

Company Registration No. 08070525 (England and Wales)

IMPROBABLE WORLDS LIMITED
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 MAY 2017

TUESDAY



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IMPROBABLE WORLDS LIMITED

COMPANY INFORMATION

Directors	H Narula C Dixon P Lipka D Nishar
Secretary	R Miller
Company number	08070525
Registered office	20 Farringdon Road London EC1M 3HE
Auditor	RSM UK Audit LLP Chartered Accountants 25 Farringdon Street London United Kingdom EC4A 4AB

IMPROBABLE WORLDS LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 MAY 2017

The directors present the strategic report for the year ended 31 May 2017 for Improbable Worlds Limited (the "Company" and its subsidiary (together the "Group").

Principal activity and business review

The principal activity of the Group is the development and commercial exploitation of cloud-based large-scale simulation technology, enabling virtual worlds and simulations of large scale and complexity. The Group's focus is on the video gaming and enterprise end-markets.

During the year the Group continued investment in its technology platform, SpatialOS. In support of these research and development efforts, headcount grew by 94% and personnel and overhead costs increased as a result.

The Group also expanded geographically, opening an office in San Francisco in January 2017 and incorporating a wholly owned US subsidiary, Improbable Inc. The US operations support all aspects of the UK business, and bring the Group closer to key customers and partners in North America.

Revenue generated in the period was primarily through projects demonstrating the capabilities of SpatialOS and proofs of concept to support potential longer term engagements and partnerships.

In May 2017, the Group closed a \$502 million (£386million) Series B funding round led by Softbank, with follow-on investments from Series A investors Andreessen Horowitz and Horizons Ventures. At fiscal year end, the first investment tranche of \$102 million (£80million) had been received, with the second tranche received in the first quarter of FY18.

Principal risks and uncertainties

There are inherent risks faced by companies who are developing novel technologies and are at early stages of a company life cycle. The directors view the principal risk to be the ability of the Group to maintain or generate sufficient funds to continue developing and advancing the SpatialOS platform and future products. The Series B funding has significantly de-risked this in the near-term; however, the directors are cognizant the Group is not yet demonstrating self-sustaining profitability.

Development and performance

In the course of FY18 the Group will continue developing and iterating the platform whilst pursuing opportunities for its commercial exploitation.

Key performance indicators

During the year, the company has monitored absolute levels of expenditure incurred. The directors are of the opinion that, during the period, analysis using key performance indicators was not necessary to understand the performance and position of the Group. The measures of profitability, financial position and cash flows found in the primary statements are sufficient to manage and monitor the Group at its current stage of development. As it naturally transitions from research and development to customer and product focus, the directors will identify appropriate key performance indicators to track and analyse ongoing business performance.

On behalf of the board



H Narula

Director

Sept 28, 2017

IMPROBABLE WORLDS LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MAY 2017

The directors present their annual report and financial statements for the year ended 31 May 2017.

Principal activities

The principal activity of the company is the development and commercial exploitation of cloud-based large-scale simulation technology, enabling virtual worlds and simulations of large scale and complexity.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

H Narula	
C Dixon	
P Timoney	(Resigned 27 April 2017)
P Chen	(Resigned 27 April 2017)
P Lipka	(Appointed 27 April 2017)
D Nishar	(Appointed 27 April 2017)

Results and dividends

The results for the year are set out on page 6.

No ordinary or preference dividends were paid. The directors do not recommend payment of a further dividend.

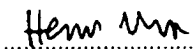
Auditor

RSM UK Audit LLP were appointed as auditor to the group and in accordance with section 485 of the Companies Act 2006, a resolution proposing that they be re-appointed will be put at a General Meeting.

Statement of disclosure to auditor

So far as the directors are aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

On behalf of the board



H Narula

Director

Sept 26, 2017

IMPROBABLE WORLDS LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 MAY 2017

The directors are responsible for preparing the Strategic Report and the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company, and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

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 and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMPROBABLE WORLDS LIMITED

Opinion on financial statements

We have audited the group and parent company financial statements (the "financial statements") on pages 6 to 33. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 May 2017 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Other matter

Prior period financial statements not audited

The company was exempt from audit in the year ended 31 May 2016 and consequently the corresponding figures are unaudited.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at <http://www.frc.org.uk/auditscopeukprivate>

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and, based on the work undertaken in the course of our audit, 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 the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMPROBABLE WORLDS LIMITED (CONTINUED)

Respective responsibilities of directors and auditor

As more fully explained in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

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

RSM UK Audit LLP

Richard Heap (Senior Statutory Auditor)

For and on behalf of RSM UK Audit LLP, Statutory Auditor

Chartered Accountants

25 Farringdon Street

London

EC4A 4AB

United Kingdom

..... 29 September 2017

IMPROBABLE WORLDS LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MAY 2017

		2017	2016
	Notes	£	as restated £
Turnover	4	7,822,289	72,331
Cost of sales		(7,850,131)	(5,257,033)
Gross loss		(27,842)	(5,184,702)
Administrative expenses		(8,932,836)	(3,940,042)
Other operating income	4	778,906	398,211
Operating loss	8	(8,181,772)	(8,726,533)
Interest receivable and similar income	10	703,556	319,420
Interest payable and similar expenses	11	(21)	(1,867,824)
Exceptional items	12	2,584,997	-
Loss before taxation		(4,893,240)	(10,274,937)
Taxation	13	-	1,618,842
Loss for the year		(4,893,240)	(8,656,095)
Other comprehensive income net of taxation			
Currency translation differences		10,662	-
Total comprehensive income for the year		(4,882,578)	(8,656,095)


Loss for the financial year is all attributable to the owners of the parent company.

