LONGBOW

Longbow Capital Portfolio Update

Spring 2023

May 2023

Dear Longbow Client

Portfolio Update—Spring 2023

Please find attached our Spring 2023 Update on the performance of the companies in Longbow's portfolio.

On the macro level, our portfolio companies are, for better or worse, finally over the effects of the Covid pandemic. Those reliant on components (such as microprocessors or electrical plugs, from the Far East) report that supply chains and lead times are close to being restored and freight costs have reduced. However, the inflationary impact of the recent disruptions to the production and movement of goods will continue to endure for some time yet.

Over the past year, political uncertainty was more of a factor than has been the case for many years. One impact of Brexit has been the difficulty and at times impossibility to secure UK visas for foreign national scientists also compounded by the Pandemic. While China's leaders have softened their rhetoric somewhat in recent months, many companies, including some in our Portfolio, are looking to diversify sources of supply and to focus more on market opportunities outside of China. The invasion of Ukraine in February last year precipitated an energy crisis which drove cost inflation to a level not seen for more than 30 years.

Nevertheless, we reported in November that our two biotech companies, Domainex and Destiny Pharma, 'continue to make progress.' Since then, Destiny has published excellent clinical trial data on its leading drug candidate, administered as a nasal gel for treating (decolonising) MRSA/MSSA. It also announced its first out-licensing agreement for its C. Difficile (CDI) drug candidate. The (CDI) deal calls for a $1 million up front payment and $19 million tied to development milestones – with far higher rewards once it is commercialised. However, until Destiny can attract significant institutional investor demand on AIM, its share price remains at a discount to its underlying value, in the opinion of different market analysts. However, Neil Clark, CEO has recently announced his decision to leave the Company.

Domainex has gone from strength to strength, with revenues in 2022 19% higher than in 2021 – a trend that has accelerated in the early part of this year, with strong growth in margins and EBITDA. Domainex is substantially expanding its Biology services facility to accommodate future growth and has just received the Kings Award for Enterprise in International Trade. This growth is reflected in the reported results and a value rerating at the end of March.

Calon Cardio is planning, very shortly, to be acquired in an all-share purchase by a new shell company, Cardiogeni PLC. Following this CardioGeni is committed to acquiring a global royalty free license from Celixir; and to developing both Calon's FiVAD programme and Celixir's regenerative cardio cell technology. At that stage 1/3rd of CardioGeni's shares will be held by ex-Calon shareholders with the balancing 2/3rds held by Celixir shareholders. The combination of Calon's and Celixir's technology platforms will combine the use of an LVAD pump with the use of stem cells to regenerate damaged heart tissue. This is anticipated to open the door to early regulatory approval through the US FDA's 'Orphan Drug' programme - to address unmet needs and to enhance survival and recovery rates for heart failure patients suffering cardiogenic shocks which have damaged their heart muscle.

In the lead up to CardioGeni proceeding to a listing on the Alternative Investment Market (AIM) of the London Stock Exchange later in the year, Calon will continue to raise capital over Q2, to maintain its engineering development programme. The admission to AIM will allow UK based private shareholders to retain tax reliefs gained under EIS and Business Relief. It is also intended to provide Cardiogeni, and so Calon, with access to capital required to fund its clinical trial processes. The company has secured underwriting for a £100m draw down facility. In the meantime, Calon continues to make progress technically, filing a patent on the company's new approach to a wireless energy transfer system.

For some time now, we have believed that Lustre Skin could become 'the next iPulse'. We are now seeing the first signs of that starting to materialise as LED based light therapy becomes an increasingly widely used form of skincare. Under the new leadership of Chair, Anna Teal and CEO, Karl Graham, there is some real traction for Lustre's range of skincare devices in the market. A partnership with FaceGym, who are marketing a re-branded SOLO™ as FaceGym's 'Acne Light Spot', has been so successful that their opening order for 4,000 units has now been overtaken by a re-order for 4,500 units. Even more significant is the outline agreement that has been reached to supply a major player in the beauty industry with 2,000 of Lustre's award winning Renew™ Face Masks by Black Friday. Meanwhile, Lustre had a first close of its £2.5 million open offer at the end of April, having raised £1 million.

iPulse sales for the 12 months ending in February 2023 were steady at £100 million, despite a major drop in sales to China. Sales through P&G/Braun remained strong in 2022 and a new 5-year contract was signed last year. Long-term CEO Giles Davis retired at the turn of the year and a global search brought Robin van Rozen to iPulse, with over 20 years of consumer electronics expertise and contacts. The Board is looking to Robin to restore growth in China and bring a new vitality to the SmoothSkin brand across a wider range of international markets.

The third and final payment settlement on the sale of Biotronics completed with all sale proceeds distributed to investors earlier this year , providing a return of 2.8 times their original investment in Biotronics.

We continue to see real opportunity for our portfolio companies, and we will continue to work with their management teams to build value for our clients and co-investors.

