

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

CONSOLIDATED

REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED

28 DECEMBER 2020

Company Number: 05628362



NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

REPORT AND FINANCIAL ACTIVITIES

FOR THE PERIOD ENDED 28 DECEMBER 2020

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NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

COMPANY INFORMATION

FOR THE PERIOD ENDED 28 DECEMBER 2020

| | |
|--------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Directors | Anthony Matchett Steven Hancock Simon Cole Ian Hanson (resigned: 1 st April 2020) Andy Botha Grant Dollens (appointed: 14 th April 2020) |
| Secretary | Sohail Bhatti (appointed 12 November 2020) Reed Smith (resigned 12 November 2020) |
| Registered Office | 55 Poland Street London England W1F 7NN |
| Company number | 05628362 |
| Registrar and transfer office | Neville Registrars Limited Neville House 18 Laurel Lane Halesowen B63 3DA |
| Auditors | RMT Accountants & Business Advisors Limited Gosforth Park Avenue Newcastle upon Tyne NE12 8EG |
| Nominated adviser | Arden Partners plc 125 Old Broad Street London EC2N 1AR |
| Broker | Arden Partners plc 125 Old Broad Street London EC2N 1AR |

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

CHAIRMAN'S STATEMENT

FOR THE PERIOD ENDED 28 DECEMBER 2020

I am pleased to present our Group results for the period to 28 December 2020. This was a difficult period for everyone, with the COVID 19 pandemic fundamentally changing the way people lived their lives and, before anything else, I would like to thank all our employees for their commitment and hard work during this challenging time. With the reverse acquisition of Napster being completed on 29 December 2020, your Board felt it would be a more appropriate representation of the business for 2020 to prepare these financial statements to an accounting reference date which immediately preceded the completion of the Napster business. In doing so, these results solely reflect the activities of the MelodyVR business and conclude definitively what has been a period of significant progress and development since the Company initially listed in 2015.

Having taken this decision, our first set of results incorporating the enlarged Napster business will be for the interim period ending 30 June 2021. In the absence of any pre-acquisition trading update our interim results will provide a clear picture of activities for the enlarged business and will provide a meaningful performance comparative for future trading periods.

The acquisition of the Napster business marked a significant step in our Company's development. As a Board we are aware of the amount of capital we have had to invest in our technology and people over the last 5 years. This investment allowed us to create a platform in the music industry which gave us the credibility to secure the acquisition of Napster from a competitive field of multi-national suitors also vying to acquire the business. The Board believes that this acquisition will be the catalyst for us to transform the revenue and growth profile of the Company.

Looking forward, we see an extremely exciting future ahead for our business. We expect to launch an updated version of Napster towards the end of Q4 2021 that combines the numerous content types that the legacy Napster and MelodyVR platforms represented in to a single offering. Music is much more than sound and our new platform will offer the only streaming membership where fans can get access to an entire repertoire of an artist's work, be it on stage, in the studio or under the radar. We believe the front row belongs to everybody and our new subscription service will provide all area access including the ability to be part of sold out "360" shows live from across the globe, 4K+ video, hi-resolution and immersive audio, interviews, documentaries and downloadable libraries on any device, uninterrupted by advertising.

Following the launch of the new platform Napster will soon deliver a cross-platform experience that spans traditional listening on mobile devices, through to shared experiences on living room big screens – and beyond. We have the ambition to change an industry and have a solid-foundation to build on based on our heritage. Our primary objective is to drive significant customer and revenue growth and consumer acquisition via innovation whilst challenging engrained industry norms. As larger Digital Service Suppliers ("DSP's") diversify away from music content into areas such as spoken word - Napster will cement its position as the original music-platform for music fans, providing deeper connections with the artists they love, and a new platform to discover new music and talent.

We have a clear plan for monetisation of the new platform. Subscriber growth will be at our core - initially focussing on relationships with both existing and new telco partners as 5G mobile networks roll out across the globe and our partners look to showcase their own technology. MelodyVR already has agreements in place with SingTel, Telefonica and NOS. We expect to reach new agreements with these partners as well as the 6 other telco providers Napster currently partners with. In addition, we are in discussions with several new telco operators about partnerships for the new Napster platform and expect to conclude several agreements during 2021 ahead of the platform's launch. Further announcements in relation to new agreements will be made as and when they are signed.

The depth and breadth of our forthcoming content offering, which the Board believes to be unparalleled within the music industry, will be available via a single app download of Napster. Our established presence in 33 territories will provide an initial platform and foundation for the launch of our new service. In addition, we will seek to target emerging markets, which we believe to date have a lower level of penetration by the other streaming services, delivering value and access to unique content from our extensive content library of over 105m tracks and broadcast content. This targeted approach to new identified key markets will allow us to secure a more dominant market position and deliver a better return on our marketing investments.

Much progress has been made since the completion of the Napster acquisition. Our planning during the months leading up to the acquisition has enabled us to conclude many of the integration initiatives during the first quarter of 2021. As we have sought to eliminate duplicated functions and consolidate operations particularly within the areas of finance, marketing and

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

CHAIRMAN'S STATEMENT (continued)

FOR THE PERIOD ENDED 28 DECEMBER 2020

licencing across our primary locations, to date we have been able to secure annualised OPEX savings of c.£4,8m, which in turn has allowed us to channel greater resource into the continued technical development of our new platform.

Given the global resonance of the Napster brand and its legacy as the original disruptor in the music industry, we have embraced its heritage and ethos for change. We have now completed the rebranding of our corporate identity in anticipation of the launch of our new service towards the end of 2021.

To fund these ambitions, we have secured a term loan from Davis Capital and a convertible loan facility from Swiss Investment firm Nice & Green. Davis Capital is represented by Lansing Davis, our largest shareholder who we expect to join the Board in the near future. Our relationship with Nice & Green has provided us with access to £8m of funding and contributes towards the c\$40m of aggregate funding we have secured to fund our operations over the near term as we work towards the launch of our new Napster platform. As a company, we are pleased to be partnered with Nice & Green who we view as both a responsible lender and who have retained the vast majority of their shareholding and have embraced both our ambition and vision for our business, providing us with the ability to secure regular funding from the public markets. As a long term quasi-institutional supporter of our business, this access to capital, which is often on terms more favourable than a traditional equity placings, provides for cost effective equity issue without significant shareholder dilution.

Significant events in 2020

2020 was one of the most challenging years on record for live music as the COVID 19 pandemic resulted in many countries implementing lockdowns. We were able to adapt our offering to provide music fans with a number of events that continued to build awareness of MelodyVR, created new revenue opportunities and drove an increase in subscriber numbers:

- In May 2020, MelodyVR launched "Live from LA" a music series delivered directly to fans homes around the world throughout the pandemic, broadcast from a COVID safe purpose built studio in Los Angeles and featuring exclusive shows from artists such as John Legend, Cypress Hill and Kesha;
- July saw Wireless Festival and MelodyVR come together to present Wireless Connect – a three day virtual festival featuring more than 70 artists;
- In September 2020, MelodyVR, Live Nation and Ticketmaster commenced their virtual paid for concert series "Live from O2 Academy Brixton" connecting artists and fans for live concerts in "360" degree VR;
- In December 2020, British musical icon Liam Gallagher performed a one of a kind virtual event "Down by the River Thames" streamed to a global audience and generating our first ticketing revenue;
- On 29th December 2020 MelodyVR completed the acquisition of the Napster business paving the way for a unique music service offering both immersive live performances, music streaming services and much more.

Review of business and 2020 financial results

As set out above these results reflect the activities of the Group for the period up to and immediately preceding the acquisition of the Napster business. As such, these results reflect the continuing initiatives to extend awareness of the MelodyVR platform and consequent engagement with its content. This was made more challenging given the global COVID pandemic. During the period, our business generated more than 187k new installs of our app and we close the period with, in excess of 325k users in addition to successfully positioning the Company as the leading suitor in the Napster acquisition tender process.

The restrictions imposed by the pandemic and the consequent cancellation of all audience attended events during the course of 2020 provided us with the ability to host a series of events that ensured artists could continue to engage with their fans. Our Live in LA series was host to artists including John Legend, Cypress Hill, Katelyn Tarver, Zella Day, Jo Jo, Nelly and Kesha and accelerated both awareness and acceptance of live streamed content on the MelodyVR platform.

In July 2020, we hosted Wireless Connect in partnership with Festival Republic, a division of Live Nation which saw more than 70 artists perform at the Alexandra Palace to a virtual audience over three days. This event not only showcased our ability as leaders in our field to capture, create and broadcast live immersive content but also captured the imagination of more than 132,000 fans who experienced this immersive festival over three days. Our period closed with a further series of live virtual events held at London's Brixton Academy and staged in partnership with both Live Nation and Ticketmaster.

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

CHAIRMAN'S STATEMENT (continued)

FOR THE PERIOD ENDED 28 DECEMBER 2020

Given the exposure of our live series earlier in the period and the success of Wireless Connect, our series in London sought for the first time to monetise our content via the sale of live digital tickets through Ticketmaster. The series concluded with a performance by Liam Gallagher of Oasis fame on the Thames, an event for which we sold close to 40,000 tickets at an average ticket price of £12. With attendance restrictions set to continue for the foreseeable future, our ability to monetise our live performances with meaningful paid ticket sales, not only illustrates increasing engagement with immersive events but also a growing digital engagement between artist and fan, and one which will clearly differentiate our new platform offering post-launch.

Financial Results

The Group reported revenues for the period totalling £987.7k (2019 : £195.0k) resulting primarily from platform content sales and subscription income from our partnership with O2. The gross loss of £4.6m (2019 : £1.6m) has been calculated after the deduction of content creation costs and amounts due to rights holders. Cost of sales of £5.6m (2019 : £1.8m) includes production costs associated with our "Live in LA" on demand series and Wireless Connect Festival staged in partnership with Live Nation, as well as commissions and revenue share arrangements due to app stores, record labels, publishers, song writers and event / venue partners. Given the nature of these "free to air" events, we have not sought to capitalise any costs associated with the creation of this content.

After administrative expenses of £21.5m (2019 : £14.2m) the Group reported an operating loss for the period of £26.0m (2019 : £15.9m). Administrative expenses increased by £7.3m over that reported for the period to 31 December 2019. An 11% rise in staff numbers over the previous period together with an increase in corporate premises costs despite favourable rental arrangements during the months of lock down accounted for £4.3m of this increase. In December 2020, the Group announced that in anticipation of its acquisition of the Napster business it would commence a review of its resource requirements in anticipation of integrating the two businesses. Provisions totalling £1.2m are also included within administrative expenses which include the costs of reorganisation, impairment of the Group's viewer inventory and intangible content assets and for the non-recovery of certain receivables from entities significantly impacted by the pandemic.

After non-recurring and non-cash items, net financing charges and taxation including Research and Development Tax credits totalling £4.4m associated with the development and creation of new capture and broadcast knowledge, the Group reported a loss of £22.4m (2019 : £15.0m) resulting in a loss per share of 1.3p (2019 : 1.1p).

As 28 December 2020 the Group had cash reserves of £2.6m (2020: £6.8m). On 29 December 2020, as part of the acquisition funding raised to complete the purchase of the Napster business, the Group raised by way of an equity issue a further \$10.1m and entered in to a \$25m term loan arrangement with Davis Capital. These funding arrangements when combined with our facility with Nice & Green as referred to above and further equity placing completed during February 2021 will provide the group with access to c.\$40m of funding during the course of 2021.