Total comprehensive income for the year is all attributable to the owners of the parent company.

IMPROBABLE WORLDS LIMITED**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****AS AT 31 MAY 2017**

		2017		2016	
	Notes	£	£	as restated	£
Fixed assets					
Tangible assets	14	837,798		375,786	
Investments	15	17,307		17,307	
		<u>855,105</u>		<u>393,093</u>	
Current assets					
Debtors falling due after one year	17	541,270		553,555	
Debtors falling due within one year	17	2,461,964		2,203,649	
Cash at bank and in hand		94,165,704		23,027,294	
		<u>97,168,938</u>		<u>25,784,498</u>	
Creditors: amounts falling due within one year	18	<u>(2,988,025)</u>		<u>(5,384,325)</u>	
Net current assets		<u>94,180,913</u>		<u>20,400,173</u>	
Total assets less current liabilities		<u>95,036,018</u>		<u>20,793,266</u>	
Creditors: amounts falling due after more than one year	19	-		(33,676,007)	
Provisions for liabilities	22	-		(1,066,457)	
Net assets/(liabilities)		<u>95,036,018</u>		<u>(13,949,198)</u>	
Capital and reserves					
Called up share capital	24	1,780		900	
Share premium account	25	113,866,914		-	
Profit and loss reserves	25	(18,832,676)		(13,950,098)	
Total equity		<u>95,036,018</u>		<u>(13,949,198)</u>	

The financial statements were approved by the board of directors and authorised for issue on Sept 28, 2017 and are signed on its behalf by:



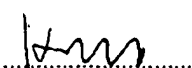
 H Narula
 Director

IMPROBABLE WORLDS LIMITED**COMPANY STATEMENT OF FINANCIAL POSITION****AS AT 31 MAY 2017**

		2017		2016	
	Notes	£	£	as restated	£
Fixed assets					
Tangible assets	14	822,774		375,786	
Investments	15	17,315		17,307	
		<u>840,089</u>		<u>393,093</u>	
Current assets					
Debtors falling due after one year	17	541,270		553,555	
Debtors falling due within one year	17	3,208,289		2,203,649	
Cash at bank and in hand		93,941,451		23,027,294	
		<u>97,691,010</u>		<u>25,784,498</u>	
Creditors: amounts falling due within one year	18	(2,985,455)		(5,384,325)	
Net current assets		<u>94,705,555</u>		<u>20,400,173</u>	
Total assets less current liabilities		<u>95,545,644</u>		<u>20,793,266</u>	
Creditors: amounts falling due after more than one year	19	-		(33,676,007)	
Provisions for liabilities	22	-		(1,066,457)	
Net assets/(liabilities)		<u>95,545,644</u>		<u>(13,949,198)</u>	
Capital and reserves					
Called up share capital	24	1,780		900	
Share premium account	25	113,866,914		-	
Profit and loss reserves	25	(18,323,050)		(13,950,098)	
Total equity		<u>95,545,644</u>		<u>(13,949,198)</u>	

As permitted by s408 Companies Act 2006, the company has not presented its own profit and loss account and related notes as it prepares group accounts. The company's loss for the year was £4,372,952 (2016 - £8,656,095 loss).

The financial statements were approved by the board of directors and authorised for issue on Sept 28, 2017 and are signed on its behalf by:


 H Narula
 Director

IMPROBABLE WORLDS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MAY 2017

	Notes	Share capital £	Share premium account £	Profit and loss reserves £	Total £
As restated for the period ended 31 May 2016:					
Balance at 1 June 2015		900	-	(5,294,003)	(5,293,103)
As restated for the year ended 31 May 2016					
Year ended 31 May 2016:					
Loss and total comprehensive income for the year		-	-	(8,656,095)	(8,656,095)
Balance at 31 May 2016		900	-	(13,950,098)	(13,949,198)
Year ended 31 May 2017:					
Loss for the year		-	-	(4,893,240)	(4,893,240)
Other comprehensive income net of taxation:					
Currency translation differences on overseas subsidiaries		-	-	10,662	10,662
Total comprehensive income for the year		-	-	(4,882,578)	(4,882,578)
Issue of share capital	24	313	80,263,474	-	80,263,787
Reclassification of preference shares	24	567	33,603,440	-	33,604,007
Balance at 31 May 2017		1,780	113,866,914	(18,832,676)	95,036,018

