

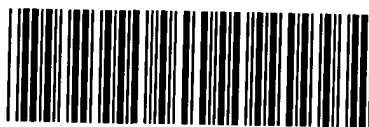
LIGHT BLUE OPTICS LIMITED

UNAUDITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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LIGHT BLUE OPTICS LIMITED

COMPANY INFORMATION

Directors	A Cable N Lawrence K Ganapathi A Mitchell (appointed 23 January 2018) J Roberts J Sibilila D Hsieh (appointed 19 July 2018)
Registered number	05018807
Registered office	St John's Innovation Centre Cowley Road Cambridge Cambridgeshire CB4 0WS

LIGHT BLUE OPTICS LIMITED

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LIGHT BLUE OPTICS LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018**

The directors present their report and the financial statements for the year ended 31 December 2018.

Directors

The directors who served during the year were:

A Cable
N Lawrence
K Ganapathi
A Mitchell (appointed 23 January 2018)
J Roberts
J Sibilia
D Hsieh (appointed 19 July 2018)

Small companies note

In preparing this report, the directors have taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006.

This report was approved by the board on 10 April 2019 and signed on its behalf.

A handwritten signature in black ink that reads "N Lawrence". The signature is written in a cursive, flowing style.

N Lawrence
Director

LIGHT BLUE OPTICS LIMITED

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	2018 £000	2017 £000
Turnover	3	2,246	669
Cost of sales		(966)	(326)
Gross profit		1,280	343
Administrative expenses		(5,042)	(2,880)
Operating loss		(3,762)	(2,537)
Interest receivable and similar income		1	-
Interest payable and expenses	6	(227)	(208)
Loss before taxation		(3,988)	(2,745)
Tax on loss	7	575	418
Loss for the financial year		(3,413)	(2,327)
Currency translation differences		7	42
Other comprehensive income for the year		7	42
Total comprehensive income for the year		(3,406)	(2,285)
(Loss) for the year attributable to:			
Owners of the parent Company		(3,413)	(2,327)
		(3,413)	(2,327)
Total comprehensive income for the year attributable to:			
Owners of the parent Company		(3,406)	(2,285)
		(3,406)	(2,285)

The notes on pages 9 to 23 form part of these financial statements.

LIGHT BLUE OPTICS LIMITED
REGISTERED NUMBER:05018807

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2018

	Note	2018 £000	2017 £000
Fixed assets			
Tangible assets	8	76	63
		<u>76</u>	<u>63</u>
Current assets			
Stocks	10	583	96
Debtors: amounts falling due within one year	11	911	695
Cash at bank and in hand	12	739	1,557
		<u>2,233</u>	<u>2,348</u>
Creditors: amounts falling due within one year	13	(2,848)	(526)
Net current (liabilities)/assets		<u>(615)</u>	<u>1,822</u>
Total assets less current liabilities		<u>(539)</u>	<u>1,885</u>
Creditors: amounts falling due after more than one year	14	(711)	(518)
Provisions for liabilities			
Net (liabilities)/assets		<u><u>(1,250)</u></u>	<u><u>1,367</u></u>

LIGHT BLUE OPTICS LIMITED
REGISTERED NUMBER:05018807

CONSOLIDATED BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 2018

	Note	2018 £000	2017 £000
Capital and reserves			
Called up share capital	15	2	2
Share premium account	16	47,789	47,058
Other reserves	16	163	152
Profit and loss account	16	(49,204)	(45,845)
Equity attributable to owners of the parent Company		<u>(1,250)</u>	<u>1,367</u>
		<u>(1,250)</u>	<u>1,367</u>

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 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 were approved and authorised for issue by the board and were signed on its behalf on 10 April 2019.



N Lawrence
Director

The notes on pages 9 to 23 form part of these financial statements.

LIGHT BLUE OPTICS LIMITED
REGISTERED NUMBER:05018807

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2018

	Note	2018 £000	2017 £000
Fixed assets			
Tangible assets	8	56	32
Investments	9	1	1
		<u>57</u>	<u>33</u>
Current assets			
Stocks	10	580	90
Debtors: amounts falling due within one year	11	675	1,507
Cash at bank and in hand	12	73	505
		<u>1,328</u>	<u>2,102</u>
Creditors: amounts falling due within one year	13	(1,936)	(191)
Net current (liabilities)/assets		<u>(608)</u>	<u>1,911</u>
Total assets less current liabilities		<u>(551)</u>	<u>1,944</u>
Creditors: amounts falling due after more than one year	14	(711)	(518)
Net (liabilities)/assets		<u><u>(1,262)</u></u>	<u><u>1,426</u></u>