Outlook

We believe that 2021 is a year where we will lay the foundations for future growth. Our ambition this year is to develop and launch our vision for a next generation music platform preserving the best elements of the existing MelodyVR and Napster technologies and supplementing them with new content, extending beyond the boundaries of traditional music platforms. Our belief is that the new platform will be attractive to music fans and artists, offering fans more content at a single price point and fairly compensating artists whilst offering them greater control of their content.

During the course of 2021 we expect to invest some \$27m (including internal resourcing) in the development of our differentiated cloud-based platform which is intended to launch during Q4 2021 across mobile, web and TV.

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

CHAIRMAN'S STATEMENT (continued)

FOR THE PERIOD ENDED 28 DECEMBER 2020

We have started marketing the new platform within the music industry and as we enter the second half of 2021 we will launch a co-ordinated marketing and PR campaign to build awareness of the new platform and drive subscriber growth. This campaign will see:

- the launch of the new Napster brand identity
- previews of the new platform design, look and feel
- third party marketing agreements and partnerships
- a media campaign to promote the new platform

I would like to thank all our employees for their commitment and hard work during this challenging time – during which the cancellation of live mass attended events and performances has created many unforeseen challenges for the music industry. In addition, we would also like to take this opportunity to extend our gratitude to our shareholders, customers and business partners for their support, effort and insights over the course of this last period – our continued progress would not have been attained without the efforts of the management team and the unwavering commitment of our staff. As we increase the level of commercial activity, we will look to keep our shareholders updated through a combination of regular interviews on prominent retail investor platforms and, when appropriate, stock exchange announcements.

Having completed the Napster acquisition, we are excited at the prospects for the forthcoming growth of our business and our ability to become the new benchmark in music subscription services serving artists and fans alike. At our core will be subscriber and revenue growth and the ambition of serving fans and artists alike; delivering long-term value for all of our stakeholders. We look forward to updating you over the coming weeks and months and sharing our progress during the lead up to our new platform launch later this year.

Simon Cole
Chairman

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

GROUP STRATEGIC REPORT

FOR THE PERIOD ENDED 28 DECEMBER 2020

The directors present their Strategic Report on the Group for the ended 28 December 2020.

RESULTS

The Group made a loss after taxation of £22,437,197 (2019: loss £14,968,784).

PRINCIPAL ACTIVITIES

The Group's principal activity is specialising in the creation and curation of Virtual Reality content for distribution and consumption through its own platform.

On 29 December 2020 the Company acquired Rhapsody International Inc, a business whose principal activity is the provision of music streaming services and which trades as Napster. From the date of acquisition, the Group's principal activity was that of a music streaming service.

On 9 March 2021, the Company resolved by Special Resolution to change its name to Naspster Group PLC formerly MelodyVR Group PLC.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The review of the business and future developments are set out in the Executive Chairman's Statement above.

KEY PERFORMANCE INDICATORS

The key performance indicators are set out below:

| | 2020 | 2019 |
|----------------------------------------------------|-------------|-------------|
| Gross financial assets – cash and cash equivalents | £2,622,526 | £6,795,341 |
| Net asset value – basic per share | 0.7p | 0.9p |
| Closing share price | £0.037 | £0.051 |
| Market capitalisation | £89,836,480 | £73,116,672 |

For the period under review, the Board considered the following operational key performance indicators in assessing the Group's performance against its objectives:

- The number of event promotion and venue partnership agreements in place and the number of content production opportunities these partnerships create;
- The number of VR experiences created;
- Extent and breadth of licence agreements in place; and
- Number and reputation of artists whose performances have been captured.

KEY RISKS AND UNCERTAINTIES

The market for immersive content continues to develop and over the course of the last twelve months engagement and awareness with services such our ours has reached a new level of maturity. Our acquisition of the Napster business and its streaming platform provides us with a music offering and a global base upon which to showcase our immersive content and further scale our business.

The ability to offer a differentiated service incorporating immersive content, instructional video, music video, live ticketing and music streaming across a broad range of devices will allow us to further scale our platform and monetise our offering.

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

GROUP STRATEGIC REPORT (continued)

FOR THE PERIOD ENDED 28 DECEMBER 2020

The Board have identified the risk associated with insufficient licencing of content released could result in litigation and potential financial loss. Securing licencing arrangements with major record labels as well as signing agreements with publishers and collection societies has reduced the risk associated with potential exploitation of unlicensed content. Management continue to engage with new as well as existing rightsholders to ensure that there are sufficient agreements in place to mitigate this risk further.

Until the launch of its new music platform later this year, the Group will continue to experience a reduction in revenues generated from its music streaming service. The new service which we plan to launch in Q4 2021 is expected to provide a platform for subscriber growth. Whilst the Board is confident that it will launch later this year there is a risk that any delay will adversely impact subscriber and revenue growth.

We depend on key personnel to develop great products and services as well as to operate our business, even more so now given the aspirations for our new music service. Without the ability to retain, attract and integrate qualified personnel our ability to successfully launch our new music service and grow our business could be harmed.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Our operations are exposed to financing and financial risks which are managed under the control and supervision of the Board of Directors of the Company. To manage these risks efficiently, we have established guidelines in the form of a treasury policy that serves as a frame-work for the daily financial operations of the Group. The treasury policy stipulates the rules and limitations for the management of financial risks throughout the group.

Financial risk management is centralised within the group treasury which is responsible for the management of financial risks. Group treasury manages and executes the financial management activities including monitoring the exposure of financial risk, cash management and maintaining a liquidity reserve and it provides certain financial services to the entities of the group. Group treasury operates within the limits and policies authorised by the Board of Directors.

Further details of the Group's financial risk management objectives and policies are set out in Note 25 to these financial statements.

S172(1) STATEMENT

The Directors of the Group act in accordance with a set of general duties. These duties are detailed in s.172 of the UK Companies Act 2006, which are summarised as follows:

A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- the likely consequences of any decision in the long term,
- the interests of the company's employees,
- the need to foster the company's business relationships with suppliers, customers and others,
- the impact of the company's operations on the community and the environment,
- the desirability of the company maintaining a reputation for high standards of business conduct, and
- the need to act fairly as between members of the company.

All directors are aware of the content of s.172 Companies Act 2006 and commit themselves to fulfilling these requirements as they positively contribute to the ongoing development of the Group.

The Board concluded that its key stakeholders are as follows:

- Our customers, who use the Group's services.
- Our employees.
- Our partners in the supply chain, who are artists who produce the content.

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

GROUP STRATEGIC REPORT (continued)

FOR THE PERIOD ENDED 28 DECEMBER 2020

- Our shareholders, who invest in the Company and Group.

Board meetings are held periodically where the directors consider Group business, such as financing requirements, capital expenditure and operational challenges. The Group follows policies and procedures, including those relating to standards of business conduct, employees, the environment, the community, and other stakeholders.

In considering items of business, the Group makes autonomous decisions on each transaction's own merits, after due consideration of the long-term success of the Group, s.172 factors, where relevant, and the stakeholders impacted.

COVID 19 RISK

The ongoing COVID 19 pandemic continues to generate a significant level of uncertainty in the global economy. The directors regularly assess the likely effects on Group operations in an attempt to mitigate the risk as far as practicable. As well as the additional opportunities that have arisen from the pandemic, as outlined in the joint Chairman's and CEO's Statement, the Group has also been able to reduce administrative costs across the business, including a large reduction staff and travel costs. This has ensured Group cash flow has been positively managed and the impact on the Group's operations has been mitigated.

GOING CONCERN

The Financial Statements have been prepared on the going concern basis. In adopting a going concern basis for the preparation of the financial statements, the Directors have made appropriate enquiries and have considered the Group's business activities, cash flows and liquidity position, in addition to the principal risks and uncertainties set out in the strategic report.

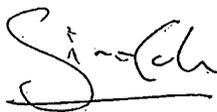
The Directors have prepared cash flow forecasts through to June 2022, covering the 12-month period beyond the signing date of these financial statements, which took into account sensitivity analysis with regard to some of the material variables and assumptions made in the preparation of those forecasts, including the continuing potential impact of COVID 19, to ensure that cashflow is positively managed and the impact to the Group's operations is mitigated.

The Directors expect that, until the launch of its new music platform later this year, the Group will continue to experience a reduction in revenues generated from its music streaming service and will continue to be loss-making. Whilst the Group has adequate resources to fund operations up to and beyond end of 2021, the management of working capital is critical during this period.

Our material variables and assumptions include the uptake of our new service which we plan to launch in Q4 2021 and a reliance on significant contracts. The Board is conscious of the need to manage its cash resources carefully if its operations are to be funded for 12 months from the date of this report and any delay in the launch of the new service or in the award of new contracts could have a materially adverse effect on our headroom.

Mitigations available to the business include general reductions in expenditure alongside management of working capital terms with suppliers, as well as the ability for the business to secure additional funding if required. The Board has also reviewed the plans made by management for securing additional financing should this become necessary.

Based on the Group's forecasts, and subject to the above, the Directors are satisfied that Group as a whole has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on the going concern basis.



Simon Cole
Chairman

27 June 2021

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

DIRECTORS' REPORT

FOR THE PERIOD ENDED 28 DECEMBER 2020

The directors present their annual report on the affairs of the Group, together with the financial statements for the period ended 28 December 2020.

These results have been prepared to a period which immediately precedes the acquisition of Rhapsody International, Inc which completed on 29 December 2020 in order to provide greater clarity as to the trading performance of the MelodyVR Group and of its financial position immediately prior to the acquisition of the Napster business.

The Company is a public company, incorporated in England and Wales and quoted on AIM.

PRINCIPAL ACTIVITIES

The Company's principal activities are detailed in the strategic report above.

RESULTS AND DIVIDENDS

The results for the period are set out in the Strategic Report on page 6. The directors do not propose to declare a dividend (2019: £Nil).

DIRECTORS

The directors of the Company during the period together with their interests in the equity of the Company at period end are set out below:

| | Number of ordinary shares | | Number of share options and warrants | |
|-----------------------------------------|---------------------------|-------------|--------------------------------------|------------|
| | 2020 | 2019 | 2020 | 2019 |
| Simon Cole | 4,615,090 | - | - | 4,615,090 |
| Anthony Matchett | 158,482,796 | 168,482,796 | 11,537,725 | 11,537,725 |
| Steven Hancock | 120,884,136 | 130,884,136 | 11,537,725 | 11,537,725 |
| Ian Hanson (resigned: 1 April 2020) | N/A | - | N/A | 4,615,090 |
| Andy Botha | - | - | 4,615,090 | 4,615,090 |
| Grant Dollens (appointed 14 April 2020) | 121,626,715 | - | - | - |

SUBSTANTIAL INTERESTS

The Company is aware that at 25 June 2021, the following held in excess of 3% of the issued ordinary share capital of the Company:

| | Number of Ordinary shares | Percentage of Issued share capital |
|----------------------------------------------|---------------------------|------------------------------------|
| Davis Capital Partners LLC | 249,179,192 | 9.03% |
| RealNetworks Digital Music of California Inc | 173,199,625 | 6.28% |
| Anthony Matchett | 158,482,796 | 5.74% |
| G Dollens – Global Frontier Investments LLC | 121,616,725 | 4.40% |
| Steven Hancock | 120,884,136 | 4.38% |
| Tellworth | 98,375,307 | 3.56% |

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

DIRECTORS' REPORT (continued)

FOR THE PERIOD ENDED 28 DECEMBER 2020

CORPORATE GOVERNANCE

As an AIM quoted company, the Group does not have to comply with the UK Corporate Governance Code published by the Financial Reporting Council in July 2018. The Quoted Companies Alliance has published a corporate governance code for small and mid-sized quoted companies, which includes a standard of minimum best practice for AIM companies, and recommendations for reporting corporate governance matters (QCA Code). The Board embraces the principles of good corporate governance and intends to comply with the QCA Code insofar as it is considered appropriate taking into account the Company's size, stage of development and resources.