IMPROBABLE WORLDS LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MAY 2017

	Notes	Share capital £	Share premium account £	Profit and loss reserves £	Total £
As restated for the period ended 31 May 2016:					
Balance at 1 June 2015		900	-	(5,294,003)	(5,293,103)
As restated for the year ended 31 May 2016					
Year ended 31 May 2016:					
Loss and total comprehensive income for the year		-	-	(8,656,095)	(8,656,095)
Balance at 31 May 2016		900	-	(13,950,098)	(13,949,198)
Year ended 31 May 2017:					
Loss and total comprehensive income for the year		-	-	(4,372,952)	(4,372,952)
Issue of share capital	24	313	80,263,474	-	80,263,787
Reclassification of preference shares	24	567	33,603,440	-	33,604,007
Balance at 31 May 2017		1,780	113,866,914	(18,323,050)	95,545,644

IMPROBABLE WORLDS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MAY 2017

	Notes	2017 £	£	2016 £	£
Cash flows from operating activities					
Cash absorbed by operations	26	(9,957,993)		(6,175,998)	
Interest paid		(21)		(1,867,824)	
Income taxes refunded		624,914		291,594	
Net cash outflow from operating activities		(9,333,100)		(7,752,228)	
Investing activities					
Purchase of tangible fixed assets		(506,495)		(202,929)	
Purchase of fixed asset investments		-		(17,307)	
Interest received		26,701		14	
Net cash used in investing activities		(479,794)		(220,222)	
Financing activities					
Proceeds from issue of shares		80,263,787		19,221,591	
Net cash generated from financing activities		80,263,787		19,221,591	
Net increase in cash and cash equivalents		70,450,893		11,249,141	
Cash and cash equivalents at beginning of year		23,027,294		11,458,747	
Effect of foreign exchange rates		687,517		319,406	
Cash and cash equivalents at end of year		94,165,704		23,027,294	

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MAY 2017

1 Accounting policies

Company information

Improbable Worlds Limited ("the company") is a private company limited by shares, and is registered, domiciled and incorporated in England and Wales. The registered office and principle place of business is 20 Farringdon Road, London, EC1M 3HE.

The "group" consists of Improbable Worlds Limited and its subsidiary, Improbable Inc.

The company's and the group's principal activities and nature of its operations are disclosed in the Directors' Report.

Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

First time adoption of FRS102

These group and company financial statements for the year ended 31 May 2017 are the first financial statements of Improbable Worlds Limited and the group prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102). The group and company financial statements for the year ended 31 May 2016 were prepared in accordance with previous UK Financial Reporting Standard for Smaller Entities (FRSSE).

Some of the FRS 102 recognition, measurement, presentation and disclosure requirements and accounting policy choices differ from previous FRSSE. Consequently, the directors have amended certain accounting policies to comply with FRS 102. The directors have also taken advantage of certain exemptions from the requirements of FRS 102 permitted by FRS 102 Chapter 35 'Transition to this FRS'.

The reported financial position and financial performance for the previous period are not affected by the transition to FRS 102.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2017

1 Accounting policies (Continued)

Reduced Disclosure Framework

The company is a qualifying entity for the purposes of FRS 102, being a member of a group where the parent of that group prepares publicly available consolidated financial statements, including this company, which are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss of the group. The company has therefore taken advantage of exemptions from the following disclosure requirements for parent company information presented within the consolidated financial statements:

- Section 4 'Statement of Financial Position' – Reconciliation of the opening and closing number of shares;
- Section 7 'Statement of Cash Flows' – Presentation of a statement of cash flow and related notes and disclosures;
- Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instrument Issues' – Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument; basis of determining fair values; details of collateral, loan defaults or breaches, details of hedges, hedging fair value changes recognised in profit or loss and in other comprehensive income;
- Section 26 'Share-based Payment' – Share-based payment expense charged to profit or loss, reconciliation of opening and closing number and weighted average exercise price of share options, how the fair value of options granted was measured, measurement and carrying amount of liabilities for cash-settled share-based payments, explanation of modifications to arrangements
- Section 33 'Related Party Disclosures' – Compensation for key management personnel.

Prior period adjustments

Operating lease incentives

During the prior year, Improbable Worlds Limited took out a new operating rental lease which had a rent free period lease incentive. The rent free benefit accrual is spread over the five year lease term, of which £597,095 related to the prior year. This was not recognised and resulted in losses in the prior year being understated by £597,095. Given the size of this transaction, the directors have corrected it as a prior period adjustment (note 3).

Reclassification of costs

Following a review of the nature and allocation of expenses by the directors, it was decided that advertising, consulting and other staff costs are more appropriately classified as administrative expenses. As a result £354,993 was restated and reclassified from cost of sales to administrative expenses in the prior year. The impact of this adjustment has not affected the profit previously reported (note 3).

