

PAVEGEN SYSTEMS LTD

FINANCIAL STATEMENTS

INFORMATION FOR FILING WITH THE REGISTRAR

FOR THE YEAR ENDED 31 DECEMBER 2021

BALANCE SHEET
AS AT 31 DECEMBER 2021

	Note	2021 £	2020 £
Fixed assets			
Intangible assets	5	56,469	63,477
Tangible assets	6	91,948	48,002
Investments	7	68	68
		<u>148,485</u>	<u>111,547</u>
Current assets			
Stocks	8	356,931	196,542
Debtors: amounts falling due within one year	9	786,254	671,950
Cash at bank and in hand		1,459,433	2,005,414
		<u>2,602,618</u>	<u>2,873,906</u>
Creditors: amounts falling due within one year	10	(1,013,055)	(1,392,261)
Net current assets		<u>1,589,563</u>	<u>1,481,645</u>
Total assets less current liabilities		<u>1,738,048</u>	<u>1,593,192</u>
Creditors: amounts falling due after more than one year	11	(225,634)	(44,166)
Provisions for liabilities			
Other provisions	13	(33,498)	(33,498)
		<u>(33,498)</u>	<u>(33,498)</u>
Net assets		<u><u>1,478,916</u></u>	<u><u>1,515,528</u></u>
Capital and reserves			
Called up share capital		2,402	2,319
Share premium account		9,574,480	8,629,926
Profit and loss account		(8,097,966)	(7,116,717)
		<u><u>1,478,916</u></u>	<u><u>1,515,528</u></u>

BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 2021

The financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime and in accordance with the provisions of FRS 102 Section 1A - small entities.

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

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

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

Mr L Kemball-Cook
Director

Date: 22 December 2022

The notes on pages 4 to 17 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£	£	£	£
At 1 January 2020	2,170	6,610,465	(5,561,779)	1,050,856
Loss for the year	-	-	(1,554,938)	(1,554,938)
Shares issued during the year	149	2,019,461	-	2,019,610
At 1 January 2021	2,319	8,629,926	(7,116,717)	1,515,528
Loss for the year	-	-	(981,249)	(981,249)
Shares issued during the year	83	944,554	-	944,637
At 31 December 2021	2,402	9,574,480	(8,097,966)	1,478,916

The notes on pages 4 to 17 form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

1. General information

Pavegen Systems Ltd is a private company limited by shares incorporated in England and Wales within the United Kingdom. The address of the registered office is given in the company information page of these financial statements.

2. Accounting policies

2.1 Basis of preparation of financial statements

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

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Exemption from preparing consolidated financial statements

The Company is exempt from the requirement to prepare consolidated financial statements, by virtue of the group it heads qualifying as small as set out in section 383 of the Companies Act 2006.

2.3 Going concern

The directors consider the company to be a going concern. The company has relied and continues to rely on financial support of investors to provide working capital to continue research and development (R&D).

The current year saw the company make a pre-tax loss of £1,380,633 as a result of its focus on the R&D of the floor tile. Net assets are £1,478,916, which in the context of the loss in the year raises significant doubt over the company's ability to meet its debts as they fall due and realise its assets in the normal course of business, and therefore to continue as a going concern. However, projections for the coming years indicate that the future of the company is one of expansion, once the new tiles are fully developed and available, and the company is able to generate recurring revenues on its installments of tiles.

On this basis the directors deem it appropriate that the financial statements continue to be prepared on a going concern basis.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

2. Accounting policies (continued)

2.4 Revenue

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

Sale of goods

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

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

Sale of floor tiles

Income is recognised when the company has transferred the significant risks and rewards of ownership to the buyer, which is usually the earlier of the date goods are shipped or date the installation of the floor tiles has been completed.

Rental of floor tiles

Income is recognised on a straight-line basis over the term of the rental.

Data sales

Income is recognised when the company value is transferred to the buyer, which is usually the earlier of the date goods are shipped or date the installation of the floor tiles has been completed.

2.5 Intangible assets

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

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

Amortisation is provided on the following bases:

Patents	-	20 % straight line
---------	---	--------------------

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

2. Accounting policies (continued)

2.6 Tangible fixed assets

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

The Company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the Company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

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

Depreciation is provided on the following bases:

Assets under construction	-	no depreciation
Plant and machinery	-	20% straight-line
Computer and office equipment	-	33% straight-line
Project equipment	-	33% straight-line

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

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

2.7 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

2.8 Stocks

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

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

2.9 Debtors

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

2. Accounting policies (continued)

2.10 Cash and cash equivalents

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

2.11 Creditors

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

2.12 Financial instruments

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

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

2.13 Government grants

Grants are accounted under the accruals model as permitted by FRS 102. Grants relating to expenditure on tangible fixed assets are credited to profit or loss at the same rate as the depreciation on the assets to which the grant relates. The deferred element of grants is included in creditors as deferred income.

