

Blue Earth Diagnostics Limited

Annual report and financial statements

Registered number 08773116

For the year ended 30 September 2017



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 September 2017

Principal activities

The principal activity of the Company is specialist diagnostic development initially focussed on prostate cancer.

Business review

The result for the year is stated on page 5.

The Company is exempt from the requirement to prepare a Strategic Report.

Turnover increased from £457,512 in 2016 to £15,749,416 in 2017. In May 2016, the US Food and Drug Administration approved the Company's imaging diagnostic agent Axumin for use in men with suspected recurrent prostate cancer. In May 2017, Axumin was approved by the European Commission. The company has also been successful in working with partners to expand production capability and make the product available. Demand has been positive and sales have been growing strongly.

Proposed dividend

The directors do not propose a dividend (2016 £nil).

Directors

The directors who held office during the year were as follows:

I Ali
J Allis
M Murphy

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and the directors have taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, KPMG LLP will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

J Allis
Director



Statement of Directors' Responsibilities in respect of the Directors' Report and the Financial Statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company 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 applicable UK Accounting Standards have been followed, 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 are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.



KPMG LLP
Arlington Business Park
Theale
Reading
RG7 4SD
United Kingdom

Independent auditor's report to the members of Blue Earth Diagnostics Limited

We have audited the financial statements of Blue Earth Diagnostics Limited for the year ended 30 September 2017 set out on pages 5 to 16. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

This report is made solely to the company's members, as a body, in accordance with Sections 495 and 496 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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice and;
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Directors' report:

- We have not identified misstatements in that report; and
- In our opinion, that report has been prepared in accordance with the Companies Act 2006.

Independent auditor's report to the members of Blue Earth Diagnostics Limited
(continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.



Terri Coughlan (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants & Registered Auditor
Arlington Business Park
Theale
Reading
RG7 4SD

15 / 12 / 2017

Profit and loss account and Other Comprehensive Income
for the year ended 30 September 2017

	<i>Note</i>	2017 £	2016 £
Turnover		15,749,416	457,512
Cost of sales		(6,311,439)	(1,368,806)
		<hr/>	<hr/>
Gross profit/(loss)		9,437,977	(911,294)
Research and development costs		(3,137,380)	(2,661,152)
Selling, General and Administration expenses		(12,480,185)	(7,437,010)
		<hr/>	<hr/>
Operating loss	2-4	(6,179,588)	(11,009,456)
Interest receivable and similar income	5	272,020	254,669
Interest payable and similar charges	6	(2,341,288)	(1,362,452)
		<hr/>	<hr/>
Loss on ordinary activities before taxation		(8,248,856)	(12,117,239)
Tax on loss on ordinary activities	7	(679,232)	1,352,649
		<hr/>	<hr/>
Loss on ordinary activities after taxation		(8,928,088)	(10,764,590)
		<hr/>	<hr/>
Total comprehensive income for the year		(8,928,088)	(10,764,590)
		<hr/>	<hr/>

The notes on pages 9 to 16 form part of these financial statements.

Balance sheet
at 30 September 2017

	Notes	2017 £	£	2016 £	£
Fixed assets					
Intangible assets	8	1,530,382		1,465,022	
Tangible assets	9	26,421		17,854	
Investments	10	1		1	
			1,556,804		1,482,877
Current assets					
Stocks	11	333,100		14,600	
Debtors	12	6,403,082		2,508,201	
Cash at bank and in hand		7,078,038		1,849,187	
		13,814,220		4,371,988	
Creditors: amounts falling due within one year	13	(5,096,116)		(2,993,160)	
Net current assets			8,718,104		1,378,828
Total assets less current liabilities			10,274,908		2,861,705
Creditors: amounts falling due after more than one year	14		(39,208,734)		(22,867,446)
Net liabilities			(28,933,826)		(20,005,741)
Capital and reserves					
Called up share capital	15	556		553	
Share premium account		499,500		499,500	
Profit and loss account – deficit		(29,433,882)		(20,505,794)	
Shareholders' deficit			(28,933,826)		(20,005,741)

These financial statements were approved by the board of directors on 14/12/2017 and signed on its behalf by:


J Allis
Director

The notes on pages 9 to 16 form part of these financial statements.