Provision

During the prior year an amount provided to the company from an early collaborator in 2014 was included within other creditors. However, due to there being some uncertainty over the final value that was to be settled the directors decided that this is more appropriately classified as a provision. As a result, £1,066,457 was restated and reclassified from other creditors to provisions. The impact of this adjustment has not affected the profit previously reported (note 3).

Foreign exchange gains

Following a review of the nature and allocation of foreign exchange gains by the directors, it was decided that exchange gains on borrowings are more appropriately classified as interest receivable and similar income than administrative expenses. As a result £319,406 was restated and reclassified from administrative expenses to interest receivable and similar income for the prior year. The impact of this adjustment has not affected the profit previously reported (note 3).

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2017

1 Accounting policies (Continued)

Basis of consolidation

The consolidated financial statements incorporate those of Improbable Worlds Limited and its subsidiary Improbable Inc. (i.e. entities that the group controls through its power to govern the financial and operating policies so as to obtain economic benefits).

All financial statements are made up to 31 May 2017. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the group.

All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Going concern

The group made a loss of £4,893,240 (2016: £8,656,095) and had net current assets of £94,180,913 (2016: £20,400,173). At the time of approving the financial statements, the directors have a reasonable expectation that the group and company has adequate resources to continue in operational existence for the foreseeable future. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

During the year the company received additional finance of £80,263,787 (2015: £19,221,591) from the issue of ordinary and preference shares.

Turnover

Turnover is stated net of VAT and trade discounts and is recognised when the significant risks and rewards are considered to have been transferred to the buyer.

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

Research and development

All research expenditure and development expenditure is written off against profits in the year in which it is incurred.

Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost, net of depreciation and any impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Leasehold land and buildings	over life of lease
Fixtures and fittings	15% reducing balance
Computer equipment	25% reducing balance

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2017

1 Accounting policies (Continued)

Fixed asset investments

In the separate accounts of the company, interests in subsidiaries are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

A subsidiary is an entity controlled by the group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

Other unlisted investments are stated at cost less provision for diminution in value.

Impairment of fixed assets

At each reporting period end date, the group reviews the carrying amounts of its tangible 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). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The carrying amount of the investments accounted for using the equity method is tested for impairment as a single asset. Any goodwill included in the carrying amount of the investment is not tested separately for impairment.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Cash and cash equivalents

Cash and cash equivalents are basic financial instruments and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts.

Financial instruments

The group has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised when the group becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include trade and other debtors and cash and bank balances, are initially measured at transaction price including transaction costs and amounts owed by group undertakings are subsequently carried at amortised cost using the effective interest method.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2017

1 Accounting policies (Continued)

Other financial assets

Other financial assets, including trade investments, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the group transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Classification of financial liabilities

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

Basic financial liabilities

Basic financial liabilities, including trade and other creditors, bank loans and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Derecognition of financial liabilities

Financial liabilities are derecognised when, and only when, the group's contractual obligations are discharged, cancelled, or they expire.

Equity instruments

Equity instruments issued by the group are recorded at the fair value of 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 group.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2017

1 Accounting policies (Continued)

Taxation

The tax expense represents the sum of the current tax expense and deferred tax expense. Current tax assets are recognised when tax paid exceeds the tax payable.

Current and deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited to other comprehensive income or equity, when the tax follows the transaction or event it relates to and is also charged or credited to other comprehensive income, or equity.

Current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities are offset, if and only if, there is a legally enforceable right to set off the amounts and the entity intends either to settle on the net basis or to realise the asset and settle the liability simultaneously.

Current tax is based on taxable profit for the year. Current tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax liabilities are recognised in respect of all timing differences that exist at the reporting date. Timing differences are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in different periods from their recognition in the financial statements. Deferred tax assets are recognised only to the extent that it is probable that they will be recovered by the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is recognised on income and expenses from subsidiaries that will be assessed to or allow for tax in a future period except where the group is able to control the reversal of the timing difference and it is probable that the timing difference will not reverse in the foreseeable future.

Provisions

Provisions are recognised when the group has a legal or constructive present obligation as a result of a past event, it is probable that the group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value. When a provision is measured at present value the unwinding of the discount is recognised as a finance cost in profit or loss in the period it arises.

Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

Retirement benefits

For defined contribution schemes the amount charged to profit or loss is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2017

1 Accounting policies (Continued)

Leases

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the lease term.

Rentals payable under operating leases, including any lease incentives received, are charged to income on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

Government grants

Government grants are recognised at the fair value of the asset received or receivable when there is reasonable assurance that the grant conditions will be met and the grants will be received.

Where the grant does not specify performance conditions it is recognised in income when the proceeds are received or receivable.

Foreign exchange

Transactions in currencies other than the functional currency (foreign currency) are initially recorded at the exchange rate prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies are translated at the rate ruling at the date of the transaction, or, if the asset or liability is measured at fair value, the rate when that fair value was determined.

All translation differences are taken to profit or loss, except to the extent that they relate to gains or losses on non-monetary items recognised in other comprehensive income, when the related translation gain or loss is also recognised in other comprehensive income.

