OptiBiotix®
HEALTH PLC

BETTER SCIENCE, BETTER HEALTH

# ANNUAL REPORT AND ACCOUNTS

FOR THE PERIOD ENDED 31 DECEMBER 2019

# Contents

# Company Information

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|---|---|
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| Registered number: | 05880755 (England & Wales) |
| Registered office: | Innovation Centre<br>Innovation Way<br>York<br>YO10 5DG |
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# Chairman's Statement

## For the period ended 31 December 2019

I am pleased to report a period of very significant progress, during which Optibiotix has achieved a real step change in its planned transition from a research and development specialist into a market-leading and profitable commercial operation. The business is now growing revenues and achieving global reach and recognition for its unique technologies and products. We have grown sales across all divisions, signed 24 new agreements extending our reach into 46 countries, and significantly strengthened our management team, all while maintaining cost control and a strong balance sheet.

### Strategy

Optibiotix Health is a life sciences business founded on the development of compounds to tackle obesity, cardiovascular disease and diabetes: all conditions that are affecting growing numbers of people in all parts of the world.

Our growth strategy is to secure multiple deals with multiple partners – manufacturers, formulators and distributors – so that we have control of the complete value chain for all the compounds we develop, and can extract value for our shareholders at each stage.

We also seek to reduce risk by reaching agreements with manufacturers in a range of different countries: hence our SlimBiome® compound is produced by separate companies in the UK, Continental Europe, USA, Australia and India, to which we will soon add a manufacturer in China.

Formulators apply our compounds to a range of different uses; the common factor is that our patented and trademarked products such as LPLDL® and SlimBiome® act as the 'Intel' inside a wide and growing range of food, beverage, supplement, and medical products around the world.

This careful, low-risk approach is delivering on exactly the schedule envisaged when the Company began the process of commercialisation in 2017. This saw initial deals being secured that year, a broadening of reach in 2018, and the build-up of revenues from contracts in 2019. We now have a secure platform to deliver strong sales growth and with the aim of achieving profitability in 2020.

### Business development

Among the many positive developments during the period, which the Chief Executive discusses more fully in his report, I would particularly like to highlight the achievement of US Food & Drug Administration GRAS status for LPLDL®, and its pharmaceutical Good Manufacturing Practice designation. Together these achievements open the way for LPLDL® to be used as a functional ingredient in a range of food, dairy and beverage products across the USA, and pave the way for its use as an active ingredient in pharmaceutical products. Similarly, significant potential should be unlocked by the award in Europe of a CE mark for SlimBiome® and its registration as a medical device.

I am also pleased that the effectiveness of our products continues to gain recognition through the achievement of major industry awards, with the naming of SlimBiome® as Weight Management Ingredient of the Year: Asia at Vitafoods in Singapore constituting a particular highlight of the year.

### Board and management

This has been my second year as Chairman and it has been a real pleasure to see the business growing and maturing in line with all my expectations when I joined the Board at the beginning of 2018.

As announced in the last annual report, Dr Fred Narbel joined the Company on 1 March 2019 as Managing Director of our integrated Prebiotics division containing our SweetBiotix®, OptiBiotic® and microbiome modulating technology platforms. I believe we now have an excellent mix of executive talent in the scientific and commercial expertise of our founder and CEO Stephen O'Hara; the proven management skills and extensive industry contacts of Dr Fred Narbel; and the scientific leadership of our Research & Development Director Dr Sofia Kolyda. These are complemented by the expertise of my non-executive colleagues Peter Wennström and Sean Christie, with Peter bringing us more than 25 years of experience in international brand management and specialist consultancy, and Sean possessing extensive experience of finance, corporate governance, mergers and acquisitions.

Outside the main Board, Stephen Prescott joined us as CEO of our wholly-owned subsidiary ProBiotix Health Ltd in May 2019, while Steve Riley continues as head of our Consumer Health division, with responsibility for our Online store that makes our unique products available direct to consumers. During the period Fred Narbel, Steve Prescott and Steve Riley were given full P&L responsibility for their respective divisions, charged with growing sales while managing costs.

## Outlook

As shown in the recent trading update (RNS: 18 May 2020) we continue to grow our top line with strong commercial progress in the first three months of 2020 increasing sales of LPLDL® and SlimBiome® as ingredient or final product by 928% when compared to the same period last year and extending geographic reach and brand presence into 119 countries. As we benefit from increasing revenues from established deals, and new agreements begin to deliver sales we anticipate further revenue growth in 2020. Encouraging developments in our new financial year include the launch of SlimBiome® with Holland & Barrett in the UK, the launch of products with Walmart in the US, and a deal to enter the Chinese market. AlfaSigma in Italy and Akum in India are also both commercialising products in their home markets that will contribute to our sales growth during the year.

The renegotiation of our contract with Sacco S.r.l. in March 2020, extending this until 2023 and changing it from a profit sharing to a manufacturing and supply basis, is illustrative of the increasing leverage we can exercise as sales volumes increase, and will capture a greater share of value for our investors. This is an important precedent that we expect to follow in other contract renegotiations during the year.

We continue to explore the potential for a dual NASDAQ listing in the USA to capitalise on growing North American consumer and investor interest in the microbiome, broaden our investor base and reduce the share price volatility caused by the low liquidity associated with our current AIM listing in the UK.

Despite the pressures on the global economy caused by the Covid-19 pandemic, we continue to look to achieve revenue growth and profitability in all three of our divisions in the current year, and remain confident in our ability to deliver growing value for our shareholders in the longer term.

N Davidson
Chairman

27 May 2020

# Chief Executive's Statement

## For the period ended 31 December 2019

**OptiBiotix offers investors a unique opportunity to participate in the growth potential afforded by one the most progressive and exciting areas of biotechnological research: the modulation of the human microbiome. Everything we do involves the application of science to improve human health, developing pharmaceutical grade solutions to deliver food and dietary supplements of proven effectiveness; these are protected by our extensive international portfolio of patents and trademarks. Our low risk business model involves working with a range of local partners who are recognised and respected leaders in their fields to gain access to fast-growing markets around the world, developing a truly global reach that is delivering strong sales growth.**

## Strategic development

As the Chairman has noted, our strategy is designed to maximise the income potential of each of our products while limiting investment risk, and managing costs. We focus on large markets, valued at £100m or more, that are growing rapidly, showing a compound annual growth rate (CAGR) of 10 per cent or more, and where there is a large unmet demand. We aim to satisfy this demand by developing food ingredients, supplements and pharmaceutical products with a range of appropriate partners in a wide and growing range of territories. Our partners vary in size from $1bn turnover corporations to small, fast-growing companies, but all share an established industry reputation and an effective distribution network within their target market.

Our commercial strategy involves completing deals across multiple levels of the value chain, starting with manufacturing agreements such as that signed with Sacco S.r.l. in Italy in 2017 to manufacture LPLDL®; this was then complemented by royalty bearing licence deals with formulation and distribution partners such as Nutrilinea, and final distribution partners like AlfaSigma.

While this strategy takes longer to develop than concluding a single licence deal, and requires close collaboration with partners, the multi-channel approach enables OptiBiotix to maximise the income potential of each product, whilst limiting the risk related to any individual deal.

This allows OptiBiotix to operate on a very asset-light infrastructure with manufacturing product, regulatory approvals, and sales and marketing infrastructure all funded by our partners so that licence and royalty fees are largely cost-free and flow straight to our bottom line. This is a low risk, low cost approach to accessing multiple consumer healthcare and pharmaceutical markets around the world and has the potential to cumulatively generate substantial revenues and profitability in the years ahead.

Key to this strategy is working with the right commercial partners and ensuring that their sales and marketing teams are provided with the supporting science and training to highlight the benefits of our technology in order to maximise sales growth. As we extend our reach into new application areas, create new products, and expand into new territories, the scale of our opportunity enlarges.

The next phase of our strategy, on which we have now embarked, is to drive the business to profitability. This is not just about continuing to grow sales, but also about managing costs, renegotiating contracts as volumes increase, reducing the cost of goods to OptiBiotix, and focusing on higher margin products. This will be an important part of building a profitable and sustainable business.

The renegotiation of our terms of trade in an extended contract with Sacco S.r.l., announced in March 2020, provides an excellent illustration of this approach. Our original agreement with them in 2017 was a profit-sharing deal which encouraged and rewarded the manufacturer to use their industry network to promote and sell our products. This is a very cost-effective approach in the early days of building a business, since the manufacturer effectively becomes our global sales team without any cost to us, as they carry out marketing activities, promotion at exhibitions, application development and so forth.

However, as our sales volumes increase our leverage improves, allowing us to renegotiate our contract from profit share to manufacture and supply – where we buy the product and then sell on to our other partners. The advantages of this are two-fold: we can reduce our cost of goods from the manufacturer as volumes increase, and we can also exert increased leverage on our formulation and distribution partners as we become the direct sales link to them. Whist this may initially increase operating costs whilst we build stock levels, particularly to support retail partners who deliver large volume sales and require a responsive supply chain, this should ultimately deliver greater profitability.

Our contracts are typically of one to three years' duration and we expect to renegotiate a number of current agreements from a profit sharing to a manufacturing and supply basis during the current year, allowing us to capture more of the value chain for our shareholders by increasing control and profitability.

The historic uneven weighting of revenue towards the second half of our financial year will be smoothed out as more contracts are renewed on these terms.

A further benefit expected to flow through to the bottom line is that our research and development costs are set to fall as a proportion of sales now that clinical studies to confirm the efficacy of SlimBiome® and LPLDL® are essentially complete. Intellectual property expenditure will also reduce now that patent and trademark registration in most key territories has been completed, and core patents have been granted. As part of this process whilst we will continue to register core patents in all major territories (typically US, Europe, Canada, Japan, Australia, India) we will limit supporting patents to Europe and the USA. This should reduce IP costs whilst continuing to protect our commercial interests.

Finally, we announced the appointment of Goetz Partner Securities ("Goetz") in June 2019 as financial advisers to the Company with the aim of improving institutional and family funds buy side access from within Europe. As part of our focus on managing costs we intend to transition our agreement with Goetz from a fixed monthly payment to an ad hoc project by project basis at the end of May 2020.

