continued)

1 Accounting policies (continued)

1.3 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

1.4 Basic financial instruments

Trade and other debtors / creditors

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

1.5 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

The company assesses at each reporting date whether tangible fixed assets are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- Laboratory Plant and Equipment - 5 years
- Office Equipment - 3 years
- Leasehold Improvements - 3 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

1.6 Intangible assets, goodwill and negative goodwill

Research and development

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Notes (continued)

1 Accounting policies (continued)

1.7 Share-based payment transactions

The grant date fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured based on using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

1.8 Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Interest receivable and Interest payable

Interest payable and similar expenses include interest payable, finance expenses on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy).

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the company's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

1.10 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets will only be recognised to the extent that they can offset future taxable profits.

2 Expenses

Included in the loss are the following:

	2017	2016
	£	£
Research and development expensed as incurred, including wages and salaries	5,153,017	4,175,353
Depreciation	214,128	197,088
Auditor's remuneration in respect of:		
Audit of these financial statements	8,000	8,000
Tax compliance	2,750	2,750
	<hr/>	<hr/>

Notes (continued)

3 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2017	2016
Research and development	31	32
Management and administration	4	4
	<u>35</u>	<u>36</u>

The aggregate payroll costs of these persons were as follows:

	2017	2016
	£	£
Wages and salaries	1,664,004	1,631,528
Social security costs	159,808	182,098
Share based payment expense	821,213	69,277
Contributions to defined contribution plans	63,463	36,014
	<u>2,688,488</u>	<u>1,918,917</u>

4 Directors' remuneration

	2017	2016
	£	£
Directors' remuneration	<u>178,000</u>	<u>160,895</u>

	Number of directors	
	2017	2016
The number of directors who exercised share options was	0	1
The number of directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes was	2	1

5 Taxation

Total tax expense recognised in the profit and loss account, other comprehensive income and equity

	2017	2016
	£	£
<i>Current tax</i>		
Current tax on income for the period	789,266	837,633
Total current tax	789,266	837,633
Total tax	<u>789,266</u>	<u>837,633</u>

Notes (continued)

5 Taxation (continued)

	£	2017 £	£	£	2016 £	£
	Current tax	Deferred tax	Total tax	Current tax	Deferred tax	Total tax
Recognised in Profit and loss account	(789,266)	-	(789,266)	(837,633)	-	(837,633)
Total tax	(789,266)	-	(789,266)	(837,633)	-	(837,633)

Reconciliation of effective tax rate

	2017 £	2016 £
Profit for the year	(5,364,716)	(3,571,679)
Total tax expense	789,266	837,633
Profit excluding taxation	(4,575,450)	(4,409,312)
Tax using the UK corporation tax rate of 19.25% (2016: 20%)	(1,032,524)	(881,862)
Effect of fixed asset differences	175	764
Effect of expenses not deductible for tax purposes	173,541	51,527
Effect of other permanent differences	-	(14,400)
Effect of additional deduction for R&D expenditure	(592,140)	(651,620)
Effect of surrender of tax losses for R&D credit refund	258,366	317,038
Effect of adjustments to tax charge in respect of previous periods	-	(46)
Effect of adjusting closing tax rate to average rate of 19.25% (2016:20%)	209,778	217,054
Effect of adjusting opening deferred tax to average rate of 20.0% (2016:19.25%)	(162,700)	(110,606)
Effect of deferred tax not recognised	356,238	234,518
Total tax charge / (credit) included in profit or loss	(789,266)	(837,633)

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015. A further reduction to 18% (effective 1 April 2020) was substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

Notes (continued)