Best regards

TE Beckett R Petersen

£3.37 per share : £8.8m Exit Value
(£3.37 on 30/09/22)

The final of three instalments on the sale of Biotronics to Marcol in December 2021, was paid in late January this year in whole. The profitable sale proceeds received by clients are exempt from Capital Gains Tax under EIS, or where the investment was held within a Pension Plan.

Longbow cannot provide tax advice on a personal basis, but we can and do provide some generic guidance based on our understandings and Q&As we receive. However, investors should not rely on this and we urge all clients to receive advice from their professional tax advisers who understand their personal circumstances.

A few points to consider with regard to the sale of shares held in Biotronics are as follows:

1. All the shares held by Longbow clients were ordinary shares and were eligible for tax reliefs under EIS or to be held in SIPPs, where appropriate
2. The sale of Biotronics shares registered with HMRC as EIS qualifying (more than three years after they were purchased), or held within a SIPP should be exempt from CGT
3. Where UK tax registered investors reinvest the sale proceeds from Biotronics into another EIS and Business Relief qualifying investment they are eligible to:
    a. Receive income tax relief of 30% of the value reinvested
    b. Claim CGT exemption on a new EIS qualifying investment
    c. Extend/rollover CGT Deferral Relief from the sale of a previous investment so that this does not come back into charge as the CGT liability continues to be deferred
    d. Rollover the Business Relief (providing IHT exemption) from the investment that has been sold into a new investment, without having to wait a further two years before the IHT exemption is secured

Although some clients have chosen to draw down the cash received from the sale of their Biotronics holdings, many have opted to reinvest in either Lustre Skin and or Calon Cardio which are the two other investments in our portfolio that Longbow continues to support with further investments.

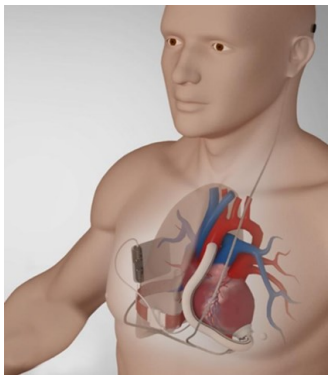
£8.60 per share: £50.8m Capitalisation Value
(£8.60 on 30/09/2022)

Since our last update in November, a substantial amount of management time and attention has been devoted to issues related to the planned merger with Celixir and acquisition of the combined interests to create Cardiogeni PLC and plan a Listing on the London Stock Exchange.

As we have described in several notes to investors in Calon since the turn of the year, the parties have concentrated on negotiating a Sale and Purchase Agreement (SPA) that adequately addresses the aspirations and concerns of both Calon and Celixir. Real progress has been slow and in part delayed by tax considerations that needed to be addressed for existing Calon shareholders as future Cardiogeni shareholders. It is currently anticipated that the SPA will be signed by the end of May. Achieving a signed SPA will trigger the promised £1 million investment in Calon by Celixir via a convertible loan note instrument. It will also signal the awaited formal launch of Calon's £2.5 million 'Crossover Round', offering investors the opportunity to invest in similar convertible loan notes (CLNs) carrying an 8% per annum coupon. The principal value of the Loan Notes subscribed, together with any interest accumulated, will be convertible upon the stock market listing of Cardiogeni, into Cardiogeni PLC ordinary shares, at a 30% discount to the Listing price. The SPA will also include the option to purchase Ordinary Shares eligible for EIS relief.

We will be providing more information about the Crossover Round as soon as the SPA is signed.

Current plans call for Cardiogeni to be floated on the Alternative Investment Market (AIM) in the second half of 2023 as a first step. A palpable benefit of an AIM listing (compared to the Official List of the LSE) is the ability for those



investors who have received tax reliefs under EIS and Business Relief (IHT) to retain all their reliefs until such time as shares are sold and realised. As this applies to almost all of Longbow's clients this has been a key factor for us to determine before agreeing to the plans to proceed. Another factor has been to ensure the £100 million funding facility commitment that has been offered by GEM, the New York based Hedge Fund, could be used for Cardiogeni where it is listed on AIM. This has now been confirmed. The agreement with GEM anticipates GEM's share subscription facility will be available both to fund the plans to bring Calon's FiVAD™ (Fully Implantable Ventricular Assist Device) to market via an underwritten subscription for new shares, as well as for GEM to purchase existing shares from those current shareholders who desire some liquidity. The provisions of the GEM facility are that as and when it is drawn down in separate tranches, GEM will purchase and be issued with shares based on a 10% discount to the average closing price of Cardiogeni shares over the previous 15 working days, as quoted on AIM.