## Operational highlights

During the period we have met a significant number of important objectives that continue to build value for our shareholders. Key achievements of the period include:

- The award of a CE mark and registration of SlimBiome as a medical device.
- The recognition of OptiBiotox's cholesterol and blood pressure reducing Lactobacillus plantarum LP-LDL probiotic strain determined as Generally Recognized As Safe (GRAS). GRAS is a United States Food and Drug Administration (FDA) designation and extends the potential applications of LP-LDL to use as a functional ingredient in food, dairy, and beverage products across the USA.
- Pharmaceutical GMP manufacturer approval of LPLDL®. Pharmaceutical GMP proves that a drug substance (LPLDL®) is produced consistently with pharmaceutical grade quality. GMP process validation is required by customers and health authorities around the globe to commercialise active ingredients as drugs. The validation of LPLDL® pharmaceutical GMP manufacture is a significant step in the development of LPLDL® as a pharmaceutical drug product.
- The award of a licence from the Food Standards and Safety Authority India (FSSAI) to OptiBiotix's manufacturing partner, Zeon Life Sciences, to manufacture SlimBiome and SlimBiome containing products in India.
- The appointment of EIWA Trading Company to import, market and distribute OptiBiotix's cholesterol and blood pressure-reducing probiotic strain Lactobacillus plantarum LP-LDL in Japan.
- The launching of LP-LDL in pharmacies of El Corte Inglés, Spain's biggest department store in all of Spain's major cities, with IENP under the "39ytú" brand.
- A license agreement with Kappa Bioscience AS ("Kappa") for the use of Lactobacillus plantarum LPLDL® in a new application area within cardiovascular health in twenty seven countries.
- The raise of £1.025 million through the issue of convertible loan notes for OptiBiotix to provide funding for a potential initial public offering of wholly owned subsidiary ProBiotix Health, of which OptiBiotix subscribed for £250,000.
- The appointment of Extensor and subsequent territory extension to import, market and distribute GoFigure® products in Poland, Ukraine, Estonia, Lithuania, Latvia, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, Turkmenistan, Armenia, Azerbaijan, Georgia, Belarus, Moldova and Russia. This is the start of a strategy to take OptiBiotix's own label GoFigure® products to international markets to build brand recognition, and create demand for SlimBiome, the functional ingredient within Gofigure® products.
- An agreement with Nutrilinea Srl to develop a food supplement containing LP-LDL for the reduction of high blood pressure (hypertension). Nutrilinea will cover the cost of all product development, manufacturing and human studies in return for 12 months exclusivity for the European market. ProBiotix has exclusivity for the UK and all other markets outside Europe.
- An agreement with Agropur to manufacture, supply and distribute OptiBiotix's SlimBiome® weight management technology in the USA, Canada and Mexico.
- An agreement with Maxum Foods Pty Ltd to manufacture, supply and distribute OptiBiotix's SlimBiome® weight management technology in Australia and New Zealand.
- The launch of two products formulated with SlimBiome in India: Metalite – a supplement to aid with effective weight management. and Metalite Pro – a high protein meal replacement (www.metalitepro.com).
- Winning the award for Weight Management Ingredient of the Year: Asia, for SlimBiome, at the Vitafoods Asia trade exhibition tradeshow in Singapore. The award is given to the product identified by a panel of scientific, regulatory and industry experts demonstrating leading edge research and innovation in the weight management market.

## Post-period end highlights

- The launch of a product range containing OptiBiotix's SlimBiome® proprietary weight management technology under the SlimBiome® brand with Holland & Barrett.
- The launch of a food supplement containing LPLDL® by ALFASIGMA, the first of its kind nutraceutical probiotic in Italy for cholesterol reduction.
- An agreement with Granja Pocha S.A. ("Granja Pocha") for the inclusion of LPLDL® into a functional yogurt product in Uruguay, South America.
- Successful completion of a three month study of 40 patients for a new food supplement containing LPLDL® (CholBiome BP) carried out by the University of Pavia,, Italy and showed statistically significant reductions in both systolic, diastolic blood pressure levels, and cholesterol levels.
- An agreement with OptiPharm, whose flagship brand, Optislim, is Australia's leading weight management brand, for the use OptiBiome® weight management ingredient in over 20 countries including Australia, parts of Asia, New Zealand, Middle East, Gulf States and North America.
- The listing of SlimBiome containing products in Walmart and Costco in the USA and Canada.
- The signing of a deal with Pierce Asia taking OptiBiotix products to China.

### *Regulatory approvals*

In December 2019 we were delighted to achieve a CE mark and registration of SlimBiome® as a medical device by the European regulatory authorities. This was supported by independent human studies at a number of universities which demonstrated that, when compared to a control group, people who took SlimBiome® feel fuller and are less hungry; experience fewer food cravings; and change their food choice to eat fewer sweet and fatty foods. This registration unlocks significant further potential for the application of SlimBiome® beyond its current use as a functional food ingredient with the formulation and sachet presentation the basis for Holland and Barrett's launch of products in 2020.

Previously, in April 2019, our partner Zeon Life Sciences was awarded a licence by the Food Standards and Safety Authority India (FSSAI) to manufacture SlimBiome® and SlimBiome®-containing products in India.

We have also made very important strides in the official recognition of our cholesterol and blood pressure reducing Lactobacillus plantarum LPLDL® probiotic strain. This was Generally Recognized As Safe (GRAS) by the United States Food and Drug Administration (FDA) in February 2019. Securing this GRAS designation extended the potential applications of LPLDL® to its use as a functional ingredient in food, dairy, and beverage products across the USA.

In October 2019 we also secured from the FDA Pharmaceutical Good Manufacturing Practice (GMP) approval of LPLDL®, which is important in proving that LPLDL® is produced consistently to pharmaceutical grade quality. GMP process validation is required by customers and health authorities around the world to commercialise active ingredients as drugs. The validation of LPLDL® pharmaceutical GMP manufacture is a significant step in the development of LPLDL® as a pharmaceutical drug product.

### *New partnerships and product launches*

In February 2019 we appointed EIWA Trading Company to import, market and distribute OptiBiotix's cholesterol and blood pressure-reducing probiotic strain Lactobacillus plantarum LPLDL® in Japan.

In May 2019 we reached an agreement with the Italy-based Nutrilinea Srl to develop a food supplement containing LPLDL® for the reduction of high blood pressure (hypertension). Nutrilinea covered the cost of all product development, manufacturing and human studies in return for 12 months exclusivity within the Continental European market. ProBiotix retains exclusivity for the UK and all other markets outside Europe. Following successful human studies, OptiBiotix intends to launch a blood pressure product CholBiomeBP in 2020.

In the same month we signed an agreement with Instituto Español de Nutrición Personalizada, S.A. (IENP) for the use of LPLDL® in personalised food supplements in Spain. IENP has already launched LPLDL® under the '39ytú' brand in pharmacies of El Corte Inglés, Spain's largest department store chain with outlets in all the country's major cities.

In June 2019 we signed an agreement with the dairy co-operative Agropur to manufacture, supply and distribute OptiBiotix's SlimBiome® weight management technology in the USA, Canada and Mexico.

In the same month we appointed the well-known Polish brand Extensor to import, market and distribute GoFigure® weight management products directly to consumers in Poland, and subsequently agreed a territory extension that also covers Ukraine, Estonia, Lithuania, Latvia, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, Turkmenistan, Armenia, Azerbaijan, Georgia, Belarus, Moldova and Russia. This is the start of a strategy to take OptiBiotix's own label GoFigure® products to international markets, build brand recognition, and create demand for SlimBiome®, the functional ingredient within Gofigure® products.

In July 2019 we signed a licence agreement with Kappa Bioscience AS for the use of Lactobacillus plantarum LPLDL® in a new application area within cardiovascular health in 27 countries.

In August 2019 we concluded an agreement with the Australian dairy ingredients company Maxum Foods Pty Ltd to manufacture, supply and distribute OptiBiotix's SlimBiome® weight management technology in Australia and New Zealand.

In December 2019 we launched two new products formulated with SlimBiome® to the Indian market in partnership with Anthem BioPharma and Zeon Life Sciences: Metalite, a supplement to aid with effective weight management, and Metalite Pro, a high protein meal replacement (www.metalitepro.com).

### *Awards*

We were delighted to win the award for Weight Management Ingredient of the Year: Asia for SlimBiome® at the Vitafoods Asia trade exhibition tradeshow in Singapore in September 2019. The award is given to the product identified by a panel of scientific, regulatory and industry experts demonstrating leading edge research and innovation in the weight management market. This follows on from our Weight Management Ingredient of the Year awards for SlimBiome® in Europe (2018) and 2017 (UK), demonstrating a high level of industry recognition across global markets. The Company also received The Grocer New Product Award 2019, in the breakfast category, for its GoFigure Matcha Tea & Pistachio Muesli. This is a major food industry award and shows how SlimBiome can effectively be incorporated into everyday breakfast products to support healthy weight management.

## Results

As announced on 23 March, we changed our financial year-end to 31 December to align our reporting with that of similar companies on other international exchanges. We are therefore reporting results for the 13 months to 31 December 2019 (prior year: 12 months to 30 November 2018).

Total sales for the year were £744,883 (2018: £541,614). with other income of £617,000, including, inter alia, income resulting from the partial disposal of SkinBioTherapeutics plc shares as previously reported. The sales figure is less than the £808k reported in the unaudited figures (RNS: January 17 2020), as it no longer includes approximately £60,000 worth of LPLDL® which was invoiced and part paid in 2019 which under IFRS 15, the new international reporting standard, will now be accounted for in the 2020 accounts as delivery did not take place until 2020.

In line with previous years, the majority of income was generated in the second half of the year (H1 2019: £148,818). We expect this trend to continue in 2020 with a gradual smoothing in this second half as income from ingredient, white label and own label products sold through retailers or direct to consumers online, provide more evenly distributed income throughout the year.

Administrative expenses for the 13 months to end of December 2019 were £2,559,440 an increase of £709,037 from the £1,850,403 in the 12 months to November 2018. A large part of this increase (£261,904) arises from the combination of one-off regulatory costs (£185,447) and the increase in consultancy costs (£76,457) from achieving GRAS and GMP manufacture for LPLDL®. We calculate approximately £154,200 of expenses arises from the change in accounting period creating an additional month in this year's accounts. The appointment of Dr Fred Narbel and Steve Prescott contributed to an increase in Directors fees of £290,665. Director costs include the remuneration costs of Christina Wood who left in August 2019 but was remunerated to the end of November as part of her contractual 3 month notice period. Within 2019 administration expenses there were £355,304 of non-cash expenses representing depreciation, amortisation and share based payment devaluations, an increase of £85,174 on 2018 (£270,130).

The share of loss from OptiBiotix's associate, SkinBiotherapeutics (SBTX), was £296,344. This is an accounting adjustment and has no impact on the Groups cash.

At 31 December 2019, the Group had £455,608 cash in the bank. Once R&D tax credits (£190,435), and recoverable VAT (£59,345) are added back, the balance was £705,388. On 17 April 2020, post accounting period, the Group raised £1.0 million through the issue of 2,500,000 new ordinary shares. With this funding and growing revenues, the cash position remains strong and sufficient to cover the delivery of existing commercial plans.

## Management

We significantly strengthened our management team during the year with the appointment in March 2019 of Dr Fred Narbel as Managing Director of our Prebiotics division. Fred Narbel was formerly Vice President of Sales for Nutrition Solutions at Agropur, a major North American dairy company with sales of $6.7 billion in 2018. He has brought us extensive experience of selling speciality food ingredients in international markets, a wide network of contacts in the high value speciality food ingredients industry, and a strong track record of rapidly growing sales.

Outside the main Board, Stephen Prescott joined as Chief Executive Officer of OptiBiotix's wholly owned subsidiary, ProBiotix Health Ltd in May 2019. Steve will step down from the Board of ProBiotix Health Ltd and leave the Company by mutual consent at the end of May 2020. Mikkel Hvid-Hansen, who joined ProBiotix as European Sales Director in February 2020 will take on an extended role as Commercial Director with Stephen O'Hara acting as CEO of ProBiotix Health Ltd.

We anticipate further additions and changes to the management team and the Board of both OptiBiotix and ProBiotix Health in line with the growth aspirations of both companies and the aim of transitioning to a profitable and sustainable business.

## Prospects

Despite the global challenges with Coronavirus we have continued to extend our global reach in 2020 signing 14 agreements for the year to date. These include 10 for SlimBiome® and 4 for LPLDL®. These agreements aim to extend the Company's geographic reach into 119 countries.

Significant developments in the period to date include the launch of a product range containing OptiBiotix's SlimBiome® proprietary weight management technology under the SlimBiome® brand with Holland & Barrett in the UK. Sales of the first products launched have exceeded our expectations and we are working with our partners to extend the product range.

In Italy, our partner AlfaSigma has launched a food supplement containing LPLDL® which is the first nutraceutical probiotic for cholesterol reduction to reach the market there.

Also in Italy, the University of Pavia has successfully completed a three month study of 40 patients for a new food supplement containing LPLDL® (CholBiome BP) which showed statistically significant reductions in both systolic and diastolic blood pressure levels, and in cholesterol levels, for the participants.