During this period, the Board strengthened its corporate governance with the appointment of Grant Dollens as a Non-Executive Director. Furthermore, on 29 December 2020 roles of the Chairman and CEO were separated with Simon Cole assuming the position of Non-Executive Chairman. It is intended that the Board will be further supplemented by the appointment of Lansing Davis, one of the Company's principal shareholders during the course of 2021. These changes will further ensure the recommended balance between Executive and Non-Executive Directors.

BOARD OF DIRECTORS

The Group supports the concept of an effective board leading and controlling the Group. The Board is responsible for approving the Group's policy and strategy. All directors have access to advice from the Company's legal advisors and other independent professionals at the Group's expense. Training is available for new directors and other directors as necessary.

Board Committees

The terms of reference of the board committees are reviewed regularly and available on the Company's website, www.napster-group

Remuneration Committee

During the period under review the Remuneration Committee comprised a combination of Simon Cole (committee chairman), Ian Hanson and Grant Dollens. It is responsible for reviewing the performance of the senior executives and for determining their levels of remuneration. The committee makes recommendations to the Board, within agreed terms of reference, regarding the levels of remuneration and benefits including participation in the Company's share plan.

Audit Committee

The Audit Committee meets at least twice a year to consider the annual and interim financial statements and the audit plan. The Audit Committee comprises Andy Botha as committee chair and Simon Cole. The Audit Committee is responsible for ensuring that appropriate financial reporting procedures are properly maintained and reported upon, reviewing accounting policies and for meeting the auditors and reviewing their reports relating to the accounts and internal control systems.

Internal control and financial risk management

The Board acknowledges its responsibility for maintaining appropriate internal controls systems and procedures to safeguard the Company's assets, employees and the business of the Company and its subsidiaries (the Group). The Directors have recognised the changing requirements of the Group as it develops and extends its operating activities. The Board has established and operates a policy of continuous review and development of appropriate financial, operational, compliance and risk management controls, which cover expenditure approval, authorisation and treasury management, together with operating procedures consistent with the accounting policies of the Group.

The internal control system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide reasonable but not absolute assurance against material misstatement or loss. The Board has approved the Group's current operating and capital budget and performance against budget is monitored and reported to the Board on a monthly basis.

The Directors confirm that the effectiveness of the internal control system during the period has been reviewed by the Board. Steps are underway to reinforce as needed all processes and systems as the Group continues to scale. The Board does not consider it necessary to establish an internal audit function considering the current size and stage of development of the Group.

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

DIRECTORS' REPORT (continued)

FOR THE PERIOD ENDED 28 DECEMBER 2020

POST BALANCE SHEET EVENTS

On 29 December 2020, the Company acquired Rhapsody International, Inc by means of a reverse triangular merger for a consideration comprising \$15m in cash together with 241,403,508 ordinary shares of 1.0 pence each. On the same day, the Company raised gross proceeds of \$10m 201,349,772 ordinary shares at a price of 3.75 pence per share.

On 3 February 2021, the Company resolved by Special Resolution to change its name to Napster Group PLC.

On 8 February 2021, the Company raised gross proceeds of £1.6m via the placing of 48,458,130 ordinary shares at a price of 3.3 pence per share.

On 8 April 2021, £1.27m of convertible loan notes were converted in to 63,310,069 ordinary shares at a conversion price of 2.006 pence per share.

On 10 June 2021, £2.3m of convertible loan notes were converted in to 130,164,120 ordinary shares at a conversion price of 1.767 pence per share.

Other than the above, the Directors were not aware of any other material events since the reporting date.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. In addition, the directors are responsible the maintenance and integrity of the corporate and financial information included in the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors, as listed, are also responsible for preparing the strategic report, directors' report and financial statements for the Group and parent company in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and the London Stock Exchange's AIM Rules for Companies.

Under company law the directors must not approve the financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Group and parent company for that period.

In preparing the financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8 (Accounting Policies, changes in Accounting Estimates and Errors) and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance;
- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- make an assessment of Group's and parent company's ability to continue as a going concern.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from other jurisdictions.

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

DIRECTORS' REPORT (continued)

FOR THE PERIOD ENDED 28 DECEMBER 2020

DISCLOSURE OF INFORMATION TO AUDITORS

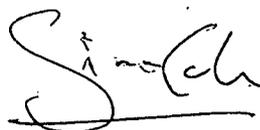
Each of the persons at the time when this Directors' Report is approved have confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company and the Groups auditors are unaware, and
- the director has taken all steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company and the Groups auditors are aware of that information.

AUDITORS

RMT Accountants and Business Advisors Ltd were appointed as auditors to the Group and Company and in accordance with section 489 of the Companies Act 2006.

ON BEHALF OF THE BOARD

A handwritten signature in black ink, appearing to read 'Simon Cole', written over a horizontal line.

Simon Cole
Chairman

27 June 2021

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

Opinion

We have audited the financial statements of Napster Group plc (the 'parent company') and its subsidiaries (the 'Group') for the period ended 28 December 2020 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Group and Company statements of financial position, Group and Company statements of changes in equity, Group and Company statements of cash flows 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the parent company's affairs as at 28 December 2020 and of the Group's and the parent company's loss for the period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; 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 Auditor's 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 as applied to SME listed entities, 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

Revenue recognition

Under International Standard on Auditing (UK) 240 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements', there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. Group revenue is recognised over the period to which the income relates, which exposes the Group to the risk of incomplete and incorrect cut-off of revenue recognised in the period.

How the matter was addressed in the audit

To address the risk of improper revenue recognition, our audit work included, but was not restricted to:

- performed substantive testing to determine whether the accounting policy had been correctly applied, taking into account the timing of goods or services being provided to the customer, with individual revenue streams tested separately;
- reviewed a sample of sales transactions around the period end to ensure cut-off was correct and sales had been recognised in the correct period;
- considered the appropriateness and application of the Group's accounting policy for revenue recognition; and
- considered the disclosures in the financial statements regarding revenue.

Key observations

The results of our testing were satisfactory and no significant issues were identified from our work over revenue recognition.

Management override

In preparing the financial statements management are required to make judgements, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances; the results of which form a basis for making the judgements about the carrying value of assets and liabilities that are not available from other sources.

How the matter was addressed in the audit

During the course of our audit we performed the following procedures to address the risk of management override:

- assessed the appropriateness of accounting policy choices made by management and the basis of key judgements, estimates and assumptions;
- reviewed manual journal entries posted within the period for indicators of management bias, transactions outside the normal course of business or indicators of fraudulent activity; and
- considered the value, nature and cause of misstatements identified during the course of the audit to identify indicators of bias.

Key observations

The results of our testing were satisfactory and we consider the disclosure surrounding accounting policy choices and key accounting judgements to be appropriate.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

Going concern

The directors have assessed that the parent company and Group continues to be a going concern and the financial statements have been prepared on this basis. Our preliminary assessment suggested that this going concern assumption was appropriate. However, given the ongoing losses of the Group, and the potential impact of the COVID 19 pandemic on the business and wider economy, going concern was considered to be a significant risk.

How the matter was addressed in the audit

During the course of our audit we performed the following procedures to address the risk of going concern:

- assessed budgets and cash flow forecasts produced to ensure that they support the going concern assumption that the Group will be in a position to continue trading for at least the next twelve months;
- reviewed how the Group has been affected by the COVID 19 pandemic and how the risks are being mitigated by management;
- considered post period end performance in relation to budgets and forecasts to assess their reasonableness; and
- considered the disclosures in the financial statements regarding going concern.

Key observations

The results of our testing were satisfactory and we consider the adoption of the going concern assumption to be appropriate as noted above.

Potential impairment of intercompany receivables – parent company only

During the audit we have identified the risk of potential impairment in the intercompany receivables balance held on the parent company balance sheet. We consider the recoverability of these intercompany balances to be a key audit consideration for the parent company.

How the matter was addressed in the audit

During the course of our audit we performed the following procedures to address the risk of potential impairment:

- assessed long term forecasts produced to ensure that they support the assumption that the intercompany balances will be recoverable without the need for impairment.

Key observations

The results of our testing were satisfactory and we consider the parent company intercompany receivables to be recoverable and free from impairment at the reporting date.

Valuation of intangible assets

Given there are significant accounting estimates involved in the capitalisation of development costs in respect of the MelodyVR app and of music content captured, and the amortisation rates used, this exposes the Group to the risk of material misstatements in the valuation of intangible assets. As such, the valuation of capitalised development costs were highlighted as a significant risk.

How the matter was addressed in the audit

To address the risk of capitalised cost misstatement, our audit work included, but was not restricted to:

- reviewing a sample of costs capitalised in the period, and the justifications behind each asset;
- reviewing the estimated useful economic life of costs capitalised and the policy of amortisation; and
- considering the appropriateness and application of the Group's accounting policy for the capitalisation of development costs, ensuring it is in line with IAS 38.

Key observations

The results of our testing were satisfactory and we consider the valuation of intangible assets in the financial statements to be reasonable and free from material error.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

Valuation of options and warrants

Given there are significant accounting estimates involved in the valuation of the options and warrants, this exposes the Group to the risk of material misstatement. There is also a further risk that warrants are not adequately disclosed in the financial statements. As such, the options and warrants valuation were highlighted as a significant risk.

How the matter was addressed in the audit

To address the risk of potential misstatement, our audit work included, but was not restricted to:

- assessing the key assumptions and judgements used in the valuation for reasonableness;
- verifying key base information used in the valuation to supporting documentation; and
- reviewing a disclosure checklist to ensure disclosures in the financial statements are adequate.

Key observations

The results of our testing were satisfactory and we consider the valuation of options and warrants to be reasonable, and the disclosures in the financial statements to be adequate.

Our application of materiality

In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements. We used the concept of materiality to both focus our testing and to evaluate the impact of misstatements identified.

Based on our professional judgement we determined materiality for the Group financial statements as a whole to be £497,300, based on specific benchmarks. Performance materiality of £248,600 was applied for testing which is 50% of Group materiality.

We agreed with the Audit Committee to report to it all identified errors considered to be above a trivial level, being 5% of Group materiality at £24,800, in addition to other identified misstatements that warranted reporting on qualitative grounds.

An overview of the scope of our audit

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the parent company, the accounting processes and controls and the industry in which they operate.

Based on that understanding our audit was focused on the key risks as described above.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 the other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

Opinions 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 Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Group, the parent company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' report.

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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 on page 11, 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 is 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 and the parent company'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 the parent company 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 an auditor's report 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Capability of the audit in detecting irregularities, including fraud

Discussions with and enquiries of management and those charged with governance were held with a view to identifying those laws and regulations that could be expected to have a material impact on the financial statements. During the engagement team briefing, the outcomes of these discussions and enquiries were shared with the team, as well as consideration as to where and how fraud may occur in the entity.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

The following laws and regulations were identified as being of significance to the entity:

- Those laws and regulations considered to have a direct effect on the financial statements including International Financial Reporting Standards, Company Law, Tax and Pensions legislation, and distributable profits legislation.
- Those laws and regulations for which non-compliance may be fundamental to the operating aspects of the business and therefore may have a material effect on the financial statements include the music licencing regulations.