Statement of Changes in Equity

	Called up share capital	Share Premium account	Profit and loss account	Total equity
	£	£	£	£
Balance at 1 October 2015	519	499,500	(9,741,204)	(9,241,185)
Loss for the period	-	-	(10,764,590)	(10,764,590)
Total comprehensive income for the period	-	-	(10,764,590)	(10,764,590)
Transactions with Owners				
Proceeds from Shares Issued	34	-	-	34
Total Transaction with owners recognised directly in equity	34	-	-	34
Balance at 30 September 2016	553	499,500	(20,505,794)	(20,005,741)
	£	£	£	£
Balance at 1 October 2016	553	499,500	(20,505,794)	(20,005,741)
Loss for the period	-	-	(8,928,088)	(8,928,088)
Total comprehensive income for the period	-	-	(8,928,088)	(8,928,088)
Transactions with Owners				
Proceeds from Shares Issued	3	-	-	3
Total Transaction with owners recognised directly in equity	3	-	-	3
Balance at 30 September 2017	556	499,500	(29,433,882)	(28,933,826)

The notes on pages 9 to 16 form part of these financial statements.

Cash Flow Statement

	Note	2017	2016
		£	£
Cash flows from operating activities			
Loss for the period before tax		(8,248,856)	(12,117,239)
Depreciation of tangible assets	9	14,357	15,989
Amortisation of intangible assets	8	89,535	82,681
Interest receivable and other income		(272,020)	(254,669)
Interest payable		2,341,288	1,362,452
Increase in stock		(318,500)	(14,600)
Increase in debtors		(3,791,124)	(1,282,344)
Increase in creditors		1,423,724	1,361,139
R&D tax credit received		-	1,774,206
Net cash from operating activities		(8,761,596)	(9,072,385)
Cash flows from investing activities			
Purchase of tangible fixed assets	9	(22,924)	(9,314)
Purchase of intangible fixed assets	8	(154,895)	-
Interest received		5,889	6,576
Grants received		162,374	174,422
Net cash from investing activities		(9,556)	171,684
Cash flows from financing activities			
Proceeds from issue of ordinary share capital		3	34
Proceeds from issue of redeemable preference shares		14,000,000	4,000,000
Net cash from financing activities		14,000,003	4,000,034
Net increase in cash and cash equivalents		5,228,851	(4,900,667)
Cash and cash equivalents at 1 October 2016		1,849,187	6,749,854
Cash and cash equivalents at 30 September 2017		7,078,038	1,849,187

The notes on pages 9 to 16 form part of these financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

Blue Earth Diagnostics Limited is a company limited by shares and incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("FRS 102"). The presentation currency of these financial statements is sterling.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Basis of preparation

The financial statements are prepared under the historical cost convention.

Basis of consolidation

The financial statements present information about the Company as an individual undertaking and not about its group. The Company has not prepared group accounts on the grounds of the Small Group exception.

Going concern

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write down the cost less estimated residual value of each asset over its expected useful life as follows:

Office equipment	-	3 years
Furniture and fittings	-	3 years

Intangible assets and depreciation

Amortisation is provided by the Company to write off the cost less the estimated residual value of intangible fixed assets over their estimated useful economic lives as follows:

Intellectual property/licence	-	20 years
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Research and development expenditure

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

Expenditure on development activities may be capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve design for, construction or testing of the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the profit and loss account as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Notes (continued)

1 Accounting policies (continued)

Foreign currencies

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

Taxation

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

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

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Operating leases

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

Employee benefits

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Turnover

Turnover comprises income from products sold and is recognised on despatch.

Notes (continued)

2 Expenses and auditor's remuneration:

	2017 £	2016 £
<i>Operating loss is after charging / (crediting) :</i>		
Auditor's remuneration:		
Audit of these financial statements	28,500	10,200
Other services	5,210	44,432
Depreciation of tangible fixed assets	14,357	15,989
Amortisation of intangible assets	89,535	82,681
Licence fee credit received in year	(1,771,372)	-
	<u> </u>	<u> </u>

3 Staff numbers and costs

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

	Number of employees	
	2017	2016
Research and development	4	3
Management and administration	8	5
	<u>12</u>	<u>8</u>

The aggregate payroll costs of these persons were as follows:

	2017 £	2016 £
Wages and salaries	1,336,904	954,128
Social security costs	168,947	123,462
Pension costs	71,993	58,240
	<u>1,577,844</u>	<u>1,135,830</u>

4 Directors remuneration

	2017	2016
Directors' remuneration	292,173	267,535
	<u> </u>	<u> </u>

During the year £40,000 (2016: £40,000) was paid to third parties for the provision of Directors' services.