In March 2020 we announced a new global manufacturing and supply agreement for LPLDL® with Italy-based Sacco S.r.l., extending our deal with them until 2023 and changing our original profit-sharing terms to allow us to benefit from lower prices for LPLDL® as sales increase, and to receive commission from Sacco following successful sales of LPLDL® to dairy customers.

We have signed a new agreement with Granja Pocha S.A. for the inclusion of LPLDL® in a functional yogurt product in Uruguay. The use of LPLDL® in functional foods is an important precedent which has the potential for replication in other territories.

Having achieved FDA GRAS and GMP manufacture standards, we hope to build on this proof of concept by Granja Pocha to further extend the application of LPLDL® from its use as a supplement into use as a food and dairy ingredient in 2020.

We have concluded an agreement with OptiPharm (whose flagship brand, Optislim, is Australia's leading weight management brand) for the use of our OptiBiome® weight management ingredient in over 20 countries including Australia, New Zealand, North America, parts of Asia, Gulf states and the wider Middle East.

In May 2020 OptiBiotix Health PLC announced that it had entered into a three-year distribution agreement with the Asian focused B2B product developer and distributor Pierce Group, granting it exclusive rights to import and commercialise OptiBiotix's SlimBiome® weight management ingredient and LPLDL®, our cholesterol-lowering probiotic, in China and Hong Kong.

We also announced in May 2020 a non-exclusive licence agreement for our SlimBiome® trademark with Smart For Life, Inc. and the related launch of cookies containing OptiBiotix's SlimBiome® proprietary weight management technology in the USA and Canada; the cookies will be sold through Walmart in the USA, Costco in Canada, and online.

Our commercial plans for 2020 are centred on extending our reach into new application areas, including hypertension, immune and cognitive health, continuing to enter new territories, and supporting established partners like Agropur in the USA, AlfaSigma in Italy, and Akums in India, in the commercialisation of products in their territories.

Our own Online store – https://optibiotix.online – is offering a growing range of meal replacements, snacks and supplements including porridge, muesli, flapjacks and gummies containing SlimBiome® to aid weight management and CholBiome® probiotic supplements containing LPLDL® to reduce cholesterol. These products act as a shop window for partners and to test new products before expanding into other territories and presenting to retailers. This approach has led to successful product launches in Holland and Barrett, and paved the way for product acceptance in Walmart, and Costco. We cannot predict the future in these difficult times but hope this approach will lead to more products being launched online, and partners looking to extend their product ranges in the year ahead.

The recent trading update (RNS: 18 May 2020) shows strong commercial progress in the three months of this year with OptiBiotix extending its geographic reach and brand presence into 119 countries. With more agreements generating revenues, and a greater number of deals generating income in the first year of agreement, we have seen a large increase in revenues (928%) when compared to the same period last year. We anticipate further revenue growth in 2020 as existing deals contribute to full year revenues, we extend the application of our products into new areas, and continue to execute deals with new partners.

Investor and consumer interest in the human microbiome is growing steadily, presenting us with a market opportunity that is large and expanding. We will continue to devote our efforts to increasing our range of applications, products and territories in order to capitalise on this opportunity. Our strategy of developing microbiome products with a strong scientific and clinical evidence base with key opinion leader support has provided clear product differentiation and stimulated high commercial interest. We look forward to converting this interest into agreements in new territories and application areas in the months ahead to continue to grow revenues in this new and exciting area of science which has the potential to revolutionise the future of healthcare.

Stephen O'Hara
Chief Executive

27 May 2020

## Review Of Business

A review of the business of the Group, together with comments on future developments is given in the Chairman's and Chief Executive's Statement on pages 3 to 10.

## Principal Risks And Uncertainties Facing The Group

### *Technology and products*

The Group is involved in the discovery and development of microbiome modulation products. The development and commercialisation of its intellectual property and future products will require human nutritional studies and there is a risk that products may not perform as expected. This risk is common to all new products developed for human consumption.

Technologies used within the food, beverage and healthcare marketplace are constantly evolving and improving. There is a risk that the Group's products may become outdated or their commercial value decrease as improvements in technology are made and competitors launch competing products. To mitigate this risk the Group is working with industry key opinion leaders, will attend international conferences and intends to develop a research and development department which will keep up with the latest developments in the industry.

### *Intellectual Property*

The Group is focused on protecting its IP and seeking to avoid infringing on third parties' IP. To protect its products, the Group is building and securing patents to protect its key products. However, there remains the risk that the Group may face opposition from third parties to patents that it seeks to have granted and that the outstanding patent applications are not granted. The Group engages legal advisers to mitigate the risk of patent infringement and to assist with the protection of the Group's IP.

## Financial And Capital Risk Management

The directors constantly monitor the financial risks and uncertainties facing the Group with particular reference to the exposure of credit risk and liquidity risk. They are confident that suitable policies are in place and that all material financial risks have been considered. The financial risk management objectives and policies can be found within Note 23 of the financial statements.

The Board's objective is to maintain a balance sheet that is both efficient and delivers long term shareholder value. The Group had cash balances of £455,608 as at 31 December 2019 and had no short-term borrowings. The Board continues to monitor the balance sheet to ensure it has an adequate capital structure.

## Principal Risks And Uncertainties

| Market Risks | Impact | Mitigation |
|---|---|---|
| Brexit | New regulations could add complexity and delays to operations.<br><br>Currency fluctuations could increase costs and affect profitability. | The current consensus is that Brexit will not affect the regulations that are relevant to our business.<br><br>Currency fluctuations will impact both sales and costs. Our initial product offering is not price-sensitive. Substantial cost increases will be passed on. |
| COVID-19 | The global implications of the economic impact of COVID-19 could affect sales and profitability. | Although COVID-19 has affected some parts of the consumer business. The majority of sales are in the business to business sector across many countries so the impact is very limited. |
| Technology | The Group's platform is currently unique. Rapid technological advances could see competitor products being launched. | The Group has product development plans in place for improved technology as well as for a wider product portfolio that includes additional innovative solutions for the targeted consumer groups. |

| Operational Risks | Impact | Mitigation |
|---|---|---|
| Technology | The Group is launching products that are not already available in the consumer market. | The Group has responded to consumer demand. |
| Commercialisation | The Group is making the transition from a research-based organisation to a full commercial organisation. Manufacturing set-up and learning curve could delay sales or could impact our rate of growth. | The Group recruited experienced management and consultants to manage the process and negotiate contracts. |

| Financial Risks | Impact | Mitigation |
|---|---|---|
| Future funding requirements | Our current funding covers current requirements. Potential as yet unidentified opportunities may not be pursued with the existing funding. | Management will analyse major opportunities and present them in additional business cases when warranted. |

| Legal Risks | Impact | Mitigation |
|---|---|---|
| Intellectual Property litigation | Any claim brought against us would detract the Company from its business. | The Group engages with IP specialists to ensure we have a strong position. To our knowledge we do not infringe on any patents. |

## Key Performance Indicators

| Financial | Period to 31 December 2019 £'000 | Year to 30 November 2018 £'000 |
|---|---|---|
| Revenue | 745 | 514 |
| Profit/(Loss) for the period | (2,118) | (1,893) |
| Cash as at 31 December 2019 | 456 | 1,324 |

During the period to 31 December 2019 the company has achieved a number of key objectives which continue to build shareholder value. These include:

- The award of a CE mark and registration of SlimBiome as a medical device
- The recognition of OptiBiotox's cholesterol and blood pressure reducing Lactobacillus plantarum LP-LDL probiotic strain determined as Generally Recognized As Safe (GRAS). GRAS is a United States Food and Drug Administration (FDA) designation and extends the potential applications of LP-LDL to use as a functional ingredient in food, dairy, and beverage products across the USA
- Pharmaceutical GMP manufacturer approval of LPLDL®. Pharmaceutical GMP proves that a drug substance (LPLDL®) is produced consistently with pharmaceutical grade quality. GMP process validation is required by customers and health authorities around the globe to commercialise active ingredients as drugs. The validation of LPLDL® pharmaceutical GMP manufacture is a significant step in the development of LPLDL® as a pharmaceutical drug product.
- The award of a licence from the Food Standards and Safety Authority India (FSSAI) to OptiBiotix's manufacturing partner, Zeon Life Sciences, to manufacture SlimBiome and SlimBiome containing products in India
- Appointment of Dr Fred Narbel as Managing Director of our Prebiotics division. Fred Narbel was formerly Vice President of Sales for Nutrition Solutions at Agropur, a major North American dairy company with sales of $6.7 billion in 2018. He has brought us extensive experience of selling speciality food ingredients in international markets, a wide network of contacts in the high value speciality food ingredients industry, and a strong track record of rapidly growing sales.

### Non-financial

The Board recognises the importance of KPI's in driving appropriate behaviour and enabling of Group performance. For the period to 31 December 2019 the primary KPI's were the completion of commercial agreements and the expansion of the Optibiotic® platform. The Group intends to review the following non-financial KPI's going forward:

1. Customer relationships
2. IP and trademark registrations
3. Service quality and brand awareness
4. Attraction, motivation and retention of employees

## Dividends

No dividends can be distributed for the period to 31 December 2019 .

## Future Developments

The Chairman's and Chief Executive Statement on pages 2-10 gives information on the future outlook of the Group.

## Corporate Governance

### Executive Management:

The Group's current executive team comprises:

| | |
|---|---|
| S O'Hara | Executive Director and CEO; with overall responsibility for all Group activities. |
| Dr F Narbel | Executive Director – Managing Director Prebiotix |
| Dr S Kolyda | Executive Director – Research and Development Director |
| S Prescott | Executive Director – CEO Probiotix Health Limited |

## Corporate Responsibility

The Board takes regular account of the significance of social, environmental and ethical matters affecting the Group wherever it operates. It has developed a specific set of policies on corporate social responsibility, which seek to protect the interests of all of its stakeholders through ethical and transparent actions and include an anti-corruption policy and code of conduct.

## Corporate Governance:

The Group is committed to high standards of corporate governance and seeks to continually evaluate its policies, procedures and structures to ensure that they are fit for purpose.

In order to protect the interests of its shareholders and other stakeholders the Board has chosen to adopt the Quoted Companies Alliance (QCA) Corporate Governance Code for Small and mid-size

Quoted Companies (the "QCA Code"), and the Directors are always prepared, where practicable, to enter into dialogue with all such parties to promote a mutual understanding of objectives.

By complying with this code the Company ensured compliance with the new AIM Rules regarding Corporate Governance introduced September 2018.

Full details of the Company's policy on Corporate Governance can be found on the website under:

https://www.optibiotix-ir.com/content/investors/corporate-governance

## Composition of the Board of Directors

The Board of Directors is currently comprised of the Chairman, Chief Executive Officer, the Managing Director Prebiotix division, the Research and development Director, CEO Probiotix Health Limited an and the two Non-Executive Directors.

## Role of the Board:

The role of the Board is to agree the Group's long-term strategy and direction and to monitor achievement of its business objectives. The Board meets several times per annum, either by teleconference or in person. Furthermore, it holds additional meetings as are necessary to transact ongoing business.

## Board Committees:

### Remuneration Committee

The Remuneration Committee is made up of Neil Davidson and Peter Wennstrőm and has access to external expertise should that be required. This committee is responsible for the scale and structure of the remuneration of the Chief Executive, the Executive Directors and reports to the Chief Executive. The recommendations of the committee must be approved by the Board of Directors. No director or manager shall be involved in decisions relating to his/her own remuneration.