6 Tangible fixed assets

	S/Term Leasehold Property £	Fixtures & Fittings £	Lab Equipment £	Total £
Cost				
Balance at 1 January 2017	152,379	245,951	1,062,093	1,460,423
Additions	-	6,132	126,303	132,435
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2017	152,379	252,083	1,188,396	1,592,858
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
Balance at 1 January 2017	128,692	175,173	610,964	914,829
Charge for the year	10,128	37,454	166,546	214,128
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2017	138,820	212,627	777,510	1,128,957
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 31 December 2016	23,687	70,778	451,129	545,594
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2017	13,559	39,456	410,886	463,901
	<hr/>	<hr/>	<hr/>	<hr/>

7 Debtors

	2017 £	2016 £
Other debtors	886,498	957,871
Prepayments and accrued income	93,075	112,115
	<hr/>	<hr/>
	979,573	1,069,986
	<hr/>	<hr/>

8 Creditors: amounts falling due within one year

	2017 £	2016 £
Trade creditors	277,647	423,711
Taxation and social security	59,989	58,643
Other creditors	-	20,146
Accruals and deferred income	28,428	45,406
	<hr/>	<hr/>
	366,064	547,906
	<hr/>	<hr/>

Notes (continued)

9 Employee benefits

Share based payments

All employees are eligible for a grant of options once they have been in service for 12 months. The options vest incrementally over a period of three years service. There are no performance conditions attached to the options.

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2017	Number of options 2017	Weighted average exercise price 2016	Number of options 2016
Outstanding at the beginning of the year	£6.91	212,980	£8.86	137,366
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	£1.00	5,000
Granted during the year	-	-	£3.36	118,000
Expired during the year	£14.43	9,750	£3.65	37,386
	<hr/>	<hr/>	<hr/>	<hr/>
Outstanding at the end of the year	£6.55	203,230	£6.91	212,980
	<hr/>	<hr/>	<hr/>	<hr/>
Exercisable at the end of the year	£8.32	123,724	£8.10	115,132
	<hr/>	<hr/>	<hr/>	<hr/>

The expected volatility is calculated based on the weighted average remaining life of the share options, adjusted for any expected changes to future volatility due to publicly available information.

The total expenses recognised for the year and the total liabilities recognised at the end of the year arising from share-based payments are as follows:

	2017 £	2016 £
Total share based payment expense	821,213	223,475
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The Black-Scholes model was used to value the expense of share based payments made in the year. The shares are not publicly traded and there is limited data available for comparable companies therefore the Black-Scholes model appears most appropriate.

Notes (continued)

10 Share Capital

Share capital

	2017 £	2016 £
<i>Allotted, called up and fully paid</i>		
4,261,402 ordinary shares of £0.00001 each (2016: 2,128,430 shares)	43	21
5,000 "G" ordinary shares of £0.00001 each (2016: 5,000 shares)	-	-
	<u>43</u>	<u>21</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

2,175,790 Ordinary shares were issued during 2017.

11 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2017 £	2016 £
Less than one year	55,067	44,071
Between one and five years	-	-
	<u>55,067</u>	<u>44,071</u>

During the year £125,867 was recognised as an expense in the profit and loss account in respect of operating leases (2016: £113,280).

12 Related parties

Identity of related parties with which the Company has transacted

Oxford Technology ECF (GP) LLP is related by common directorship with M Frohn. During the year the company incurred costs totalling £5,000 (2016: £5,000) for monitoring fees. £5,000 (2016 £5,000) in relation to the next financial period was outstanding at the year end and included in trade creditors.

13 Audit Opinion and Financial Statements for Filing

As stated in note 1, these financial statements have been prepared in accordance with FRS102 1A.

In accordance with special provisions applicable to companies subject to the small companies' regime as permitted by section 444(4) of the Companies Act 2006, no profit and loss account or director's report have been included in these Financial Statements for Filing, and no copy of the audit report.

The auditor's report for the year ended 31 December 2017 was unqualified, but included a material uncertainty over going concern as a result of the circumstances set out in note 1.

The audit report was issued by Mark Prince (Senior Statutory Auditor) for and on behalf of KPMG LLP, Statutory Auditor, and was dated 25 September 2018.