Audit procedures undertaken in response to the potential risks relating to irregularities (which include fraud and non-compliance with laws and regulations) comprised of: inquiries of management and those charged with governance as to whether the entity complies with such laws and regulations; enquiries with the same concerning any actual or potential litigation or claims; review of board minutes; testing the appropriateness of journal entries; and the performance of analytical review to identify unexpected movements in account balances which may be indicative of fraud.

No instances of material non-compliance were identified. However, the likelihood of detecting irregularities, including fraud, is limited by the inherent difficulty in detecting irregularities, the effectiveness of the entity's controls, and the nature, timing and extent of the audit procedures performed. Irregularities that result from fraud might be inherently more difficult to detect than irregularities that result from error. As explained above, there is an unavoidable risk that material misstatements may not be detected, even though the audit has been planned and performed in accordance with ISAs (UK).

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 auditor's report.

Use of our report

This report is made solely to the parent 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 parent company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Stephen Slater (Senior Statutory Auditor)
for and on behalf of RMT Accountants & Business Advisors Ltd
Statutory Auditors
Newcastle upon Tyne

27 June 2021

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

CONSOLIDATED INCOME STATEMENT

FOR THE PERIOD ENDED 28 DECEMBER 2020

| | Note | 2020 £ | 2019 £ |
|---------------------------------------------------------------------------------------------|------|---------------------|---------------------|
| Continuing operations: | | | |
| Revenue | 4 | 987,726 | 194,971 |
| Cost of sales | | (5,562,891) | (1,832,042) |
| GROSS LOSS | | (4,575,165) | (1,637,071) |
| Administrative expenses | | (21,451,129) | (14,227,561) |
| OPERATING LOSS | | (26,026,294) | (15,864,632) |
| Operating loss before non-cash items | | | |
| Depreciation | | (1,276,340) | (624,862) |
| Amortisation | | (996,046) | (1,001,809) |
| Share based payments | | (135,622) | (443,476) |
| OPERATING LOSS | | (26,026,294) | (15,864,632) |
| Finance income | | 29,597 | 106,891 |
| Finance costs | | (67,990) | (14,229) |
| Foreign exchange gain/(loss) | | (749,808) | (381,101) |
| LOSS FOR THE PERIOD BEFORE TAXATION | | (26,814,495) | (16,153,071) |
| Taxation | 9 | 4,377,298 | 1,184,287 |
| LOSS FOR THE PERIOD | | (22,437,197) | (14,968,784) |
| Attributable to: | | | |
| Owners of the parent company | | (22,437,197) | (14,968,784) |
| Non – controlling interest | | - | - |
| LOSS PER SHARE – from continuing operations – basic and diluted | 10 | (1.3)p | (1.1)p |
| CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 28 DECEMBER 2020 | | | |
| LOSS FOR THE PERIOD | | (22,437,197) | (14,968,784) |
| OTHER COMPREHENSIVE INCOME: | | | |
| Exchange differences on translating foreign operations | | 230,091 | 109,900 |
| TOTAL COMPREHENSIVE EXPENSE FOR THE PERIOD | | (22,207,106) | (14,858,884) |

The loss for the Company for the period totalled £1,294,601 (2019: £247,700).

The accompanying accounting policies and notes are an integral part of these financial statements.

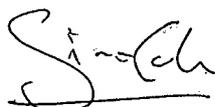
NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 28 DECEMBER 2020

| | Note | 2020 £ | 2019 £ |
|---------------------------------|------|--------------------------|--------------------------|
| ASSETS | | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 11 | 1,019,662 | 813,728 |
| Right-of-use assets | 12 | 1,498,740 | 515,706 |
| Financial assets | 15 | 243,809 | 235,446 |
| Goodwill | 13 | 603,476 | 603,476 |
| Other intangible assets | 13 | 811,737 | 2,043,574 |
| TOTAL NON-CURRENT ASSETS | | <u>4,177,424</u> | <u>4,211,930</u> |
| CURRENT ASSETS | | | |
| Inventories | 16 | - | 371,877 |
| Trade and other receivables | 17 | 16,359,041 | 3,382,819 |
| Cash and cash equivalents | 18 | 2,622,526 | 6,795,341 |
| TOTAL CURRENT ASSETS | | <u>18,981,567</u> | <u>10,550,037</u> |
| TOTAL ASSETS | | <u><u>23,158,991</u></u> | <u><u>14,761,967</u></u> |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 19 | (5,156,790) | (1,143,311) |
| Borrowings | 20 | (4,317,451) | - |
| Lease liabilities | 21 | (644,018) | (156,964) |
| | | <u>(10,118,259)</u> | <u>(1,300,275)</u> |
| NON-CURRENT LIABILITIES | | | |
| Lease liabilities | 21 | (970,660) | (323,443) |
| NET ASSETS | | <u><u>12,070,072</u></u> | <u><u>13,138,249</u></u> |
| EQUITY | | | |
| Share capital | 23 | 21,226,709 | 14,944,850 |
| Share premium reserve | | 55,252,677 | 40,531,229 |
| Retained Earnings | | (57,679,787) | (35,242,590) |
| Share option reserve | 24 | 2,553,363 | 2,417,741 |
| Merger relief reserve | | 486,611 | 486,611 |
| Non-controlling interests | | (44,990) | (44,990) |
| Currency Translation Reserve | | 278,032 | 47,941 |
| Reverse takeover reserve | | (10,002,543) | (10,002,543) |
| TOTAL EQUITY | | <u><u>12,070,072</u></u> | <u><u>13,138,249</u></u> |

These financial statements were approved by the Board of Directors on 27 June 2021 and were signed on its behalf by:



Simon Cole
Director

Company number: 05628362

The accompanying accounting policies and notes are an integral part of these financial statements.

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 28 DECEMBER 2020

| | Share capital £ | Share premium £ | Merger Relief Reserve £ | Share Option Reserve £ | Retained Losses £ | Reverse Takeover Reserve £ | Non-Controlling Interest £ | Currency Translation Reserve £ | Total Equity £ |
|---------------------------------|--------------------|--------------------|----------------------------|---------------------------|----------------------|-------------------------------|-------------------------------|-----------------------------------|-------------------|
| Balance at 1 January 2019 | 13,690,204 | 36,258,164 | 486,611 | 1,974,265 | (20,273,806) | (10,002,543) | (44,990) | (61,959) | 22,025,946 |
| Share issue | 1,111,111 | 3,477,603 | - | - | - | - | - | - | 4,588,714 |
| Grant of share options/warrants | 143,535 | 795,462 | - | 443,476 | - | - | - | - | 1,382,473 |
| Loss for the period | - | - | - | - | (14,968,784) | - | - | - | (14,968,784) |
| Other comprehensive income: | | | | | | | | | |
| Currency transaction reserve | - | - | - | - | - | - | - | 109,900 | 109,900 |
| Balance at 31 December 2019 | 14,944,850 | 40,531,229 | 486,611 | 2,417,741 | (35,242,590) | (10,002,543) | (44,990) | 47,941 | 13,138,249 |
| Share issue | 6,104,354 | 14,690,473 | - | - | - | - | - | - | 20,794,827 |
| Grant of share options/warrants | 177,505 | 30,975 | - | 135,622 | - | - | - | - | 344,102 |
| Loss for the period | - | - | - | - | (22,437,197) | - | - | - | (22,437,197) |
| Other comprehensive income: | | | | | | | | | |
| Currency transaction reserve | - | - | - | - | - | - | - | 230,091 | 230,091 |
| Balance at 28 December 2020 | 21,226,709 | 55,252,677 | 486,611 | 2,553,363 | (57,679,787) | (10,002,543) | (44,990) | 278,032 | 12,070,072 |

The accompanying accounting policies and notes are an integral part of these financial statements.

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED 28 DECEMBER 2020

| | Notes | 2020 £ | 2019 £ |
|-----------------------------------------------------|-------|---------------------|---------------------|
| Operating activities | | | |
| Loss from continuing operations before tax | | (26,814,495) | (16,153,071) |
| <i>Adjustments for:</i> | | | |
| R&D taxation credits | | 1,747,190 | - |
| Depreciation of tangible assets | | 889,549 | 610,128 |
| Depreciation of right-of-use assets | | 386,791 | 14,734 |
| Amortisation of intangible assets | | 996,046 | 1,001,809 |
| Loss on disposal of intangible and tangible assets | | 356,905 | 169,596 |
| Share based payment expense | | 135,622 | 443,476 |
| Increase in inventories | | 371,877 | (371,877) |
| Increase in trade and other receivables | | (10,346,114) | (596,636) |
| (Decrease)/increase in trade and other payables | | 4,013,479 | (790,126) |
| NET CASH OUTFLOW FROM OPERATING ACTIVITIES | | (28,263,150) | (15,671,967) |
| Investing activities | | | |
| Purchase of property, plant and equipment | | (1,216,595) | (489,864) |
| Investment in intangible assets | | - | (1,722,908) |
| Purchase of financial assets | | - | (235,446) |
| NET CASH OUTFLOW FROM INVESTING ACTIVITIES | | (1,216,595) | (2,448,218) |
| Financing activities | | | |
| Proceeds from issue of ordinary share capital | | 20,794,827 | 4,588,714 |
| Proceeds from the exercise of warrants | | 208,480 | 938,997 |
| Proceeds from borrowings | | 4,317,451 | - |
| NET CASH GENERATED FROM FINANCING ACTIVITIES | | 25,320,758 | 5,527,711 |
| (Decrease)/increase in cash and cash equivalents | | (4,158,987) | (12,592,474) |
| Effect of changes in foreign exchange rates | | (13,828) | 59,867 |
| Cash and cash equivalents brought forward | | 6,795,341 | 19,327,948 |
| CASH AND CASH EQUIVALENTS CARRIED FORWARD | 18 | 2,622,526 | 6,795,341 |

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

STATEMENT OF FINANCIAL POSITION - COMPANY

FOR THE PERIOD ENDED 28 DECEMBER 2020

| | Note | 2020 £ | 2019 £ |
|---------------------------------|------|--------------------|-------------------|
| NON-CURRENT ASSETS | | | |
| Investments | 14 | 5,352,731 | 5,352,731 |
| TOTAL NON-CURRENT ASSETS | | <u>5,352,731</u> | <u>5,352,731</u> |
| CURRENT ASSETS | | | |
| Trade and other receivables | 17 | 69,113,950 | 44,106,776 |
| Cash and cash equivalents | 18 | 11,740 | 20,565 |
| TOTAL CURRENT ASSETS | | <u>69,125,690</u> | <u>44,127,341</u> |
| TOTAL ASSETS | | <u>74,478,421</u> | <u>49,480,072</u> |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 19 | (1,593,068) | (172,907) |
| Borrowings | 20 | (3,733,860) | - |
| | | <u>(5,326,928)</u> | <u>(172,907)</u> |
| NET ASSETS | | <u>69,151,493</u> | <u>49,307,165</u> |
| EQUITY | | | |
| Share capital | 23 | 21,226,709 | 14,944,850 |
| Share premium account | | 55,739,288 | 41,017,840 |
| Share option reserve | 24 | 2,664,125 | 2,528,503 |
| Retained earnings | | (10,478,629) | (9,184,028) |
| TOTAL EQUITY | | <u>69,151,493</u> | <u>49,307,165</u> |

These financial statements were approved by the Board of Directors on 27 June 2021 and were signed on its behalf by:



Simon Cole
Director

Company number: 05628362

The accompanying accounting policies and notes are an integral part of these financial statements.