### AIM Rules Compliance Committee

The AIM Rules Compliance Committee is chaired by Neil Davidson. This committee is charged with ensuring that the Group has sufficient procedures, resources and controls in place to ensure compliance with the AIM rules for companies. Among other things, the committee shall ensure that an Executive Director is at all times able to respond to requests for information from the Nominated Adviser and that all Directors and employees are aware of their obligations with regards to the disclosure of any trading in the Group's shares.

### Audit Committee

The Audit Committee, which comprises Peter Wennström as Chairman and Neil Davidson. This committee is required to monitor the integrity of the financial statements of the Group, including the interim and annual reports. The committee also reviews financial returns to regulators and any financial information contained in announcements of a price sensitive nature. The committee shall also consider and make recommendations to the Board regarding resolutions to be put to shareholders for approval at the Annual General Meeting, with respect to the appointment or re-appointment of the Group's external auditors. The Audit Committee, together with the external auditors, are responsible for determining the scope of the annual audit.

### Nomination Committee

The Company does not currently have a nomination committee as the Board does not consider it appropriate to establish such a committee at this stage of the Company's development. Decisions which would usually be taken by the nomination committee will be taken by the Board as a whole.

## Employees

The Group engages its employees in all aspects of the business and seeks to remunerate them fairly. The Group gives full and fair consideration to applications for employment regardless of age, gender, colour, ethnicity, disability, nationality, religious beliefs or sexual orientation. The Board takes employees' interest into account when making decisions. Any suggestions from employees aimed at improving the Group's performance are welcomed.

## Suppliers and Contractors

The Group recognises that the goodwill of its contractors, consultants and suppliers is crucial to the success of its business, and seeks to build and maintain this goodwill through fair and transparent business practices. The Group aims to settle genuine liabilities in accordance with contractual obligations.

## Health and Safety

The Board recognises that it has a responsibility to provide strategic leadership and direction in the development and maintenance of the Group's health and safety strategy, in order to protect all of its stakeholders.

## On Behalf Of The Board

S P O'Hara
27 May 2020

The Directors present their report and the audited financial statements of the group for the period to 31 December 2019.

## Principal Activity

The principal activity of the group is that of identifying and developing microbial strains,compounds and formulations for use in food ingredients, and active compounds that can impact on human physiology, deriving potential health benefits.

## Directors

The directors who served the company during the period and up to the date of this report were as follows:

Executive Directors
S P O'Hara
C Wood (Resigned 18 August 2019)
P Rehne (Resigned 22 February 2019)
S Kolyda
F Narbel (Appointed on 1 March 2019)

Non-executive Directors
G Barker (Resigned 30 April 2019)
P Wennstrom
R Davidson
M Christie

Directors' Remuneration
The directors are entitled to receive relevant fees, as detailed in the directors' remuneration in Note 4.

Directors and their interests
The directors of the group held the following beneficial interests in the shares and share options of Optibiotix at the date of this report:

| | Issued Share Capital | | Share Warrants | | Share Options | |
|---|---|---|---|---|---|---|
| | Ordinary shares of £0.02 each | Percentage Held | Ordinary shares of £0.02 each | Warrant exercise price | Ordinary shares of £0.02 each | Option exercise price |
| S P O'Hara | 10,165,129 | 11.6% | – | – | 6,099,135 | £0.08 |
| R Davidson | 503,000 | 0.54% | | | 385,000 | £0.73 |
| P Wennström | – | – | – | – | – | – |
| M Christie | 150,000 | 0.14% | | | 100,000 | £0.95 |
| G Barker | 357,722 | 0.42% | – | – | – | – |
| C Wood | – | – | – | – | 500,000 | £0.695 |
| F Narbel | 70,950 | 0.1% | – | – | 500,000 | £0.785 |
| S Kolyda | – | – | – | – | 165,000 | £0.73 |
| S Kolyda | – | – | – | – | 358,722 | £0.20 |

The share options held by S P O'Hara were granted on 17 September 2016 and are exercisable at £0.08 at any time up 16 September 2024, subject to vesting conditions.

The share options held by R Davidson were granted on 13 July 2018 and are exercisable at £0.73 at any time up 13 July 2024, subject to vesting conditions.

The share options held by M Christie were granted on 21 September 2018 and are exercisable at £0.95 at any time up 21 September 2028, subject to vesting conditions.

The share options held by F Narbel were granted on 27 March 2019 and are exercisable at £0.785 at any time up 27 March 2029, subject to vesting conditions.

The 358,772 share options held by S Kolyda were granted on 10 March 2015 and are exercisable at £0.20 at any time up 10 March 2025, subject to vesting conditions.

The 165,000 share options held by S Kolyda were granted on 13 September 2018 and are exercisable at £0.73 at any time up 13 September 2019, subject to vesting conditions.

The share options held by C Wood were granted on 29 June 2017 and are exercisable at £0.695p at any time up to 29 June 2027, subject to vesting conditions.

## Substantial Shareholdings

Substantial shareholdings include directors as at 27 May 2020 were as follows:

| | % of shares issued |
|---|---|
| Stephen O'Hara | 11.6 |
| Finance Yorkshire Seedcorn LP | 10.7 |

The share price per share at 31/12/2019 was £0.66 (30/11/2018: £0.92)

## Financial Instruments

The Group's exposure to financial risk is set out in Note 23 to the financial statements.

## Research And Development

The Chairman's and Chief Executive Statement on page 3-10 gives information on the Group's research and development activities.

## Political And Charitable Contributions

The Group made no charitable or political contributions during the period.

## Events After The Reporting Period

Refer to Note 24 to the financial statements for further details.

## Publication Of Accounts On Group Website

Financial statements are published on the Group's website. The maintenance and integrity of the website is the responsibility of the Directors. The Directors' responsibilities also extend to the financial statements contained therein.

## Going Concern

The financial statements have been prepared on the assumption that the Group is a going concern. When assessing the foreseeable future, the Directors have looked at the budget for the next 12 months from the date of this report, the cash at bank available as at the date of approval of this report and are satisfied that the Group should be able to cover its quoted maintenance cost, other administrative expenses, as well as its ongoing research and development expenditure.

Management have considered its forecast of the group's cash requirements reflecting contracted and anticipated future revenue and the resulting net cash outflows. Management have not yet seen a material disruption to the business as a result of the COVID-19 outbreak, however events are rapidly evolving and at this stage, it is difficult to assess reliably whether there will be any material disruption in the future which could adversely impact the group's forecast.

Subsequent to the year end, the group announced the successful completion of an equity fundraise of £1.0 million on 17 April 2020 to fund the growth of the business and delivery of existing commercial plans.

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt a going concern basis in preparing the annual report and financial statements.

## Statement Of Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have, as required by the AIM Rules for Companies of the London Stock Exchange, elected to prepare financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

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

The Directors confirm that the financial statements comply with the above requirements.

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 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.

## Statement As To Disclosure Of Information To Auditors

So far as the Directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditor is unaware, and each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of the information.

## Auditor

Jeffreys Henry LLP will be proposed for re-appointment as auditors at the forthcoming Annual General Meeting.

## Strategic Report

In accordance with section 414C(11) of the Companies Act 2006 the Group chooses to report the review of the business, the future outlook and the risks and uncertainties faced by the Group in the Strategic Report on page 11.

## On Behalf Of The Board

S P O'Hara
27 May 2020

# Independent Auditor's Report to the Members of OptiBiotix Health Plc

## For the period ended 31 December 2019

## Opinion

We have audited the financial statements of OptiBiotix Health Plc (the 'parent company') and its subsidiaries (the 'Group') for the period ended 31 December 2019 which comprise the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows, company statement of financial position, company statement of changes in equity, company statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union as applied in accordance with the provision of the Companies Act 2006.

## In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2019 and of the Group's loss for the period then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRS's as adopted by the European Union 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 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.

## Conclusions relating to going concern

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

- 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 or the parent 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.

## Our audit approach

## Overview

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, 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. This is not a complete list of all risks identified by our audit.

- Carrying value of investments and recoverability of receivables
- Capitalisation of development costs and carrying value of intangible assets
- The use of the going concern basis.

These are explained in more detail below

## Audit scope

- We conducted audits of the complete financial information of OptiBiotix Health Plc, OptiBiotix Limited, The Healthy Weight Loss Company Limited and ProBiotix Health Limited.
- We performed specified procedures over certain account balances and transaction classes at other Group companies.
- Taken together, the Group companies over which we performed our audit procedures accounted for 100% of the absolute profit before tax (i.e. the sum of the numerical values without regard to whether they were profits or losses for the relevant reporting units) and 100% of revenue.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Carrying value of investments and recoverability of group receivables – Company Risk**<br>The amount owed to the Company at the period-end by the subsidiary OptiBiotix Limited is £5,706,922.<br>The amount owed by Probiotix Health Limited was £234,438<br>The carrying values of investments in group companies was as follows:<br>OptiBiotix Limited : £2,000,000<br>ProBiotix Health Limited : £235,438<br>The Healthy Weight Loss Company Limited : £50,000<br>Impairment of The Healthy Weight Loss Company Limited:<br>The directors made an impairment provision to reduce the carrying value of its investment in the company to £50,000 representing the value of its major asset – the 'go-figure brand'<br>**Carrying value of investments – Group Risk**<br>At the period end the group had investments of £3.09m made up of the investment in SkinBiotherapeutics plc.<br>There is a risk that the investment in Skinbiotherapeutics PLC requires impairment. | We carried out a review of the investments held in the subsidiaries.<br>Management's impairment workings were reviewed and the underlying assumptions audited.<br>We reviewed management's basis for impairment across the Company and agree with their approach.<br>As part of the review of management's forecasts, consideration was given to the capability of the subsidiary to repay the amount within a 12-month period.<br>The estimation of the residual value held in The Healthy Weight Loss Company Limited has been assessed.<br>We reviewed the investment in SkinBiotherapeutics plc for impairment, with particular consideration given to the fact that the market value of OptiBiotix Health Plc's holding at the year-end was greater than the carrying value of the investment. |
| **Carrying value of intangible assets and capitalisation of development costs**<br>The Group had intangible assets of £2.63m at the year ended 31 December 2019, of which £594,976 were development costs capitalised in the year.<br>Intangible assets comprise of development costs and fair value of patents acquired on the acquisition of OptiBiotix Limited.<br>The patents are amortised in a straight line over 20 years, the period in which the directors believe the assets will generate revenue.<br>The development costs are amortised in a straight line over 10 years, a period the directors believe to be in line with industry standard. | Intangible assets in the accounts have been allocated useful lives and therefore an annual impairment test is not required. However, as OptiBiotix Limited is loss making we considered if there were indicators of impairment and reviewed the discounted cash flow forecasts.<br>The development costs capitalised in the period were evaluated against the recognition criteria of IAS38. The estimated useful economic life assigned to the costs was reviewed. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Going Concern**<br><br>Management judgement is required in assessing whether the group is a going concern as it has historically incurred losses and does not have borrowing facilities.<br><br>The Directors have considered the cash requirements of the business for the following 12 months. As part of this process, they have taken into account existing liabilities, along with detailed operating cashflow requirements. The projections prepared include ongoing running costs of the group and committed expenditure at the date of approving the financial statements.<br><br>The key assumptions that impact the conclusions are the levels of future revenue, and the ability to control the operating costs.<br><br>There are therefore inherent risks that the forecasts may overstate future revenue due to the timing of closure of future contracts, or understate future costs, and that the group will not be able to operate within its cash resources and continue to operate as a going concern. | We have performed the following audit procedures:<br><br>• obtained management's forecasts and cash flow analysis, and their going concern assessment;<br><br>• assessed the reliability of forecasts to date by agreeing historical actuals to budgets, and challenging the current forecasts;<br><br>• tested the clerical accuracy of management's forecast;<br><br>• challenged management's forecast assumptions, including reviewing the forecast revenue and corroborated the assumptions; and<br><br>• considered the appropriateness of the group's disclosures in relation to going concern in the financial statements.<br><br>As detailed above, we note that there are inherent risks over the group's forecasts and the potential timing of the conversion of the group's contract pipeline. We further note that the group has historically been loss making given the level of research and development expenditure.<br><br>However, we have seen the £1.0m equity fundraise post year end.<br><br>Based on the audit work performed we are satisfied that although there are inherent uncertainties associated with the forecast, the group appears to have sufficient funds for at least 12 months following the signing of this audit report. We are also satisfied that all necessary disclosures have been made in the consolidated financial statements. |

