

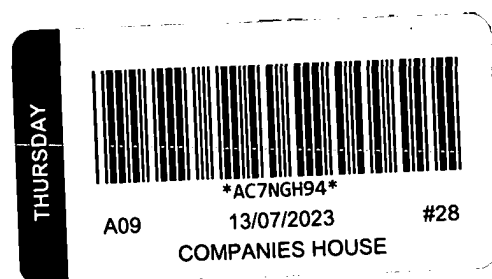
Registered number: 04676191

DEVICE AUTHORITY LIMITED

UNAUDITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022



DEVICE AUTHORITY LIMITED
REGISTERED NUMBER: 04676191

BALANCE SHEET
AS AT 31 DECEMBER 2022

	Note	2022 £	2021 £
Fixed assets			
Intangible assets	5	4,828	7,724
Tangible assets	6	8,248	5,026
Investments	7	6,386,629	6,386,629
		<u>6,399,705</u>	<u>6,399,379</u>
Current assets			
Debtors: amounts falling due within one year	8	3,074,488	2,343,257
Cash at bank and in hand		1,117,216	809,342
		<u>4,191,704</u>	<u>3,152,599</u>
Creditors: amounts falling due within one year	9	(8,596,810)	(5,687,687)
Net current liabilities		<u>(4,405,106)</u>	<u>(2,535,088)</u>
Total assets less current liabilities		1,994,599	3,864,291
Creditors: amounts falling due after more than one year	10	(736,977)	(39,893)
Net assets		<u><u>1,257,622</u></u>	<u><u>3,824,398</u></u>
Capital and reserves			
Called up share capital		2,602,353	2,602,353
Share premium account		16,442,905	16,442,905
Profit and loss account		(17,787,636)	(15,220,860)
		<u><u>1,257,622</u></u>	<u><u>3,824,398</u></u>

DEVICE AUTHORITY LIMITED
REGISTERED NUMBER: 04676191

BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 2022

The directors consider that the company is entitled to exemption from audit under section 477 of the Companies Act 2006 and members have not required the company to obtain an audit for the year in question in accordance with section 476 of the Companies Act 2006.

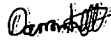
The directors acknowledge their responsibilities for complying with the requirements of the Companies Act 2006 with respect to accounting records and the preparation of financial statements.

The 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 FRS 102 Section 1A - small entities.

The financial statements have been delivered in accordance with the provisions applicable to companies subject to the small companies regime.

The company has opted not to file the statement of comprehensive income in accordance with provisions applicable to companies subject to the small companies' regime.

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

DocuSigned by:

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Director

Date: 18 April 2023 | 14:10 BST

The notes on pages 3 to 12 form part of these financial statements.

DEVICE AUTHORITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. General information

Device Authority Limited (the company) is a private company limited by shares and is registered in England and Wales. Registration Number 04676191. Registered office is Level 2, Thames Tower, Station Road, Reading RG1 1LX, United Kingdom.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Section 1A of Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The following principal accounting policies have been applied:

2.2 Going concern

Based on internal forecasts and projections, prepared for a period of at least 12 months from the date of approval of the financial statements, that consider reasonably possible changes in the company's trading performance, the directors have reasonable expectations that the company will require additional resources to continue in operational existence.

The forecasts consider current sales orders and opportunities, expenditure forecasts and company's current financial position, and are compiled using key market data, extensive dialogue with customers, in depth analysis of input cost, and a range of scenario planning.

Having taken all the above into consideration, the directors consider it appropriate to prepare the financial statements on the going concern basis. These circumstances form a material uncertainty on the company's ability to continue as a going concern as financial support required may be contingent on future fund raises.

2.3 Foreign currency translation

Functional and presentation currency

The company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings, cash and cash equivalents are presented in the statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in profit or loss within 'other operating income'.

DEVICE AUTHORITY LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022****2. Accounting policies (continued)****2.4 Turnover**

Turnover represents amounts receivable for goods and services net of VAT and trade discounts. This is recognised, as amounts are invoiced, earned and become payable. If revenues are invoiced for services to be rendered in respect of a future period, the revenues are apportioned.

2.5 Research and development

Research expenditure is written off to the profit and loss account in the year in which it is incurred. Development expenditure is written off in the same way unless the directors are satisfied as to the technical, commercial and financial viability of individual projects. In this situation, the expenditure is deferred and amortised over the period during which the company is expected to benefit.

2.6 Operating leases

Rentals paid under operating leases are charged to profit or loss on a straight-line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight-line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

2.7 Interest income

Interest income is recognised in profit or loss using the effective interest method.

2.8 Finance costs

Finance costs are charged to profit or loss over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.9 Pensions**Defined contribution pension plan**

The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations.

The contributions are recognised as an expense in profit or loss when they fall due. Amounts not paid are shown in accruals as a liability in the balance sheet. The assets of the plan are held separately from the company in independently administered funds.

2.10 Taxation

Tax is recognised in profit or loss except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the company operates and generates income.

