

NovaBiotics Limited

Consolidated Financial Statements

Registered number SC272344

Year ended 31 August 2019



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GROUP INFORMATION

Directors	B Bodek, Chairman D O'Neil A Porter I Townsend P G Ellis
Company Secretary	M Scott
Company number	SC272344
Registered office	Cruickshank Building Craibstone Bucksburn Aberdeen Scotland AB21 9TR
Independent Auditors	Saffery Champness LLP Kintail House Beechwood Park Inverness IV2 3BW
Bankers	Royal Bank of Scotland Queens Cross 40 Albyn Place Aberdeen AB10 1YN
Website address	www.novabiotics.co.uk

STRATEGIC REPORT FOR THE YEAR ENDED 31 AUGUST 2019

The directors present their strategic report of NovaBiotics Limited ("the Group") for the year ended 31 August 2019.

Loss for the year

There was a loss for the financial year amounting to £1,383,832 (2018: £1,668,979).

NovaBiotics Limited is a pre-revenue research and development (R&D) stage biotechnology company.

To date the Group has been funded by a combination of equity investment, milestone payments from licensing deals, R&D tax credits, grant funding plus other sundry income.

Administration Costs

Administration costs (excluding R&D activities, equity share based payments, depreciation and intangible asset amortisation and impairment) were reduced by £160,579 (12%) to £1,161,366 (2018: £1,321,945) during the year.

Research and Development activities

During the year, the Group incurred research and development expenditure, including employee costs, amounting to £392,413 (2018: £1,934,202) This included expenditure on progressing the following programmes (not exhaustive):

Oral Lynovex® £86,402

Inhaled Lynovex® £139,623

Novamycin® £147,200

Review of the business

Principal Risks and Uncertainties

The main risks and uncertainties facing NovaBiotics is the availability of future funding whilst still a pre-revenue business, to fund development of the company's drug candidates to clinical proof of principal. It is at this point, following clinical trials that the company's assets are anticipated as being 'de-risked' to the point where they can be monetised; either through licensing or acquisition. NovaBiotics is developing first-in-class anti-infective medicines for unmet bacterial and fungal disease and also orphan medicines for cystic fibrosis. These are unmet diseases with significant potential markets for which there is a clear end-used need/clinical demand and a favourable regulatory environment which supports the fast-tracking of such treatments wherever appropriate.

Until reaching the stage where the company's assets can be licensed or acquired, the business remains largely dependent on equity investment and grant funding. In the last period, £1.76m of investment was secured through the issue of convertible loan stock.

A £1.8m SBRI grant funded contract with Department of Health and Social Care was also secured to fund Novamycin® and an £88k Scottish Enterprise grant utilised to fund inhaled Lynovex®.

STRATEGIC REPORT FOR THE YEAR ENDED 31 AUGUST 2019 (CONTINUED)

Principal Activities

The Group currently has the following drugs under development:

The Company currently has the following drug candidates in development:

Lynovex®

Lynovex® is a first-in-class orphan drug candidate for cystic fibrosis (CF), an inherited life-limiting disease affecting around 70,000 individuals worldwide. NovaBiotics is developing two formulations, oral Lynovex® for CF exacerbations, and inhaled Lynovex® for maintenance of ventilatory function in patients with CF. Orphan drug designation has been granted in the United States and Europe for Lynovex® and Fast Track designation granted for oral Lynovex in the US. Oral Lynovex was also designated as a priority review medicine in the last period by the central European Health Technology Assessment body.

Oral Lynovex® successfully completed a global phase 2b clinical trial (CARE CF 1) in 2018. On the basis of the data generated from this study and subsequent end of phase 2b interactions with the FDA and EMA, the go-ahead to proceed with final global clinical development of oral Lynovex was secured.

Inhaled Lynovex® was further advanced towards clinical testing in the last period through optimisation of the formulation and testing of the product candidate on sputum from CF patients to demonstrate its superior mucolytic activity and also its antimicrobial properties against the bacteria that colonise the airways of CF patients.

Novamycin®

Novamycin® is a novel antifungal peptide (NP339) being developed for the front-line treatment of medically unmet, bloodstream and deep tissue yeast and mould infections. NP339 is a preclinical asset. On 26th October 2018, a £1.8m SBRI grant was awarded to NovaBiotics to fund Novamycin® to the point of being clinical-testing ready in 2021. This commenced on 1 January 2019 and will continue for 2 years. The SBRI grant will fund the remaining preclinical studies required to facilitate entry of this novel antifungal treatment candidate into phase 1 clinical trials. The SBRI project milestones have largely been met with positive progress already made towards the projects' ultimate goal.

Novexatin®

Novexatin® is a novel antifungal peptide (NP213) that has been formulated as a brush-on-treatment for fungal nail infection; the first fungal nail infection therapy to address both the underlying cause of the condition and the cosmetic issues associated with the infection; by rapidly killing the causative fungi and rapidly improving the nail's appearance. Phase I and 2a clinical studies have demonstrated that Novexatin® is safe, well-tolerated and effective in resolving toenail infections following just one month of daily application.

Novarifyn®

Novarifyn® is a family of novel antibacterial peptides that are active against multi-drug (Gram negative and Gram positive) resistant bacteria. Lead peptides from this family such as NP432 are targeted for hospital-use as much-needed, potent systemic (intravenous) antimicrobial therapies against potentially life-threatening bacterial infections. Novarifyn® is a preclinical stage programme. In addition to a body of laboratory data to support its future clinical potential, Novarifyn® has been shown to be well-tolerated and efficacious in *in vivo* infection models.

Nylexa™

Nylexa™ is an adjunct therapy for existing antibiotics that is able to 'reactivate' their activity against drug resistant bacterial pathogens. Nylexa™ potentiates existing antibiotics to work again or work better than they did before, both in terms of potency and spectrum of activity. This is a preclinical programme and NovaBiotics is primarily targetting Nylexa™ as a hospital use systemic drug for drug resistant bacterial infections. Nylexa™ is closely related to Lynovex® and therefore de-risked by the preclinical and clinical safety and efficacy data generated for Lynovex® thus far.

Luminaderm®

Luminaderm® (NP108) is a non-antibiotic antimicrobial polymer that can be applied in a range of topical human health care and consumer (medicated) products and for animal health. NovaBiotics is primarily focused on the development of Luminaderm for the nasal decolonisation of methicillin-resistant *Staphylococcus aureus* and topical prophylaxis/treatment of bacterial infections.