## Our Application Of Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgment, we determined materiality for the financial statements as a whole as follows:

| | Group financial statements | Company financial statements |
|---|---|---|
| Overall materiality | £109,000 (2018: £126,000) | £109,000 (2018: £120,000) |
| How we determined it | 1.5% of gross assets<br>(2018: 1.5% gross assets) | 1% of gross assets (restricted to group materiality)<br>(2018: 1% gross assets) |
| Rationale for benchmark applied | We believe that gross assets is a primary measure used by shareholders in assessing the performance of the Group, whilst the subsidiaries are in varied states of development and trading. | We believe that gross assets is a primary measure used by shareholders in assessing the performance of the Company, given that it is largely a holding company for the trading subsidiaries. |

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £25,000 and £68,000.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £5,450 for the Group (2018: £6,300) and £5,450 for the Parent as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

## An overview of the scope of our audit

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 where the directors made subjective judgments, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

### *How we tailored the audit scope*

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group financial statements are a consolidation of 4 reporting units, comprising the Group's operating businesses and holding companies.

We performed audits of the complete financial information of OptiBiotix Health plc, OptiBiotix Limited, Probiotix Health Limited and The Healthy Weight Loss Company Limited reporting units, which were individually financially significant and accounted for 100% of the Group's revenue and 100% of the Group's absolute profit before tax (i.e. the sum of the numerical values without regard to whether they were profits or losses for the relevant reporting units). The Group engagement team performed all audit procedures.

## 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.

## Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and 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 pages 16-17, 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 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.

## Other matters which we are required to address

We were appointed as auditors by the company at the Annual General Meeting on 11 June 2019 to audit the financial statements for the period ending 31 December 2019. Our total uninterrupted period of engagement is 6 years, covering the periods ending 30 November 2014 to 31 December 2019.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting our audit.

In addition to the audit, the firm provides tax compliance services to OptiBiotix Health Plc and its subsidiaries.

Our audit opinion is consistent with the additional report to the audit committee.

## Use of this 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.

Sudhir Rawal
(Senior Statutory Auditor)

For and on behalf of

Jeffreys Henry LLP, Statutory Auditor
Finsgate
5-7 Cranwood Street
London
EC1V 9EE

27 May 2020

# Consolidated Statement of Comprehensive Income

## For the period ended 31 December 2019

| | Notes | Period ended 31 December 2019 £ | Year ended 30 November 2018 £ |
|---|---|---|---|
| Revenue from contracts with customers | | 744,883 | 514,289 |
| Cost of sales | | (352,080) | (162,782) |
| **Gross Profit** | | 392,803 | 351,507 |
| Share based payments | | 137,320 | 128,222 |
| Depreciation and amortisation | | 217,904 | 141,908 |
| Other administrative costs | | 2,204,216 | 1,580,273 |
| **Total administrative expenses** | 6 | (2,559,440) | (1,850,403) |
| **Operating loss** | | (2,166,637) | (1,498,896) |
| Finance cost | 5 | (44,467) | – |
| Finance income | 5 | 111 | 169 |
| | | (44,506) | 169 |
| Share of loss from associate | 12 | (296,344) | (448,223) |
| Profit on disposal of investments | | 265,481 | – |
| **Loss before tax** | | (2,241,856) | (1,946,950) |
| Corporation tax | 7 | 123,468 | 54,371 |
| **Loss for the period** | | (2,118,388) | (1,892,579) |
| Other comprehensive income | | – | – |
| **Total comprehensive income for the period** | | (2,118,388) | (1,892,579) |
| Total comprehensive income attributable to: | | | |
| Owners of the company | | (2,117,273) | (1,919,276) |
| Non-controlling interests | | (1,115) | 26,697 |
| | | (2,118,388) | (1,892,579) |
| **Earnings per share from continued operations** | | | |
| Basic profit/(loss) per share – pence | 8 | (2.49)p | (2.30)p |
| Diluted profit/(loss) per share – pence | | (2.49)p | (2.30)p |

All activities relate to continuing activities

The notes on pages 33 to 53 form part of these financial statements

# Consolidated Statement of Financial Position

## As at 31 December 2019

| | Notes | As at 31 December 2019 £ | As at 30 November 2018 £ |
|---|---|---|---|
| ASSETS | | | |
| **Non-current assets** | | | |
| Intangibles | 10 | 2,632,778 | 2,253,089 |
| Property, plant & equipment | 11 | 393 | 3,143 |
| Investments | 12 | 3,092,807 | 3,740,799 |
| | | 5,725,978 | 5,997,031 |
| CURRENT ASSETS | | | |
| Inventories | 13 | 62,761 | 30,433 |
| Trade and other receivables | 14 | 607,308 | 373,803 |
| Current tax asset | 7 | 190,435 | 303,952 |
| Cash and cash equivalents | 15 | 455,608 | 1,324,307 |
| | | 1,316,112 | 2,032,495 |
| TOTAL ASSETS | | 7,042,090 | 8,029,526 |
| EQUITY | | | |
| **Shareholders' Equity** | | | |
| Called up share capital | 16 | 1,708,811 | 1,694,488 |
| Share premium | 17 | 1,646,873 | 1,603,904 |
| Share based payment reserve | 17 | 740,059 | 602,739 |
| Merger relief reserve | 17 | 1,500,000 | 1,500,000 |
| Convertible debt reserve | 17 | 92,712 | – |
| Retained Earnings | 17 | (492,925) | 1,624,348 |
| Non-controlling interest | 17 | 35,782 | 36,897 |
| **Total Equity** | | 5,231,312 | 7,062,376 |
| LIABILITIES | | | |
| **Current liabilities** | | | |
| Trade and other payables | 18 | 561,623 | 520,989 |
| | | 561,623 | 520,989 |
| **Non – current liabilities** | | | |
| Deferred tax liability | 19 | 522,350 | 446,161 |
| Loan Notes | 20 | 726,805 | – |
| | | 1,249,155 | 446,161 |
| TOTAL LIABILITIES | | 1,810,778 | 967,150 |
| TOTAL EQUITY AND LIABILITIES | | 7,042,090 | 8,029,526 |

These financial statements were approved and authorised for issue by the Board of Directors on 27 May 2020 and were signed on its behalf by:

S P O'Hara
**Director**
Company Registration no. 05880755
The notes on pages 33 to 53 form part of these financial statements

# Consolidated Statement of Changes in Equity

## For the period ended 31 December 2019

| | Called up Share capital £ | Retained Earnings £ | Share Premium £ | Non-Controlling interest £ | Convertible Debt Reserve £ | Merger Relief Reserve £ | Share-based Payment reserve £ | Total equity £ |
|---|---|---|---|---|---|---|---|---|
| Balance at 30 November 2017 | 1,586,628 | (2,805,347) | 6,279,718 | 10,200 | – | 1,500,000 | 474,517 | 7,045,716 |
| Loss for the year | – | (1,919,276) | – | 26,697 | – | – | – | (1,892,579) |
| Issues of shares during the year | 107,860 | – | 1,673,157 | – | – | – | – | 1,781,017 |
| Share options and warrants | – | – | – | – | - | – | 128,222 | 128,222 |
| Cancellation of share premium account | – | 6,348,971 | (6,348,971) | – | – | – | – | – |
| Balance at 30 November 2018 | 1,694,488 | 1,624,348 | 1,603,904 | 36,897 | – | 1,500,000 | 602,739 | 7,062,376 |
| Loss for the period | – | (2,117,273) | | (1,115) | – | – | – | (2,118,388) |
| Issues of shares during the period | 14,323 | – | 42,969 | – | – | – | – | 57,292 |
| Share options and warrants | – | – | | – | – | – | 137,320 | 137,320 |
| Value of conversion rights on convertible loan notes | – | – | – | – | 92,712 | – | – | 92,712 |
| **Balance at 31 December 2019** | **1,708,811** | **(492,925)** | **1,646,873** | **35,782** | **92,712** | **1,500,000** | **740,059** | **5,231,312** |

The notes on pages 33 to 53 form part of these financial statements

# Consolidated Statement of Cash Flows

## For the period ended 31 December 2019

| | Notes | Period ended 31 December 2019 £ | Year ended 30 November 2018 £ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash utilised by operations | 1 | (2,036,532) | (1,233,717) |
| Tax received | | 313,173 | – |
| Interest paid | | (57) | – |
| Interest received | | 168 | 169 |
| Net cash outflow from operating activities | | (1,723,248) | (1,233,548) |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | | – | (2,954) |
| Purchase of intangible assets | | (594,923) | (467,639) |
| **Net cash outflow from investing activities** | | (594,923) | (470,593) |
| **Cash flows from financing activities** | | | |
| Share issues | | 57,292 | 1,781,017 |
| Issue of loan notes | | 775,050 | – |
| Disposal of investments | | 617,130 | – |
| **Net cash inflow from financing activities** | | 1,449,472 | 1,781,017 |
| **Increase/(decrease) in cash and equivalents** | | (868,699) | 76,876 |
| Cash and cash equivalents at beginning of period | | 1,324,307 | 1,247,431 |
| Cash and cash equivalents at end of period | 15 | 455,608 | 1,324,307 |

The notes on pages 33 to 53 form part of these financial statements

## 1. Reconciliation of loss before income tax to cash outflow from operations

| | Period ended 31 December 2019 £ | Year ended 30 November 2018 £ |
|---|---|---|
| Operating loss | (2,166,637) | (1,498,896) |
| (Increase)/Decrease in inventories | (32,328) | (21,543) |
| Increase in trade and other receivables | (233,505) | (267,681) |
| Increase in trade and other payables | 40,634 | 281,594 |
| Depreciation charge | 2,750 | 2,187 |
| Share Option expense | 137,320 | 128,222 |
| Amortisation of patents and development costs | 215,234 | 139,721 |
| Loss on disposal of tangible and intangible assets | – | 2,679 |
| Net cash outflow from operations | (2,036,532) | (1,233,717) |

## 2. Cash and Cash Equivalents

| | Period ended 31 December 2019 £ | Year ended 30 November 2018 £ |
|---|---|---|
| Cash and cash equivalents | 455,608 | 1,324,307 |

The notes on pages 33 to 53 form part of these financial statements

# Company Statement of Financial Position

## As at 31 December 2019

| | Notes | As at 31 December 2019 £ | As at 30 November 2018 £ |
|---|---|---|---|
| ASSETS | | | |
| **Non-current assets** | | | |
| Investments | 12 | 6,212,556 | 6,534,300 |
| Other receivables | 14 | 5,941,360 | 4,242,286 |
| | | 12,153,916 | 10,776,586 |
| CURRENT ASSETS | | | |
| Trade and other receivables | 14 | 24,707 | 9,242 |
| Cash and cash equivalents | 15 | 139,243 | 1,167,437 |
| | | 163,950 | 1,176,679 |
| TOTAL ASSETS | | 12,317,866 | 11,953,265 |
| EQUITY | | | |
| **Shareholders' Equity** | | | |
| Called up share capital | 16 | 1,708,811 | 1,694,488 |
| Share premium | 17 | 1,646,873 | 1,603,904 |
| Merger relief reserve | 17 | 1,500,000 | 1,500,000 |
| Share based payment reserve | 17 | 740,059 | 602,739 |
| Accumulated profit | 17 | 6,436,938 | 6,323,134 |
| **Total Equity** | | 12,032,681 | 11,724,265 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 18 | 285,185 | 229,000 |
| TOTAL LIABILITIES | | 285,185 | 229,000 |
| TOTAL EQUITY AND LIABILITIES | | 12,317,866 | 11,953,265 |