Share based payments

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

For the EMI share options scheme management consider the most appropriate method of valuation to be a maintainable earnings method. This basis of valuation is consistent with market valuations agreed with HMRC on the actual market value of the options at the point of grant.

The expense in relation to options over the parent company's shares granted to employees of a subsidiary is recognised by the company as a capital contribution, and presented as an increase in the company's investment in that subsidiary.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2017

2 Judgements and key sources of estimation uncertainty

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

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

Critical judgements

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Leases

In categorising leases as finance leases or operating leases, management makes judgements as to whether significant risks and rewards of ownership have transferred to the company as lessee.

3 Prior period adjustments

The prior period adjustments relate to:

- a rent free benefit accrual not recognised in prior year,
- reclassification of expenses in prior year from costs of sales to administrative expenses,
- reclassification of exchange gain on borrowings in prior year from administrative expenses to interest receivable and similar income
- reclassification of a loan provided from an early collaborator from other creditors to provisions (Accounting policies).

Changes to the statement of financial position - group

	At 31 May 2016		
	As previously reported	Adjustment	As restated
	£	£	£
Creditors due within one year			
Other creditors	(5,078,583)	1,066,457	(4,012,126)
Accruals	(29,842)	(597,095)	(626,937)
Provisions for liabilities			
Other provisions	-	(1,066,457)	(1,066,457)
	<u> </u>	<u> </u>	<u> </u>
 Net assets	 (13,352,103)	 (597,095)	 (13,949,198)
	<u> </u>	<u> </u>	<u> </u>
Capital and reserves			
Profit and loss	(13,353,003)	(597,095)	(13,950,098)
	<u> </u>	<u> </u>	<u> </u>

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2017

3 Prior period adjustments (Continued)

Changes to the income statement - group

	Year ended 31 May 2016		
	As previously reported	Adjustment	As restated
	£	£	£
Cost of sales	(5,612,026)	354,993	(5,257,033)
Administrative expenses	(2,668,548)	(1,271,494)	(3,940,042)
Interest receivable and similar income	14	319,406	319,420
	<u> </u>	<u> </u>	<u> </u>
Loss for the financial period	<u>(8,059,000)</u>	<u>(597,095)</u>	<u>(8,656,095)</u>

4 Turnover and other revenue

An analysis of the group's turnover is as follows:

	2017	2016
	£	£
Turnover analysed by class of business		
Sales of services	<u>7,822,289</u>	<u>72,331</u>
Other operating income		
Grants received	500,351	-
Rent receivable	<u>278,555</u>	<u>398,211</u>
	<u>778,906</u>	<u>398,211</u>
Turnover analysed by geographical market		
	2017	2016
	£	£
United Kingdom	3,142,205	72,331
United States of America	<u>4,680,084</u>	<u>-</u>
	<u>7,822,289</u>	<u>72,331</u>

During the year, the company and group received grant income of £500,351 from the Technology Strategy Board. The contribution received was against eligible costs of the Project.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2017

5 Employees

The average monthly number of persons (including directors) employed during the year was:

	Group 2017 Number	2016 Number	Company 2017 Number	2016 Number
Sales and product	35	20	32	20
Software engineering	70	40	67	40
Operations	30	18	29	18
	<u>135</u>	<u>78</u>	<u>128</u>	<u>78</u>

Their aggregate remuneration comprised:

	Group 2017 £	2016 £	Company 2017 £	2016 £
Wages and salaries	8,361,847	4,689,124	7,988,502	4,689,124
Social security costs	981,251	548,121	948,297	548,121
Pension costs	185,502	81,153	185,502	81,153
	<u>9,528,600</u>	<u>5,318,398</u>	<u>9,122,301</u>	<u>5,318,398</u>

6 Directors' remuneration

	2017 £	2016 £
Remuneration for qualifying services	69,750	59,224
Company pension contributions to defined contribution schemes	455	179
	<u>70,205</u>	<u>59,403</u>

The number of directors to whom retirement benefits are accruing under defined contribution scheme was 2 (2016: 1)

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2017

7 Share-based payment transactions

Group	Number of share options		Weighted average exercise price	
	2017 Number	2016 Number	2017 £	2016 £
Outstanding at 1 June 2016	2,343,200	1,682,500	0.0001	0.0001
Granted	1,005,600	794,200	0.0001	0.0001
Forfeited	(111,200)	(133,500)	0.0001	0.0001
Exercised	(101,900)	-	0.0001	-
Outstanding at 31 May 2017	<u>3,135,700</u>	<u>2,343,200</u>	<u>0.0001</u>	<u>0.0001</u>
Exercisable at 31 May 2017	<u>1,928,100</u>	<u>1,365,800</u>	<u>0.0001</u>	<u>0.0001</u>

On 27 April 2017 all classes of share issued prior to that date underwent a share split such that each share of nominal value £0.01 was split into 100 shares each of nominal value £0.0001. Issued share options numbers have been adjusted to reflect the share split in both periods for the purposes of comparability.