Under the SPA there are provisions for Cardiogeni to:

- acquire Calon in an all-share acquisition, and subsequently
- receive a unique global royalty free licensing agreement from Celixir prior to Listing, to enable Cardiogeni the exclusive rights to commercially develop and exploit all Celixir's IPR in cardio based (stem) cell therapy - both independently of as well as in conjunction with Calon's LVAD technology
- effectively revoke or hand back the global licensing agreement to Celixir, without penalty, in the event the stock market flotation does not occur by the end of the 2023. This would leave Calon as a wholly owned asset of Cardiogeni and both the former shareholders and convertible loan note holders in Calon would retain their holdings in Cardiogeni.

We expect further details on the confirmations of appointed corporate brokers and advisers as well as the details of how Cardiogeni will approach its IPO to become available over the coming weeks.

In the meantime, Calon, under the leadership of **Chief Executive, Peter Hinchliffe**, has, despite restricted financial resources, managed to continue progressing its engineering development programme.

There have been various significant developments worth noting, as follows:

- An updated engineering and clinical development plan has been completed for the parallel development of Calon's existing MiniVAD™, (powered by an external conventional battery power source and driveline cable connected through the torso), as well as a new programme for the fully implanted power source version known as the FiVAD™, which charges transcutaneously and so eliminates the need for external cables and battery packs, liberating the LVAD patient and minimising secondary post implant infection risks. These programmes have been fully costed and continue to represent Calon's exciting lead programme to provide a step change improvement in the performance of LVADs in patients at risk of congestive heart failure, over the long term.

- Since the cessation of the company's initiative to collaborate with Leviticus Cardio of Israel (as explained in our last update), great strides have been made in developing Calon's own wireless energy transfer system, so much so that the company has recently filed, in the UK, a patent application with multiple claims for an 'implantable control system, wirelessly powered, with an internal battery pack'. It also describes a 'bail out' capability for a rapid external connection, should the implanted battery fail.

This UK filing establishes the priority date for the innovation(s) and provides worldwide cover. Calon can now describe the FiVAD™ as 'patents pending'. In this effort, Peter Hinchliffe's experience (he holds over 100 patents) has proven to be invaluable.

- Peter's team has conducted a disciplined, worldwide search to identify the best company with which to partner for the supply of the 'internals' of the MiniVad™/FiVAD™ pump. For example, extraordinary skill is needed in the winding of the energy coils in an electric motor that may be implanted for 15 years. In the end, a company in the Eastern US has demonstrated those skills. They twice hosted Peter in visits to their facilities and, at their own expense, visited Calon in Swansea. As soon as the Celixir £1 million has been received, the American company will be given the green light to begin fabrication of key components of the implantable power system

- We have previously reported on Calon's relationship with PhysicsX (www.physicsx.ai). Using artificial intelligence (AI), machine learning (ML) and computational dynamics (CD), Physics X is optimising the blade design and internal geometry of the FiVAD™/MiniVAD™ to further optimise the biological and power performance of Calon's system.

We look forward to offering Longbow clients the opportunity to participate with co-investors in the Crossover Round. This is needed to fund Calon's ongoing activities and can allow the rate of progress to increase substantially in the run up to what we now expect can be a stock market flotation before the end of the calendar year. More details will follow.

£0.28 per share: £28.2m Capitalisation Value
(£0.35 on 30/09/22)

Destiny's share price has endured significant price volatility over the past six months and, in our opinion, the prevailing level at the end of March, continued to undervalue the company. Destiny's technology, based on what has been reported, is evidently good. The key challenge has been, and continues to be, to conclude valuable out-licensing deals that can generate high margin income to fund the company, profitably, over the longer term. In addition, these deals should provide resources to complete Phase 3 trials, as the final step to secure regulatory approvals, after which the drugs Destiny has developed can become commercially viable. Regulatory approvals should attract interest from pharmaceutical companies wanting to launch new and better drugs on account of how effective they have been in clinical trials in preventing and/or treating aggressive and often life-threatening infections.

At the turn of the calendar year, the share price, quoted on AIM, had moved up to 55p, but slipped back when the Company announced a discounted rights issue, that raised £7m at 35p/share in February. This increased the share capital by over 31% and had a dilutive effect on non-participating shareholders. Paradoxically the Company has made some very positive announcements this year, but this has not yet ignited wider investor interest in Destiny. Our ongoing interest in Destiny is centred around its share price performance and the opportunity to exit from the investment at a value that we consider reflects the commercial potential for its various anti-infective drug development programmes. We continue to believe patience should at some point be rewarded as and when the share price is rerated upwards.