LIGHT BLUE OPTICS LIMITED
REGISTERED NUMBER:05018807

COMPANY BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 2018

	Note	31 December 2018 £000	31 December 2017 £000
Capital and reserves			
Called up share capital	15	2	2
Share premium account	16	47,790	47,058
Other reserves	16	163	152
Profit and loss account brought forward		(45,786)	(43,475)
Loss for the year		(3,478)	(2,329)
Other changes in the profit and loss account		47	18
Profit and loss account carried forward		(49,217)	(45,786)
		(1,262)	1,426

The directors consider that the Company is entitled to exemption from the requirement to have an audit under the provisions of 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 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 Company's financial statements have been prepared in accordance with the 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 on 10 April 2019.



N Lawrence
Director

The notes on pages 9 to 23 form part of these financial statements.

LIGHT BLUE OPTICS LIMITED

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Called up share capital £000	Share premium account £000	Other reserves £000	Profit and loss account £000	Total equity £000
At 1 January 2017	-	43,741	25	(43,578)	188
Comprehensive income for the year					
Loss for the year	-	-	-	(2,327)	(2,327)
Currency translation differences	-	-	-	42	42
Total comprehensive income for the year	-	-	-	(2,285)	(2,285)
Shares issued during the year	2	3,375	-	-	3,377
Shares issue costs	-	(58)	-	-	(58)
Transfer to/from profit and loss account	-	-	(18)	18	-
Warrant issue	-	-	145	-	145
Total transactions with owners	2	3,317	127	18	3,464
At 1 January 2018	2	47,058	152	(45,845)	1,367
Comprehensive income for the year					
Loss for the year	-	-	-	(3,413)	(3,413)
Currency translation differences	-	-	-	7	7
Total comprehensive income for the year	-	-	-	(3,406)	(3,406)
Shares issued during the year	-	761	-	-	761
Share issue costs	-	(30)	-	-	(30)
Transfer to/from profit and loss account	-	-	(47)	47	-
Warrant issue	-	-	58	-	58
Total transactions with owners	-	731	11	47	789
At 31 December 2018	2	47,789	163	(49,204)	(1,250)

The notes on pages 9 to 23 form part of these financial statements.

LIGHT BLUE OPTICS LIMITED

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Called up share capital £000	Share premium account £000	Other reserves £000	Profit and loss account £000	Total equity £000
At 1 January 2017	-	43,741	25	(43,475)	291
Comprehensive income for the year					
Loss for the year	-	-	-	(2,329)	(2,329)
Total comprehensive income for the year	-	-	-	(2,329)	(2,329)
Contributions by and distributions to owners					
Shares issued during the year	2	3,375	-	-	3,377
Shares issue costs	-	(58)	-	-	(58)
Transfer to/from profit and loss account	-	-	(18)	18	-
Warrant issue	-	-	145	-	145
Total transactions with owners	2	3,317	127	18	3,464
At 1 January 2018	2	47,058	152	(45,786)	1,426
Comprehensive income for the year					
Loss for the year	-	-	-	(3,478)	(3,478)
Total comprehensive income for the year	-	-	-	(3,478)	(3,478)
Contributions by and distributions to owners					
Shares issued during the year	-	762	-	-	762
Share issue costs	-	(30)	-	-	(30)
Transfer to/from profit and loss account	-	-	(47)	47	-
Warrant issue	-	-	58	-	58
Total transactions with owners	-	732	11	47	790
At 31 December 2018	2	47,790	163	(49,217)	(1,262)

The notes on pages 9 to 23 form part of these financial statements.

LIGHT BLUE OPTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. General information

Light Blue Optics Limited is a private company limited by shares and incorporated in England and Wales. Registered number 05018807. Its registered head office is located at St John's Innovation Centre, Cowley Road, Cambridge, England, CB4 0WS.

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 Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Statement of Comprehensive Income in these financial statements.

The financial statements are prepared in sterling and presented in round thousands.

The following principal accounting policies have been applied:

2.2 Basis of consolidation

The consolidated financial statements present the results of the Company and its own subsidiaries ("the Group") as if they form a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

2.3 Going concern

The financial statements have been prepared on a going concern basis, which assumes that the Group will continue trading for the foreseeable future. The Group is seeking to raise additional finance from investors to support its trading activity. The Directors are confident of their ability to execute their operational plans and to start generating cash from operations in the final quarter of 2019. In November 2018, a further \$3.5m convertible loan note was issued and partially drawn down. Post year end, a debt financing arrangement of up to \$3m has been put in place and partially drawn down.