The options outstanding at 31 May 2017 has an exercise price of £0.0001, and a remaining contractual life of 8 years. Management has defined the fair value of the options to be the par value. As such, given the total value of scheme, management do not consider a charge as required in the profit and loss.

8 Operating loss

	2017 £	2016 as restated £
Operating loss for the year is stated after charging/(crediting):		
Exchange losses	752	-
Research and development costs	7,262,592	2,980,294
Government grants	(500,351)	-
Depreciation of owned tangible fixed assets	140,005	87,146
Operating lease charges	<u>1,335,123</u>	<u>1,074,781</u>

9 Auditor's remuneration

	2017 £	2016 £
Fees payable to the company's auditor and associates:		
For audit services		
Audit of the financial statements of the group and company	<u>23,500</u>	<u>-</u>
For other services		
Taxation compliance services	16,515	8,700
All other non-audit services	<u>54,200</u>	<u>7,810</u>
	<u>70,715</u>	<u>16,510</u>

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2017

10 Interest receivable and similar income

	2017 £	2016 £ as restated
Interest income		
Interest on bank deposits	26,701	14
Other income from investments		
Exchange gains arising on cash at bank	676,855	319,406
Total income	<u>703,556</u>	<u>319,420</u>
Investment income includes the following:		
Interest on financial assets not measured at fair value through profit or loss	<u>26,701</u>	<u>14</u>

11 Interest payable and similar expenses

	2017 £	2016 £
Interest on financial liabilities measured at amortised cost:		
Dividends on preference shares classified as debt	-	1,828,575
Other interest on financial liabilities	-	39,249
	-	<u>1,867,824</u>
Other finance costs:		
Other interest	21	-
Total finance costs	<u>21</u>	<u>1,867,824</u>

Dividends totalling £1,828,575 were accrued daily in the prior years at an annual rate of 6% of the subscription price on the total A preference shares issued. In accordance with accounting standards, as the preference shares were classified as financial liabilities, the dividends were included within interest charged. As these dividends were in arrears they were included within other creditors due within one year.

On 27 April 2017, the preference share rights were amended such that dividends are discretionary and preference share do not confer the right to a fixed dividend. As a result of the amendments to the rights attached to the shares, the amounts previously recognised as a liability have been reclassified as equity. The accounting treatment has been applied prospectively in the accounts.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2017

12 Exceptional items- income

	2017	2016
	£	£
Adjustment to provision related to an early collaborator	559,652	-
Release of accrued preference share dividend	2,025,345	-
	<u>2,584,997</u>	<u>-</u>

During 2014, an amount was provided to the company from an early collaborator. As at 31 May 2016, the provision remained unsettled and there was some uncertainty over the final value that was to be settled; therefore the balance was held as a provision totalling £1,066,457 (see note 22). On 6 June 2017, a settlement was agreed with the total amount payable being \$650,000 (£506,805) to settle all obligations. The negotiation for reaching this settlement was substantially completed in the year ended 31 May 2017 and therefore this has been reclassified within other creditor falling due within one year for the agreed settlement amount. As a result, £559,652 has been recognised in the profit and loss in the Statement of Comprehensive Income.

On 27 April 2017, the Articles of Association were updated and preference shares previously classified as debt were reclassified as equity. The rights associated with the preference shares were amended in the period removing the right to the accrued dividend. As a result, £2,025,345 has been recognised in the profit and loss in the Statement of Comprehensive Income as this was indicative of the liability that existed at the year end.

13 Taxation

	2017	2016
	£	£
Current tax		
UK corporation tax on profits for the current period	-	(993,928)
Adjustments in respect of prior periods	-	(624,914)
	<u>-</u>	<u>(1,618,842)</u>

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2017

13 Taxation (Continued)

The total tax charge/(credit) for the year included in the income statement can be reconciled to the loss before tax multiplied by the standard rate of tax as follows:

	2017 £	2016 as restated £
Loss before taxation	(4,893,240)	(10,274,937)
Expected tax charge based on the standard rate of corporation tax in the UK of 19.83% (2016: 20.00%)	(970,329)	(2,054,987)
Tax effect of expenses that are not deductible in determining taxable profit	16,524	519,476
Tax effect of income not taxable in determining taxable profit	(401,684)	-
Tax effect of utilisation of tax losses not previously recognised	-	944,900
Adjustments in respect of prior years	-	(624,914)
Permanent capital allowances in excess of depreciation	6,440	(15,898)
Deferred tax not recognised	1,349,049	-
Other short term timing differences	-	10,450
Additional deduction for R&D expenditure	-	(774,876)
Surrender of tax losses for R&D tax credit refund	-	377,007
Taxation for the year	-	(1,618,842)

The company has estimated losses of £13,390,125 (2016: £6,902,945) available for carry forward against future trading profits. Deferred tax assets in relation to losses and other deductions at the end of year of £2,276,321 (2016: £1,242,530) has not been provided for.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2017