Notes (continued)

5 Interest receivable and other income

	2017 £	2016 £
Bank interest	5,889	6,576
Interest on loan to subsidiary undertaking	54,731	42,122
Grant income	211,400	205,971
	<u>272,020</u>	<u>254,669</u>

6 Interest payable and similar charges

	2017 £	2016 £
Interest on preference shares	<u>2,341,288</u>	<u>1,362,452</u>

7 Taxation

Total tax charge/(credit) recognised in the profit and loss account:

	2017 £	2016 £
<i>Current tax:</i>		
Current tax on loss for the period – tax repayable on R&D relief	-	(679,232)
Prior year adjustment to R&D tax credit claim	679,232	(673,417)
	<u>679,232</u>	<u>(1,352,649)</u>
<i>Total tax</i>		

Reconciliation of effective tax rate:

Loss for the year	(8,928,088)	(10,764,590)
Total tax charge/(credit)	<u>679,232</u>	<u>(1,352,649)</u>
Loss before tax	<u>(8,248,856)</u>	<u>(12,117,239)</u>
Current tax at 19.5% (2016: 20%)	<u>(1,608,527)</u>	<u>(2,423,448)</u>
<i>Effects of:</i>		
Depreciation (less)/greater than capital allowances	(1,671)	1,335
Expenses not recognised for tax purposes	465,214	277,688
Net R&D relief	-	(271,896)
Prior year adjustment to R&D tax credit	679,232	(673,417)
Losses carried forward	<u>1,144,984</u>	<u>1,737,089</u>
Total tax credit recognised in the profit and loss account	<u>679,232</u>	<u>(1,352,649)</u>

Reductions in the UK corporation tax rate to 20% (effective from 1 April 2015) 19% (effective from 1 April 2017 and 17% (effective from 1 April 2020) have all been substantively enacted. This will reduce the company's future current and deferred tax charge accordingly. As at 30 September 2017 there were corporation tax losses carried forward of approximately £19,000,000 (2016: £13,000,000). Deferred tax assets can only be recognised on the basis that the recoverability of the deferred tax asset is more probable than not. The directors have not recognised any asset in relation to deferred tax at the current time.

Notes (continued)

8 Intangible assets - licences

	£
Cost	
At 1 October 2016	1,653,614
Additions in the year	154,895
	<hr/>
At 30 September 2017	1,808,509
	<hr/>
Amortisation	
At 1 October 2016	188,592
Provided in the year	89,535
	<hr/>
At 30 September 2017	278,127
	<hr/>
Net book value	
At 30 September 2017	1,530,382
	<hr/>
At 30 September 2016	1,465,022
	<hr/>

9 Tangible fixed assets

	Office equipment	Furniture and fixtures	Total
	£	£	£
Cost			
At 1 October 2016	36,324	13,968	50,292
Additions in the year	21,389	1,535	22,924
	<hr/>	<hr/>	<hr/>
At 30 September 2017	57,713	15,503	73,216
	<hr/>	<hr/>	<hr/>
Depreciation			
At 1 October 2016	24,798	7,640	32,438
Provided in the year	9,898	4,459	14,357
	<hr/>	<hr/>	<hr/>
At 30 September 2017	34,696	12,099	46,795
	<hr/>	<hr/>	<hr/>
Net book value			
At 30 September 2017	23,017	3,404	26,421
	<hr/>	<hr/>	<hr/>
At 30 September 2016	11,526	6,328	17,854
	<hr/>	<hr/>	<hr/>

Notes (continued)

10 Investments

<i>Cost</i>	<i>Shares in group undertaking £</i>
	<i>1</i>

Details of the investments in which the Company holds 20% or more of the nominal value of any class of share capital are as follows:

<i>Subsidiary undertakings</i>	<i>Country of Incorporation</i>	<i>% holding</i>
Blue Earth Diagnostics Inc	United States of America	100%