The Directors are aware that some uncertainties exist over future trading results and cash flows and they require additional debt and/or equity funding to allow the Group to realise its assets and discharge its liabilities in the normal course of business. Management have prepared detailed forecasts and projections to support their business plans which take into consideration the uncertainties noted above. Based on commercial progress to date and ongoing investor discussions, the Directors have concluded it is appropriate to continue to adopt the going concern basis of accounting.

LIGHT BLUE OPTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. Accounting policies (continued)

2.4 Revenue

Revenue represents the sale of goods and the provision of services. Project revenue is invoiced in line with customer contracts and revenue is recognised on the basis of the stage of completion which is determined by reference to work performed.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods and intellectual property

Revenue from the sale of goods and intellectual property is recognised when all of the following conditions are satisfied:

- the Group has transferred the significant risks and rewards of ownership to the buyer;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Group will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Group will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

LIGHT BLUE OPTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. Accounting policies (continued)

2.5 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.

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.

The estimated useful lives range as follows:

Long-term leasehold property	- 3 years
Fixtures and fittings	- 5 - 7 years
Office equipment	- 2 - 5 years
Factory equipment	- 1 year

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 the Consolidated Statement of Comprehensive Income.

2.6 Development costs

Research and development expenditure is written off in the year in which it is incurred.

2.7 Investments

Investments in subsidiaries are measured at cost less accumulated impairment. Where merger relief is applicable, the cost of the investment in a subsidiary undertaking is measured at the nominal value of the shares issued together with the fair value of any additional consideration paid.

2.8 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each balance sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

2.9 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

LIGHT BLUE OPTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. Accounting policies (continued)

2.10 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.11 Financial instruments

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in the case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

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 Consolidated 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.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the Group would receive for the asset if it were to be sold at the balance sheet date.

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.12 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

LIGHT BLUE OPTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. Accounting policies (continued)

2.13 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 the Consolidated Statement of Comprehensive Income except when deferred in other comprehensive income as qualifying cash flow hedges.

On consolidation, the results of overseas operations are translated into Sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income.

2.14 Finance costs

Finance costs are charged to the Consolidated Statement of Comprehensive Income 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.

2.15 Dividends

Equity dividends are recognised when they become legally payable. Dividends on shares recognised as liabilities are recognised as expenses and classified as finance charges within interest payable.

2.16 Operating leases: the Group as lessee

Rentals paid under operating leases are charged to the Consolidated Statement of Comprehensive Income 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.

LIGHT BLUE OPTICS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

2. Accounting policies (continued)

2.17 Pensions

Defined contribution pension plan

The Group operates two defined contribution plans for its employees; one for UK based employees and one for US based employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payment obligations.

The contributions are recognised as an expense in the Consolidated Statement of Comprehensive Income 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 Group in independently administered funds.

2.18 Interest income

Interest income is recognised in the Consolidated Statement of Comprehensive Income using the effective interest method.

2.19 Taxation

Tax is recognised in the Consolidated Statement of Comprehensive Income, 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 and the Group operate and generate income.

3. Turnover

	2018	2017
	£000	£000
Sales of goods	2,060	280
Services	186	389
	2,246	669

4. Employees

The average monthly number of employees, including directors, during the year was 21 (2017: 17)

LIGHT BLUE OPTICS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

5. Directors' remuneration

	2018	<i>2017</i>
	£000	<i>£000</i>
Directors' emoluments	425	<i>300</i>
Company contributions to defined contribution pension schemes	28	<i>26</i>
	453	<i>326</i>

During the year retirement benefits were accruing to 3 directors (2017 - 2) in respect of defined contribution pension schemes.

The highest paid director received remuneration of \$215,000 (2017: \$241,069) and pension contributions of \$11,251 (\$4,770).

The aggregate key management remuneration for the year was £891,000 (2017: £643,000).

6. Interest payable and similar expenses

	2018	<i>2017</i>
	£000	<i>£000</i>
Finance charge on warrants granted	57	<i>146</i>
Interest payable	19	<i>50</i>
Finance charge on Series 2 shares	151	<i>12</i>

LIGHT BLUE OPTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

7. Taxation

	2018 £000	2017 £000
Corporation tax		
Current tax on profits for the year	(584)	(414)
Adjustments in respect of previous periods	-	(9)
Foreign tax		
Foreign tax on income for the year	9	5
	<u>9</u>	<u>5</u>
Total current tax	<u>(575)</u>	<u>(418)</u>
Deferred tax		
Total deferred tax	<u>-</u>	<u>-</u>
Taxation on loss on ordinary activities	<u>(575)</u>	<u>(418)</u>

Factors affecting tax charge for the year

A tax credit of £584,000 (2017: £414,000) has been recognised for the year ended 31 December 2018. This arises from R&D tax credits reclaimable for the period.