These financial statements were approved and authorised for issue by the Board of Directors on 27 May 2020 and were signed on its behalf by:

S P O'Hara

Director

Company Registration no. 05880755

The notes on pages 33 to 53 form part of these financial statements

# Company Statement of Changes in Equity

## For the period ended 31 December 2019

| | Called up Share capital £ | Retained Earnings £ | Share Premium £ | Merger Relief Reserve £ | Share-based Payment reserve £ | Total equity £ |
|---|---|---|---|---|---|---|
| **Balance at 30 November 2017** | 1,586,628 | 470,658 | 6,279,718 | 1,500,000 | 474,517 | 10,311,521 |
| Loss for the period | – | (496,495) | – | – | – | (496,495) |
| Issues of shares during the year | 107,860 | – | 1,673,157 | – | – | 1,781,017 |
| Share options and warrants | – | – | – | – | 128,222 | 128,222 |
| Cancellation of share premium account | – | 6,348,971 | (6,348,971) | – | – | – |
| **Balance at 30 November 2018** | 1,694,488 | 6,323,134 | 1,603,904 | 1,500,000 | 602,739 | 11,724,265 |
| Profit for the period | – | 113,804 | – | – | – | 113,804 |
| Issues of shares during the period | 14,323 | – | 42,969 | – | – | 57,291 |
| Share options and warrants | – | – | – | – | 137,320 | 137,320 |
| **Balance at 31 December 2019** | **1,708,811** | **6,436,938** | **1,646,873** | **1,500,000** | **740,059** | **12,032,861** |

The notes on pages 33 to 53 form part of these financial statements

# Company Statement of Cash Flows

## For the period ended 31 December 2019

| | Notes | Period ended 31 December 2019 £ | Year ended 30 November 2018 £ |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Cash utilised by operations | 1 | (1,702,719) | (1,620,434) |
| Interest received | | 104 | 85 |
| Net cash outflow from operating activities | | (1,702,615) | (1,620,349) |
| Cash flows from investing activities | | | |
| Investment in subsidiaries | | – | (1,000) |
| **Net cash outflow from investing activities** | | – | (1,000) |
| Cash flows from financing activities | | | |
| Share issues | | 57,292 | 1,781,017 |
| Proceeds from disposal of investments | | 617,129 | – |
| **Net cash inflow from financing activities** | | 674,421 | 1,781,017 |
| **Increase/(decrease) in cash and equivalents** | | (1,028,194) | 159,668 |
| Cash and cash equivalents at beginning of period | | 1,167,437 | 1,007,769 |
| Cash and cash equivalents at end of period | 15 | 139,243 | 1,167,437 |

The notes on pages 33 to 53 form part of these financial statements

# Notes to the Company Statement of Cash Flows

**For the period ended 31 December 2019**

## 1. Reconciliation of loss before income tax to cash generated from operations

| | Period ended 31 December 2019 £ | Year ended 30 November 2018 £ |
|---|---|---|
| Operating loss | (457,816) | (496,495) |
| Increase in trade and other receivables | (1,438,409) | (1,327,028) |
| Increase in trade and other payables | 56,186 | 172,593 |
| Share Option expense | 137,320 | 128,222 |
| Interest received | – | (197,725) |
| Impairment losses | – | 99,999 |
| Net cash outflow from operations | (1,702,719) | (1,620,434) |

## 2. Cash and Cash Equivalents

| | As at 31 December 2019 £ | As at 30 November 2018 £ |
|---|---|---|
| Cash and cash equivalents | 139,243 | 1,167,437 |

The notes on pages 33 to 53 form part of these financial statements

## 1. General Information

OptiBiotix Health plc is a Public Limited Company incorporated and domiciled in England and Wales. Details of the registered office, the officers and advisers to the Company are presented on the company information page at the start of this report. The Company's offices are at Innovation centre, Innovation Way, Heslington, York. The Company is listed on the AIM market of the London Stock Exchange (ticker: OPTI).

The principal activity is that of identifying and developing microbial strains, compounds, and formulations for use in food ingredients, supplements and active compounds that can impact on human physiology, deriving potential health benefits.

## 2. Accounting Policies

### Statement of compliance

The consolidated financial statements of OptiBiotix Health plc have been prepared in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards (IASs) and International Financial Reporting Interpretations Committee (IFRIC) interpretations (collectively 'IFRS') as adopted for use in the European Union and as issued by the International Accounting Standards Board and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

### Basis of preparation

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

The principal accounting policies are summarised below. They have all been applied consistently throughout the period under review.

### Going concern

The financial statements have been prepared on the assumption that the Company is a going concern. When assessing the foreseeable future, the Directors have looked at the budget for the next 12 months from the date of this report, the cash at bank available as at the date of approval of this report and are satisfied that the group should be able to cover its quoted maintenance costs, other administrative expenses and its ongoing research and development expenditure.

Management have considered its forecast of the group's cash requirements reflecting contracted and anticipated future revenue and the resulting net cash outflows. Management have not yet seen a material disruption to the business as a result of the COVID-19 outbreak, however events are rapidly evolving and at this stage, it is difficult to assess reliably whether there will be any material disruption in the future which could adversely impact the group's forecast.

Subsequent to the year end, the group announced the successful completion of an equity fundraise of £1.0 million on 17 April 2020 to fund the growth of the business and delivery of existing commercial plans.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt a going concern basis in preparing the annual report and financial statements.

### New and amended standards adopted by the group

There are no IFRS or IFRIC interpretations that are effective for the first time in this financial period that would be expected to have a material impact on the Group.

The following new standards, amendments to standards, and interpretations have been issued, but are not effective for the financial period beginning 1 December 2018 and have not been early adopted:

## 2. Accounting Policies (continued)

### New Standards, amendments and interpretations issued but not effective

| Reference | Title | Summary | Application date of standard | Application date of Company |
|---|---|---|---|---|
| IFRS 16 | Lease | IFRS 16 Leases published | Periods commencing on or after 1 January 2019 | 1 January 2020 |
| IFRS 9 | Financial instruments | Amendments to IFRS 9, 'Financial instruments' – Prepayment features with negative compensation | Periods commencing on or after 1 January 2019 | 1 January 2020 |

| Reference | Title | Summary | Application date of standard | Application date of Company |
|---|---|---|---|---|
| IAS 28 | Investments in associates | Amendments to IAS 28, 'Investments in associates' Long-term interests in associates and joint ventures | Periods commencing on or after 1 January 2019 | 1 January 2020 |
| IAS 19 | Employee benefits | Amendments to IAS 19, 'Employee benefits' – Plan amendment, curtailment or settlement | Periods commencing on or after 1 January 2019 | 1 January 2020 |
| IFRS 3 | Business combinations | Amendments to IFRS 3, 'Business combinations', definition of a business | Periods commencing on or after 1 January 2020 | 1 January 2020 |
| IAS 1 | Presentation of financial statements' | Amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors' definition of material | Periods commencing on or after 1 January 2020 | 1 January 2020 |
| IFRS 17 | Insurance contracts | Principles for the recognition, measurement, presentation an disclosure of insurance contracts | Periods commencing on or after 1 January 2021 | 1 January 2021 |

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year, previously 30 November. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

## 2. Accounting Policies (continued)

### Basis of consolidation (continued)

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings).

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 "Financial Instruments: Recognition and Measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

### Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the group to the former owners of the acquiree and the equity interests issued by the group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

– deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;

– liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the group are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and

– assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

### Revenue recognition

In the current year, the Group has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5 step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios.

## 2. Accounting Policies (continued)

### Investments in associates

Associates are those entities in which the Group has significant influence, but not control or joint control over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Investments in associates are accounted for under the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

#### *(i) Current tax*

Current taxes are based on the results shown in the financial statements and are calculated according to local tax rules using tax rates enacted or substantially enacted by the statement of financial position date.

Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

#### *(ii) Deferred tax*

Deferred tax is provided, using the liability method, on temporary differences at the statement of financial position date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differenced and the carrying forward or unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

### Investments

Investments are held at cost less any impairment.

## 2. Accounting Policies (continued)

### Financial instruments

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the instrument.

### Inventory

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to the initial recognition, trade and receivables and measured at amortised cost less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

Impairment losses for bad and doubtful debts are measured as the difference between the carrying amount of financial asset and the estimated future cash flows, discounted where the effect of discounting is material.

### Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held on call, together with other short term highly liquid investments which are not subject to significant changes in value and have original maturities of less than three months.

### Fair values

The carrying amounts of the financial assets and liabilities such as cash and cash equivalents, receivables and payables of the Company at the statement of financial position date approximated their fair values, due to relatively short term nature of these financial instruments

### Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated in amortised cost, except where the payables are interest free loans made by related parties without any fixed repayment terms or the effect of discounting would be immaterial, in which case they are stated at cost.

### Impairment of non-financial assets

At each statement of financial position date, the Group reviews the carrying amounts of its investments to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

## 2. Accounting Policies (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### Capital management

Capital is made up of stated capital, premium, other reserves and retained earnings. The objective of the Group's capital management is to ensure that it maintains strong credit ratings and capital ratios. This will ensure that the business is correctly supported and shareholder value is maximised.

The Group manages its capital structure through adjustments that are dependent on economic conditions. In order to maintain or adjust the capital structure, the Company may choose to change or amend dividend payments to shareholders or issue new share capital to shareholders. There were no changes to the objectives, policies or processes during the period ended 31 December 2019.

### Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against share capital.

### Convertible Loans

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amount.

### Share-based compensation

The fair value of the employee and suppliers services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting year is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each statement of financial position date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

The fair value of share-based payments recognised in the income statement is measured by use of the Black Scholes model, which takes into account conditions attached to the vesting and exercise of the equity instruments. The expected life used in the model is adjusted; based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The share price volatility percentage factor used in the calculation is based on management's best estimate of future share price behaviour and is selected based on past experience, future expectations and benchmarked against peer companies in the industry.

## 2. Accounting Policies (continued)

### Property, plant and equipment

Property, plant and equipment are stated at historical cost less subsequent accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to write off their cost over their estimated useful lives at the following annual rates:

Computer equipment 30%

Useful lives and depreciation method are reviewed and adjusted if appropriate, at the end of each reporting period.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the relevant asset and is recognised in profit or loss in the year in which the asset is derecognised.

### Intangibles – Patents

Separately acquired patents are shown at historical cost. Patents have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost of the patents over their estimated useful life of twenty years once the patents have been granted.

### Research and Development

Research expenditure is written off to the statement of comprehensive income in the year in which it is incurred. Development expenditure is written off in the same way unless the Directors are satisfied as to the technical, commercial and financial viability of individual projects. In this situation, the expenditure is deferred and amortised over the ten years during which the Company is expected to benefit.

### Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates and sales taxes or duty.

### Merger relief reserve

The merger relief reserve arises from the 100% acquisition of OptiBiotix Limited whereby the excess of the fair value of the issued ordinary share capital issued over the nominal value of these shares is transferred to this reserve in accordance with section 612 of the Companies Act 2006.