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

STATEMENT OF CHANGES IN EQUITY - COMPANY

FOR THE PERIOD ENDED 28 DECEMBER 2020

| | Share capital £ | Share premium £ | Share Option Reserve £ | Retained Losses £ | Total Equity £ |
|-----------------------------------------------------------------|--------------------|--------------------|---------------------------|----------------------|-------------------|
| Balance at 1 January 2019 | 13,690,204 | 36,744,775 | 2,085,027 | (8,936,328) | 43,583,678 |
| Share issue | 1,111,111 | 3,477,603 | - | - | 4,588,714 |
| Grant of share options/warrants | 143,535 | 795,462 | 443,476 | - | 1,382,473 |
| Loss for the period and total comprehensive loss for the period | - | - | - | (247,700) | (247,700) |
| Balance at 31 December 2019 | 14,944,850 | 41,017,840 | 2,528,503 | (9,184,028) | 49,307,165 |
| Share issue | 6,104,354 | 14,690,473 | - | - | 20,794,827 |
| Grant of share options/warrants | 177,505 | 30,975 | 135,622 | - | 344,102 |
| Loss for the period and total comprehensive loss for the period | - | - | - | (1,294,601) | (1,294,601) |
| Balance at 28 December 2020 | 21,226,709 | 55,739,288 | 2,664,125 | (10,478,629) | 69,151,493 |

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

STATEMENT OF CASH FLOWS - COMPANY

FOR THE PERIOD ENDED 28 DECEMBER 2020

| | Notes | 2020 £ | 2019 £ |
|-----------------------------------------------------|-------|---------------------|---------------------|
| Operating activities | | | |
| Loss from continuing operations | | (1,294,601) | (247,700) |
| <i>Adjustments for:</i> | | | |
| Share based payment expense | | 135,622 | 443,476 |
| Increase in trade and other receivables | | (25,007,174) | (23,319,224) |
| (Decrease)/increase in trade and other payables | | 1,420,161 | (396,808) |
| NET CASH OUTFLOW FROM OPERATING ACTIVITIES | | <u>(24,745,992)</u> | <u>(23,520,256)</u> |
| Financing activities | | | |
| Proceeds from issue of ordinary share capital | | 20,794,827 | 4,588,714 |
| Proceeds from the exercise of warrants | | 208,480 | 938,997 |
| Proceeds from borrowings | | 3,733,860 | - |
| NET CASH GENERATED FROM FINANCING ACTIVITIES | | <u>24,737,167</u> | <u>5,527,711</u> |
| (Decrease)/increase in cash and cash equivalents | | (8,825) | (17,992,545) |
| Cash and cash equivalents brought forward | | 20,565 | 18,013,110 |
| CASH AND CASH EQUIVALENTS CARRIED FORWARD | 18 | <u>11,740</u> | <u>20,565</u> |

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 28 DECEMBER 2020

1. GENERAL INFORMATION

The Group's principal activities are described in the Directors' Report.

Napster Group PLC is a public company incorporated in England and Wales and quoted on AIM. Its registered address is 55 Poland Street, London, England, W1F 7NN.

2. ACCOUNTING POLICIES

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements have been prepared using the measurement bases specified by IFRSs for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

The financial statements are presented in pounds sterling (£) which is the functional currency of the Group.

An overview of standards, amendments and interpretations to IFRSs issued but not yet effective, and which have not been adopted early by the Group are presented below under 'Statement of Compliance'.

Basis of Consolidation

Where the Group has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

Business Combinations

The Consolidated Financial Statements comprise the period for the 12 months to 28 December 2020. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Consolidated within these financial statements are results from subsidiaries: MelodyVR Ltd (100% ownership), MelodyVR Inc (100% ownership), MelodyVR Holdings Ltd (100% ownership) and Immersive Construction Ltd (51% ownership).

Going Concern

The Financial Statements have been prepared on the going concern basis. In adopting a going concern basis for the preparation of the financial statements, the Directors have made appropriate enquiries and have considered the Group's business activities, cash flows and liquidity position, in addition to the principal risks and uncertainties set out in the strategic report.

The Directors have prepared cash flow forecasts through to June 2022, covering the 12-month period beyond the signing date of these financial statements, which took into account sensitivity analysis with regard to some of the material variables and assumptions made in the preparation of those forecasts, including the continuing potential impact of COVID 19 to ensure that cashflow is positively managed and the impact to the Group's operations is mitigated.

The Directors expect that, until the launch of its new music platform later this year, the Group will continue to experience a reduction in revenues generated from its music streaming service and will continue to be loss-making. Whilst the Group has adequate resources to fund operations up to and beyond end of 2021, the management of working capital is critical during this period.

Our material variables and assumptions include the uptake of our new service which we plan to launch in Q4 2021 and a reliance on significant contracts. The Board is conscious of the need to manage its cash resources carefully if its operations are to be funded for 12 months from the date of this report and any delay in the launch of the new service or in the award of new contracts could have a materially adverse effect on our headroom.

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD ENDED 28 DECEMBER 2020

2. ACCOUNTING POLICIES (continued)

Going Concern (continued)

Mitigations available to the business include general reductions in expenditure alongside management of working capital terms with suppliers, as well as the ability for the business to secure additional funding if required. The Board has also reviewed the plans made by management for securing additional financing should this become necessary.

Based on the Group's forecasts, and subject to the above, the Directors are satisfied that Group as a whole has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on the going concern basis.

Statement of compliance

a) New standards, interpretations and amendments effective from 1 January 2020

During the period ended 28 December 2020, the Group were not required to adopt any new IFRS, IAS or amendments issued by the IASB, and interpretations by the IFRS Interpretations Committee, which would have had a material impact on the Group's financial statements.

b) New standards, interpretations and amendments not yet effective

The Group currently adopts all relevant accounting standards that have been endorsed by the EU. There are various standards that are expected to be endorsed in 2021. The Group believes these standards will have no material impact on the financial statements.

Revenue

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 at the fair value of the consideration received in the ordinary course of the Group's activities, excluding discounts, rebates, value added tax and other sales taxes.

(a) Content sales

Content revenue is recognised in the period the content is purchased from the MelodyVR platform either directly or via third party resellers. Revenue from content sales are recognised gross of costs paid to third party licence and rights holders in line with contracts, with the corresponding cost recognised as cost of sales.

(b) Content licence revenue

Revenue from licence contracts for the use of artist/label content is recognised over the period to which the contract relates.

(c) Interest income

Interest income is recognised using the effective interest method.

Share based payments

All share-based payments are accounted for in accordance with IFRS 2 – Share-based payments. The Company issues equity-settled share-based payments in the form of options and warrants to certain directors, employees and corporate partners. Equity settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

Fair value is estimated using the Black-Scholes valuation model. The expected life used in the model has been adjusted, on the basis of management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations. At each balance sheet date, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to retained earnings.

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD ENDED 28 DECEMBER 2020

2. ACCOUNTING POLICIES (continued)

Taxation

Current taxation is the taxation currently payable on taxable profit for the period.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Temporary differences include those associated with shares in subsidiaries and joint ventures and are only not recognised if the Group controls the reversal of the difference and it is not expected for the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the statement of financial position date. Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statements, except where they relate to items that are charged or credited to equity in which case the related deferred tax is also charged or credited directly to equity.

No deferred tax asset has been recognised in respect of tax losses carried forward as the Directors cannot be certain that future profits against which the losses can be relieved will be sufficient for this asset to be realised.

Trade and other receivables

Trade and other receivables are recorded at the time of their initial recognition at fair value and subsequently at amortised cost less any impairment in value that may be necessary. An impairment in value in the case of trade and other receivables is recognised if there are objective indications that the amount of the debt due cannot be collected in full. The impairment in value is recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair value of assets given, liabilities assumed and equity instruments issued.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the statement of comprehensive income.

Impairment tests on goodwill are undertaken annually at period end as it is not amortised.

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD ENDED 28 DECEMBER 2020

2. ACCOUNTING POLICIES (continued)

Intangible assets - Development and content creation costs

The Group recognises both internal development costs as well as VR content creation costs as intangible assets only when the following criteria are met: the technical feasibility of completing the intangible asset exists, there is an intent to complete and an ability to use or sell the intangible asset, the intangible asset will generate probable future economic benefits, there are adequate resources available to complete the development and to use or sell the intangible asset, and there is the ability to reliably measure the expenditure attributable to the intangible asset during its development.

Intangible assets with finite lives are amortised on a straight-line basis over their estimated useful lives and are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset are reviewed at least annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation of intangible assets is recognised in the consolidated statement of comprehensive income/costs in the expense category consistent with the function of the intangible assets.

Amortisation rates applicable to development costs is 33% straight line.

Amortisation rates applicable to content assets released during the period is as follows:

- Year 1: 80%
- Year 2: 15%
- Year 3: 5%

Content assets in production are not amortised as these assets are still in development and not in the condition necessary to be capable of operating in the manner intended by management. At the point the asset is in operational condition it is reclassified to Content Assets – released and is amortised in line with the above amortisation policy.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation. Depreciation is calculated to write down the cost of all tangible fixed assets by equal monthly instalments over their estimated useful lives at the following rates-

Audio-visual production - 33% straight line
Computer Equipment - 33% straight line
Office Equipment - 25% straight line
Leasehold Improvements -33% straight line
Motor vehicles – 33% straight line

Impairment of tangible and intangible assets

At each reporting end date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Investments

Investments in subsidiaries are held at cost less impairment. At each balance sheet date, the Company reviews the carrying amount of the investment to determine whether there is any indication that the investment has suffered an impairment loss. Any impairment loss is recognised as an expense immediately.

Financial liabilities

The Group's financial liabilities comprise trade payables and lease liabilities. Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instruments.

2. ACCOUNTING POLICIES (continued)

Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the Company.

Leases

At inception, the company assesses whether a contract is, or contains, a lease within the scope of IFRS 16. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Where a tangible asset is acquired through a lease, the company recognises a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date plus any initial direct costs and an estimate of the cost of obligations to dismantle, remove, refurbish or restore the underlying asset and the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of other property, plant and equipment. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are unpaid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the company's incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise fixed payments, variable lease payments that depend on an index or a rate, amounts expected to be payable under a residual value guarantee, and the cost of any options that the company is reasonably certain to exercise, such as the exercise price under a purchase option, lease payments in an optional renewal period, or penalties for early termination of a lease.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in: future lease payments arising from a change in an index or rate; the company's estimate of the amount expected to be payable under a residual value guarantee; or the company's assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The company has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less, or for leases of low-value assets including IT equipment. The payments associated with these leases are recognised in profit or loss on a straight-line basis over the lease term.

Employee benefits

The Group operates a defined contribution pension scheme for employees. The contributions are charged to the income statement as they are incurred. The Group has no further payment obligations once the contributions have been paid.

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD ENDED 28 DECEMBER 2020

2. ACCOUNTING POLICIES (continued)

Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of the Company is the British Pound ("Sterling"). The consolidated financial statements are presented in Sterling, which is the Group's presentation currency. Given the Company's listing on the Alternative Investment Market of the London Stock Exchange, the Directors consider that it is appropriate to present the financial statements in Sterling.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

c) Group companies

When the results and financial position of a Group entity (none of which has the currency of a hyperinflationary economy) that has a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets, liabilities and equity for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised as other comprehensive income.

Reserves

Full details of movements in reserves are set out in the consolidated statement of changes in equity on page 16.

The following describes the nature and purpose of each reserve within owners' equity.

| Reserve | Description and Purpose |
|------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Merger relief reserve | Relates to share premium arising on issue of shares relating to reverse acquisition takeover |
| Reverse takeover reserve | Relates to amounts arising on reverse acquisition takeover |
| Currency Translation Reserve | Relates to differences in the consolidation of foreign subsidiaries and associates where the functional currency differs from the group presentation currency. |
| Share option reserve | Value of warrants and options issued |
| Non-controlling interest | Relates to percentage of Immersive Construction not owned by Napster Group PLC |

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based upon management's knowledge and experience of the amounts, events or actions. Actual results may differ from such estimates. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

Recognition of development costs

Self-developed intangible assets are recognised where the Group can estimate that it is probable that future economic benefits will flow to the entity. See the intangible asset accounting policy in Note 2.