At 31 December 2018 there were tax losses of approximately £26.6m (2017: £23.7 million) to carry forward for future relief against future profits from the same trade.

Factors that may affect future tax charges

The Company takes advantage of the enhanced tax deductions for Research & Development expenditure and expects to be able to continue to do so.

The Company has an unprovided deferred tax asset of £4.5m (2017: £4.1 million) relating to trading losses. This asset can be used against future profits in the Company and will reduce the overall tax charge when utilised.

LIGHT BLUE OPTICS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

8. Tangible fixed assets

Group

	Long-term leasehold property £000	Fixtures and fittings £000	Office equipment £000	Factory equipment £000	Total £000
Cost or valuation					
At 1 January 2018	-	1	46	35	82
Additions	7	20	22	67	116
At 31 December 2018	<u>7</u>	<u>21</u>	<u>68</u>	<u>102</u>	<u>198</u>
Depreciation					
At 1 January 2018	-	1	18	-	19
Charge for the year on owned assets	2	4	21	76	103
At 31 December 2018	<u>2</u>	<u>5</u>	<u>39</u>	<u>76</u>	<u>122</u>
Net book value					
At 31 December 2018	<u>5</u>	<u>16</u>	<u>29</u>	<u>26</u>	<u>76</u>
At 31 December 2017	<u>-</u>	<u>-</u>	<u>28</u>	<u>35</u>	<u>63</u>

LIGHT BLUE OPTICS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

8. Tangible fixed assets (continued)

Company

	Long-term leasehold property £000	Fixtures and fittings £000	Office equipment £000	Factory equipment £000	Total £000
Cost					
At 1 January 2018	-	1	29	19	49
Additions	7	20	14	6	47
At 31 December 2018	<u>7</u>	<u>21</u>	<u>43</u>	<u>25</u>	<u>96</u>
Depreciation					
At 1 January 2018	-	1	16	-	17
Charge for the year on owned assets	2	4	12	5	23
At 31 December 2018	<u>2</u>	<u>5</u>	<u>28</u>	<u>5</u>	<u>40</u>
Net book value					
At 31 December 2018	<u>5</u>	<u>16</u>	<u>15</u>	<u>20</u>	<u>56</u>
At 31 December 2017	<u>-</u>	<u>-</u>	<u>13</u>	<u>19</u>	<u>32</u>

LIGHT BLUE OPTICS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

9. Fixed asset investments

Investments comprise the Company's 100% shareholdings in Light Blue Optics Inc, which is registered in the US, and Light Blue Optics (SPV1) Limited, which is registered in the UK and dormant.

Company

	Investments in subsidiary companies £000
Cost or valuation	
At 1 January 2018	1
At 31 December 2018	1

10. Stocks

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Raw materials and consumables	121	69	118	69
Finished goods and goods for resale	462	27	462	21
	583	96	580	90

LIGHT BLUE OPTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

11. Debtors

	Group 2018 £000	<i>Group 2017 £000</i>	Company 2018 £000	<i>Company 2017 £000</i>
Trade debtors	137	134	-	-
Amounts owed by group undertakings	-	-	-	1,048
Other debtors	616	474	608	454
Prepayments and accrued income	158	87	67	5
	<u>911</u>	<u>695</u>	<u>675</u>	<u>1,507</u>

An impairment loss of £Nil (2017: £Nil) was recognised against trade debtors.

12. Cash and cash equivalents

	Group 2018 £000	<i>Group 2017 £000</i>	Company 2018 £000	<i>Company 2017 £000</i>
Cash at bank and in hand	<u>739</u>	<u>1,557</u>	<u>73</u>	<u>505</u>

LIGHT BLUE OPTICS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

13. Creditors: Amounts falling due within one year

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Bank loans	702	-	-	-
Loan notes	1,084	-	1,084	-
Trade creditors	594	305	110	116
Amounts owed to group undertakings	-	-	630	-
Other taxation and social security	37	23	37	23
Other creditors	44	28	24	21
Accruals and deferred income	387	170	51	31
	2,848	526	1,936	191

During 2017 the Company issued loan notes totalling \$870,000 which were converted to shares within 2017 financial year (note 16).

In December 2018 the Company issued convertible loans notes totalling \$1.38m due for repayment in December 2019. Interest accrues at 6% per annum and the loan notes are convertible to shares at the holders request and have been accounted for wholly as debt.