IP, Patents and Trademarks

NovaBiotics has a strong portfolio of granted and pending patents which are wholly owned by the Group. Investment in the patent portfolio has continued during the year.

Patents are amortised over their useful lives. The amortisation charge for the current year is £122,258 (2018: £234,354). An impairment charge of £113,360 was also recognised in the year relating to lapsed patents no longer required by the business.

Key performance indicators (KPIs)

At the beginning of each financial year, the Group prepares a forecast, incorporating a budget for the forthcoming financial year and uses this as a framework for making operating expenditure decisions. This forecast is then updated on a quarterly basis to reflect the latest commercial decisions and cash expenditure is controlled and monitored accordingly.

The major overall KPI used in the business is the cash position which is monitored closely so that capital requirements can be funded.

Prospects

The new financial year has started in line with forecast expectations and the Board remains focussed upon the achievement of a significant capital transaction for the benefit of shareholders

By order of the board



Bryan Bodek
Chairman
20 December 2019

DIRECTORS' REPORT FOR THE YEAR ENDED 31 AUGUST 2019

The directors present their report and audited consolidated financial statements of NovaBiotics Limited ("the Group") for the year ended 31 August 2019.

Dividends

The directors do not recommend payment of a dividend (2018: £Nil).

Directors

The directors of the Group who were in office during the year and up to the date of signing the financial statements were:

B Bodek, Chairman
D O'Neil
A Porter
I Townsend
P G Ellis

The directors are covered by a Directors' and Officers' Liability Insurance policy maintained by the Group with a qualifying 3rd party insurance company which was maintained throughout the financial year and is still in place at the date of approval of these financial statements.

Charitable and Political Donations

The Group made charitable donations of £50 in the year (2018: £200).
There were no political donations in the year (2018: £Nil).

Financial risk management

The Group's financial instruments comprise borrowings, cash and liquid resources such as trade debtors and trade creditors that arise directly from its operations. The Board reviews and agrees policies for managing each of the risks associated with interest rate, liquidity and foreign currency. It is the Group's current policy that no trading in financial instruments shall be undertaken.

• Credit risk

Credit risk is the risk of financial loss to the Group if a customer fails to meet its contractual obligations and arises principally from the Group's receivables from customers. The Group's exposure to credit risk is mainly influenced by the default risk inherent within the industry in which it operates. The Group's main debtor is a large pharmaceutical Group therefore this risk is perceived to be low. Debts with individual companies are monitored closely.

Prior to trading on credit with a new customer an analysis of that entity's most recent trading statement is undertaken so that a more thorough understanding of its financial position can be ascertained.

• Market risk

Market risk is the risk that changes in the market prices, such as foreign exchange rates and interest rates will affect income. The objective of market risk management is to manage and control market risk within acceptable parameters. The Group does this by minimising exposure to foreign currency movements through contracting in pounds sterling wherever possible, matching foreign currency income with expenditure and minimising overdrafts and loans always. The Group's main foreign exchange risk relates to movements in the sterling / US dollar exchange rate. Movements in the rate impact the translation of sterling incomes.

The Group finances its operations through equity.

As at the end of the year, the Group held cash balances of the equivalent of £1,043 in US dollars and £702 in Euro. There were no bank borrowings.

• Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient funding to meet its liabilities when due, under both normal and stressed conditions.

The Group prepares cash forecasts regularly to monitor the anticipated future cash flows of the business and allows actions to be taken well in advance of any potential liquidity problem.

Based on the current outlook, the Board considers that the Group has sufficient funding arrangements in place to meet its future obligations.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 AUGUST 2019 (CONTINUED)

Financial risk management (continued) Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the group financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and of the profit or loss of the group for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's transactions and disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The directors are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the case of each director in office at the date the Directors' Report is approved:

So far as the director is aware:

- there is no relevant audit information of which the group's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group's auditors are aware of that information.

Disclosure of Information to Auditors

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

Independent Auditors

The auditors, Saffery Champness LLP, were re-appointed as auditors by a board resolution on 26 April 2019.

Going Concern

After making appropriate enquiries and reviewing cash flow forecasts, the directors have formed a judgment at the time of approving the financial statements that the Group has access to adequate resources to continue in operational existence for at least twelve months.

For this reason, the directors believe it remains appropriate to continue to prepare the financial statements on a going concern basis.

By order of the board



M Scott
Company Secretary

20 December 2019

CORPORATE GOVERNANCE REPORT FOR THE YEAR ENDED 31 AUGUST 2019

Board

There are 1 executive and 4 non-executive directors at the date of these consolidated financial statements. The non-executive directors bring independent judgement to bear on issues of strategy, performance, resources and standards.

The Group supports the concept of an effective Board leading and controlling the Group. The Board is responsible for approving strategy and policy. It meets regularly throughout the year and all directors have full and timely access to the information necessary to enable them to discharge their duties. All directors have access to advice from the Company Secretary and independent professionals at the Group's expense.

Relations with Shareholders

The Group encourages dialogue with its investors and responds promptly to all questions received verbally or in writing.

Accountability and Audit

The Board includes a detailed review of the performance of the Group in the Strategic Report on pages 2 to 4. Alongside the Directors' Report on pages 5 to 6 the Board seeks to present a balanced and understandable assessment of the Group's position and prospects.

The Board is responsible for maintaining a sound system of internal control to safeguard shareholders' investments and the Group's assets.

An Audit Committee was appointed on 24 July 2014 and comprises I Townsend and A Porter who are both non-executive directors. The terms of reference of this Committee include reviewing the scope and results of the external audit and its effectiveness.

Remuneration

A Remuneration Committee was appointed on 24 July 2014 and comprises I Townsend and A Porter who are both non-executive directors. This committee will meet as required.

The Group's remuneration policy for officers and staff is to have regard for experience and the nature and complexity of the work to pay competitive salaries that attract and retain management and staff of the highest quality.

The Group currently does not operate a bonus or long-term incentive scheme other than in respect of share options under the Unapproved Share Option Scheme, and an Enterprise Management Incentive Scheme (Note 19).