In addition to its lead programmes for preventing MRSA & MSSA infections (with its proprietary XF73 compound) and treating Clostridium Difficile infections (CDIs) (with its NTCD-M3 compound) Destiny's drug discovery platform also has nascent programmes, co-development partners and identified manufacturers to:

- treat superficial skin infections as well as for the prevention and treatment of serious skin infections such as, bacterial burn wound infection, open wounds and diabetic foot ulcers (with a specially formulated XF73 dermal drug compound)
- prevent COVID-19 infections

Destiny has, together with another UK based biotechnology company – SporeGen Limited - formulated SPOR-COV as a nasal spray (pictured). As an "easy to use" product for COVID-19 and influenza, it has the potential to significantly reduce both infection rates and transmission. The final SPOR-COV product is planned to be straightforward to produce at high volumes and at low cost. Additional attributes are that (i) it can be stockpiled almost indefinitely without the need for cold chain logistics as it is a particularly stable product, (ii) made available globally as a cost-effective measure in the fight against COVID-19 as well as new COVID variants, and (iii) potential efficacy against other respiratory viral infections. **Neil Clark, previous Chief Executive Officer** of Destiny Pharma, recently commented: "There is still a clear need for better pandemic preparedness for viral infections such as COVID-19 and influenza and the SPOR-COV product and the associated technology has great potential to deliver new treatments that are safe, effective, low cost and easy to use.

Meanwhile, in late March and early April, landmark data was published on Destiny's advanced programmes with XF-73 and NTCD-M3.

The landmark XF-73 clinical data was published on 24 March in the leading US peer reviewed journal "Infection Control & Hospital Epidemiology". The paper stated: XF-73 provides a rapidly effective and safe new agent to prevent staphylococcus aureus surgical site infections (SSI). Prevention is primary to avoid the morbidity and mortality of SSIs.

Dr Bill Love, Founder and Chief Scientific Officer of Destiny Pharma, said: "This is certainly the most important paper that we have published on XF-73 nasal gel. Peer-reviewed and published in a leading US infection control journal, will mean that the exceptional ability of our product to decolonise patients rapidly and effectively before surgery, will be shared and available to those in the field of hospital infection control. XF-73 nasal gel is a potential game changer in the fight to reduce the risk of post-surgical infections from hospital superbugs." Destiny Pharma plc reported it has recently completed detailed interactions with the regulators and identified options for the final Phase 3 clinical development stage to obtain approval for the XF-73 nasal gel product in the US and Europe. The Company is actively seeking partners for the XF-73 nasal programme.

It appears that the company is now well placed to secure a significant out-licensing deal on XF-73. This has been identified throughout as the key requirement that can enhance investor interest in Destiny on AIM, as well as position Destiny or its various drug development programmes as potential M&A targets for larger biotech companies. Following the recent AGM, it was announced Neil Clark would be replaced by Dr Debra Barker as interim CEO. Neil will continue to support the business for a limited period to ensure an orderly handover. **Nick Rodgers, Chairman** of Destiny Pharma, commented: "Neil's contribution to the Company over the last six years has been significant. Having recently led the exclusive collaboration and co-development agreement for NTCD-M3 with Sebela Pharmaceuticals, raised finance, achieved the publication of landmark XF-73 Phase 2 data, and positive results from the SPOR-COV research, he leaves the business well positioned with a strong balance sheet and a diversified, late-stage pipeline. Debra joined Destiny in 2020 and knows the business well. Her experience of working in various roles at big pharma will play an integral part in delivering the next phase of Destiny Pharma's strategy, as we look to maximise the value of our strong product pipeline."

Dr Debra Barker, Interim Chief Executive Officer (pictured), of Destiny Pharma, said: "The business is well positioned to build on the progress that has been achieved and there are significant opportunities that lie ahead for the Company. My primary focus will be on advancing partnership discussions for XF-73 nasal and I look forward to leading Destiny until the Board appoints a permanent successor to drive the business through its next phase of growth."

In February, Destiny's secured its first major out-licensing agreement for NTCD-M3 to Sebela Pharmaceuticals - to undertake further clinical and commercialisation work for its CDI drug candidate. The deal includes an initial $1 million payable upfront, $19 million in development milestones, and an additional $550 million in sales milestones — on top of royalties. Destiny retains control over the rights for Europe and the Rest of the World (excluding China region), which we believe, together with our XF-73 programs, contain significant value potential."

£52.53 per share: £35 million Capitalisation Value
(£32.28 on 30/09/22)

Our update last Autumn recorded a marginal dip in Domainex's value as EBITDA margins came under pressure due to a squeeze on operating margins. This was caused by inflationary increases in its cost base together with increases in over-heads as Domainex prepared for the next step in its growth and development. We commented then, that "we expect to see the value recover and build further".

After a further six months it is good to see this is turning out as hoped. The inflationary impact on Domainex's revenue, increasing billable rates for its services reflecting market conditions, helped the company to complete 2022 with a strong performance over the final 4 months of the year, as it also continues to grow its operations and to build its forward order book.