DEVICE AUTHORITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. Accounting policies (continued)

2.11 Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

The estimated useful lives range as follows:

Intellectual property	-	10 years
Computer software development	-	3 years

2.12 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

At each reporting date tangible assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset is estimated and compared with its carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not more than the amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Computer equipment	- 3 years
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The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

2.13 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

DEVICE AUTHORITY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

2. Accounting policies (continued)

2.14 Financial instruments

The company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in ordinary shares.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the statement of comprehensive income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Warrant shares issued represent a non-basic financial instrument and are recognised as a liability. These are measured at fair value at the date the warrant shares were issued and then re-measured at fair value at each period end until the warrant shares are redeemed. Any fair value gains or losses are recognised in the statement of comprehensive income.

2.15 Preference shares

All preference shares in issue are convertible to A ordinary shares at the request of the shareholder, they are also non-redeemable and are therefore classified as equity. Any dividends payable against the preference shares would be recognised as a finance expense.

2.16 Carrying value of goodwill and other intangible assets

The carrying value of goodwill and other intangible assets is assessed at least annually to ensure that there is no need for impairment. Performing this assessment requires management to either estimate the fair value less costs to sell or estimate the future cash flows to be generated by the related cash generating unit, which entails making judgements including the expected rate of growth of sales, margins expected to be achieved and the appropriate discount rate to apply when valuing future cash flows.

3. Employees

The average monthly number of employees, including directors, during the year was 19 (2021: 13).

DEVICE AUTHORITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

4. Exceptional items

	2022 £	2021 £
Fair value of convertible financial instruments	1,338,846	573,656
Legal costs	19,881	80,230
	<u>1,358,727</u>	<u>653,886</u>

Exceptional items during the year include legal fees relating to the \$620,000 Convertible Loan Note round which closed in December 2022 as well as the fair value of the warrant shares. Exceptional items include the increase in fair value of the warrant shares and the addition of new warrant shares in relation to the new convertible loan note in the year (see note 11).

5. Intangible assets

	Patents £	Computer software £	Total £
Cost			
At 1 January 2022	28,000	2,800	30,800
At 31 December 2022	<u>28,000</u>	<u>2,800</u>	<u>30,800</u>
Amortisation			
At 1 January 2022	20,276	2,800	23,076
Charge for the year on owned assets	2,896	-	2,896
At 31 December 2022	<u>23,172</u>	<u>2,800</u>	<u>25,972</u>
Net book value			
At 31 December 2022	<u>4,828</u>	<u>-</u>	<u>4,828</u>
At 31 December 2021	<u>7,724</u>	<u>-</u>	<u>7,724</u>

DEVICE AUTHORITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

6. Tangible fixed assets

	Computer equipment £
Cost or valuation	
At 1 January 2022	12,496
Additions	5,786
At 31 December 2022	<u>18,282</u>
Depreciation	
At 1 January 2022	7,470
Charge for the year on owned assets	2,564
At 31 December 2022	<u>10,034</u>
Net book value	
At 31 December 2022	<u><u>8,248</u></u>
At 31 December 2021	<u><u>5,026</u></u>

7. Fixed asset investments

	Investments in subsidiary companies £
Cost	
At 1 January 2022 and 31 December 2022	<u><u>6,386,629</u></u>

DEVICE AUTHORITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

8. Debtors

	2022 £	2021 £
Trade debtors	209,996	21,567
Intercompany debtors	2,829,545	2,284,122
Prepayments and accrued income	34,947	37,568
	<u>3,074,488</u>	<u>2,343,257</u>

9. Creditors: Amounts falling due within one year

	2022 £	2021 £
Bank loans	9,103	8,719
Financial instruments	7,019,876	5,152,618
Trade creditors	227,069	145,873
Other taxation and social security	408,188	121,286
Other creditors	170,447	8,489
Accruals and deferred income	762,127	250,702
	<u>8,596,810</u>	<u>5,687,687</u>

Financial instruments consist of £6,487,964 (2021: £5,152,618) in respect of the fair value of warrant shares (Note 11) and £531,912 (2021: £Nil) in respect of convertible loan notes.

The convertible loan notes issued were considered to be a hybrid financial instrument comprising of a financial instrument (loan) and an embedded derivative (share option). At date of issue both elements were included in the balance sheet as liabilities and held at fair value through profit or loss.

10. Creditors: Amounts falling due after more than one year

	2022 £	2021 £
Bank loans	31,174	39,893
Deferred income	705,803	-
	<u>736,977</u>	<u>39,893</u>

The loan is repayable in monthly installments, with the final installment due in October 2027. Interest is charged at an annual rate of 2.5%.