Internal Controls

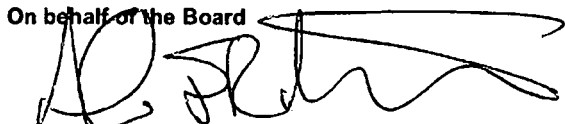
The Board of Directors is responsible for internal controls. However, it should be recognised that such a system can provide only reasonable and not absolute assurance against material misstatement or loss.

The principal elements of the system include:

- A clearly defined structure which delegates authority, responsibility and accountability;
- A comprehensive system for reporting financial results. Actual profits or losses are measured monthly with commentary on variances and other unusual items which allows the Board to monitor performance on a regular basis; and
- A comprehensive forecasting programme.

The Board has reviewed the effectiveness of the system of internal financial controls and considers the Group has an established system which the directors believe to be appropriate to the business.

On behalf of the Board



A Porter
Audit Committee

20 December 2019

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NOVABIOTICS LIMITED

Report on the audit of the financial statements

Opinion

We have audited the financial statements of NovaBiotics Limited and its subsidiary (the 'group') for the year ended 31 August 2018 which comprise the consolidated income statement, consolidated and company statements of financial position, consolidated and company statements of changes in equity and consolidated and company statements of cashflows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the group and of the parent company as at 31 August 2019 and of the group's loss for the period then ended; and
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. 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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NOVABIOTICS LIMITED (CONTINUED)

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located 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.



Donald Forsyth (Senior Statutory Auditor)
for and on behalf of Saffery Champness LLP

Chartered Accountants
Statutory Auditors

Kintail House
Beechwood Park
Inverness
IV2 3BW

20 December 2019

Consolidated Income Statement
For the year ended 31 August 2019

	Notes	2019 £	2018 £
Revenue	4	-	-
Cost of sales		-	-
Gross profit		-	-
Other income	5	351,498	88,555
Net income from operations		351,498	88,555
Administrative expenses	6	(1,788,672)	(2,228,038)
(Loss) from operating activities		(1,437,174)	(2,139,483)
Finance income	8	2,304	16,712
Finance costs	8	(107,522)	(21,986)
(Loss) before exceptional items and taxation		(1,542,392)	(2,144,757)
Income tax	9	158,560	475,778
Loss for the financial year		(1,383,832)	(1,668,979)
Loss attributable to owners		(1,383,832)	(1,668,979)

The notes on pages 16 to 33 are an integral part of the consolidated financial statements.

Revenue, income and loss from operating activities in the current and previous year arose wholly from continuing operations.

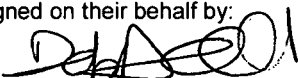
There is no other comprehensive income for the year.

The Group has elected to take exemption under section 408 of the Companies Act 2006 not to present the parent company profit and loss account. The loss for the parent company was £1,383,832 (2018: £1,666,857)

Statements of financial position as at 31 August 2019

	Note	Consolidated		Company	
		2019	2018	2019	2018
		£	£	£	£
Assets					
Non-current assets					
Investment in subsidiary	22	-	-	151	64
Property, plant and equipment	10	7,569	7,749	7,569	7,749
Intangible assets	11	2,591,092	2,399,481	2,591,092	2,399,481
Total non-current assets		2,598,661	2,407,230	2,598,812	2,407,294
Current assets					
Trade and other receivables	12	146,271	118,794	157,819	128,137
Corporation tax debtor	12	158,560	469,040	158,560	469,040
Cash and cash equivalents	12	491,385	67,014	490,823	63,407
Total current assets		796,214	654,848	807,202	660,584
Total Assets		3,394,876	3,062,078	3,406,014	3,067,878
Equity attributable to owners					
Share capital	13	1,401,897	1,401,898	1,401,897	1,401,898
Share premium account		18,074,170	18,074,170	18,074,170	18,074,170
Convertible loans	14	3,295,767	1,527,862	3,295,767	1,527,862
Other reserves		440,392	503,117	440,392	503,117
Accumulated losses		(21,053,837)	(19,670,004)	(21,042,869)	(19,663,027)
Total equity		2,158,389	1,837,043	2,169,357	1,844,020
Total non-current liabilities	15	-	10,000	-	10,000
Current liabilities					
Trade and other payables	16	1,236,488	1,215,035	1,236,657	1,213,858
Total current liabilities		1,236,488	1,215,035	1,236,657	1,213,858
Total liabilities		1,236,488	1,225,035	1,236,657	1,223,858
Total equity and liabilities		3,394,876	3,062,078	3,406,014	3,067,878

The financial statements on pages 10 to 34 were approved by the directors and authorised for issue on 20 December 2019 and are signed on their behalf by:



D O'Neil
20 December 2019

**Consolidated Statement of changes in equity
For the year ended 31 August 2019**

	Share capital	Share premium account	Accumulated losses	Other reserves	Convertible loans	Total equity
	£	£	£	£	£	£
Balance as at 1 September 2017	1,401,854	18,071,039	(18,001,025)	1,436,745	1,200,415	4,109,028
Loss for the financial year, being total consolidated income	-	-	(1,668,979)	-	-	(1,668,979)
Share option charge	-	-	-	(933,629)	-	(933,629)
Convertible loans converted	44	3,131	-	-	(3,174)	1
Convertible loans issue	-	-	-	-	330,621	330,621
Rounding	(1)	-	-	1	-	1
Balance as at 31 August 2018	1,401,897	18,074,170	(19,670,004)	503,117	1,527,862	1,837,043
Balance as at 1 September 2018	1,401,897	18,074,170	(19,670,004)	503,117	1,527,862	1,837,043
Loss for the financial year, being total consolidated income	-	-	(1,383,832)	-	-	(1,383,832)
Share option charge	-	-	-	(62,724)	-	(62,724)
Convertible loans issue	-	-	-	-	1,767,905	1,767,905
Rounding		-	(2)	(1)		(3)
Balance as at 31 August 2019	1,401,897	18,074,170	(21,053,838)	440,392	3,295,767	2,158,389

The notes on pages 16 to 35 are an integral part of the financial statements.