14 Tangible fixed assets

Group	Leasehold land and buildings £	Fixtures and fittings £	Computer equipment £	Total £
Cost				
At 1 June 2016	156,105	150,302	263,115	569,522
Additions	182,577	64,294	355,146	602,017
At 31 May 2017	338,682	214,596	618,261	1,171,539
Depreciation and impairment				
At 1 June 2016	51,422	49,125	93,189	193,736
Depreciation charged in the year	28,337	19,501	92,167	140,005
At 31 May 2017	79,759	68,626	185,356	333,741
Carrying amount				
At 31 May 2017	258,923	145,970	432,905	837,798
At 31 May 2016	104,683	101,177	169,926	375,786
Company				
	Leasehold land and buildings £	Fixtures and fittings £	Computer equipment £	Total £
Cost				
At 1 June 2016	156,105	150,302	263,115	569,522
Additions	182,577	64,294	339,373	586,244
At 31 May 2017	338,682	214,596	602,488	1,155,766
Depreciation and impairment				
At 1 June 2016	51,422	49,125	93,189	193,736
Depreciation charged in the year	28,337	19,501	91,418	139,256
At 31 May 2017	79,759	68,626	184,607	332,992
Carrying amount				
At 31 May 2017	258,923	145,970	417,881	822,774
At 31 May 2016	104,683	101,177	169,926	375,786

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2017

15 Fixed asset investments

	Notes	Group 2017 £	2016 £	Company 2017 £	2016 £
Investments in subsidiaries	16	-	-	8	-
Unlisted investments		17,307	17,307	17,307	17,307
		<u>17,307</u>	<u>17,307</u>	<u>17,315</u>	<u>17,307</u>

Movements in fixed asset investments

Group	Unlisted investments £
Cost or valuation	
At 1 June 2016 and 31 May 2017	17,307
Carrying amount	
At 31 May 2017	17,307
At 31 May 2016	17,307

Movements in fixed asset investments Company

	Shares in group undertakings £	Unlisted investments £	Total £
Cost or valuation			
At 1 June 2016	-	17,307	17,307
Additions	8	-	8
At 31 May 2017	<u>8</u>	<u>17,307</u>	<u>17,315</u>
Carrying amount			
At 31 May 2017	<u>8</u>	<u>17,307</u>	<u>17,315</u>
At 31 May 2016	<u>-</u>	<u>17,307</u>	<u>17,307</u>

16 Subsidiaries

Details of the company's subsidiaries at 31 May 2017 are as follows:

Name of undertaking	Country of incorporation	Nature of business	Class of shares held	% Held Direct
Improbable Inc	United States of America	Operating subsidiary	Common stock	100.00

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2017

16 Subsidiaries (Continued)

On 19 January 2017, the Company incorporated 1,000 common stock at \$0.01 each of Improbable Inc. The registered office of the Company is 2 Embarcadero Centre, San Francisco, 94111, USA.

17 Debtors

	Group 2017	2016	Company 2017	2016
	£	£	£	£
Amounts falling due within one year:				
Trade debtors	445,966	140,150	445,966	140,150
Corporation tax recoverable	993,928	1,618,842	993,928	1,618,842
Amounts owed by group undertakings	-	-	779,692	-
Other debtors	339,661	175,341	310,812	175,341
Prepayments and accrued income	682,409	269,316	677,891	269,316
	<u>2,461,964</u>	<u>2,203,649</u>	<u>3,208,289</u>	<u>2,203,649</u>
Amounts falling due after more than one year:				
Other debtors	<u>541,270</u>	<u>553,555</u>	<u>541,270</u>	<u>553,555</u>
Total debtors	<u>3,003,234</u>	<u>2,757,204</u>	<u>3,749,559</u>	<u>2,757,204</u>

18 Creditors: amounts falling due within one year

	Group 2017	as restated 2016	Company 2017	as restated 2016
	£	£	£	£
Trade creditors	892,418	551,828	892,406	551,828
Other taxation and social security	419,053	193,434	419,053	193,434
Dividends payable	-	2,025,345	-	2,025,345
Other creditors	568,581	1,986,781	566,141	1,986,781
Accruals and deferred income	1,107,973	626,937	1,107,855	626,937
	<u>2,988,025</u>	<u>5,384,325</u>	<u>2,985,455</u>	<u>5,384,325</u>

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2017

19 Creditors: amounts falling due after more than one year

	Notes	Group 2017 £	2016 £	Company 2017 £	2016 £
Other borrowings	20	-	33,604,007	-	33,604,007
Other creditors		-	72,000	-	72,000
		<u>-</u>	<u>33,676,007</u>	<u>-</u>	<u>33,676,007</u>

20 Borrowings

	Group 2017 £	2016 £	Company 2017 £	2016 £
Preference shares	-	33,604,007	-	33,604,007
	<u>-</u>	<u>33,604,007</u>	<u>-</u>	<u>33,604,007</u>
Payable after one year	-	33,604,007	-	33,604,007
	<u>-</u>	<u>33,604,007</u>	<u>-</u>	<u>33,604,007</u>

On 27 April 2017, the preference share rights were amended such that dividends are discretionary and preference share do not confer the right to a fixed dividend. As a result of the amendments to the rights attached to the shares, the amounts previously recognised as a liability has been reclassified as equity. The accounting treatment has been applied prospectively in the accounts (See note 11).