### Convertible debt reserve

The convertible debt reserve is the equity component of the convertible loan notes that have been issued.

## 2. Accounting Policies (continued)

### Critical accounting judgments and key sources of estimation uncertainty

The preparation of the financial statements requires management to make estimates and assumptions concerning the future that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

The resulting accounting estimates will, by definition, differ from the related actual results.

- Share based payments

  The fair value of share based payments recognised in the income statement is measured by use of the Black Scholes model, which takes into account conditions attached to the vesting and exercise of the equity instruments. The expected life used in the model is adjusted; based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The share price volatility percentage factor used in the calculation is based on management's best estimate of future share price behaviour and is selected based on past experience, future expectations and benchmarked against peer companies in the industry.

- Amortisation

  Management have estimated that the useful life of the fair value of the patents acquired on the acquisition to be 20 years. Research and developments that have been capitalised in line with the recognition criteria of IAS38 have been estimated to have a useful economic life of 10 years. These estimates will be reviewed annually and revised if the useful life is deemed to be lower based on the trading business or any changes to patent law.

- Impairment Reviews

  IFRS requires management to undertake an annual test for impairment of indefinite lived assets and, for finite lived assets to test for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment testing is an area involving management judgement, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters.

## 3. Segmental Reporting

In the opinion of the directors, the Group has one class of business, being that of identifying and developing microbial strains, compounds and formulations for use in the nutraceutical industry. The Group's primary reporting format is determined by the geographical segment according to the location of its establishments. There is currently only one geographic reporting segment, which is the UK. The Directors believe that income, costs, assets and liabilities are interconnected and as there is only one location all income and costs are derived from the single segment. Subsequent to the year end the business is developing into new territories and the directors will assess the need for segmental reporting for the year ended 31 December 2020.

## 4. Employees and Directors

| | Period ended 31 December 2019 £ | Year ended 30 November 2018 £ |
|---|---|---|
| Wages and salaries | **53,037** | 23,274 |
| Directors remuneration* | **647,421** | 576,228 |
| Directors fees* | **310,832** | 41,083 |
| Social security costs | **76,508** | 79,319 |
| Pension costs | **26,459** | 54,385 |
| | **1,114,257** | 774,289 |

*Total Directors remuneration £958,253 see Directors' remuneration note below.

## 4. Employees and Directors (continued)

| | Period ended 31 December 2019 No. | Year ended 30 November 2018 No. |
|---|---|---|
| The average monthly number of employees during the period was as follows: | | |
| Directors | 8 | 8 |
| Research and development | 2 | 2 |
| | 10 | 10 |

| | Period ended 31 December 2019 £ | Year ended 30 November 2018 £ |
|---|---|---|
| Directors' remuneration* | 873,253 | 572,311 |
| Directors' share based payments | 123,362 | 120,793 |
| Bonus* | 85,000 | 45,000 |
| Pension | 28,618 | 53,834 |
| Total emoluments | 1,110,233 | 791,938 |
| Emoluments paid to the highest paid director | 248,000 | 212,897 |

*Total Directors remuneration £958,253 see Directors' remuneration note below.

Included in total emoluments paid to Directors are capitalised wages of £248,707 (2018: £221,703).

### Directors' remuneration

Details of emoluments received by Directors of the Group for the period ended 31 December 2019 are as follows:

| | Remuneration and fees £ | Share based payments £ | Total £ |
|---|---|---|---|
| A Reynolds* | 29,165 | | 29,165 |
| S P O'Hara | 248,000 | – | 248,000 |
| F Narbel | 139,105 | 37,910 | 177,015 |
| G Barker* | 6,048 | – | 6,048 |
| S Christie | 27,083 | 13,343 | 40,426 |
| R Davidson | 59,583 | 34,893 | 94,476 |
| S Kolyda | 106,666 | 14,954 | 121,620 |
| P Wenstromm* | 19,548 | – | 19,548 |
| P Rehne | 56,268 | 3,180 | 59,448 |
| C Wood | 149,820 | 19,082 | 168,902 |
| S Prescott* | 116,967 | | 116,967 |
| Total | 958,253 | 123,362 | 1,081,615 |

*For disclosure in relation to directors' fees please refer to Note 21

## 5. Net Finance Income/(Costs)

| | Period ended 31 December 2019 £ | Year ended 30 November 2018 £ |
|---|---|---|
| Finance Income: | | |
| Bank Interest | 111 | 169 |
| Finance Cost: | | |
| Loan note interest | (44,467) | – |
| Net Finance Income/(Costs) | (44,356) | 169 |

## 6. Expenses – analysis by nature

| | Period ended 30 December 2019 £ | Year ended 30 November 2018 £ |
|---|---|---|
| Research and development | 167,869 | 160,673 |
| Regulatory Costs | 185,447 | – |
| Directors' fees & remuneration (Note 4)* | 709,546 | 418,881 |
| Auditor remuneration – audit fees (consolidated accounts £17,500, 2018: £17,000) | 42,220 | 47,293 |
| Auditor remuneration – non audit fees (tax compliance) | 6,200 | 6,000 |
| Brokers & Advisors | 113,036 | 86,414 |
| Advertising & marketing | 66,556 | 48,201 |
| Share based payments charge | 137,320 | 128,222 |
| Depreciation on property, plant and equipment | 2,750 | 2,187 |
| Amortisation of patents and development costs | 215,234 | 139,721 |
| Patent and IP costs | 55,483 | 88,003 |
| Consultancy fees | 223,016 | 146,559 |
| Legal and professional fees | 24,399 | 26,563 |
| Public Relations costs | 101,795 | 152,082 |
| Travel costs | 171,448 | 120,541 |
| Other expenses | 337,121 | 279,063 |
| Total administrative expenses | 2,559,440 | 1,850,403 |

*£709,546 is net of £248,707 capitalised in the year, total remuneration £958,253 as per note 4.

## 7. Corporation Tax

| | Period ended 31 December 2019 £ | Year ended 30 November 2018 £ |
|---|---|---|
| Corporation tax credit | (190,435) | (120,000) |
| Under provision prior year | (9,221) | – |
| Deferred tax movement | 76,188 | 62,069 |
| Overseas tax suffered | – | 3,560 |
| Total taxation | (123,468) | (54,371) |

### Analysis of tax expense

No liability to UK corporation tax arose on ordinary activities for the period ended 31 December 2019 nor for the year ended 30 November 2018.

| | Period ended 31 December 2019 £ | Year ended 30 November 2018 £ |
|---|---|---|
| Loss on ordinary activities before income tax | (2,241,856) | (1,946,950) |
| Loss on ordinary activities multiplied by the standard rate of corporation tax in UK of 19% (2018 – 19.33%) | (425,953) | (376,345) |
| Effects of: | | |
| Disallowables | 56,787 | 62,017 |
| Income not taxable | (50,441) | – |
| Accelerated capital allowances | – | (571) |
| Accelerated depreciation | 523 | – |
| R&D enhanced deductions | (141,042) | (122,086) |
| R&D tax credit claimed | (199,656) | (120,000) |
| Amortisation | 40,895 | 27,008 |
| Revenue items capitalised | (65,072) | (90,395) |
| Other timing differences | 76,188 | 62,069 |
| Overseas tax suffered | – | 3,560 |
| Unused tax losses carried forward | 584,303 | 500,372 |
| Tax credit | (123,468) | (54,371) |

The Group has estimated losses of £3,253,189 (2018: £1,646,423) and estimated excess management expenses of £2,248,357 (2018: £2,093,197).

The tax losses have resulted in a deferred tax asset at 19% of approximately £1,045,294 (2018: £710,528) which has not been recognised as it is uncertain whether future taxable profits will be sufficient to utilise the losses.

## 7. Corporation Tax (continued)

| | 2019 £ | 2018 £ |
|---|---|---|
| **Current tax asset – Group** | | |
| Balance brought forward | 303,952 | 183,952 |
| Received during the year | (313,170) | – |
| Prior year adjustment | 9,218 | – |
| Research & development tax credit claimed | 190,435 | 120,000 |
| | 190,435 | 303,952 |

## 8. Earnings per Share

Basic earnings per share is calculated by dividing the earnings attributable shareholders by the weighted average number of ordinary shares outstanding during the period.

Reconciliations are set out below:

| Basic and diluted EPS | Earnings £ | 2019 Weighted average Number of shares No. | Loss per-share Pence |
|---|---|---|---|
| Basic EPS | (2,118,388) | 85,262,488 | (2.49) |
| Diluted EPS | (2,118,388) | 85,262,488 | (2.49) |

| | Earnings £ | 2018 Weighted average Number of shares £ | Loss per-share Pence |
|---|---|---|---|
| Basic EPS | (1,892,579) | 82,233,690 | (2.30) |
| Diluted EPS | (1,892,579) | 82,233,690 | (2.30) |

As at 31 December 2019 there were 7,765,907 (2018: 8,272,907) outstanding share options and 324,019 (2018: 1,045,524) outstanding share warrants. As the Group was loss making in the year, the options and warrants are considered anti-dilutive.

## 9. Company's result for the period

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent Company income statement account.

The profit for the parent Company for the period was £113,804 (2018: Loss £496,495).

## 10. Intangible assets

| Group | Development Costs and Patents £ |
|---|---|
| **Cost** | |
| At 1 December 2017 | 2,266,130 |
| Additions | 467,639 |
| Disposals | (6,763) |
| At 30 November 2018 | 2,727,006 |
| Additions | 594,924 |
| Disposals | |
| At 31 December 2019 | **3,321,930** |
| **Amortisation** | |
| At 1 December 2017 | 338,904 |
| Amortisation charge for the year | 139,721 |
| Eliminated on disposal | (4,708) |
| At 30 November 2018 | 473,917 |
| Amortisation charge for the period | |
| Eliminated on disposal | 215,235 |
| At 31 December 2019 | **689,152** |
| **Carrying amount** | |
| At 31 December 2019 | **2,632,778** |
| At 30 November 2018 | 2,253,089 |

The company had no intangible assets.

## 11. Property, plant and equipment

| | Group £ |
|---|---|
| **Cost** | |
| At 30 November 2017 | 15,419 |
| Additions | 2,954 |
| Disposals | (9,912) |
| At 30 November 2018 | 8,461 |
| Additions | – |
| Disposals | – |
| At 31 December 2019 | **8,461** |
| **Depreciation** | |
| At 30 November 2017 | 8,858 |
| Charge for the year | 2,187 |
| Eliminated on disposal | (5,727) |
| At 30 November 2018 | 5,318 |
| Charge for the period | 2,750 |
| At 31 December 2019 | **8,068** |
| **Carrying amount** | |
| At 31 December 2019 | **393** |
| At 30 November 2018 | 3,143 |

The company had no property, plant and equipment.

## 12. Investments

Set out below is the associate of the Group as at 31 December 2019 which is material to the Group. The entity listed below have share capital consisting solely of ordinary shares, which are held by the Group. The country of incorporation is also the principal place of business and the proportion of ownership interest is the same as the proportion of voting rights held.

