

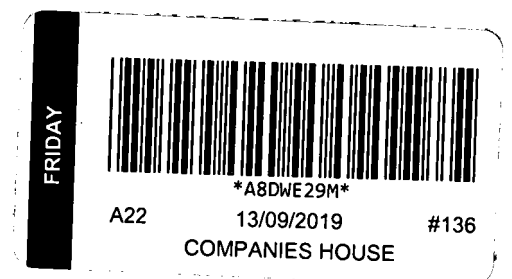
Company Registration No. 06657602

Cortexica Vision Systems Limited

Annual Report and Audited Consolidated

Financial Statements

for the year ended 31 December 2018



Cortexica Vision Systems Limited

Annual report and consolidated financial statements 31 December 2018

Contents	Page
Directors' report	1
Directors' responsibilities statement	2
Independent auditor's report	3
Consolidated profit and loss account	6
Consolidated balance sheet	7
Statement of changes in equity	8
Notes to the consolidated financial statements	9

Cortexica Vision Systems Limited

Directors' report

The Directors present their annual report with the consolidated financial statements of the company and the group for the year ended 31 December 2018.

This Directors' report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption. The exemption available for the requirement to prepare a strategic report has been taken in line with s414B of the Companies Act 2006.

Principal activities

Cortexica Vision System Limited's ("the Company") principal activity is that of developing image recognition and visual search technologies with a primary focus on the Mobile Visual Search opportunity. The Company has a subsidiary, Cortexica Inc (together "the Group") that conducts the Group's operations in the USA.

Directors

The Directors, who served throughout the year and up to the date of this report were as follows:

AA Bharath
IA McCready
SD White
IP2IPO Services Limited acting by its attorney, JA Edington
D Soskin

Directors' indemnities

The Group has made qualifying third party indemnity provisions for the benefit of its Directors which were made during the year and remain in force at the date of this report.

Going concern

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for at least 12 months from the date of signing these financial statements. Thus they continue to adopt the going concern basis in preparing the annual financial statements. However, as further described in note 1 to the financial statements, there is a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern and therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Further details regarding the adoption of the going concern basis can be found in the accounting policies.

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 group's auditors are 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 auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

THP Limited have expressed their willingness to continue in office as auditor and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

Approved by the Board and signed on its behalf by:



IA McCready
Director

13th February 2019

Cortexica Vision Systems Limited

Directors' responsibility statement

The directors are responsible for preparing the annual 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), 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 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of Cortexica Vision Systems Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Cortexica Vision Systems Limited (the 'parent company') and its group for the year ended 31st December 2018 which comprise the Consolidated Profit and Loss account and statement of Comprehensive Income, Consolidated and Company Balance Sheets, Statements of Changes in Equity and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company affairs as at 31st December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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 Auditors' 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, 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.

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures within note 1 of the financial statements concerning the basis of preparing the financial statements. The group incurred a net loss of £3,365,086 during the year ended 31 December 2018 and, at that date, the group's shareholder's funds were in deficit by £15,703,898.

These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group was unable to continue as a going concern. In view of the significance of these uncertainties we consider that they should be drawn to your attention but our opinion is not qualified in this respect.

Other information

The directors are responsible for the other information. The other information comprises the information in the Directors' Report but does not include the financial statements and our Report of the Auditors 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.

Opinion 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report has been prepared in accordance with applicable legal requirements.

Independent auditor's report to the members of Cortexica Vision Systems Limited

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' Report.

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.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on page two, 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 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 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 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 a Report of the Auditors 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 Report of the Auditors.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in a Report of the Auditors 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.