Grants of a revenue nature are recognised in the Statement of Comprehensive Income in the same period as the related expenditure.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

2. Accounting policies (continued)

2.14 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP, rounded to the nearest £1.

Transactions and balances

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

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

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

2.15 Convertible debt

The proceeds received on issue of the Company's convertible debt are allocated into their liability and equity components and presented separately in the balance sheet date.

The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that did not include an option to convert.

The difference between the net proceeds of the convertible debt and the amount allocated to the debt component is credited direct to equity and is not subsequently remeasured. On conversion, the debt and equity elements are credited to share capital and share premium as appropriate. At the balance sheet date, no value has been ascribed to the equity component (2020 - £nil).

Transaction costs that relate to the issue of the instrument are allocated to the liability and equity components of the instrument in proportion to the allocation of proceeds.

2.16 Finance costs

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

2. Accounting policies (continued)

2.17 Share based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to profit or loss over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Options granted by the company have been considered and are deemed immaterial to these financial statements.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the Company keeping the scheme open or the employee maintaining any contributions required by the scheme).

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees, profit or loss is charged with fair value of goods and services received.

2.18 Operating leases: the Company as lessee

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

2.19 Research and development

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives, which range from 3 to 6 years.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

2.20 Interest income

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

2.21 Borrowing costs

All borrowing costs are recognised in profit or loss in the year in which they are incurred.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

2. Accounting policies (continued)

2.22 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to profit or loss in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

2.23 Taxation

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

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

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

Other than those disclosed in note 2, there were no other judgements or key sources of estimation uncertainty.

4. Employees

The average monthly number of employees, including directors, during the year was 22 (2020 - 25 employees).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

5. Intangible assets

	Patents £
Cost	
At 1 January 2021	159,278
Additions	21,708
At 31 December 2021	<u>180,986</u>
Amortisation	
At 1 January 2021	95,801
Charge for the year on owned assets	28,716
At 31 December 2021	<u>124,517</u>
Net book value	
At 31 December 2021	<u><u>56,469</u></u>
At 31 December 2020	<u><u>63,477</u></u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

6. Tangible fixed assets

	Plant and machinery £	Computer and office equipment £	Project equipment £	Assets under construction £	Total £
Cost or valuation					
At 1 January 2021	175,057	68,137	43,099	27,500	313,793
Additions	-	6,198	-	49,725	55,923
At 31 December 2021	<u>175,057</u>	<u>74,335</u>	<u>43,099</u>	<u>77,225</u>	<u>369,716</u>
Depreciation					
At 1 January 2021	162,824	60,881	42,086	-	265,791
Charge for the year on owned assets	4,645	6,319	1,013	-	11,977
At 31 December 2021	<u>167,469</u>	<u>67,200</u>	<u>43,099</u>	<u>-</u>	<u>277,768</u>
Net book value					
At 31 December 2021	<u>7,588</u>	<u>7,135</u>	<u>-</u>	<u>77,225</u>	<u>91,948</u>
At 31 December 2020	<u>12,233</u>	<u>7,256</u>	<u>1,013</u>	<u>27,500</u>	<u>48,002</u>

7. Fixed asset investments

	Investments in subsidiary companies £
Cost or valuation	
At 1 January 2021	68
At 31 December 2021	<u>68</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

8. Stocks

	2021 £	2020 £
Finished goods and goods for resale	356,931	196,542
	<u>356,931</u>	<u>196,542</u>

9. Debtors

	2021 £	2020 £
Trade debtors	225,473	278,377
Other debtors	36,098	27,455
Prepayments and accrued income	119,265	193,626
Tax recoverable	405,418	172,492
	<u>786,254</u>	<u>671,950</u>

10. Creditors: Amounts falling due within one year

	2021 £	2020 £
Bank overdrafts	359	-
Bank loans	10,000	5,834
Other loans	390,358	515,137
Trade creditors	248,751	250,841
Amounts owed to group undertakings	68	68
Other taxation and social security	31,273	16,467
Other creditors	3,281	30,844
Accruals and deferred income	328,965	573,070
	<u>1,013,055</u>	<u>1,392,261</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