Company Statement of changes in equity

For the year ended 31 August 2019

	Share capital	Share premium account	Accumulated losses	Other reserves	Convertible loans	Total equity
	£	£	£	£	£	£
Balance as at 1 September 2017	1,401,854	18,071,039	(17,996,170)	1,436,745	1,200,415	4,113,883
Loss for the financial year	-	-	(1,666,857)	-	-	(1,666,857)
Share option charge	-	-	-	(933,629)	-	(933,629)
Convertible loans converted	44	3,131	-	-	(3,174)	1
Convertible loans issue	-	-	-	-	330,621	330,621
Rounding	-	-	-	1	-	1
Balance as at 31 August 2018	1,401,898	18,074,170	(19,663,027)	503,117	1,527,862	1,844,020
Balance as at 1 September 2018	1,401,898	18,074,170	(19,663,027)	503,117	1,527,862	1,844,020
Loss for the financial year	-	-	(1,379,842)	-	-	(1,379,842)
Share option charge	-	-	-	(62,724)	-	(62,724)
Convertible loans issue	-	-	-	-	1,767,905	1,767,905
Rounding	(1)	-	-	(1)	-	(2)
Balance as at 31 August 2019	1,401,897	18,074,170	(21,042,869)	440,392	3,295,767	2,169,357

The notes on pages 16 to 35 are an integral part of the financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 August 2019

	Note	2019 £	2018 £
Cash used in operations	18	(1,223,604)	(2,423,161)
R&D tax credit received		469,040	583,205
Foreign exchange (gains)	8	864	(14,417)
		<hr/>	<hr/>
Net cash used in operating activities		(753,700)	(1,854,373)
Payments to acquire property, plant and equipment	10	(7,700)	(671)
Payments to acquire intangible assets	11	(476,052)	(308,009)
		<hr/>	<hr/>
Net cash used in investing activities		(483,752)	(308,680)
Cash flows from financing activities			
Interest (paid)/received and foreign exchange losses	8	(106,082)	19,691
Conversion of loans		-	(3,174)
Proceeds from issue of ordinary shares		-	3,174
Proceed from issue of convertible loans		1,767,905	330,621
		<hr/>	<hr/>
Net cash generated from financing activities		1,661,823	350,312
		<hr/>	<hr/>
Net (decrease) / increase in cash and cash equivalents		424,371	(1,812,741)
		<hr/>	<hr/>
Opening cash and cash equivalents		67,014	1,879,755
Closing cash and cash equivalents		491,385	67,014
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 16 to 35 are an integral part of the financial statements.

Company Statement of Cash Flows

For the year ended 31 August 2019

	Note	2019	2018
		£	£
Cash used in operations	18	(1,220,472)	(2,421,754)
R&D tax credit received		469,040	583,205
Foreign exchange gains	8	864	(14,319)
		<hr/>	<hr/>
Net cash used in operating activities		(750,568)	(1,852,868)
Payments to acquire property, plant and equipment	10	(7,700)	(671)
Payments to acquire intangible assets	11	(476,139)	(308,009)
		<hr/>	<hr/>
Net cash used in investing activities		(483,839)	(308,680)
Cash flows from financing activities			
Interest (paid) / received and foreign exchange losses	8	(106,082)	19,494
Conversion of loans			(3,174)
Proceeds from issue of ordinary shares			3,174
Proceed from issue of convertible loans		1,767,905	330,621
		<hr/>	<hr/>
Net cash generated from financing activities		1,661,823	350,115
		<hr/>	<hr/>
Net (decrease) / increase in cash and cash equivalents		427,416	(1,811,433)
		<hr/>	<hr/>
Opening cash and cash equivalents		63,407	1,874,840
Closing cash and cash equivalents		490,823	63,407
		<hr/>	<hr/>

The notes on pages 16 to 35 are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2019

1. General information

NovaBiotics Limited (the Group) is a private, limited liability company incorporated and domiciled in Scotland, United Kingdom. The addresses and registered office are disclosed in the introduction of the financial statements. The principal activities of the Group are described in the Strategic report on pages 2 to 4.

2. Capital Management

It is the board's policy to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain the future development of the business. This is achieved through the management of the share and loan capital of the business. The Group may issue new shares, convertible loans or reduce debt.

There were no changes to the Group's approach to capital management during the year. (Note 13)

3. Principal Accounting policies

3.1 Accounting convention

These financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 as applicable to companies using IFRS and EU adopted IFRS and interpretations issued by the IFRS interpretations committee. The accounting policies have been consistently applied.

3.2 Consolidation

The Group financial statements are the result of the consolidation of the financial statements of the Group's subsidiary undertaking from the date of incorporation. Subsidiaries are entities over which the Group has the power to govern the financial and operating policies and generally accompany a shareholding of more than one half of the voting rights. All Group companies apply the Group's accounting policies and prepare financial statements to 31 August.

3.3 Going concern

The Group's forecasts confirm that it will be able to continue to operate for the foreseeable future and therefore continues to adopt the going concern basis in preparing its consolidated financial statements. Of note:

- Since the year end a further £1.113m has been secured in the 2019 fund raise, closing at a total of £1.726m;
- On 26 October 2018, a £1.8m grant was awarded to the Group to fund Novamycin®;
- The board continues to exercise strict costs control.

3.4 Revenue and other income

Revenue is recognised when control of services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services. During the year the group received no income other than government and other grants and rental income.

3.5 Government and other grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset. (Note 5)

In this financial year, total grant income of £320,480 was received/earned, including £85,471 from Scottish Enterprise and £220,907 relating to the SBRI Novamycin contract.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2019 (CONTINUED)

Principal accounting policies (continued)

3.6 Research and development

Research and development expenditure is written off to the income statement in the year in which it is incurred.

3.7 Leasing

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in other income in the statement of profit or loss due to its operating nature.

3.8 Pensions

The Group operates a defined contribution stakeholder scheme for the benefit of its directors and employees. Contributions payable are charged to the income statement in the year they are payable.

3.9 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 the transaction. All differences are taken to the income statement.

3.10 Intangible fixed assets and amortisation

Intangible assets are valued at cost less accumulated amortisation where applicable.

The cost of licences relates to the 2005 assignment of full title and interest to the original peptides patent filed in 2004 and for patents and trademarks to the legal costs incurred for the ongoing development of the patents and trademarks portfolio. The patent term for both Europe and US will be 20 years from the date of filing and supplementary protection certificates can extend this by up to another 5 years and by 7 years for orphan drugs.

The cost of patents is amortised over their remaining useful life.

Amortisation of intangible assets is charged to Administrative Expenses within the Income Statement.