11 Stocks

	<i>2017 £</i>	<i>2016 £</i>
Raw materials	<i>333,100</i>	<i>14,600</i>

12 Debtors

	<i>2017 £</i>	<i>2016 £</i>
Trade Debtors	<i>5,035,667</i>	<i>210,423</i>
VAT recoverable	<i>206,540</i>	<i>59,623</i>
Amount due from subsidiary undertaking – see below	<i>797,716</i>	<i>822,573</i>
Corporation tax – R&D tax credit	<i>-</i>	<i>679,232</i>
Prepayments and accrued income	<i>363,159</i>	<i>736,350</i>
	<i>6,403,082</i>	<i>2,508,201</i>

In July 2015, the Company entered in a loan agreement with its wholly owned subsidiary, Blue Earth Diagnostics Inc, for an initial advance of \$500,000 for a ten year period at an interest rate of 8% per annum. This was extended to \$1,000,000 in June 2016 on the same terms.

13 Creditors: amounts falling due within one year

	<i>2017 £</i>	<i>2016 £</i>
Trade creditors	<i>1,051,183</i>	<i>960,198</i>
Amounts due to subsidiary undertaking	<i>1,268,510</i>	<i>1,108,794</i>
Accruals and deferred income	<i>2,771,027</i>	<i>904,724</i>
Overseas VAT Payable	<i>5,396</i>	<i>19,444</i>
	<i>5,096,116</i>	<i>2,993,160</i>

Notes (continued)

14 Creditors: amounts falling due after more than one year

	2017 £	2016 £
Preference shares	39,208,734	22,867,446

The Company issued non-convertible cumulative redeemable preference shares of £1.00 as follows :

19 th October 2016	£1,000,000	Annual interest rate 8%
31 st October 2016	£1,000,000	Annual interest rate 8%
7 th December 2016	£2,000,000	Annual interest rate 8%
2 nd February 2017	£4,000,000	Annual interest rate 8%
7 th April 2017	£1,800,000	Annual interest rate 6%
7 th April 2017	£4,200,000	Annual interest rate 8%

15 Share capital

	2017 £	2016 £
<i>Allotted, called up and fully paid</i>		
500,000 A Ordinary shares of £0.001 each	500	500
55,748 B Ordinary shares of £0.001 each	56	53
	<u>556</u>	<u>553</u>

16 Related party transactions

During the year the Company received £14,000,000 of funding from Syncona Portfolio Ltd in return for 12,200,000 "A" preference shares and 1,800,000 "C" preference shares of £1.00 each. Under the terms of the subscription agreements, the "A" preference shares accrue interest at 8% per annum and "C" at 6% per annum, interest becomes payable from 1 November 2019. At 30 September 2017, the following balances are included in the accounts:

	2017 £	2016 £
Interest payable for the period	2,341,288	1,362,452
Non-convertible cumulative redeemable preference shares	14,000,000	4,000,000
	<u>16,341,288</u>	<u>5,362,452</u>
Balance brought forward	22,867,446	17,504,994
	<u>39,208,734</u>	<u>22,867,446</u>

During the year £71,234 (2016: £79,307) was charged to the Company by Syncona LLP and subsequently Syncona Investment Management Ltd for services rendered. As at the year end £3,333 was owing (2016: £25,517).

During the year the Company was charged £865,252 (2016: £985,171) for cross charges from The Wellcome Trust of which £0 was outstanding at the year end (2016: £223,241).

During the year the Company was charged £9,288,510 (2016: £5,039,694) from Blue Earth Diagnostics Inc as part of an inter-group service agreement. Amounts due from and to Blue Earth Diagnostics Inc at 30 September 2017 are stated in notes 12 and 13 respectively.

Notes *(continued)*

17 Ultimate controlling party

At the start of the financial year Syncona LLP which controlled Blue Earth Diagnostics Ltd and was an independent subsidiary of the Wellcome Trust transferred its business including all interests in Blue Earth Diagnostics Ltd into BACIT Ltd during December 2016. BACIT Ltd subsequently changed its name to Syncona Ltd. Syncona Portfolio Ltd has control of Blue Earth Diagnostics Ltd and is a wholly owned subsidiary of Syncona Ltd. Copies of Syncona Ltd's Annual Report and Financial Statements are available from the company website.