Andrew Green LLB FCA (Senior Statutory Auditor)

for and on behalf of THP Limited
Chartered Accountants and Statutory Auditors
34-40 High Street, Wanstead
London
E11 2RJ

13th February 2019

Cortexica Vision Systems Limited

Consolidated profit and loss account and other comprehensive income For the year ended 31 December 2018

	Notes	2018 £	2017 (restated) £
Turnover		843,659	1,485,125
Administrative expenses		(4,924,536)	(4,225,555)
Other operating income	3	<u>759,891</u>	<u>93,057</u>
Operating loss	5	(3,320,986)	(2,647,373)
Interest receivable and similar income	6	1,582	2,444
Interest payable and similar charges	7	<u>(795,257)</u>	<u>(541,057)</u>
Loss before taxation		(4,114,661)	(3,185,986)
Tax on loss	8	<u>606,702</u>	<u>650,408</u>
Loss for the financial year		(3,507,959)	(2,535,579)
Other comprehensive income			
Gains/(Losses) arising on translation of foreign operations		142,873	(34,609)
Total comprehensive loss (attributable to the owners of the parent company)		<u>(3,365,086)</u>	<u>(2,570,188)</u>

The results for the year are all from continuing operating activities.

Cortexica Vision Systems Limited

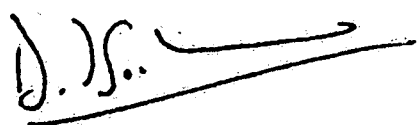
Consolidated and parent company balance sheets As at 31 December 2018

	Notes	2018 Group £	2017 Group £	2018 Company £	2017 Company £
Fixed assets					
Intangible assets	10	1,942	2,648	1,942	2,648
Tangible assets	11	127,431	71,713	127,431	71,470
Investments	12	-	-	62	62
		<u>129,373</u>	<u>74,361</u>	<u>129,435</u>	<u>74,180</u>
Current assets					
Debtors	13	1,050,692	1,275,242	1,058,262	1,273,230
Cash at bank and in hand		566,850	1,098,827	557,236	1,090,987
		<u>1,617,542</u>	<u>2,374,069</u>	<u>1,615,498</u>	<u>2,364,217</u>
Creditors: amounts falling due within one year	14	(300,970)	(1,119,167)	(298,314)	(971,900)
Net current assets		<u>1,316,572</u>	<u>1,254,902</u>	<u>1,317,185</u>	<u>1,392,316</u>
Total assets less current liabilities		<u>1,445,945</u>	<u>1,329,263</u>	<u>1,446,619</u>	<u>1,466,496</u>
Creditors: amounts falling after one year	15	(17,149,843)	(13,854,586)	(17,149,843)	(13,854,586)
Net liabilities		<u>(15,703,898)</u>	<u>(12,525,322)</u>	<u>(15,703,224)</u>	<u>(12,388,090)</u>
Capital and reserves					
Called up share capital	16	150	150	150	150
Share premium account		10,317	8,998	10,317	8,998
Share option reserve		473,428	288,237	473,428	288,237
Profit and loss account		(16,187,793)	(12,822,707)	(16,187,119)	(12,685,475)
Shareholders' deficit		<u>(15,703,898)</u>	<u>(12,525,322)</u>	<u>(15,703,224)</u>	<u>(12,388,090)</u>

The loss for the financial year dealt with in the financial statements of the parent Company was £3,501,645 (2017: £3,129,767).

These financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime and in accordance with the provisions of Section 1A of FRS 102

The financial statements of Cortexica Vision Systems Limited (registered number 06657602) were approved by the board of directors and authorised for issue on 13th February 2019. They were signed on its behalf by:



David Soskin
Chairman

Cortexica Vision Systems Limited

Consolidated statement of changes in equity At 31 December 2018

	Called up share capital £	Share premium account £	Share option reserve £	Restated Profit and loss account £	Total £
At 31 December 2016	150	8,998	145,922	(10,252,518)	(10,097,448)
Loss for the financial year	-	-	-	(2,535,579)	(2,535,579)
<i>Other comprehensive losses</i>					
Foreign exchange losses on retranslation	-	-	-	(34,609)	(34,609)
Loss for the year and total comprehensive loss	150	8,998	145,922	(12,822,706)	(12,667,637)
Credit to equity for equity settled share-based payment	-	-	142,315	-	142,315
At 31 December 2017	150	8,998	288,237	(12,822,706)	(12,525,322)
At 31 December 2017	150	8,998	288,237	(12,822,706)	(12,525,322)
Loss for the financial year	-	-	-	(3,507,960)	(3,507,960)
<i>Other comprehensive losses</i>					
Foreign exchange gains on retranslation	-	-	-	142,873	142,873
Loss for the year and total comprehensive loss	150	8,998	288,237	(16,187,793)	(15,890,410)
Share investment	-	1,319	-	-	1,319
Credit to equity for equity settled share-based payment	-	-	185,192	-	185,192
At 31 December 2018	150	10,317	473,428	(16,187,793)	(15,703,898)