3.11 Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Laboratory equipment	33 1/3% straight line
Fixtures and fittings	20% straight line
Computer equipment	33 1/3% straight line

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2019 (CONTINUED)

Principal accounting policies (continued)

3.12 Financial instruments

Financial Instruments

The Group's principal financial instruments comprise convertible loan stock (see Note 14) and cash (see Note 12). The main purpose of these financial instruments is to finance the Group's funding and liquidity requirements. The Group has other financial instruments, such as trade receivables (see Note 12) and trade payables (see Note 16), which arise directly from its operations. All financial instruments are classified as measured at amortised cost.

Financial risk management

The principal financial risks to which the Group is exposed are those relating to foreign currency, credit and capital management. These risks are managed in accordance with Board-approved policies.

Foreign currency risk

The Group transacts in more than one currency jurisdiction and is therefore exposed to currency risk on the retranslation of such transactions. The financial impact is currently immaterial, but the Board will continue to monitor this risk and if necessary, take steps to mitigate this risk.

Credit risk

The Group's credit risk is primarily attributable to its trade receivables. An allowance for impairment is made where there are specific risks associated with a balance. The Group has only a very small number of trade receivable balances and therefore it is straightforward for the Board to monitor the risks associated with these balances.

Capital management

The Group funds its operations through a mixture of grant funding, short-term and long-term borrowings, including convertible loan stock with a view to successively taking its products to market and maximising the long-term returns for shareholders. The Board reviews and approves an annual budget to ensure it has adequate facilities to meet all the operational needs and fund the future development of products.

Fair values

The carrying amount for all categories of financial assets and liabilities disclosed on the statement of financial position and in the related notes to the accounts is equal to the fair value of such assets and liabilities as at 31 August 2019. The monetary value attributable to these financial assets and liabilities is the same value that has been disclosed in the related notes to the accounts.

3.13 Share based payments

The Group operates two equity settled share-based option schemes:

3.13.1 The unapproved share option scheme (Note 19.1); and

3.13.2 The EMI share option scheme (Note 19.2).

The schemes allow participants to acquire shares of the Group, between agreed future dates at a price that is known as the subscription price per share.

When options have been granted in lieu of cash settlements, the value of the equity settled share options granted is recognised as an expense with a corresponding increase in equity.

For other grants the value is determined as being the intrinsic value, being the fair value of the shares at the balance sheet date less the subscription price. This must be measured at the date of grant and at each reporting date until final settlement. The fair value adopted for the current year end is £8.26 per share which is the subscription price for the most recent investment 2 March 2017.

3.14 Taxation

Current tax, including UK corporation tax and foreign tax, is provided on taxable profits at the current rate of taxation.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Timing differences are differences between the Group's taxable profits and its loss as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in years different from those in which they are recognised in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2019 (CONTINUED)

Principal accounting policies (continued)

3.14 Taxation (continued)

A deferred tax asset is regarded as recoverable and therefore recognised only when, based on all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted. Deferred tax is measured on a non-discount basis at the tax rates that are expected to apply in the years in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

3.15 Critical Accounting Estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following are the key assumptions as at the reporting date, that could have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Impairment of intangible assets

Determining whether the intellectual property (IP) is impaired requires an estimation of the value of the relevant future cash-generating products. The Directors need to determine if those products will generate sufficient revenues to support the current carrying value of the IP.

The carrying amount of IP at the end of the financial year was £2,623,538 (2018: £2,399,481).

(b) Fair value of share options

IFRS 2 requires that share-based payment transactions be measured at fair value for both listed and unlisted entities. If the fair value cannot be reliably measured, IFRS 2 permits the use of intrinsic value, being the fair value of the shares less the subscription price. This must be measured at the date of grant and at each reporting date until final settlement.

The Directors have adopted this method as NovaBiotics Limited is an unlisted entity without a readily available market price. £8.26 has been applied as the appropriate fair value, being the latest subscription value for the 2 March 2017 investment.

For the financial year 2019 a net credit of £62,724 has been made to income with a corresponding net reduction to reserves (2018: net credit £933,629). The balance on the share option reserve at the end of the financial year was £440,392 (2018: £503,116).

3.15 Functional Currency

The functional currency of the group is GBP. Accounts are stated to the nearest pound.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2019 (CONTINUED)**

4 Revenue

	2019	2018
	£	£
US	-	-
Europe	-	-
	<hr/>	<hr/>
Total	-	-
	<hr/> <hr/>	<hr/> <hr/>

5 Other Income

	2019	2018
	£	£
Novexatin® project recharges from Taro	-	35,939
Sub-let of premises to Cytosystems	31,018	31,951
Sundry grant income	320,480	17,865
Ad hoc water testing for Deeside Water	-	2,800
	<hr/>	<hr/>
Total	351,498	88,555
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2019 (CONTINUED)

6 Administrative expenses

	Note	2019 £	2018 £
Employee benefit expense		353,651	349,450
Directors' and officers' emoluments	7	364,135	419,135
Equity share based payments		(62,724)	(933,629)
R&D expenses		392,413	1,541,594
Legal and professional fees		129,394	133,890
Auditors' remuneration for audit services		17,750	11,623
Remuneration for tax and ixbri services		5,295	6,200
Depreciation of tangible assets	10	7,880	14,622
Amortisation of intangible assets	11	171,082	283,178
Impairment of intangible assets	11	113,360	328
Operating lease payments for rent		73,800	73,800
Rates and other premises expenses		53,648	51,299
Insurances		100,231	104,460
Others		68,757	172,088
Total administrative expenses		<u>1,788,672</u>	<u>2,228,038</u>

The number of directors for whom retirement benefits are accruing amounted to 1 (2018:1).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2019 (CONTINUED)

7 Employee benefit expense

Employees

Employment costs, including executive directors:

	2019	2018
	£	£
Wages and salaries	437,932	486,680
Social security costs	44,541	17,289
Other pension costs	22,297	24,778
Total	<u>504,770</u>	<u>528,747</u>

The monthly average number of persons, including executive directors, employed by the Group during the year was:

	2019	2018
	Number	Number
Research and development	9	10
Management and administration including executive directors	7	8
Total	<u>16</u>	<u>18</u>

Directors and Officers

Directors' emoluments:

	2019	2018
	£	£
Directors' and officers' salaries	339,063	346,160
Directors' and officers' fees	25,000	72,875
Directors' and officers' emoluments	<u>364,063</u>	<u>419,135</u>
Highest paid director	<u>187,232</u>	<u>178,630</u>

No amounts were received or receivable under the exercise of share options by the highest paid director.