DEVICE AUTHORITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

11. Share capital

	2022 £	2021 £
Allotted and called up		
30,563,594 Ordinary Class A shares of £0.03668158 each	1,121,121	1,121,121
7,348,500 Ordinary Class B shares of £0.000037 each	272	272
463,710 Ordinary Class C shares of £0.000037	16	16
408,330 Deferred shares of £0.000037	15	15
40,372,555 Preference A shares of £0.03668158 each	1,480,929	1,480,929
	<u>2,602,353</u>	<u>2,602,353</u>

The ordinary A shares (1) carry one vote each (2) each rank equally for dividends (3) rank equally on distributions (including on a winding up) and (4) are non-redeemable. Class A preference shares, except on liquidation, shall rank pari passu with the ordinary A shares. Upon liquidation A preference shares are entitled to be paid out of proceeds of the remaining assets of the company at (1) the amount paid or (2) such amount payable if the A preference shares had been converted into ordinary A shares. Ordinary B and C shares (1) carry no voting rights (2) rank equally for dividends (3) rank equally on distributions including on a winding up and (4) are non-redeemable.

Warrant shares

There has been 11 tranches of warrant shares issued. Tranche 1 was issued in 2017 and has now lapsed, with tranche 2-12 being issued between 2017 and 2022.

Tranche 2-10 of the warrant instruments all have a maturity date of 7-years (2nd December 2028) and can be converted into 14,456,951 warrant shares for cash totalling £530,304.

Tranche 11 of the warrant shares were issued as part of the \$3m investment round in December 2021, and can be converted into 17,473,676 warrant shares for cash totalling £640,962.

Tranche 2-11 warrants may be exercised upon a sale offer of the company greater than \$50,000,000.

Warrant shares were issued as part of the \$620,000 Convertible Loan Note round (tranche 12) in October 2022, and can be converted into a variable amount of shares depending on the prevailing value at the point the Convertible Loan Notes are exercised.

External experts were appointed to use valuation methods including a binomial model to calculate a fair value for the warrant shares of £6,487,964, which has been recognised in the profit and loss account and creditors due after more than one year. This represents an increase in valuation during 2022 of £1,335,346, of which £667,309 is attributed to the valuation of the new tranche 12 warrants, and £668,037 being due to the year-on-year change in exchange and risk-free interest rates having an impact on the valuation of the tranche 2-11 warrants.

12. Share premium

Premium on shares issued in excess of nominal value.

	2022 £	2021 £
Share premium	<u>16,442,905</u>	<u>16,442,905</u>

DEVICE AUTHORITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

13. Share-based payments

The company operates an equity-settled share based remuneration scheme for employees. The share options issued can only be exercised on an exit event. At the end of 2021 the number of share options issued was significantly lower than at the end of 2022, mainly due to a different approach being taken to the employee share scheme, and as such resulted in a Black Scholes valuation that was immaterial in 2021.

The Black Scholes option pricing model was used to value the share based payment awards as it was considered that this would result in a materially accurate estimate of the fair value of options granted.

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily share prices over the last three years of comparable publicly quoted companies.

	Weighted average exercise price (pence) 2022	Number 2022	Weighted average exercise price (pence) 2021	Number 2021
Outstanding at the beginning of the year	0.08	175,500	0.08	175,500
Granted during the year	1.27	7,409,090		-
Outstanding at the end of the year	1.24	7,584,590	0.08	175,500

	2022	2021
Option pricing model used	Black Scholes	Black Scholes
Weighted average share price (pence)	10	0.02
Exercise price (pence)	1.24	0.08
Weighted average contractual life (years)	10	10
Expected volatility	50%	50%
Expected dividend growth rate	-	-
Risk-free interest rate	3.67	3.67
	2022	2021
	£	£
Equity-settled schemes	632,576	-

DEVICE AUTHORITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

14. Related party transactions

Tern PLC

Tern PLC, which has a controlling shareholding in the company, is considered a related party. During the period, Tern's total invoices to the company (ex.VAT) were £15,000 (2021: £24,333) in respect of management services, facility fees and expenses, and the company's invoices (ex. VAT) to Tern totalled £Nil (2021: £738). At the period-end the company owed £105,959 (2021: £90,959) in trade payables, net of the receivables. Tern had previously provided a loan facility to Device Authority Limited. As at 31st December 2022, there was £519,374 (\$427,530 Convertible Loan Notes and \$174,551 cash loans) outstanding (2021: £Nil).

Alsop Louie Partners

Alsop Louie Partners provided a loan facility to Device Authority Limited. As at 31st December 2022, there was £117,293 (\$137,090 Convertible Loan Notes) outstanding (2021: £Nil).

The Ann Samenuk Revocable Trust

The Ann Samenuk Revocable Trust provided a loan facility to Device Authority Limited. As at 31st December 2022, there was £23,608 (\$27,576 Convertible Loan Notes) outstanding (2021: £Nil).

Venafi

Venafi Inc. is considered a related party. During the period, the company's invoices to Venafi totalled \$10,000 (2021: \$10,755). At the period-end Venafi owed \$Nil (2021: \$Nil) in trade payables to the company. Venafi had provided a loan facility to Device Authority Limited. As at 31st December 2022, there was £23,950 (\$27,814 Convertible Loan Notes) outstanding (2021: £Nil).

15. Controlling party

As at 31 December 2022, the ultimate controlling party was Tern PLC who owned 57.8% of 'A' shares of the Company. The executives of the Company hold non-voting Ordinary Class B shares.