Cortexica Vision Systems Limited

Parent company statement of changes in equity At 31 December 2018

	Called up share capital £	Share premium account £	Share option reserve £	Profit and loss account £	Total £
At 31 December 2016	150	8,998	145,922	(9,555,708)	(9,400,638)
Loss for the financial year	-	-	-	(3,129,767)	(3,129,767)
Loss for the year and total comprehensive loss	150	8,998	145,922	(12,685,475)	(12,530,405)
Credit to equity for equity settled share-based payment	-	-	142,315		142,315
At 31 December 2017	150	8,998	288,237	(12,685,475)	(12,388,090)
At 31 December 2017	150	8,998	288,237	(12,685,475)	(12,388,090)
Loss for the financial year	-	-	-	(3,501,645)	(3,501,645)
Loss for the year and total comprehensive loss	150	8,998	288,237	(16,187,119)	(15,889,734)
Share investment	-	1,319	-	-	1,319
Credit to equity for equity settled share-based payment	-	-	185,192	-	185,192
At 31 December 2018	150	10,317	473,428	(16,187,119)	(15,703,224)

Cortexica Vision Systems Limited

Notes to the accounts Year ended 31 December 2018

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

General information and basis of accounting

Cortexica Vision Systems Limited (the Company) is a private Company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the registered office is 6th Floor, Wework Southbank Central, 30 Stamford Street, London SE1 9LQ.

The principal activities of the Company and its subsidiaries (the Group) and the nature of the Group's operations are set out in the directors' report on page 1.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with the provisions of Section 1A "Small Entities" of Financial Reporting Standard 102 (FRS 102) and the Companies Act 2006.

The functional currency of Cortexica Vision Systems Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates. The consolidated financial statements are also presented in pounds sterling. Foreign operations are included in accordance with the policies set out below.

Cortexica Vision Systems Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to presentation of a cash flow statement and remuneration of key management personnel.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December each year. Cortexica Vision Systems, Inc. is accounted for at cost less impairment. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. All accounting policies as detailed below are applied consistently across the Group.

Going concern

The accounts have been prepared on a going concern basis despite the year end net current assets position of the Group of £1,316,572 and deficiency in shareholders' funds of (£15,703,898). The Company's and Group's major shareholders have indicated that they are minded to continue providing further funding and they have confirmed that they have no current intention to call in any of the outstanding convertible loan notes in the short to medium term. There is no guarantee in relation to their provision of future funding. The Directors have concluded that due to these circumstances there is a material uncertainty that may cast significant doubt upon the Group's and Company's ability to continue as a going concern and therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Nevertheless, after making enquiries and considering the uncertainty described above, the Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for at least 12 months from the date of signing these financial statements. In particular, the Directors have drawn comfort from the value of the recently signed contracts and from the Group's product potential within the AI industry. For these reasons, the Directors continue to adopt the going concern basis of accounting in preparing the financial statements. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Cortexica Vision Systems Limited

Notes to the accounts Year ended 31 December 2018

1. Accounting policies (continued)

Turnover

Turnover is stated net of VAT and trade discounts. Turnover from the supply of services represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the value of the consideration due. Where a contract has only been partially completed at the balance sheet date turnover represents the value of the service provided to date based on a proportion of the total contract value. Where payments are received from customers in advance of services provided, the amounts are recorded as deferred income and included as part of creditors due within one year.

Government grants

Government grants are recognised based on the accrual model and are measured at the fair value of the asset received or receivable. Grants are classified as relating either to revenue or to assets. Grants relating to revenue are recognised in income over the period in which the related costs are recognised. Grants relating to assets are recognised over the expected useful life of the asset. Where part of a grant relating to an asset is deferred, it is recognised as deferred income.

Research and development

Research and development expenditure is written off as incurred.