Determining residual values and useful economic lives of intangible fixed assets and property, plant & equipment

The Group depreciates property, plant & equipment and amortises intangible fixed assets over their estimated useful lives. The estimation of the useful lives of assets is based on historic performance as well as expectations about future use and therefore requires estimates and assumptions to be applied by management.

Judgement is applied by management when determining the residual values of property, plant & equipment and intangible fixed assets. When determining the residual value management aim to assess the amount that the Group would currently obtain for the disposal of the asset, if it were already of the condition expected at the end of its useful economic life.

The carrying amount of group intangible fixed assets at the reporting date was £812k (2019: £2,044k) and the carrying amount of group property, plant & equipment at the reporting date was £1,020k (2019: £814k).

Share-based payments

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

Recognition of leases under IFRS 16

The Group recognises long term leases in line with IFRS 16 as outlined above. Judgement is applied by management when determining the lease terms and an appropriate rate to discount the lease payments. The estimation of the discount rate is based on an incremental borrowing rate on a lease-by-lease basis, based on what the Group would have to pay to borrow money to purchase the type of asset being leased and therefore requires estimates to be applied by management. The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend or terminate the lease. In making this judgement, the Group evaluates whether it is reasonably certain to exercise the option to renew or break the lease term.

The carrying amount of group right-of-use assets at the reporting date was £1,499k (2019: £516k).

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD ENDED 28 DECEMBER 2020

4. SEGMENTAL INFORMATION

The Group has adopted the requirements of IFRS 8 ‘Operating segments’. The standard requires operating segments to be identified on the basis of internal financial information about components of the Group that are regularly reviewed by the Chief Operating Decision Maker (‘CODM’) to allocate resources to the segments and to assess their performance. The CODM has been identified as the Board of Directors. The Board considers the business from a product/services perspective. The Directors consider that the Group only has one reportable operating segment.

During the period the Group generated revenue from the following revenue streams:

| | Group | |
|--------------------|----------------|----------------|
| | 2020 | 2019 |
| | £ | £ |
| Content sales | 49,078 | 34,766 |
| Telco partnerships | 258,416 | 1,946 |
| Content licensing | 112,286 | 158,259 |
| Ticket revenue | 567,946 | - |
| | <u>987,726</u> | <u>194,971</u> |

During the period the Group generated revenue in the following geographical regions:

| | Group | |
|----------------|----------------|----------------|
| | 2020 | 2019 |
| | £ | £ |
| UK | 860,147 | 167,614 |
| Rest of Europe | 5,390 | 2,452 |
| United States | 119,457 | 22,849 |
| Rest of World | 2,732 | 2,056 |
| | <u>987,726</u> | <u>194,971</u> |

5. LOSS FROM OPERATIONS

This has been arrived at after charging:

| | Group | |
|--------------------------------------------------------|------------------|------------------|
| | 2020 | 2019 |
| | £ | £ |
| Depreciation of property, plant and equipment | 889,549 | 610,128 |
| Depreciation of right-of-use assets | 386,791 | 14,734 |
| Amortisation on internally generated intangible assets | 996,046 | 1,001,809 |
| Loss on disposal of intangible assets | 235,791 | 169,596 |
| Loss on disposal of tangible assets | 121,114 | - |
| | <u>2,630,291</u> | <u>1,806,267</u> |

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD ENDED 28 DECEMBER 2020

6. LOSS ATTRIBUTABLE TO MELODYVR GROUP PLC

As permitted by section 408 Companies Act 2006, no separate income statement is presented in respect of the parent company.

SUBSIDIARY UNDERTAKINGS

The following were the subsidiary undertakings of the Company:

| Name | Class of shares | Holding | Principal activity |
|----------------------------|------------------------|----------------|----------------------------------|
| MelodyVR Ltd | Ordinary | 100% | Virtual reality content creation |
| Immersive Construction Ltd | Ordinary | 51% | Dormant entity |
| MelodyVR Inc | Ordinary | 100% | Virtual reality content creation |
| MelodyVR Holdings Ltd | Ordinary | 100% | Dormant entity |

The registered offices of MelodyVR Limited is 55 Poland Street, London, England, W1F 7NN. The registered offices of, MelodyVR Holdings Ltd and Immersive Construction Ltd are The Lighthouse, 370 Gray's Inn Road, London, England, WC1X 8BB, and the registered offices of MelodyVR Inc is 8954 St Ives Drive, Los Angeles, CA, United States, 90069.

7. AUDITOR'S REMUNERATION

| | Group | |
|---------------------------------------------------------------------------------------|---------------|---------------|
| | 2020 | 2019 |
| | £ | £ |
| During the period the Group obtained the following service from the Group's auditors: | | |
| Fees payable to the Group's auditors for the audit of the Group's annual accounts | 26,000 | 26,000 |
| Fees payable to the Group's auditors for other services: | | |
| Tax services | 4,000 | 4,000 |
| Other services | 30,000 | - |
| | <u>60,000</u> | <u>30,000</u> |

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD ENDED 28 DECEMBER 2020

8. DIRECTORS' AND EMPLOYEE REMUNERATION

| | Group | |
|------------------------------------------------------------|------------------|------------------|
| | 2020 | 2019 |
| | £ | £ |
| The amount paid to directors and employees, is as follows: | | |
| Wages and salaries | 8,650,828 | 5,157,779 |
| Social security costs | 902,648 | 631,586 |
| Pension costs | 146,891 | 114,874 |
| Share based payment costs | 135,622 | 443,476 |
| | <u>9,835,989</u> | <u>6,347,715</u> |

The average number of employees for the period was as follows:

| | 2020 | | 2019 | |
|-------------------|--------------|----------------|--------------|----------------|
| | Group No. | Company No. | Group No. | Company No. |
| Directors | 5 | 5 | 5 | 5 |
| Senior Management | - | - | - | - |
| Staff | 82 | - | 73 | - |
| | <u>87</u> | <u>5</u> | <u>78</u> | <u>5</u> |

Details for directors' remuneration is as follows:

| Director | Salary £ | Total 2020 £ | Total 2019 £ |
|----------------------------------------------|-------------|--------------------|--------------------|
| Anthony Matchett | 396,000 | 1,282,191 | 372,545 |
| Steven Hancock | 316,000 | 625,403 | 270,910 |
| Sebastian Theron (resigned: 15 January 2019) | - | - | 10,154 |
| Simon Cole | 150,000 | 311,881 | 96,667 |
| Ian Hanson (resigned: 1 April 2020) | - | 33,333 | 40,000 |
| Andy Botha | 50,000 | 45,833 | 40,000 |
| Grant Dollens (appointed: 14 April 2020) | - | - | - |
| | | <u>2,298,641</u> | <u>830,276</u> |

The remuneration committee approved the salary increases and bonuses for executive directors during the period. Non-executive fees were also increased in line with market rates.

The Group has no key management other than the Directors.

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD ENDED 28 DECEMBER 2020

9. TAXATION

| | 2020 | 2019 |
|-------------------------------------------------|-------------|-------------|
| | £ | £ |
| Current tax | | |
| UK corporation tax | (4,377,298) | (1,184,287) |
| Deferred tax | | |
| Origination and reversing of timing differences | - | - |
| Tax on profit on ordinary activities | - | - |

The tax on the Group's loss before tax differs from the theoretical amount that would arise using the weighted average rate applicable as follows:

| | 2020 | 2019 |
|------------------------------------------------------------------------------------|--------------------|--------------------|
| | £ | £ |
| Factors affecting the tax charge | | |
| Loss before tax | (26,814,495) | (16,153,071) |
| Loss before tax multiplied by rate of corporation tax in the UK of 19% (2019: 19%) | (5,094,754) | (3,069,083) |
| Effects of: | | |
| Fixed asset differences | 449,586 | 241,921 |
| Expenses not deductible for tax purposes | 279,833 | 116,593 |
| R&D tax credit | (4,377,298) | (1,184,287) |
| Deferred tax not recognised | 4,365,335 | 2,710,569 |
| Total tax credit | (4,377,298) | (1,184,287) |

No deferred tax asset has been recognised as the Directors cannot be certain of the timing of future profits for this asset to be realised. As at 28 December 2020 the Group has tax losses carried forward of approximately £30.8m (2019: £7.8m).

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD ENDED 28 DECEMBER 2020

10. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the loss attributable to shareholders by the weighted average number of ordinary shares in issue during the period. IAS 33 requires presentation of diluted EPS when a company could be called upon to issue shares that would decrease earnings per share, or increase the loss per share. For a loss-making company with outstanding share options and warrants, net loss per share would be decreased by the exercise of options. Therefore the anti-dilutive potential ordinary shares are disregarded in the calculation of diluted EPS. Reconciliation of the profit and weighted average number of shares used in the calculation are set out below:

| | 2020 | 2019 |
|---------------------------------------------------------------|-----------------------------|-----------------------------|
| | £ | £ |
| Loss attributable to equity holders of the Company: | | |
| Continuing and total operations | (22,437,197) | (14,968,784) |
| | <u> </u> | <u> </u> |
| | No. of shares | No. of shares |
| Weighted average number of ordinary shares for basic earnings | 1,770,398,225 | 1,368,304,682 |
| | <u> </u> | <u> </u> |
| | Pence per Share | Pence per Share |
| Loss per share | | |
| Basic and diluted per share | | |
| Continuing and total operations | (1.3p) | (1.1p) |
| | <u> </u> | <u> </u> |

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD ENDED 28 DECEMBER 2020

11. PROPERTY, PLANT AND EQUIPMENT

| Group | Audio-visual Production Equipment | Office Equipment | Computer Equipment | Leasehold Improvements | Motor vehicles | Total |
|---------------------------------|-----------------------------------------|---------------------|-----------------------|---------------------------|-------------------|------------------|
| | £ | £ | £ | £ | £ | £ |
| Cost | | | | | | |
| At 1 January 2019 | 482,460 | 84,162 | 884,544 | 74,285 | - | 1,525,451 |
| Additions | 248,764 | 12,876 | 228,224 | - | - | 489,864 |
| At 31 December 2019 | 731,224 | 97,038 | 1,112,768 | 74,285 | - | 2,015,315 |
| At 1 January 2020 | 731,224 | 97,038 | 1,112,768 | 74,285 | - | 2,015,315 |
| Additions | 232,778 | 252,203 | 148,887 | 569,537 | 13,190 | 1,216,595 |
| Disposals | (289,746) | (97,038) | (1,053,073) | (96,794) | - | (1,536,651) |
| At 28 December 2020 | 674,256 | 252,203 | 208,583 | 547,028 | 13,190 | 1,695,260 |
| Accumulated Depreciation | | | | | | |
| At 1 January 2019 | 180,650 | 19,120 | 363,958 | 27,731 | - | 591,459 |
| Charge for the period | 213,182 | 22,962 | 327,430 | 46,554 | - | 610,128 |
| At 31 December 2019 | 393,832 | 42,082 | 691,388 | 74,285 | - | 1,201,587 |
| At 1 January 2020 | 393,832 | 42,082 | 691,388 | 74,285 | - | 1,201,587 |
| Charge for the period | 306,488 | 83,359 | 394,816 | 102,688 | 2,198 | 889,549 |
| Eliminated on disposal | (276,140) | (66,408) | (991,186) | (81,804) | - | (1,415,538) |
| At 28 December 2020 | 424,180 | 59,033 | 95,018 | 95,169 | 2,198 | 675,598 |
| Net Book Value | | | | | | |
| At 28 December 2020 | 250,076 | 193,170 | 113,565 | 451,859 | 10,992 | 1,019,662 |
| At 31 December 2019 | 337,392 | 54,956 | 421,380 | - | - | 813,728 |
| At 1 January 2019 | 301,810 | 65,042 | 520,586 | 46,554 | - | 933,992 |

The parent entity does not have any items of property, plant and equipment.