During 2022, revenues increased by 19% to £12.5m and EBITDA by just 5% to £1.47m. However, revenues jumped by an impressive 52% for the first two months of this year compared to 2022, and higher EBITDA margins of over 20% of revenue were delivered, compared with 6.5% for the same period last year. Six months further on, we believe (and hope we are not tempting fate) that growth momentum is continuing to build at Domainex. Consequently, we have applied higher multiples on our assessment of current Fair Value for Domainex. This is now based on 2.7x revenue and 18x EBITDA for the 12 months to the end of February (compared to 2.5x & 15x previously). This now combines to place a c£35m value on the company, which we believe sits comfortably within the range of other benchmarked and published valuations and still offers scope for upside as Domainex progresses further.

Cash reserves have once again been restored at the £3m level and the company has now committed to expanding the space for its biology laboratory facilities to 24,000 sq. ft from its current 8,000 sq. ft facility on the Unity Campus Business Park located south of Cambridge. The new facilities will be provided in a new purpose-built facility, currently under construction, and the landlord advises this will be ready for Domainex to move into by the end of the year.

This looks to be well timed - the company is on track to reach maximum capacity for its current facilities, including the 26,000 sq. ft of Chemistry labs and offices at Great Chesterford, also near Cambridge, by the end of this year. The new 'biology' building at Unity campus will enable Domainex to maintain its current growth trajectory over the next two years, by when it will terminate the lease on the Churchill Building at Great Chesterford and secure new and expanded premises for its Chemistry division.

Following the end of movement restrictions and the change in immigration policy following Brexit, the company is also now once more able to secure visas for non-UK nationals, needed to recruit personnel from overseas. As the company is growing well and continuing to invest both in people and premises, its higher profile is helping to attract additional top-quality scientists to deliver the higher value of drug discovery and development contracts.

The Board remains committed to growing the business organically and the executive team is now formulating plans to increase Domainex's presence in the USA.

Domainex has also recently been recognised with a King's Award for Enterprise: International Trade 2023. This prestigious award recognises the company's outstanding growth in international trade over three years (2019-2021) which amounted to a more than one hundred per cent increase in international revenues during the period.

This growth was achieved organically, coincided with the challenging backdrop of the COVID-19 pandemic and is a testament to the company's excellent reputation and commitment to delivering high-quality drug discovery services for its life science clients.

The King's Award for Enterprise was previously known as the Queen's Award for Enterprise. It was recently renamed following the accession of King Charles III, reflecting His Majesty the King's desire to continue promoting outstanding UK businesses. The 2023 Awards were announced on 21 April, marking the late Queen Elizabeth II's birthday.

In 2022, Domainex worked with a record number of clients in over a dozen countries including the USA, Australia, Japan, Israel and several European countries. Additionally, Domainex has recently opened a new sales office in Cambridge, Massachusetts, demonstrating its continued commitment to international growth.

Dr Tom Mander, CEO of Domainex, commented, "We are delighted to have been recognised with this highly prestigious award. Our growth is attributable to the hard work and dedication of the whole team and is especially valued as it was achieved during the challenging period of the COVID-19 pandemic. Our scientists regularly receive glowing feedback from our clients for their innovation and customer focus. This is at the heart of why we remain a pioneer in drug discovery research services, and I dedicate this award to them. I would also like to thank our board and current investors as this award would not have been possible without their continuing support."

With a strong order book confirmed and expected to deliver Domainex's budgeted growth for 2023, we are looking forward to reporting on further progression in Domainex's share value and a plan to reward long standing shareholders with a measure of liquidity, where there is a suitable opportunity to do so.

£3.71 per share: £185 million Capitalisation Value
(£3.65 on 30/09/22)

Our updated value for iPulse as at 31 March 2023 represents a marginal increase on the previous 6 months. Overall, revenue for the 12 months to end of February this year were held at the £100m level achieved in 2022, as the previously reported issues in China persisted and SmoothSkin sales dropped in this region. However, more encouragingly, SmoothSkin sales in most other regions reported growth, albeit volumes in these markets are relatively small compared to what was achieved in China just 2 years ago. EBITDA marginally increased as the impact of the Pandemic on costs subsided and the start up costs of the new factory in China over 2021/2 were reduced in 2022/3 with limited production activity. iPulse's share value as at the end of March is based on an average of 2.25x £99m (12 months) of revenues and 20x £7.93m of EBITDA for the year to 28/02/23. With almost 50 million shares in issue this capitalises into a fully diluted value of £185 million for the company.

We informed in our last update that iPulse's subsidiary, Cyden Limited, had secured a new 5-year agreement with Braun and it was good to see that, despite enduring challenges over 2022, sales to Braun held up well, which offset the drop in SmoothSkin sales.

Following the announcement that iPulse's long serving CEO, Giles Davis would retire at the start of the year, a head-hunting process directed by **Sir Nigel Rudd, Chairman** and **Jamie Reeve, NED** culminated in the appointment of **Robin van Rozen** (pictured), who took up the CEO role at the start of February. Robin has a very good grasp of the industry and sector and brings over 20 years of experience and success in building sales of consumer electronics products, much of which was spent with Philips and included significant experience of both manufacturing and building sales in China. We hope and believe his skill set can be put to good use - initially, to stabilise the current business and then to lead the company through its next phase of growth. We expect that the current year will remain challenging. P&G may restrict its inventory exposure and it will take some time to reorganise the distribution network and undertake a necessary repositioning of SmoothSkin's market offering.