Intangibles - Patents

Patent costs are capitalised as intangible fixed assets to the extent to the Company will derive future economic benefit from them, and are amortised over their estimated useful economic life of 5 years. All other costs in relation to patents are expensed to the profit and loss account as incurred. Provision is made for any impairment.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost net of accumulated depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight line basis over its expected useful life, as follows:

Fixtures and fittings	4 years
Computer equipment	4 years

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely

Cortexica Vision Systems Limited

Notes to the accounts Year ended 31 December 2018

1. Accounting policies (continued)

Taxation (continued)

than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted by the balance sheet date.

Research and Development tax credits are recognised on an accrual basis.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction and from the translation overseas operations is included as an exchange gain or loss in the profit and loss account.

Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

Employee benefits

The Company operates a defined contribution scheme. The amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are included as either accruals or prepayments in the balance sheet.

Share-based payment

The Company issues equity-settled share options to certain employees within the Group. Equity-settled share-based payment transactions are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of the Black Scholes pricing model which is considered by management to be the most appropriate method of valuation. 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.

Financial instruments

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

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Cortexica Vision Systems Limited

Notes to the accounts Year ended 31 December 2018

1. Accounting policies (continued)

Financial instruments (continued)

(i) *Financial assets and liabilities*

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

- (a) The contractual return to the holder is (i) a fixed amount; (ii) a positive fixed rate or a positive variable rate; or (iii) a combination of a positive or a negative fixed rate and a positive variable rate.
- (b) The contract may provide for repayments of the principal or the return to the holder (but not both) to be linked to a single relevant observable index of general price inflation of the currency in which the debt instrument is denominated, provided such links are not leveraged.
- (c) The contract may provide for a determinable variation of the return to the holder during the life of the instrument, provided that;
 - (i) the new rate satisfies condition (a) and the variation is not contingent on future events other than (1) a change of a contractual variable rate; (2) to protect the holder against credit deterioration of the issuer; (3) changes in levies applied by a central bank or arising from changes in relevant taxation or law; or
 - (ii) the new rate is a market rate of interest and satisfies condition (a).
- (d) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.
- (e) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in levies applied by a central bank or arising from changes in relevant taxation or law.
- (f) Contractual provisions may permit the extension of the term of the debt instrument, provided that the return to the holder and any other contractual provisions applicable during the extended term satisfy the conditions of paragraphs (a) to (c).

Debt instruments that have no stated interest rate (and do not constitute financing transaction) and are classified as payable or receivable within one year are initially measured at an undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Other debt instruments not meeting these conditions are measured at fair value through profit or loss.

Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Cortexica Vision Systems Limited

Notes to the accounts Year ended 31 December 2018

1. Accounting policies (continued)

Financial instruments (continued)

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Group, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

(ii) Investments

Investments in non-convertible preference shares and non-puttable ordinary or preference shares (where shares are publicly traded or their fair value is reliably measurable) are measured at fair value through profit or loss. Where fair value cannot be measured reliably, investments are measured at cost less impairment.

In the Company balance sheet, investments in subsidiaries and associates are measured at cost less impairment. For investments in subsidiaries acquired for consideration including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value of the shares issued plus fair value of other consideration. Any premium is ignored.

(iii) Equity instruments

Equity instruments issued by the Group and Company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

(iv) Convertible loan notes

The component parts of compound instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. On initial recognition, the financial liability component is recorded at its fair value. At the date of issue, in the case of a convertible bond denominated in the functional currency of the issuer that may be converted into a fixed number of equity shares, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in the equity reserve within equity and is not subsequently remeasured.

Transaction costs are apportioned between the liability and equity components of the convertible instrument based on their relative fair values at the date of issue. The portion relating to the equity component is charged directly against equity. Where the financial liability component meets the criteria in (i) above, the finance costs of the financial liability are recognised over the term of the debt using the effective interest method.

(v) Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

(vi) Share-based payment

The Company issues equity-settled share options and cash-settled share appreciation rights to certain employees within the Group. Equity-settled share-based payment transactions are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Cortexica Vision Systems Limited

Notes to the accounts Year ended 31 December 2018

1. Accounting policies (continued)

Financial instruments (continued)

Fair value is measured by use of the Black Scholes pricing model which is considered by management to be the most appropriate method of valuation. 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.