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD ENDED 28 DECEMBER 2020

12. RIGHT-OF-USE ASSETS

| Group | Land and buildings | Total |
|---------------------------------|-----------------------|------------------|
| | £ | £ |
| Cost | | |
| At 1 January 2019 | - | - |
| Initial recognition of IFRS 16 | 530,440 | 530,440 |
| At 31 December 2019 | 530,440 | 530,440 |
| At 1 January 2020 | 530,440 | 530,440 |
| Additions | 1,377,140 | 1,377,140 |
| Exchange differences | (7,315) | (7,315) |
| At 28 December 2020 | 1,900,265 | 1,900,265 |
| Accumulated Depreciation | | |
| At 1 January 2019 | - | - |
| Charge for the period | 14,734 | 14,734 |
| At 31 December 2019 | 14,734 | 14,734 |
| At 1 January 2020 | 14,734 | 14,734 |
| Charge for the period | 386,791 | 386,791 |
| At 28 December 2020 | 401,525 | 401,525 |
| Net Book Value | | |
| At 28 December 2020 | 1,498,740 | 1,498,740 |
| At 31 December 2019 | 515,706 | 515,706 |
| At 1 January 2019 | - | - |

The parent entity does not have any right-of-use assets.

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD ENDED 28 DECEMBER 2020

13. INTANGIBLE FIXED ASSETS

| Group | Goodwill | Development costs | Content assets - in production | Content assets - released | Total |
|---------------------------------|----------|-------------------|--------------------------------|---------------------------|-----------|
| Cost | £ | £ | £ | £ | £ |
| At 1 January 2019 | 603,476 | 667,819 | 646,344 | 506,981 | 2,424,620 |
| Additions | - | 1,282,545 | 101,999 | 338,364 | 1,722,908 |
| Disposals | - | (69,871) | (126,766) | - | (196,637) |
| Transfers | - | - | (306,701) | 306,701 | - |
| At 31 December 2019 | 603,476 | 1,880,493 | 314,876 | 1,152,046 | 3,950,891 |
| At 1 January 2020 | 603,476 | 1,880,493 | 314,876 | 1,152,046 | 3,950,891 |
| Additions | - | - | - | - | - |
| Disposals | - | - | (235,791) | - | (235,791) |
| Transfers | - | - | (79,085) | 79,085 | - |
| At 28 December 2020 | 603,476 | 1,880,493 | - | 1,231,131 | 3,715,100 |
| Accumulated Depreciation | | | | | |
| At 1 January 2019 | - | 149,279 | - | 179,794 | 329,073 |
| Charge for the period | - | 413,294 | - | 588,515 | 1,001,809 |
| Eliminated on disposal | - | (27,041) | - | - | (27,041) |
| At 31 December 2019 | - | 535,532 | - | 768,309 | 1,303,841 |
| At 1 January 2020 | - | 535,532 | - | 768,309 | 1,303,841 |
| Charge for the period | - | 626,795 | - | 369,251 | 996,046 |
| Eliminated on disposal | - | - | - | - | - |
| At 28 December 2020 | - | 1,162,327 | - | 1,137,560 | 2,299,887 |
| Net Book Value | | | | | |
| At 28 December 2020 | 603,476 | 718,166 | - | 93,571 | 1,415,213 |
| At 31 December 2019 | 603,476 | 1,344,961 | 314,876 | 383,737 | 2,647,050 |
| At 1 January 2019 | 603,476 | 518,540 | 646,344 | 327,187 | 2,095,547 |

Goodwill has been calculated as the fair value of the Napster Group PLC ordinary shares pre reverse takeover less the net asset value of the Company at the time of take over. During the period the recognition criteria for intangibles assets as per IAS38 were satisfied for assets internally generated by the Company's subsidiary entity, MelodyVR Ltd and have therefore been capitalised and are presented above in line with the accounting policy in Note 2.

The parent entity does not have any items of intangible fixed assets.

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD ENDED 28 DECEMBER 2020

14. INVESTMENTS

| | Company £ |
|----------------------------------------|----------------------|
| Cost | |
| At 1 January 2019 and 31 December 2019 | 5,352,731 |
| At 28 December 2020 | <u>5,352,731</u> |
| Impairment | |
| At 1 January 2019 and 31 December 2019 | - |
| Charge for the period | - |
| At 28 December 2020 | <u>-</u> |
| Net Book Value | |
| At 28 December 2020 | <u>5,352,731</u> |
| At 1 January 2019 and 31 December 2019 | <u>5,352,731</u> |

The fair value of the investment has been calculated by taking the 486,611,833 shares issued by the Company at 1.1p per share to acquire MelodyVR Limited.

15. FINANCIAL ASSETS

| | 2020 | | 2019 | |
|-------------------|----------------|--------------|----------------|--------------|
| | Group £ | Company £ | Group £ | Company £ |
| Security deposits | <u>243,809</u> | <u>-</u> | <u>235,446</u> | <u>-</u> |

The security deposits relates to the right-of-use asset as per Note 12 and is measured at amortised cost

16. INVENTORIES

| | 2020 | | 2019 | |
|-------------------------------|------------|--------------|----------------|--------------|
| | Group £ | Company £ | Group £ | Company £ |
| Raw materials and consumables | <u>-</u> | <u>-</u> | <u>371,877</u> | <u>-</u> |

In accordance with IAS 2 the Group regularly reviews its inventory to ensure it is carried at the lower of cost or net realisable value.

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD ENDED 28 DECEMBER 2020

17. TRADE AND OTHER RECEIVABLES

| | 2020 | | 2019 | |
|-------------------------|-------------------|-------------------|------------------|-------------------|
| | Group £ | Company £ | Group £ | Company £ |
| Trade receivables | 265,971 | - | 526,693 | - |
| Prepayments | 11,058,916 | 9,148,456 | 654,366 | 7,267 |
| Other debtors | 5,034,154 | 438,510 | 2,201,760 | 792,451 |
| Intercompany receivable | - | 57,673,578 | - | 43,307,058 |
| | <u>16,359,041</u> | <u>67,260,544</u> | <u>3,382,819</u> | <u>44,106,776</u> |

The fair value of trade and other receivables is considered by the directors not to be materially different to carrying amounts.

18. CASH AND CASH EQUIVALENTS

| | 2020 | | 2019 | |
|---------------------------|------------------|---------------|------------------|---------------|
| | Group £ | Company £ | Group £ | Company £ |
| Cash and cash equivalents | 2,622,526 | 11,740 | 6,795,341 | 20,565 |
| | <u>2,622,526</u> | <u>11,740</u> | <u>6,795,341</u> | <u>20,565</u> |

The Directors consider that the carrying amount of cash and cash equivalent represents their fair value.

19. TRADE AND OTHER PAYABLES

| | 2020 | | 2019 | |
|-----------------------|------------------|------------------|------------------|----------------|
| | Group £ | Company £ | Group £ | Company £ |
| Trade payables | 2,004,155 | 277,963 | 594,759 | 40,927 |
| Other creditors | 3,152,635 | 1,061,162 | 548,552 | 39,281 |
| Intercompany payables | - | 253,943 | - | 92,699 |
| | <u>5,156,790</u> | <u>1,593,068</u> | <u>1,143,311</u> | <u>172,907</u> |

20. BORROWINGS

| | 2020 | | 2019 | |
|---------------------------|------------------|------------------|------------|--------------|
| | Group £ | Company £ | Group £ | Company £ |
| Current borrowings | | | | |
| Directors' loan accounts | 583,591 | - | - | - |
| Other loans | 3,733,860 | 3,733,860 | - | - |
| | <u>4,317,451</u> | <u>3,733,860</u> | <u>-</u> | <u>-</u> |

Other loans comprise amounts owed to Davis Capital Partners LLP and is secured by a fixed and floating charge over substantially all of the assets of the Group. The Loan is repayable on or before 31 March 2021 and carries interest at a rate of 15% per annum.

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD ENDED 28 DECEMBER 2020

21. LEASE LIABILITIES

A summary of the lease debt maturity is shown below:

| Group | 2020 | 2019 |
|-----------------------|------------------|----------------|
| | £ | £ |
| Less than 1 year | 644,018 | 156,964 |
| Between 2 and 5 years | 970,660 | 323,443 |
| | <u>1,614,678</u> | <u>480,407</u> |

The carrying value of assets held under lease within right-of-use assets is £1,498,740 (2019: £515,706) as per Note 12. The balance relates to a property leases held within the subsidiaries MelodyVR Ltd and MelodyVR Inc.

22. COMMITMENTS

Neither the Group nor the Company had any capital commitments at the end of the financial period, for which no provision has been made. In addition to the lease liabilities which are recorded on the Group's balance sheet as per Note 21, there are also various short term and low value leases which are accounted for as operating leases. Total future lease payments under non-cancellable operating leases exempt under IFRS 16 are as follows:

| Group | 2020 | | 2019 | |
|---------------------------|---------------------------|--------------|---------------------------|--------------|
| | Land and buildings | Other | Land and buildings | Other |
| | £ | £ | £ | £ |
| Operating leases payable: | | | | |
| Less than 1 year | 195,700 | - | 81,700 | - |
| Between 2 and 5 years | - | - | - | - |
| | <u>195,700</u> | <u>-</u> | <u>81,700</u> | <u>-</u> |

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD ENDED 28 DECEMBER 2020

23. ISSUED SHARE CAPITAL

| | 2020 | | 2019 | |
|-------------------------------|----------------------------|-----------------------|----------------------------|-----------------------|
| | Number of Shares No. | Nominal Value £ | Number of Shares No. | Nominal Value £ |
| Issued and fully paid | | | | |
| Ordinary shares of 1p each | 2,061,845,991 | 20,618,460 | 1,433,660,237 | 14,336,601 |
| Deferred shares of 0.24p each | 150,520,616 | 361,249 | 150,520,616 | 361,249 |
| Deferred shares of 0.95p each | 26,000,000 | 247,000 | 26,000,000 | 247,000 |
| | <u>2,238,366,607</u> | <u>21,226,709</u> | <u>1,610,180,853</u> | <u>14,944,850</u> |

| Movement | Number of Shares No. | Nominal Value £ | Share premium £ |
|------------------------------------------------|----------------------------|-----------------------|-----------------------|
| Issued and fully paid during the period | | | |
| Issue of new ordinary shares at 1.0p each | 2,419,592 | 24,196 | - |
| Issue of new ordinary shares at 1.1p each | 9,245,270 | 92,453 | 9,245 |
| Issue of new ordinary shares at 1.2p each | 4,615,090 | 46,151 | 9,230 |
| Issue of new ordinary shares at 1.85p each | 1,470,588 | 14,706 | 12,500 |
| Issue of new ordinary shares at 3.5p each | 335,024,248 | 3,350,243 | 8,375,606 |
| Issue of new ordinary shares at 3.75p each | 275,410,966 | 2,754,110 | 7,573,802 |
| Share issue costs | - | - | (1,258,935) |
| | <u>628,185,754</u> | <u>6,281,859</u> | <u>14,721,448</u> |

The deferred shares do not confer upon the holders right to any dividends or the right to attend or vote at general meetings of the Company.