The Group has a credit facility of up to \$2m with Silicon Valley Bank which is secured by the Group's assets.

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

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Interest charge on the Series 2 shares	163	12	163	12
Liability on Series 2 shares	506	506	506	506
Liability on Series 2E shares	42	-	42	-
	711	518	711	518

Series 2 shareholders have a right for a fixed cumulative dividend which is accrued and becomes payable on the sale of the Company and represents a liability component. Series 2E shareholders have a right for a fixed non-cumulative dividend which is accrued and becomes payable on the sale of the Company and represents a liability component.

The fair value of the liability component was calculated using a market interest rate for an equivalent non-compound financial instrument. The residual amount, representing the value of the equity component, is included in share premium in equity.

LIGHT BLUE OPTICS LIMITED

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15. Share capital

	2018	2017
	£	£
Shares classified as equity		
Allotted, called up and fully paid		
3,353,760 (2017: 3,328,760) Ordinary shares of £0.0001 each	335	333
234,180 (2017: 234,180) Deferred shares of £0.0001 each	23	23
1,215,592 (2017: 1,110,223) Series 1 shares of £0.0001 each	122	111
15,472,786 (2017: 15,289,313) Series 2 shares of £0.0001 each	1,547	1,529
2,959,284 Series 2E shares of £0.0001 each	296	-
	<hr/> 2,323 <hr/>	<hr/> 1,996 <hr/>

During the year 25,000 Ordinary shares were issued as a result of the exercise of employee share options, 105,369 Series 1 shares and 100,615 Series 2 shares as a result of the exercise of warrants and 2,959,284 Series 2E shares were issued for consideration of £765,000.

In 2018 216,026 warrants over Series 2 shares at an exercise price of \$0.000373 per share were granted. 100,615 were exercised in the year, the balance remain outstanding.

In 2017 3,304,213 Series 2 shares were issued on the conversion of loan notes and 11,985,100 Series 2 shares were issued at \$0.3379 each. Loan note holders were granted 600,728 warrants over Series 2 shares at an exercise price of \$0.01. 82,858 were exercised in the year. 517,870 remain outstanding as at 31 December 2018.

On the 19th May 2016, as part of a board authorized financing agreement with Payplant LLC, the limited partners of Payplant LLC were granted 110,095 warrants over F preferred shares at an exercise price of £0.000373 and 752,307 warrants over F preferred shares at an exercise price of £0.373 per share. In November 2017 the Company redesignated all F preferred shares as Series 1 shares of £0.0001. 123,900 warrants were exercised in 2016, 264,657 were exercised in 2017 and 105,369 were exercised in 2018 leaving outstanding warrants at 31 December 2018 of 18,493 at an exercise price of £0.000373 and 349,983 at an exercise price of £0.373.

The Company has an employee share incentive plan in place. 1,038,418 options over Ordinary shares of £0.0001 each were granted in 2016 with an exercise price of par value. 413,355 were exercised in 2017, 25,000 were exercised in 2018 and 600,163 remain outstanding as at 31 December 2018. Options over 6,225,946 Ordinary shares were granted in 2018 with an exercise price of £0.0001 or \$0.035.

Any holder of the Preferred Shares (Series 1, Series 2 and Series 2E shares) is entitled to require conversion into Ordinary shares at any time. All Preferred Shares shall automatically convert into Ordinary shares immediately before a qualifying IPO.

Upon conversion of the Preferred Shares into Ordinary shares, sale of the Company, IPO or winding up a cumulative fixed rate dividend equal to 8% per annum on the subscription price is payable to the holders of the Series 2 shares respectively. An 8% fixed rate non-cumulative dividend is payable to the holders of the Series 2E shares in the same circumstances. With Board approval a cumulative fixed rate dividend of 5% per annum is payable in the same circumstances to the holders of Series 1 shares.

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16. Reserves

Share premium account

Share premium includes premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Other reserves

Other reserves represents the fair value of outstanding warrants classified as equity instruments. Upon exercise of share options and warrants, the proceeds received, net of any directly attributable transaction costs, are allocated to share capital up to the nominal (or par) value of the shares issued with excess being recorded as share premium

Profit and loss account

Retained earnings includes all current and prior period retained profits and share-based employee remuneration.

17. Commitments under operating leases

At 31 December 2018 the Group and the Company had future minimum lease payments under non-cancellable operating leases as follows:

	Group 2018 £000	<i>Group 2017 £000</i>	Company 2018 £000	<i>Company 2017 £000</i>
Not later than 1 year	162	129	91	96
Later than 1 year and not later than 5 years	36	91	-	91

18. Controlling party

There is no controlling party.