£7,500 was accrued for retirement benefits under the defined contribution stakeholder pension scheme (2018: £7,500)

All directors of the company are key management. Total remuneration in respect of these individuals is £364,063 (2018: £419,135).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 AUGUST 2019

8 Finance income and costs

	2019	2018
	£	£
Interest received from short term bank deposits	1,440	2,295
Foreign exchange gains	864	14,417
	<hr/>	<hr/>
Total finance income	2,304	16,712
	<hr/>	<hr/>
Convertible loan interest accrued	(107,522)	(2,110)
Other interest paid	-	(42)
Foreign exchange losses and charges	-	(19,834)
	<hr/>	<hr/>
Total finance costs	(107,522)	(21,986)
	<hr/>	<hr/>
Net finance income	(105,218)	(5,274)
	<hr/>	<hr/>

9 Income tax

	2019	2018
	£	£
UK corporation tax on losses of the year	(133,835)	(469,040)
Adjustment in respect of prior years	-	(6,738)
	<hr/>	<hr/>
Total tax credit	(133,835)	(475,778)
	<hr/>	<hr/>

The tax credit for the year is calculated at the small company rate applying in the UK of 19.00% (2018: 19.00%). The main UK corporation tax rate reduced from 20% to 19% on 1 April 2017. The Finance Act 2016 includes legislation which will reduce the tax rate further to 17% from 1 April 2020. This became law when the Finance Act 2016 received Royal Assent on 15 September 2016. As all rate reductions were substantively enacted at the balance sheet date, deferred tax has been recognised at the applicable rates when timing differences are expected to reverse.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2019 (CONTINUED)

9 Income tax (continued)

The effective rate is 19.00% (2018:19.00%) and can be reconciled to the income statement as follows:

	2019 £	2018 £
Reconciliation of effective tax rate		
Loss on ordinary activities before income tax	(1,542,392)	(2,144,757)
Tax on losses from ordinary activities at the average standard rate of corporation tax of 19.00% (2018:19%)	(293,054)	(407,504)
Expenses not deductible for tax purposes	56,706	10,764
Income not taxable for tax purposes	(11,918)	(190,000)
Adjustments to brought forward values	(401)	-
Other permanent differences	-	38
Other tax adjustments, reliefs and transfers	-	-
Additional deduction for R&D expenditure	(99,122)	(347,385)
Surrender of tax losses for R&D tax credit	41,535	145,565
R & D expenditure credits	5,800	247
Adjustment in respect of prior year	-	(53,379)
Adjust closing deferred tax to average rate of 19.00%	263,064	245,532
Adjust opening deferred tax to average rate of 19.00%	(245,525)	(206,310)
Deferred tax not recognised	149,080	333,392
RDEC	(24,725)	
	<hr/>	<hr/>
Total tax credit for the year	(158,560)	(469,040)
	<hr/>	<hr/>
Deferred tax (assets) / liabilities:		
	£	
Fixed assets	(5,369)	
Other temporary differences	(41,252)	
Losses	(2,189,422)	
Deferred tax not recognised	2,236,043	
	<hr/>	
	<u>0</u>	

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2019 (CONTINUED)

10 Property, plant and equipment - Consolidated and Company

	Laboratory Equipment	Fixtures & Fittings	Computer Equipment	Total
Cost				
At 1 September 2017	251,953	216,122	54,264	522,339
Additions	-	-	671	671
At 31 August 2018	251,953	216,122	54,935	523,010
Accumulated Depreciation				
At 1 September 2017	236,757	215,918	47,964	500,639
Charge for the year	9,761	204	4,657	14,622
At 31 August 2018	246,518	216,122	52,621	515,261
Net book value as at 31 August 2018	5,435	-	2,314	7,749
Cost				
At 1 September 2018	251,953	216,122	54,935	523,010
Additions	7,700	-	-	7,700
Disposals				
At 31 August 2019	259,653	216,122	54,935	530,710
Accumulated Depreciation				
At 1 September 2018	246,518	216,122	52,621	515,261
Charge for the year	5,960	-	1,920	7,880
Disposals				
At 31 August 2019	252,478	216,122	54,541	523,141
Net book value as at 31 August 2019	7,175	-	394	7,569

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2019

11 Intangible assets – Consolidated and Company

	Patents and Trademarks £ Restated	Licences £	Total £
Cost			
At 1 September 2017	2,618,157	976,472	3,594,629
Additions	308,009	-	308,009
	<hr/>	<hr/>	<hr/>
As at 31 August 2017	2,926,166	976,472	3,902,638
	<hr/>	<hr/>	<hr/>
Accumulated Amortisation			
At 1 September 2017	625,629	594,022	1,219,651
Charge for the year	234,354	48,824	283,178
Impairment	328	-	328
	<hr/>	<hr/>	<hr/>
At 31 August 2018	860,311	642,846	1,503,157
	<hr/>	<hr/>	<hr/>
Net book value as at 31 August 2018	2,065,855	333,626	2,399,481
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Cost			
At 1 September 2018	2,926,166	976,472	3,902,638
Additions	476,052	-	476,052
	<hr/>	<hr/>	<hr/>
As at 31 August 2019	3,402,218	976,472	4,378,690
	<hr/>	<hr/>	<hr/>
Accumulated Amortisation			
At 1 September 2018	860,311	642,846	1,503,157
Charge for the year	122,258	48,824	171,082
Impairment	113,360	-	113,360
	<hr/>	<hr/>	<hr/>
At 31 August 2019	1,095,929	691,669	1,755,152
	<hr/>	<hr/>	<hr/>
Net book value as at 31 August 2019	2,306,289	284,803	2,591,092
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2019**

12 Current assets

12.1.1 Trade and other receivables

	Consolidated		Company	
	2019	2018	2019	2018
	£	£	£	£
Trade debtors	15,458	10,392	15,458	10,392
Inter- company debtor	-	-	11,550	9,343
VAT recoverable	15,013	23,081	15,013	23,081
Prepayments	115,798	85,321	115,798	85,321
Rounding	2	-		-
	146,271	118,794	157,819	128,137

As at 31 August 2019 there were no impaired receivables. Receivables are considered aged when they become older than 30 days past due.