**Group: Investments**

| | £ |
|---|---|
| **Cost** | |
| At 30 November 2018 | 3,740,799 |
| Share of loss to 4 July 2019 | (296,344) |
| Disposal of shares during the period | (351,648) |
| At 31 December 2019 | 3,092,807 |
| **Carrying amount** | |
| At 31 December 2019 | 3,092,807 |
| At 30 November 2018 | 3,740,799 |

## 12. Investments (continued)

S O'Hara resigned as a Director of Skinbiotherapeutics PLC on 4 July 2019. Following his resignation the shares held in Skinbiotherapeutics PLC are treated as an investment rather than an associate company

**Company: Investments in subsidiary undertakings**

| | £ |
|---|---|
| **Cost** | |
| At 30 November 2017 | 2,149,999 |
| Additions | 1,000 |
| Impairments | (99,999) |
| At 30 November 2018 | 2,051,000 |
| Addition: Equity element of convertible loan notes | 29,905 |
| **Carrying amount** | |
| At 31 December 2019 | **2,080,905** |
| At 30 November 2018 | 2,051,000 |

As at 31 December 2019, the Company directly held the following subsidiaries:

| Name of company | Principal activities | Country of incorporation and place of business | Proportion of equity interest 2017 |
|---|---|---|---|
| OptiBiotix Limited | Research & Development | United Kingdom | 100% of ordinary shares |
| The Healthy Weight Loss Company Limited | Health foods | United Kingdom | 68% of ordinary shares |
| ProBiotix Health Ltd | Health foods | United Kingdom | 100% of ordinary shares |

| Investments | £ |
|---|---|
| **Cost** | |
| At 30 November 2017 and 2018 | 4,483,300 |
| Disposals | (351,649) |
| **Carrying amount** | |
| At 31 December 2019 | **4,131,651** |
| At 30 November 2018 | 4,483,300 |
| **Total Investment** | |
| At 31 December 2019 | **6,212,556** |
| At 30 November 2018 | 6,534,300 |

## 13. Inventories

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 £ | 2018 £ | 2019 £ | 2018 £ |
| Finished goods | 62,761 | 30,433 | – | – |

During the period £352,080 (2018: £162,782) has been expensed to the income statement.

## 14. Trade and other Receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 £ | 2018 £ | 2019 £ | 2018 £ |
| **Non-current** | | | | |
| Amounts owed by group undertakings | – | – | 5,941,360 | 4,242,286 |
| | – | – | 5,941,360 | 4,242,286 |
| **Current** | | | | |
| Accounts receivable | 511,833 | 228,825 | – | – |
| Other receivables | 59,346 | 52,190 | 19,857 | 969 |
| Prepayments and accrued income | 36,129 | 92,788 | 4,850 | 8,273 |
| | 607,308 | 373,803 | 24,707 | 9,242 |

## 15. Cash and Cash Equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 £ | 2018 £ | 2019 £ | 2018 £ |
| Cash and bank balances | 455,608 | 1,324,307 | 139,243 | 1,167,437 |

## 16. Called Up Share Capital

Issued share capital comprises:

| | 2019 £ | 2018 £ |
|---|---|---|
| Ordinary shares of 2p each – 85,440,551 (2018: 84,724,413) | 1,708,811 | 1,694,488 |
| | 1,708,811 | 1,694,488 |

## 16. Called Up Share Capital (continued)

During the year the Company issued the ordinary shares of £0.02 each listed below, exercised at a price of £0.08 per share in the capital of the Company following the exercise of warrants:

| | Date issued | Number |
|---|---|---|
| | 18/01/2019 | 7,813 |
| | 13/03/2019 | 708,325 |
| Total warrants exercised in the period | | 716,138 |

## 17. Reserves

Share capital is the amount subscribed for shares at nominal value. Share premium represents amounts subscribed for share capital in excess of nominal value, net of expenses.

The convertible debt reserve is the equity component of the convertible loan notes that have been issued.

Merger relief reserve arises from the 100% acquisition of OptiBiotix Limited on 5 August 2014 whereby the excess of the fair value of the issued ordinary share capital issued over the nominal value of these shares is transferred to this reserve in accordance with section 612 of the Companies Act 2006.

Retained earnings represents the cumulative profits and losses of the group attributable to the owners of the company.

Share based payment reserve represents the cumulative amounts charged in respect of unsettled warrants and options issued.

## 18. Trade and other payables

Current:

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 £ | 2018 £ | 2019 £ | 2018 £ |
| Accounts Payable | 347,822 | 115,697 | 2,686 | – |
| Accrued expenses | 186,329 | 207,103 | 32,500 | 30,000 |
| Amount due to director | 189 | 189 | – | – |
| Other payables | 27,283 | 198,000 | – | – |
| Amounts due to group undertakings | – | – | 250,000 | 199,000 |
| Total trade and other payables | 561,623 | 520,989 | 285,186 | 229,000 |

## 19. Deferred Tax

Deferred tax is provided, using the liability method, on temporary differences at the statement of financial position date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 19% (2018: 19%).

## 19. Deferred Tax (continued)

The movement on the deferred tax account is as shown below:

| | 2019 £ | 2018 £ |
|---|---|---|
| At 30 November | 446,161 | 384,092 |
| Movement in the period | 76,189 | 62,069 |
| At 31 December 2019 | 522,350 | 446,161 |

Deferred tax assets have not been recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets as the directors believe there is uncertainty whether the assets are recoverable.

## 20. Convertible Loan Notes

ProBiotix Health Limited issued 1,025,000 floating rate convertible loan notes (CLN) for £1,025,000 on 11 December 2018. The notes are convertible into ordinary shares of the Company and converted into shares immediately prior to the occurrence of a listing of the company, or repayable on December 2023. The conversion rate is 1 share for each note held at an amount which is equal to 50% of the listing price.

OptiBiotix Health Plc has subscribed 250,000 of the CLN for £250,000

The convertible notes are presented in the Group balance sheet as follows:

| | 2019 £ | 2018 £ |
|---|---|---|
| Face value of the convertible loan notes in issue as at the year end | 775,050 | – |
| Equity element | (92,712) | – |
| Liability component on initial recognition | 682,338 | – |
| Interest charged at effective interest rate | 44,467 | – |
| Non-current liability | 726,805 | – |

Interest expense is calculated by applying the effective interest rate of 6% to the liability component.

## 21. Related Party Disclosures

During the period to 31 December 2019 £19,548 (2018: £18,000) was paid to P Wennstrom in respect of Director's services provided.

During the period to 31 December 2019 £139,105 (2018: £nil) was paid to F Narbel in respect of Directors services provided

During the period to 31 December 2019 £116,966 (2018: £nil) was paid to Steven Prescott in respect of Directors services provided.

During the period to 31 December 2019 £29,165 (2018: £5,083) was paid to Reyco Limited for the services of Adam Reynolds as Director of Probiotix Health Limited

During the period to 31 December 2019 the Group was charged £45,500 (2018: £36,167) for services provided by Morrison Kingsley Consultants Limited, a company controlled by Mark Collingbourne, Chief Financial Officer

## 22. Ultimate Controlling Party

No one shareholder has control of the company.

## 23. Share Based payment Transactions

### (i) Share options

The Company had introduced a share option programme to grant share options as an incentive for employees of the former subsidiaries.

Each share option converts into one ordinary share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option and the Company has no legal obligation to repurchase or settle the options in cash. The options carry neither rights to dividends nor voting rights prior to the date on which the options are exercised. Options may be exercised at any time from the date of vesting to the date of expiry.

The fair values of the share options issued in the year were derived using the Black Scholes model. The following assumptions were used in the calculations:

| Grant date | 27 March 2019 |
|---|---|
| Exercise price | 78.50p |
| Share price at grant date | 78.50p |
| Risk-free rate | 0.25% |
| Volatility | 35% |
| Expected life | 10 years |
| Fair value | 26.83p |

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

| | Number of options | | Average exercise price | |
|---|---|---|---|---|
| | 2019 No. | 2018 No. | 2019 £ | 2018 £ |
| Outstanding at the beginning of the period | 8,272,907 | 10,077,087 | 0.23 | 0.17 |
| Granted during the period | 500,000 | 815,000 | 0.78 | 0.76 |
| Forfeited/cancelled during the year | (1,007,000) | – | 0.70 | – |
| Exercised during the period | – | (2,619,180) | – | 0.10 |
| Outstanding at the end of the period | 7,765,907 | 8,272,907 | 0.20 | 0.17 |

For the share options issued in 2014 vesting conditions dictate that half will vest if the middle market quotation of an existing Ordinary share is 16p or more on each day during any period of at least 30 consecutive Dealing days and half will vest when a commercial contract is signed. The two conditions are not dependent on each other and will vest separately.

For the share options issued in 2015 year vesting conditions dictate that some of the options will vest if the middle market quotation of an existing Ordinary share is 40p or more on each day during any period of at least 30 consecutive Dealing days and some will vest if certain revenue targets are met or if certain scientific studies are completed. The conditions are not dependent on each other and will vest separately.

For the share options issues in 2017 vesting conditions dictate that the options will vest if certain revenue conditions are met.

For the share options issues in 2018 vesting conditions dictate that the options will vest if certain revenue conditions are met.

For the share options issues in 2019 vesting conditions dictate that the options will vest if certain revenue conditions are met.

The share options outstanding at the period end had a weighted average remaining contractual life of 1,977 days (2018: 2,146 days) and the maximum term is 10 years.

The share price per share at 31/12/19 was £0.66 (30/11/2018: £0.92)

## 23. Share Based payment Transactions (continued)

Expected volatility is based on a best estimate for an AIM listed entity. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

### (ii) Warrants

On 20 February 2014, an open offer was made to the potential investors to subscribe for 203,380,942 new ordinary shares of £0.0001 each at £0.0001 each. On a 1:1 basis, warrants attach to any shares issued under the open offer convertible at any time to 30 November 2018 at £0.0004 per shares.

On 4 August 2014, the warrants in issue were consolidated in the ratio of 200:1 as part of the share reorganisation.

At a meeting of warrant holders on 24 January 2017 it was agreed to extend the exercise period for all remaining warrants to 28 January 2022 and 19 February 2022.

Movements in the number of share warrants outstanding and their related weighted average exercise prices are as follows:

| | Number of warrants | | Average exercise price | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | No. | No. | £ | £ |
| Outstanding at the beginning of the period | 1,045,524 | 1,399,925 | 0.08 | 0.08 |
| Exercised during the period | (716,138) | (354,401) | 0.08 | 0.08 |
| Outstanding at the end of the period | 329,386 | 1,045,524 | 0.08 | 0.08 |

A charge of £137,320 (2018: £128,222) has been recognised during the year for the share based payments over the vesting period.

## 24. Financial Risk Management Objectives and Policies

The Group's financial instruments comprise cash balances and receivables and payables that arise directly from its operations.

The main risks the Group faces are liquidity risk and capital risk.

The Board regularly reviews and agrees policies for managing each of these risks. The Group's policies for managing these risks are summarised below and have been applied throughout the period. The numerical disclosures exclude short-term debtors and their carrying amount is considered to be a reasonable approximation of their fair value.

### Interest risk

The Group is not exposed to significant interest rate risk as it has limited interest bearing liabilities at the year end.

### Credit risk

The Group is not exposed to significant credit risk as it did not make any credit sales during the year.

### Liquidity risk

Liquidity risk is the risk that Group will encounter difficulty in meeting these obligations associated with financial liabilities.

The responsibility for liquidity risks management rest with the Board of Directors, which has established appropriate liquidity risk management framework for the management of the Group's short term and long-term funding risks management requirements.

During the period under review, the Group has not utilised any borrowing facilities.

The Group manages liquidity risks by maintaining adequate reserves and reserve borrowing facilities by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

## 24. Financial Risk Management Objectives and Policies (continued)

### Capital risk

The Group's objectives when managing capital are to safeguard the ability to continue as a going concern in order to provide returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

## 25. Post Balance Sheet Events

On 27 March 2020 the company sold 3,250,000 shares in Skinbiotherapeutics plc at a price of 5 pence per share

On 19 April 2020 the Company issued and allotted 2,500,000 ordinary shares of 2 pence each exercised at a price of 40 pence per share in the capital of the Company by way of a placing.

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