A liability equal to the portion of the services received is recognised at and remeasured based on the current fair value determined at each balance sheet date for cash-settled share appreciation rights, with any changes in fair value recognised in profit or loss.

Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

Non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Financial assets

For financial assets carried at amortised cost, the amount of impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying the Group's accounting policies

The following are the critical judgements that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Cortexica Vision Systems Limited

Notes to the accounts Year ended 31 December 2018

2. Critical accounting judgements and key sources of estimation uncertainty (continued)

Software capitalisation

Management have the choice of capitalising or expensing any software development. In this financial period, management have elected to expense all such development.

Going concern

The Directors have concluded these circumstances represent material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern as noted in the accounting policies above.

Share based payment

The use of Black Scholes Merton model to determine option pricing as well as the inputs are a key area of judgment. The inputs include the expected term of the option, current price of underlying shares, expected volatility of underlying shares, and the risk free interest rate.

Key source of estimation uncertainty

Key source of estimation uncertainty are the assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. According to the Directors of the Company there are no material sources of estimation uncertainty.

3. Other operating income

	2018	2017
	£	£
Government grant	759,891	92,307
Sale of assets	-	750
	<u>759,891</u>	<u>93,057</u>

The government grants were awarded by Innovate UK, an Executive Non-Department Public Body created under the Science and Technology Act 1965 and the UK Space Agency.

4. Directors' remuneration

	2018	2017
	£	£
Emoluments	<u>341,922</u>	<u>331,339</u>

Cortexica Vision Systems Limited

Notes to the accounts Year ended 31 December 2018

5. Operating loss

	2018 £	2017 £
Operating loss is after charging:		
Depreciation		
- owned assets	66,443	35,695
Amortisation of patents	706	2,417
Share option charge	185,192	142,315
Fees payable to the Group's auditor for the audit of the Group's financial statements	8,000	17,500
Fees payable to the Group's auditor for tax services	-	5,500
	<u> </u>	<u> </u>

An amount of £ 629,230 disclosed within administrative expenses in the prior year has been reclassified on the face of the profit and loss account on page 6 to Gains arising on translation of foreign operations. This reclassification was necessary in order to more accurately reflect the nature of this item within the profit and loss account.

The average number of employees during the year was 41 (2017 – 33).

6. Interest receivable and similar income

	2018 £	2017 £
Bank interest receivable	1,582	2,444
	<u> </u>	<u> </u>

7. Interest payable and similar charges

	2018 £	2017 £
Loan note interest	795,257	541,057
	<u> </u>	<u> </u>

See loan notes' interest details in note 15.

8. Tax on loss on ordinary activities

	2018 £	2017 £
Current taxation		
United Kingdom corporation tax		
– research and development claim	606,702	650,408
	<u> </u>	<u> </u>
Tax on loss on ordinary activities	606,702	650,408
	<u> </u>	<u> </u>

The credit for the year can be reconciled to the profit per the income statement as follows:

	2018 £	2017 £
Loss for the period	(4,114,661)	(3,777,255)
	<u> </u>	<u> </u>

Cortexica Vision Systems Limited

Notes to the accounts Year ended 31 December 2018

Tax on loss at standard UK tax rate of 19.00% (2017: 20.00%)	(781,786)	(726,992)
Effects of:		
Expenses not deductible	35,283	28,123
Income not taxable	-	-
R&D credit utilisation of losses	(260,913)	(275,052)
Losses carried forward	412,514	-
Adjustment from previous periods	-	-
Tax rate changes	-	-
FX movement taken to OCI	(666)	-
Non-deductible loan waiver	-	121,105
Total deferred tax	-	-
Deferred tax not provided	(11,135)	202,408
	<u>(606,702)</u>	<u>(650,408)</u>
Tax credit for the period	(606,702)	(650,408)

At the balance sheet date, the Company has tax losses carried forward of £10,295,495 (2017: £8,133,940) to offset against future trading profits. A net deferred tax asset of £1,731,353 (2017: £1,385,932) has not been recognised in these financial statements due to uncertainty over future utilisation.