12.2.2 Credit quality of current assets

Customers with external credit rating:

	Consolidated		Company	
	2019	2018	2019	2018
	£	£	£	£
Total	3,542	1,980	3,542	1,980

This balance was received in full on 30 September 2019.

Customers without external credit rating:

	Consolidated		Company	
	2019	2018	2019	2018
	£	£	£	£
Group 3 *	11,916	8,412	11,916	8,412

*

Group 1 – new customers less than 6 months

Group 2 – existing customers more than 6 months with no defaults

Group 3 – existing customers more than 6 months with some defaults which were fully recovered.

This balance was received in full on 3rd October 2019.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2019

12.2.3 Corporation tax debtor

	Consolidated		Company	
	2019	2018	2019	2018
	£	£	£	£
Total	158,560	469,040	158,560	469,040

12.2.4 Cash and equivalents

	Consolidated		Company	
	2019	2018	2019	2018
	£	£	£	£
RBS Fitch long term A	490,284	63,196	490,284	63,108
Citizens Fitch long term BBB+	562	3,519	-	-
Petty Cash	539	299	539	299
	491,385	67,014	490,823	63,407

13 Share capital - Consolidated and Company

Allotted and fully paid

	2019	2019	2018	2018
	Number of shares	£	Number of shares	£
Ordinary shares of 10p each	10,406,171	1,040,617	10,406,171	1,040,617
A Ordinary shares of 10p each	1,312,802	131,280	1,312,802	131,280
Preference shares of 10p each	1,936,799	193,680	1,936,799	193,680
Convertible Preference shares of 10p each	363,196	36,320	363,196	36,320
	14,018,968	1,401,897	14,018,968	1,401,897

At 31 August 2019, the Group had unexercised share options relating to an unapproved scheme of 177,325 ordinary shares (157,975 are exercisable at a price of £0.10 per share, 19,350 at £1.45 per share) and 153,621 unexercised share options under an EMI scheme. 34,100 options are exercisable at a price of £1.45 per share and 119,521 options are exercisable at a price of £5.85 per share (Note 19).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 AUGUST 2019

14 Convertible loans - Consolidated and Company

	2018	2018
	£	£
Convertible loans	2,682,735	1,527,862
	<u>2,682,735</u>	<u>1,527,862</u>

During the year £1,154,871 of new loan stock was subscribed in the £1.5m 2018 rights issue. Interest at 8% and arrangement fee of 3% has been accrued as at 31 August 2019. £613,032 was received for subscription in the £2.0m 2019 rights issue during the year. Arrangement fee of 3% has been accrued as at 31 August 2019.

The outstanding balances and conversion rates for the various loan stock instruments are as follows:

Loan Stock Principal + Interest £	Conversion rate	Number of ordinary shares
613,032	£8.26*	74,217
1,485,492	£8.26	179,841
96,196	£7.31	13,160
241,695	£2.73	88,533
203,339	£3.75	54,224
319,128	£3.00	106,376
336,885	£0.7555	445,910
<u>3,295,767</u>		<u>822,447</u>

*Assumed conversion rate, being the fair value of ordinary shares adopted at 31 August 2019

In August 2018 a floating charge over all the IP of the Group was entered into as the transaction security for subscribers to the 2018 £1.5m Rights Issue.

15 Deferred Income – Consolidated and Company

	2019	2018
	£	£
Deferred income	-	10,000
	<u>-</u>	<u>10,000</u>

The deferred income refers to a grant received in March 2008 towards Novexatin IP costs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2019

16 Trade and other payables

	Consolidated		Company	
	2019	2018	2019	2018
	£	£	£	£
Trade creditors	715,583	765,849	715,752	764,675
Taxation and social security	14,880	24,901	14,880	24,901
Accruals and deferred income	506,025	424,285	506,025	424,282
	<u>1,236,488</u>	<u>1,215,035</u>	<u>1,231,657</u>	<u>1,213,858</u>

Accruals include £187,921 (2018:£113,210) for directors' fees being partially deferred since December 2017.

17 Retirement benefit plan

The Group operates a defined contribution stakeholder pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost charge represents contributions payable by the Group to the fund and amounted to £13,168 (2018: £22,881).

Contributions totalling £1,277 (2018: £7,109) were payable to the fund at the year end.

18 Cash used in operations

	Consolidated		Company	
	2019	2018	2019	2018
	£	£	£	£
Loss before income tax	(1,542,392)	(2,144,757)	(1,538,402)	(2,142,980)
Adjustments for:				
Depreciation	7,880	14,622	7,880	14,622
Amortisation	171,082	283,178	171,082	283,178
Impairment	113,360	328	113,360	328
Interest paid/(received) on term deposit/(paid)	-	2,295	-	2,295
Change to equity share based payment charge / (credit)	(62,724)	(933,629)	(62,724)	(933,629)
Interest (received) / paid and deferred / accrued	106,082	(2,152)	106,082	(2,152)
Foreign exchange (gains)/ losses	(864)	(5,417)	(864)	(5,319)
Changes in working capital:				
Trade and other receivables	(27,475)	36,653	(29,683)	36,296
Trade and other payables	21,447	325,735	22,797	325,607
Deferred Income	(10,000)	-	(10,000)	-
	<u>(1,223,604)</u>	<u>(2,423,161)</u>	<u>(1,220,472)</u>	<u>(2,421,754)</u>
Cash used in operations				

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2019

19 Options in shares – Consolidated and Company

The Group operates two share-based option schemes:

- 19.1 The unapproved share option scheme; and
- 19.2 The EMI share option scheme.

The fair value of the share options is estimated by reference to the subscription price for the most recent investment (dated 2 March 2017). The fair value per share is £8.26 and the directors consider that this remains the fair value as at 31 August 2019.

The fair value of the options granted is recognised as an expense over the vesting period.

19.1 Unapproved Share Option Scheme

Where options have been issued to individuals not eligible to participate in the EMI option scheme, they are issued into the unapproved share option scheme.

For 71,752 options, the exercise of options within the scheme is not dependent on any performance criteria and may be exercised in whole or in part at any time and from time to time following issue.

The grant of these options has been in full discharge of all Group obligations to the participants of any payments due in recognition of his services to the Group as a director of and/or consultant to the Group up to the Date of Grant.