It is now apparent that there was something of a mini-boom in home-use device sales during the Pandemic. iPulse benefitted from this over 2019-2021 as it was well organised to respond to increased demand from Braun and several of its distributors, during lock down periods. However, over the course of the past 18 months, the fall in sales to China has contrasted with growth of SmoothSkin sales into other markets, most notably Japan and the USA. The new manufacturing capability near Shanghai is providing insights and offers additional capabilities for the management of iPulse's innovation processes, supply chain, production operations and freight costs, which should enable iPulse to remain cost competitive. With the production facilities in Swansea, iPulse now has surplus production capacity. However, this will be reviewed, and both enables the company to respond to future surges in growth and provides a strategic advantage with the two locations.

A key factor over the year ahead and beyond, is the need for all light-based devices, sold to consumers in the EU, Australia and Canada, to comply with the Medical Devices Regulations (MDR) that will come into force within three years. This initiative will standardise and improve the levels of safety and quality assurances for end users in the relevant regions. Companies with robust quality systems will be able to register their products and manufacturing systems to secure market access in these important territories. iPulse is well advanced in this respect with MDR equivalent approvals being gained as each market, it sells into, implements this directive.

The requirement to have MDR approval provides regulators in each region with the ability to remove uncertified products from their marketplace. This in turn increases barriers to new market entrants as well as removing uncertified counterfeit products, which in turn should help to increase consumer confidence in light therapy products generally. iPulse fully expects all its range of IPL products to be MDR certified for the markets it supplies. (The US FDA retains its existing 'clearance' process in the US.)

Products with IPL technology are now a well-established and integral part of the global home-use beauty devices marketplace. This is reported (source: ResearchAndMarkets & PSMarketResearch) to be growing strongly (from c$9bn in 2020 to more than $14bn in 2022) and different analysts agree that the trendline projects a c$45bn p.a. global market value, by 2030. Devices for hair removal are a constituent part of this market, however, devices used in skin care regimens are expected to account for the largest element of the market growth. The booming older population, with rising affluence across the Americas, APAC and EMEA markets, are increasingly purchasing products that can remove / prevent growth of unwanted hair, improve the look and feel of skin, as well as treat the increasing prevalence of dermatological conditions.

It is hoped that, under new management, iPulse will be reinvigorated and able to benefit from this next phase of growth in the global home-use beauty devices marketplace. Over the near term, iPulse will focus its efforts to grow sales to Braun/P&G while strengthening its marketing and distribution activities for its SmoothSkin branded IPL products, against growing competition from emerging Asian companies.

The IPL and beauty device market is well established but is still considered to be in the early stage of development. This continues to offer substantial opportunities to those who achieve strong and sustainable growth and become market leaders in their respective categories. We understand it is now going to require some additional time for iPulse to demonstrate it has returned to high growth mode and to become an increasingly attractive acquisition target. Until this point is reached there may be only limited liquidity opportunities, however, we continue to believe in iPulse's potential and ultimately, for it to deliver a strong return for patient investors.

£0.20 per share: £4.7m Capitalisation Value
(£0.34 on 30/09/2022)

The drop in the share price and capitalisation value of Lustre Skin was precipitated by the Company's ongoing need to raise additional capital this year, in support of its quest to continue with product innovation and build sales revenues.

We have mentioned elsewhere in this update, that the home-use beauty product devices market is expected by respected analysts to continue to grow dramatically – at a compound annual growth rate of over 25% p.a. from c$14bn worldwide in 2022 to over $80bn by the end of the current decade. Light therapy products are expected to be a growing component of the overall home-use devices and skin care is the largest and fastest growing category.

We continue to believe that Lustre Skin is well positioned and offers exciting potential to benefit from this growth dynamic. What stands Lustre apart from most of its peer group and competitors is that it has been developed on a strong scientific and clinical platform, with an exceptional understanding of how skin reacts to LED based light therapy. Having developed an exceptional capability and proven results for its LED based multi-product range, Lustre continues to receive outstanding consumer feedback for effective light therapy for skin rejuvenation and improved skin tone appearance, as well as for acne and other mild dermatological infections. These are regarded as areas of great growth opportunity, due to the existing and relatively low market penetration. It is therefore a pleasure to report meaningful progress at Lustre Skin over the past six months.

As reported in other correspondence in recent months, Lustre's new **Chair, Anna Teal** and **Karl Graham**, **CEO designate**, have taken a firm grip on the company. The duo has worked closely together at Walgreen Boots Alliance previously. They have been concentrating on cementing commercial partnerships that hold the promise of significant growth for Lustre, reshaping the organisation and bringing on board new talent that can make an immediate contribution to building sales revenues.