The Finance Act 2015 reduced the rate of corporation tax from 19% to 18% from 1 April 2020. On 16 March 2017, a further reduction in the UK corporation tax rate to 17% from 1 April 2020 was announced in the Chancellor's Budget. At the balance sheet date, this reduction has been substantively enacted. Therefore, a tax rate of 17% has been used in these financial statements to measure the deferred tax assets and liabilities.

9. Share options and share-based payments

The Company has a share option scheme for all employees of the Group. The Company takes part in this group share-based payment plan, and recognises and measures its allocation of the share-based payment expense on a pro-rata basis. The number of employees and former employees, including directors of the Company that share options have been granted to is 33 (2017: 30).

In certain circumstances the options may lapse if the relevant individual ceases to be a director/employee of the Company.

Details of the share options outstanding during the year are as follows:

	2018		2017	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at beginning of year	1,127,953	2.50	805,745	2.50
Granted during the period	263,917	2.50	322,208	2.50
Exercised during the period	(528)	2.50	nil	-
Lapsed during the period	(216,014)	-	nil	-
	<u>1,175,328</u>	2.50	<u>1,127,953</u>	2.50
Outstanding at the end of the period	1,175,328	2.50	1,127,953	2.50
Exercisable at the end of the period	<u>1,175,328</u>		<u>1,127,953</u>	

Cortexica Vision Systems Limited

Notes to the accounts Year ended 31 December 2018

9. Share options and share-based payments (continued)

Included in the share options shown above are 576,930 (2017: 489,430) that were allocated to directors of the Company as follows:

	2018 £	2017 £
IA McCready	351,092	285,592
AA Bharath	104,422	94,422
SD White	51,062	46,062
D Soskin	70,354	63,354
	<u>576,930</u>	<u>489,430</u>

Options are exercisable at a price equal to the estimated fair value of the Company's shares on the date of grant. The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

During 2017, the Group re-priced its outstanding share options. The strike price was reduced from £3.60 to the then current estimated fair value of £2.50 following approval from HMRC and the major shareholders.

The fair value of the share options at the grant date was calculated using the Black Scholes model, which is considered to be the most appropriate generally accepted valuation method of measuring fair value.

The Group recognised total expenses of £ 185,192 related to equity-settled share-based payment transactions in 2018 (£142,315 in 2017).

10. Intangible assets

	Group Intangible £	Company Intangible £
Cost		
At 1 January 2018	63,319	56,227
Additions	-	-
FX differences	428	-
	<u>63,747</u>	<u>56,227</u>
At 31 December 2018	<u>63,747</u>	<u>56,227</u>
Accumulated depreciation		
At 1 January 2018	60,671	53,579
Charge for the year	706	706
FX differences	429	-
	<u>61,806</u>	<u>54,285</u>
At 31 December 2018	<u>61,806</u>	<u>54,285</u>
Net book value		
At 31 December 2018	<u>1,942</u>	<u>1,942</u>
At 31 December 2017	<u>2,648</u>	<u>2,648</u>

Cortexica Vision Systems Limited

Notes to the accounts Year ended 31 December 2018

11. Tangible assets

Group	Fixtures and fittings £	Computer equipment £	Total £
Cost			
At 1 January 2018	7,944	277,498	285,442
Additions	-	122,158	122,158
At 31 December 2018	<u>7,944</u>	<u>399,657</u>	<u>407,601</u>
Accumulated depreciation			
At 1 January 2018	7,944	205,785	213,729
Charge for the year	-	66,443	66,443
FX differences	-	(2)	(2)
At 31 December 2018	<u>7,944</u>	<u>272,226</u>	<u>280,170</u>
Net book value			
At 31 December 2018	<u>-</u>	<u>127,431</u>	<u>127,431</u>
At 31 December 2017	<u>-</u>	<u>71,713</u>	<u>71,713</u>
Company	Fixtures and fittings £	Computer equipment £	Total £
Cost			
At 1 January 2018	7,944	276,300	284,244
Additions	-	122,158	122,158
At 31 December 2018	<u>7,944</u>	<u>398,458</u>	<u>406,402</u>
Accumulated depreciation			
At 1 January 2018	7,944	204,829	212,773
Charge for the year	-	66,197	66,197
At 31 December 2018	<u>7,944</u>	<u>271,027</u>	<u>278,971</u>
Net book value			
At 31 December 2018	<u>-</u>	<u>127,431</u>	<u>127,431</u>
At 31 December 2017	<u>-</u>	<u>71,470</u>	<u>71,470</u>