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

	2021 £	2020 £
Bank loans	34,167	44,166
Other loans	191,467	-
	<u>225,634</u>	<u>44,166</u>

The aggregate amount of liabilities repayable wholly or in part more than five years after the balance sheet date is:

	2021 £	2020 £
Repayable by instalments	-	4,166
	<u>-</u>	<u>4,166</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

12. Loans

Analysis of the maturity of loans is given below:

	2021 £	2020 £
Amounts falling due within one year		
Bank loans	10,000	5,834
Other loans	390,358	515,137
	<u>400,358</u>	<u>520,971</u>
Amounts falling due 1-2 years		
Bank loans	10,000	10,000
Other loans	191,467	-
	<u>201,467</u>	<u>10,000</u>
Amounts falling due 2-5 years		
Bank loans	24,167	34,166
	<u>625,992</u>	<u>565,137</u>

The bank loan was made under the Bounce Back Loan Scheme in response to COVID-19. Interest is 2.5% pa, and the loan is repayable in equal monthly installments after an initial repayment-free period of 12 months. The final payment is due on 03 May 2026.

Other loans comprises a convertible loan note plus rolled up interest at 8% pa, which is unsecured. No value has been ascribed to the equity component. The term of the arrangement was renegotiated after the balance sheet, and is repayable in 3 installments, the final installment being due on April 2023.

13. Provisions

	Warranties £
At 1 January 2021	<u>33,498</u>
At 31 December 2021	<u>33,498</u>

The warranty provision relates to estimated costs for the company to repair or replace any products which are deemed to be faulty.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

14. Contingent liabilities

As at 31 December 2021, the company had entered into an agreement where, upon the completion of certain criteria, £Nil (2020 - £53,520) will fall due to the service provider. These criteria had not been met at the reporting date.

15. Pension commitments

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £9,730 (2020 - £14,771). Contributions totalling £2,295 (2020 - £2,947) were payable to the fund at the balance sheet date and are included in creditors.

16. Commitments under operating leases

At 31 December 2021 the Company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	2021 £	2020 £
Not later than 1 year	22,500	87,231
Later than 1 year and not later than 5 years	-	22,500
	<u>22,500</u>	<u>109,731</u>

17. Related party transactions

During the year, the Company made advances of of £Nil (2020 - £4,366) and received repayments of £2,686 (2020 - £334) to Laurence Kemball-Cook, a director of the Company. At the year end, there was £1,917 (2020 - £4,602) owed by Laurence Kemball-Cook.

During the year, the Company made advances of of £25,032 (2020 - £25,000) and received repayments of £Nil (2020 - £Nil) to Julian Kemball-Cook, a director. At the year end, there was £Nil (2020 - £25,032) owed to Julian Kemball-Cook.

Twin Cedars LLC, a company in which Mr J J Martin is also a director, previously purchased convertible loan notes from Pavegen Systems Ltd. During the year, interest of £92,424 (2020 - £31,145) was charged and repayments of £25,735 (2020 - £Nil) were made to Twin Cedars LLC. At the year end, amounts owed to Twin Cedars LLC totalled £581,825 (2020 - £515,137).

Tribal Planet Corporation, a company in which Mr J J Martin is also a director, has a long term licensing agreement in place with Pavegen Systems Ltd. During the year, purchases of £37,685 (2020 - £37,685) and payments of £Nil (2020 - £136,132) were made to Tribal Planet Corporation in respect of this agreement. At the year end, £54,059 (2020 - £53,520) was owed to Tribal Planet Corporation.

At the balance sheet date, key management personnel owed the business £3,768 (2020 - £3,768).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

18. Auditor's information

The auditor's report on the financial statements for the year ended 31 December 2021 was unqualified.

In their report, the auditor emphasised the following matter without qualifying their report:

We draw attention to note 2.3 in the financial statements, which states that the Company incurred a loss before tax of £1,380,633 during the year ended 31 December 2021 and, as of that date, the Company's net assets were £1,478,916. As stated in note 2.3, these conditions, along with other matters as set forth in note 2.3, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

The audit report was signed on 22 December 2022 by Duncan Cochrane-Dyet Bsc BFP FCA (Senior Statutory Auditor) on behalf of MHA MacIntyre Hudson.

This document was delivered using electronic communications and authenticated in accordance with the registrar's rules relating to electronic form, authentication and manner of delivery under section 1072 of the Companies Act 2006.