For 105,568 options, the options shall be capable of being exercised upon an exit event or if the directors determine an earlier potential exercise date. None of these options were exercisable at 31 August 2019.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2019

19 Options in shares – Consolidated and Company(continued)

A summary of all outstanding options issued under the scheme is shown below:

Number of Shares	Subscription price per share	Exercise year *
71,757	£0.10	from 23/09/08
71,757	Sub-total	No specific vesting conditions
5,000	£0.10	01/02/09 to 31/01/19
2,500	£0.10	28/02/09 to 27/02/19
2,500	£0.10	31/03/09 to 30/03/19
2,500	£0.10	30/04/09 to 29/04/19
16,218	£0.10	31/05/09 to 30/05/19
20,000	£0.10	31/12/09 to 30/12/19
2,500	£0.10	31/01/10 to 30/01/20
2,500	£0.10	28/02/10 to 27/02/20
2,500	£0.10	31/03/10 to 30/03/20
7,500	£0.10	30/06/10 to 29/06/20
7,500	£0.10	30/09/10 to 29/09/20
7,500	£0.10	31/12/10 to 30/12/20
7,500	£0.10	31/03/11 to 30/03/21
86,218	Sub-total	Vesting conditions
1,290	£1.45	31/01/10 to 30/01/20
1,290	£1.45	28/02/10 to 27/02/20
1,290	£1.45	31/03/10 to 30/03/20
3,870	£1.45	30/06/10 to 29/06/20
3,870	£1.45	30/09/10 to 29/09/20
3,870	£1.45	31/12/10 to 30/12/20
3,870	£1.45	31/03/11 to 30/03/21
19,350	Sub-total	Vesting conditions
105,568	Sub-total	Vesting conditions
177,325	Total	Unapproved options

* Options are not exercisable later than the day prior to the tenth (or, in respect of any eligible person ordinarily resident outside of the United Kingdom, seventh) anniversary of the date of grant.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2019

19 Options in shares – Consolidated and Company(continued)

	2019 Number	2019 Weighted average exercise price (£)	2018 Number	2018 Weighted average exercise price (£)
Outstanding at start of the year	177,325	0.25	320,895	8.71
Exercised	-	-	-	
Cancelled / lapsed	-	-	(143,570)	10.45
Granted	-	-		
	<hr/>		<hr/>	
Outstanding at end of the year	177,325	0.25	177,325	0.25
	<hr/>		<hr/>	

19.2 EMI Share Option Scheme

Options issued under the EMI option scheme are issued to employees, subject to the discretion of the directors for performance related achievements.

Options shall be capable of being exercised upon an exit event or if the directors determine an earlier potential exercise date. No options were exercisable at 31 August 2019.

A summary of all outstanding options issued under the scheme is shown below:

Number of Shares	Subscription price per share	Exercise year *
34,100	£1.45	30/09/10 to 29/09/20
119,521	£5.85	22/06/16 to 21/06/26
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174,684		
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* Options are not exercisable later than the day prior to the tenth (or, in respect of any eligible person ordinarily resident outside of the United Kingdom, seventh) anniversary of the date of grant.

19.2 EMI Share Option Scheme

	2019 Number	2019 Weighted average exercise price (£)	2018 Number	2018 Weighted average exercise price (£)
Outstanding at start of the year	174,684	4.46	174,684	4.46
Lapsed	(21,063)	1.45	-	-
Exercised	-		-	-
	<hr/>		<hr/>	
Outstanding at end of the year	153,621	4.87	174,684	4.46
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2019

20 Financial commitments

Group as lessee

At 31 August 2019, the Group had aggregate annual commitments under non-cancellable operating leases as set out below:

	2019	2018
	£	£
Within 1 year		
Operating leases	21,288	55,350
Within 2 to 5 years		
Operating leases	-	-
	<u>21,288</u>	<u>55,350</u>

The premises lease has a break clause active from 30th November 2019, subject to a further 2 week notice period and is set at £6,150 per month.

21 Related party transactions

The ultimate parent undertaking and controlling party is NovaBiotics Limited, a company incorporated in Scotland.

NovaBiotics Limited is the parent undertaking and the only group company to consolidate these financial statements at 31 August 2019.

21.1 Fees

Non-executive director, A Porter, charged consultancy fees from Grampian Bio Partners Consultancy during the year which amounted to £25,000 (2018: £25,000).

The amount outstanding as at year end was £25,000 (2018: £10,416).

CFO, A McCormick charged consultancy fees and expenses from A J McCormick Ltd during the year which amounted to £8,341 (2018: Nil).

The amount outstanding as at year end was £5481 (2018: Nil)

21.2 Convertible loans

Non-executive chairman, B Bodek, holds £1,637 of the £995,000 convertible loans (2018: £1,637), £1,056 of the £800,000 convertible loans (2018: £2,056), £17,696 of the £1,074,618 convertible loans (2018: £17,696), £397 of the £1,100,000 convertible loans (2018: £397), £7,685 of the £1,500,000 convertible loan (2018: £7,685) and £10,253 of the £1,985,033 convertible loan (2018: nil).

Non-executive director, G Ellis, holds £250,000 of the £1,500,000 convertible loan (2018: nil)

Non-executive director, A Porter, holds £11,797 of the £1,074,618 convertible loans (2018: £11,797) and £5,294 of the £600,000 convertible loan (2018: £5,294).

Non-executive director, I Townsend, holds £250,000 of the £1,500,000 convertible loans (2018: nil) and £222,667 of the £1,985,033 convertible loan (2018: nil).

Company secretary, M Scott holds £15,000 of the £1,500,000 convertible loans (2018: £15,000)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2019

22 Company investment in subsidiaries

Subsidiary	Country of Incorporation	Amounted invested	Share class	% Nominal value of issued shares held by Group
NovaBiotics Incorporated, One Boston Place Suite 2600 Boston, MA, 02108	US	\$100	100 x \$1 ordinary shares	100%
Novabiotics Limited, 90 Upper Georges Street Dun Laoghaire Co. Dublin	Ireland	€100	100 x €1 ordinary shares	100%

NovaBiotics Limited is the parent undertaking and the only group company to consolidate these financial statements at 31 August 2019.

23 Post balance sheet events

23.1 Funding

From September to December 2019, the Group received further investments of £1,372,001 in the 2019 fund raise.

23.2 Premises

Heads of Terms have been agreed for the occupation of new premises, with a removal date in December 2019.

24 Approval of the financial statements

The financial statements were approved by the Board and authorised for issue on 20 December 2019.