Cortexica Vision Systems Limited

Notes to the accounts Year ended 31 December 2018

12. Fixed asset investments

Company	Subsidiary undertaking £
Cost	
At 1 January 2018 and at 31 December 2018	<u>62</u>

The investment is in the following subsidiary undertaking which was incorporated in April 2014 and has been included within the consolidated accounts. In the Directors' opinion, there is no impairment to the cost of investments.

Name	Principal activity	Country of Holding incorporation
Cortexica, Inc.	Sales and Marketing	100% United States

Cortexica Inc's office is registered in Delaware through its agent, United Corporate Services Inc., 874 Walker Road Suite C, Dover, DE 19904, United States. The subsidiary company is exempt from audit.

13. Debtors: amounts falling due within one year

	2018 Group £	2017 Group £	2018 Company £	2017 Company £
Trade debtors	41,192	413,970	41,192	413,970
Amounts owed by group undertakings	-	-	9,703	-
VAT	11,645	-	11,645	-
Other debtors	106,594	63,433	104,460	61,421
Prepayments and accrued income	230,820	138,573	230,820	138,573
Tax Credit Receivable	606,702	650,408	606,702	650,408
Research and development debtor	53,739	8,858	53,739	8,858
	<u>1,050,692</u>	<u>1,275,242</u>	<u>1,058,262</u>	<u>1,273,230</u>

14. Creditors: amounts falling due within one year

	2018 Group £	2017 Group £	2018 Company £	2017 Company £
Trade creditors	55,155	138,180	52,533	137,216
VAT	-	53,963	-	53,963
Taxation and social security	93,952	94,175	93,952	94,175
Other creditors	3,855	146,303	3,820	-
Accruals and deferred income	148,008	686,546	148,008	686,546
	<u>300,970</u>	<u>1,119,167</u>	<u>298,314</u>	<u>971,900</u>

Cortexica Vision Systems Limited

Notes to the accounts Year ended 31 December 2018

15. Creditors: amounts falling after one year

	2018 Group £	2017 Group £	2018 Company £	2017 Company £
Convertible unsecured loan notes	15,358,888	12,858,888	15,358,888	12,858,888
Interest on convertible loan notes	1,790,955	995,698	1,790,955	995,698
	<u>17,149,843</u>	<u>13,854,586</u>	<u>17,149,843</u>	<u>13,854,586</u>

The convertible loan noteholders have the right to convert the notes into Ordinary Shares of £0.001. The rate of conversion is £3.00 principal amount of notes per ordinary share for the first £25,000 and £3.60 principal amount of notes per ordinary shares for the remainder. All convertible loan notes prior to 2016 were unsecured and have no fixed repayment date. The £9.7 million of loan notes issued in 2016, 2017 and 2018 (see note 17) are secured by way of a fixed and floating charge over the assets of the group and accrue interest at 8% compound per annum. Loan notes issued prior to 2016 do not accrue interest.

16. Called up share capital

Company and Group

	2018 £	2017 £
Allotted, called up, and fully paid:		
150,310 (2017: 149,782) Ordinary shares of £0.01 each	<u>150</u>	<u>150</u>

17. Related party transactions

Touchstone Innovations Businesses LLP, a subsidiary of IP Group plc, owns 30% of the issued share capital of the Company.

At the period end, £15,253,000 (2017: £12,753,000) of convertible loan notes were owed to IP2IPO Portfolio LP and Touchstone Innovations Businesses LLP, of which £9,700,000 (2017: £7,200,000) accrue interest at 8% compound per annum. £795,257 of interest was charged during year end (2017: £541,057).