Isabelle Regis stepped back from the CEO role after 3 years in the post earlier this year, and the company is thankful for what she achieved over her term of office. Isabelle was instrumental in broadening the range of conditions Lustre ClearSkin products can treat through developing a range of different LED and topical products. Of note, the top of the range RENEW facemask Lustre unveiled last year, has gained several industry and consumer awards over recent months.

With almost 50 years of combined experience and contacts in the beauty industry, Anna and Karl have built on groundwork done by Isabelle and are making progress forging new commercial relationships. An example of the former is the success of Lustre's SOLO™ device which, re-styled for FaceGym, is being sold successfully as the FaceGym Acne Light Shot: FaceGym have just placed a second order for 4500 units. To date, sales are up 250% versus FaceGym's internal forecast.

Anna's leadership position in the beauty industry is already evident when she facilitated an introduction to one of the fastest emerging online retail portals in the beauty sector. The discussions remain subject to confidentiality at this stage. We understand this could provide a further sales channel for Lustre via a rapidly growing and successful on-line portal business, which was launched and is being developed by one of the beauty sector's most successful entrepreneurs. The company has already grown rapidly and become established as a recognised brand with a subscription-based 'buyers' club' offering 'Luxury Makeup & Skincare Products' on a direct-to consumer basis. Following the demonstration of the Lustre ClearSkin RENEW™ face mask, there is an opportunity to deliver a first order batch of 2000 white label branded LED face masks, worth between £150K and £200K for 'Black Friday' in November.

This would not have been possible without another key development in April: the 'clearance' by the US FDA of the RENEW™ mask. This builds on the USFDA approvals for other Lustre ClearSkin products. Without FDA clearance, Lustre would be unable to sell products in the all-important US market and markets in other territories, which are predicated on FDA approvals. This was achieved under the guidance of the company's Senior Regulatory Consultant, Blessing Nwabude, who was appointed by Isabelle during the Pandemic period and is now leading what will be a multi-year effort to achieve MDR (Medical Device Regulation) compliance and accreditations. MDR is a further level of regulatory protocol that is being implemented across most major markets across the world for any light-based aesthetic product. Although an arduous process, it is expected to clean-up the marketplace by preventing uncertified and generally poor-quality products from being sold.

Lustre's LED products continue to win and be shortlisted for industry awards in the UK and US, in what is a very competitive category – the most recent was from 'Beauty Bible'.

Also in the US, Revea is a new digital diagnostics-based skincare company that Lustre hopes will provide another significant new sales channel. Amongst other activities in the UK, Lustre is awaiting a first purchase order for the Lustre ClearSkin Renew product from one of the leading fitness and wellbeing club operators. Further afield discussions have commenced with one of the leading international beauty spa product brands, based in the UK, as well as with a leading online beauty retailer in South Korea. Details will be revealed in due course, but for now these discussions are progressing under cover of confidentiality. What this demonstrates is how the executive team is making good progress in building Lustre Skin's business to business sales model. It is believed this can lead to a rapid growth in volume sales without the need for high-cost marketing commitments that are a function of the business or direct to consumer sales channel, required to generate significant volumes Lustre ClearSkin branded product sales.

In the all-important area of cash management, the Open Offer has been well-received, with the two early subscription incentive offers resulting in ca £1 million of new investment in the first phase, led by Longbow clients. The capitalisation value of the company following the recent share issues is now placed at £5m. The Board of Lustre believes that the recent spate of positive developments and the new management team can stimulate interest and investment from new as well as its existing co-investors in this next phase. The Board remains determined to raise more than £2 million in total, and for this amount to help take the business from its current loss-making / capital burn status into profit. This in turn should be reflected with a proportionate growth in the company's value.

£1.00 per share: £45.4m Capitalisation Value
(£1.85 on 30/09/2022)

SKY MEDICAL TECHNOLOGY

For some time now, we have maintained that the values placed on recent share subscriptions for Sky Medical, have been too high for Longbow to recommend to its clients. For the past 4 or 5 years, while the company has attracted new investment at ca. £3.00 per share, we have maintained a Fair Value at £1.85 per share on account of modest revenues and consequently the continuing high rates of cash burn to fund the significant ongoing clinical and technical development programmes. We have recognised and supported the Board's determination to undertake these programmes, which we hope can, sooner rather than later, lead to a valuable commercial out-licensing deal that will validate the commercial value of Sky's unique technology.