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD ENDED 28 DECEMBER 2020

24. SHARE OPTIONS AND WARRANTS

The Group operates share-based payment arrangements to remunerate directors and key employees in the form of options and warrants. Equity-settled share-based payments 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 Company's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

The fair value at grant date is independently determined using the Black Scholes Model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk free interest rate for the term of the option and the correlations and volatilities of the peer group companies.

In determining the expected price volatility, the directors have taken account of expectations regarding the current and future circumstances in the virtual reality market, both from the perspective of investment into content creation and hardware manufacture, and from the perspective of consumer trends, to assess the expected uptake of virtual reality as a mainstream outlet for music and other media and entertainment genres.

DIRECTOR OPTIONS AND WARRANTS

The following table sets out the details of options and warrants held by directors at 28 December 2020:

| Director | Warrants and options in parent at 1 January 2020 | Exercised during the period | Warrants and options at 28 December 2020 | Exercise price | Expiry date |
|-------------------------|---------------------------------------------------------|------------------------------------|-------------------------------------------------|-----------------------|--------------------|
| Simon Cole | 4,615,090 | (4,615,090) | - | 1.1p | 16.05.2026 |
| Anthony Matchett | 11,537,725 | - | 11,537,725 | 1.1p | 16.05.2026 |
| Steven Hancock | 11,537,725 | - | 11,537,725 | 1.1p | 16.05.2026 |
| Ian Hanson | 4,615,090 | - | 4,615,090 | 8.125p | 17.07.2027 |
| Andy Botha | 4,615,090 | - | 4,615,090 | 5.7p | 20.12.2028 |
| | <u>36,920,720</u> | <u>(4,615,090)</u> | <u>32,305,630</u> | | |

No options or warrants issued to directors have lapsed or been forfeited during the period. This calculation takes into account warrants and options awarded to directors in the performance of their duties.

EQUITY SETTLED SHARE OPTION SCHEME

The Group operates an approved enterprise management incentive scheme under which employees have been granted options to purchase shares in Napster Group PLC.

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD ENDED 28 DECEMBER 2020

24. SHARE OPTIONS AND WARRANTS (continued)

The following table sets out the details of share options held at 28 December 2020:

| | 2020 | | 2019 | |
|----------------------------------------------|-----------------------------------------|-------------------|-----------------------------------------|-------------------|
| | Average exercise price per share option | Number of options | Average exercise price per share option | Number of options |
| As at 1 January | 10.4p | 90,961,255 | 5.7p | 44,486,521 |
| Granted during the period | - | - | 13.9p | 57,970,410 |
| Exercised during the period | 1.2p | (2,419,592) | 14.6p | (5,475,949) |
| Forfeited during the period | - | - | 5.3p | (6,019,727) |
| As at 28 December | 10.7p | <u>88,541,663</u> | 10.4p | <u>90,961,255</u> |
| Vested and exercisable at 28 December | 10.9p | <u>82,887,285</u> | 10.9p | <u>77,894,348</u> |

Share options outstanding at the end of the period have the following expiry date and exercise prices:

| Grant Date | Expiry date | Weighted average exercise price | Share options 28 December 2020 | Share options 31 December 2019 |
|-------------------------------------------------------------------------------------|------------------|---------------------------------|--------------------------------|--------------------------------|
| 13 October 2016 | 13 October 2026 | 1.1p | 9,218,980 | 11,613,522 |
| 02 February 2017 | 02 February 2027 | 0.8p | 3,750,000 | 3,750,000 |
| 17 July 2017 | 17 July 2027 | 8.1p | 11,647,550 | 11,647,550 |
| 12 March 2018 | 12 March 2028 | 9.0p | 6,336,674 | 6,361,724 |
| 20 December 2018 | 20 December 2028 | 5.7p | 4,615,090 | 4,615,090 |
| 31 December 2019 | 31 December 2021 | 15.3p | 44,973,369 | 44,973,369 |
| 16 October 2019 | 16 October 2024 | 5.3p | 8,000,000 | 8,000,000 |
| Total | | | <u>88,541,663</u> | <u>90,961,255</u> |
| Weighted average remaining contractual life of options outstanding at end of period | | | 3.52 years | 4.15 years |

Of the share options outstanding at 28 December 2020, 9,230,180 (2019: 9,230,180) are held by directors of the Company.

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD ENDED 28 DECEMBER 2020

24. SHARE OPTIONS AND WARRANTS (continued)

WARRANTS

The Group issues warrants to directors, key advisors, commercial partners and others in consideration of the benefit accruing to the Group. The following table sets out the details of warrants held at 28 December 2020:

| | 2020 | | 2019 | |
|----------------------------------------------|------------------------------------|--------------------|------------------------------------|--------------------|
| | Average exercise price per warrant | Number of warrants | Average exercise price per warrant | Number of warrants |
| As at 1 January | 7.3p | 197,714,780 | 7.0p | 206,985,521 |
| Granted during the period | - | - | - | - |
| Exercised during the period | 1.2p | (15,330,948) | 1.9p | (8,877,585) |
| Forfeited during the period | - | - | 1.9p | (393,156) |
| As at 28 December | 7.8p | 182,383,832 | 7.3p | 197,714,780 |
| Vested and exercisable at 28 December | 7.8p | 182,383,832 | 7.3p | 197,714,780 |

Warrants outstanding at the end of the period have the following expiry date and exercise prices:

| Grant Date | Expiry date | Exercise price | Share options 28 December 2020 | Share options 31 December 2019 |
|--------------------------------------------------------------------------------------|------------------|----------------|--------------------------------|--------------------------------|
| 31 July 2015 | 31 July 2020 | 1.2p | - | 9,230,180 |
| 30 June 2016 | 30 June 2026 | 1.1p | 46,664,054 | 51,294,234 |
| 16 October 2016 | 16 October 2019 | 1.85p | - | 1,470,588 |
| 22 December 2016 | 22 December 2021 | 4.3p | 43,239,926 | 43,239,926 |
| 17 July 2017 | 17 July 2022 | 14.2p | 43,239,926 | 43,239,926 |
| 20 March 2017 | 20 March 2022 | 12.4p | 43,239,926 | 43,239,926 |
| 29 October 2018 | 29 October 2023 | 5.5p | 6,000,000 | 6,000,000 |
| Total | | | 182,383,832 | 197,714,780 |
| Weighted average remaining contractual life of warrants outstanding at end of period | | | 2.39 years | 3.30 years |

Of the warrants outstanding at 28 December 2020, 23,075,450 (2019: 27,690,540) are held by directors of the Company.

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD ENDED 28 DECEMBER 2020

24. SHARE OPTIONS AND WARRANTS (continued)

MEASUREMENT OF FAIR VALUES

The model inputs for options granted during the period ended 28 December 2020 included:

| | Share options scheme | | Warrants | |
|----------------------------------------------|----------------------|-----------|----------|------|
| | 2020 | 2019 | 2020 | 2019 |
| Fair value at grant date (weighted-average) | n/a | 0.2p | n/a | n/a |
| Share price at grant date (weighted-average) | n/a | 5.07p | n/a | n/a |
| Exercise price (weighted-average) | n/a | 13.91p | n/a | n/a |
| Expected volatility | n/a | 40% | n/a | n/a |
| Expected life (weighted average) | n/a | 2.4 years | n/a | n/a |
| Risk-free interest rate | n/a | 0.50% | n/a | n/a |

Total expenses arising from share-based payment transactions recognised in profit or loss during the period were as follows:

| | 2020 | 2019 |
|--------------------------------------------------|------------------|------------------|
| | £ | £ |
| Options and warrants issued to directors | 42,585 | 73,133 |
| Options issued under employee share scheme | 93,037 | 226,343 |
| Options issued to commercial and other partners | - | 144,000 |
| Warrants issued to commercial and other partners | - | - |
| Total | 135,622 | 443,476 |
| Share option reserve | 2,553,363 | 2,417,741 |

25. FINANCIAL INSTRUMENTS

CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are:

- to safeguard the Group's ability to continue as a going concern, so that it continues to provide returns and benefits for shareholders;
- to support the Group's growth; and
- to provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure an optimal capital structure and equity holder returns, taking into consideration the future capital requirements of the Company and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Management regards total equity as capital and reserves, for capital management purposes.

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD ENDED 28 DECEMBER 2020

25. FINANCIAL INSTRUMENTS (continued)

CREDIT RISK

The main credit risk relates to liquid funds held at banks. The credit risk in respect of these bank balances is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

LIQUIDITY RISK

The Group seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs.

An analysis of trade and other payables is given in note 19. These payables are payable within a year.

FOREIGN EXCHANGE RISK

Foreign exchange risk arises when individual Group entities enter into transactions denominated in a currency other than their functional currency. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Sterling and the US dollar. The foreign exchange exposure is analysed on a regular basis. Sensitivity analysis has been omitted from the financial statements given the low risk and the immaterial impact a change in exchange rates would have on the reported figures.

CATEGORIES OF FINANCIAL INSTRUMENTS

The IAS 39 categories of financial asset included in the statement of financial position and the headings in which they are included are as follows:

| | 2020 | | 2019 | |
|-------------------------------------------------|-------------|--------------|-------------|--------------|
| | Group £ | Company £ | Group £ | Company £ |
| Financial assets: | | | | |
| Cash and bank balances | 2,622,526 | 11,740 | 6,795,341 | 20,565 |
| Trade and other receivables | 16,359,041 | 69,113,950 | 3,382,819 | 44,106,776 |
| Investments | - | 5,352,731 | - | 5,352,731 |
| Financial assets – non-current | 243,809 | - | 235,446 | - |
| Financial liabilities at amortised cost: | | | | |
| Trade and other payables | (5,156,790) | (1,593,068) | (1,143,311) | (172,907) |
| Borrowings | (4,317,451) | (3,733,860) | - | - |

26. RELATED PARTY TRANSACTIONS

Company

At the balance sheet date amounts owed from subsidiary undertaking MelodyVR Ltd totalled £59,526,984 (2019: £43,307,058), and owing to MelodyVR Inc totalled £253,943 (2019: £92,699). There were no other related party transactions during the period to 28 December 2020.

27. POST PERIOD END EVENTS

On 29 December 2020, the Company acquired Rhapsody International, Inc by means of a reverse triangular merger for a consideration comprising \$15m in cash together with 241,403,508 ordinary shares of 1.0 pence each. On the same day, the Company raised gross proceeds of \$10m 201,349,772 ordinary shares at a price of 3.75 pence per share.

On 3 February 2021, the Company resolved by Special Resolution to change its name to Napster Group PLC.

On 8 February 2021, the Company raised gross proceeds of £1.6m via the placing of 48,458,130 ordinary shares at a price of 3.3 pence per share.

NAPSTER GROUP PLC (FORMERLY MELODYVR GROUP PLC)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD ENDED 28 DECEMBER 2020

On 8 April 2021, £1.27m of convertible loan notes were converted in to 63,310,069 ordinary shares at a conversion price of 2.006 pence per share.

On 10 June 2021, £2.3m of convertible loan notes were converted in to 130,164,120 ordinary shares at a conversion price of 1.767 pence per share.

Other than the above, the Directors were not aware of any other material events since the reporting date.

28. ULTIMATE CONTROLLING PARTY

Napster Group PLC is listed on the Alternative Investment Market of the London Stock Exchange, and therefore the directors do not consider there to be any single ultimate controlling party.