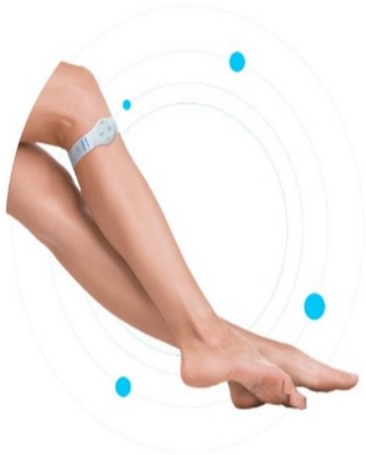
It was back in 2017, when Sky raised just under £6m of new capital, that one of the other significant shareholders (represented by George Baran) also made a tender offer to other shareholders, at the prevailing share placing price of £1.85 per share. You may recall we recommended clients sold sufficient shares to recover their initial outlay where there was the offer of liquidity at a good capital via a partial realisation.

On the funding side, it was understood at the close of 2022 that further capital would need to be injected during 2023. What came as a surprise was the Baran family of Canada, who have been the lead investors over the previous 8 years and are now hold a c30% stake in Sky, informed that, for their own internal reasons, they would not be able to invest further.

However, since then, a short-term funding plan has emerged. George Baran agreed to invest a further £1.5 million but required a new and much lower subscription price of £1.00 per share. This value still places a value of over £45 million on Sky and in our view, with the slow progress on building revenue was not an unreasonable request. Against this background, we supported the Board's decision to accept George's offer, whereby a number of other existing investors have also agreed to subscribe a further £2.0 million. Coupled with a cost reduction programme that will save £1.0 million annually from what has been an average burn rate of more than a £3 million p.a. over recent years, this provides the company with sufficient capital reserves until towards the end of this year.

Sky's cash requirement has been deferred for the time being, rather than solved. For this reason, we still maintain a cautious view that even at the reduced £1.00 per share and some good progress in the company, Sky is a 'hold' rather than 'buy' since it no longer can offer EIS relief either. More has to be done to get Sky to point where we can realise our clients' investments. Encouragingly, there are some reasons for optimism.

From an operating standpoint, the business is making measurable progress. The management team is in the process of re-forecasting 2023 results and – for the first time ever - they will be forecasting upwards, rather than downwards, projecting an increase in turnover compared to budget. The 2023 budget expected revenues of £2.0 million – the re-forecast will project revenues of £2.5 million.

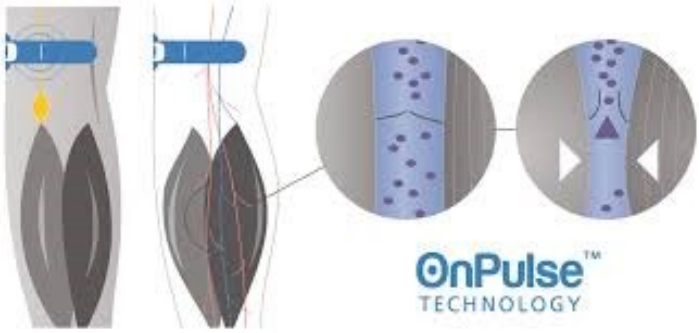


This increase in revenue stems from increased uptake in the key hospital markets of the UK, Germany and the Middle East. The increased adoption of Geko™ in applications such as oedema (swelling caused by body fluid retention) reduction, DVT prevention and wound care is precisely what the company has been pursuing for some years. Adoption of the use of Geko™ devices takes place one hospital at a time – a very labour-intensive process until, one day, Geko™ (we hope) becomes the default and standard of care.

SKY MEDICAL TECHNOLOGY

In the all-important US market, progress is being made towards the granting of a reimbursement code by the Centres for Medicare and Medicaid Services (CMS). When granted, this will allow Durable Medical Equipment (DME) companies to supply Geko™ to hospitals, secure in the knowledge that insurers will cover the cost. Evidence of demand for Geko™ will continue to be accumulated over the next several years, to support the application to CMS.

This is good news, but it is unlikely to take Sky out of 'cash burn' mode for the foreseeable future. We have, for many years, been something of a lone voice in urging Sky's management to secure a significant out-licensing deal that could generate revenue from milestone payments and accelerate the distribution to hospitals to drive royalty income from sales. However, this has demanded that Sky can demonstrate Geko™ has the necessary clinical evidence gathered from trials, which it is continuing to do. An out-licensing deal would provide a basis to independently verify the real value of the company, while including in any such arrangement an up-front payment to contribute and meet the cost of Sky's ongoing development activities for the medium term.



Consequently, we are pleased to report that Sky is in advanced negotiation for just such an arrangement for one of its key indications (alleviated by Geko™'s unique On Pulse™ technology enhancing blood circulation in the lower leg) with a multi-billion-dollar, global medical technology company. For reasons of confidentiality, we cannot divulge further details at this time, but we hope to be able to do so in the months to come.

In summary, Sky provides reasons for sobriety on account of its cash position – while, at the same time providing reasons for some optimism, improved trading and the real possibility of a landmark licencing agreement, which we hope can help to financially stabilise the company and / or lead to a liquidity event, at an enhanced share price to the current level.

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