21 Financial instruments

	Group 2017 £	2016 £
Carrying amount of financial assets		
Debt instruments measured at amortised cost	1,326,897	714,278
Equity instruments measured at cost less impairment	17,307	17,307
	<u>1,344,204</u>	<u>731,585</u>
Carrying amount of financial liabilities		
Measured at amortised cost	2,484,202	38,866,898
	<u>2,484,202</u>	<u>38,866,898</u>

22 Provisions for liabilities

	Group 2017 £	as restated 2016 £	Company 2017 £	as restated 2016 £
Legal provision (note 12)	-	1,066,457	-	1,066,457
	<u>-</u>	<u>1,066,457</u>	<u>-</u>	<u>1,066,457</u>

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2017

22 Provisions for liabilities (Continued)

Movements on provisions:

Group	£
At 1 June 2016	1,066,457
Transfer to other creditors	(506,805)
Release of provision to profit and loss (note 12)	(559,652)
At 31 May 2017	-

Company	£
At 1 June 2016	1,066,457
Transfer to other creditors	(506,805)
Release of provision to profit and loss (note 12)	(559,652)
At 31 May 2017	-

23 Retirement benefit schemes

	2017 £	2016 £
Defined contribution schemes		
Charge to profit or loss in respect of defined contribution schemes	185,502	81,153

A defined contribution pension scheme is operated for all qualifying employees. The assets of the scheme are held separately from those of the group in an independently administered fund.

At the year end there were no outstanding commitments (2016: £nil).

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2017

24 Share capital

	Group and company	
	2017	2016
	£	£
Ordinary share capital		
Issued and fully paid		
9,000,000 A Ordinary shares of £0.0001 each (2016: 90,000 A Ordinary shares of £0.01 each)	900	900
101,900 B Ordinary shares of £0.0001 each	11	-
	<u>911</u>	<u>900</u>
Preference share capital		
Issued and fully paid		
5,739,600 A Preference shares of £0.0001 each (2016: 56,730 A Preference shares of £0.01 each)	574	567
2,951,965 B Preference shares of £0.0001 each	295	-
	<u>869</u>	<u>567</u>

The company has issued the following shares during the year:

On 4 July 2016 the company issued 666 A5 preference shares of £0.01 each for a total consideration of £753,845.

On 12 April 2017 the company issued 1,019 B Ordinary shares of £0.01 each for a total consideration of £10.

On 27 April 2017 the company issued 2,951,965 of B1 preference shares of £0.0001 each for total consideration of £79,509,996.

On 14 May 2017 the company issued 8,300 B Ordinary shares of £0.0001 each for a total consideration of £0.83.

As the preference shares are irredeemable and dividends are payable at the discretion of the company they are therefore disclosed as equity. This applies retrospectively to past accrued preference dividend.

On 27 April 2017 all classes of share issued prior to that date underwent a share split such that each share of nominal value £0.01 was split into 100 shares each of a nominal value of £0.0001.

At this date the preference share rights were amended such that dividends are discretionary and the preference shares classified as debt were transferred to preference shares classified as equity.

The share capital of the Company is divided into A Ordinary Shares, B Ordinary Shares, A1 Preference Shares, A2 Preference Shares, A3 Preference Shares, A4 Preference Shares, A5 Preference Shares and B1 Preference Shares. All classes of preference share have the same basic rights to votes, income, and capital, the only difference being the order of preference to income and capital. They have no mandatory right to dividends.

Income rights and capital rights to each share class are disclosed in the Company's Articles of Association.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2017

25 Reserves

Share premium account

Consideration received for shares issued above their nominal value net of transaction costs.

Profit and loss reserves

Cumulative profit and loss net of distributions to owners and other adjustments.

26 Cash generated from group operations

	2017 £	2016 £
Loss for the year after tax	(4,893,240)	(8,656,095)
Adjustments for:		
Taxation charged/(credited)	-	(1,618,842)
Finance costs	21	1,867,824
Interest receivable and similar income	(703,556)	(319,420)
Depreciation and impairment of tangible fixed assets	140,005	87,146
Provision and accrued dividend release	(2,584,997)	-
(Decrease)/increase in provisions	-	1,066,457
Movements in working capital:		
(Increase) in debtors	(870,944)	(773,225)
(Decrease)/increase in creditors	(1,045,282)	2,170,157
Cash absorbed by operations	(9,957,993)	(6,175,998)

27 Operating lease commitments

Lessee

At the reporting end date the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Group 2017 £	2016 £	Company 2017 £	2016 £
Within one year	1,120,804	818,513	1,093,302	818,513
Between one and five years	3,985,053	4,446,714	3,985,053	4,446,714
In over five years	-	631,640	-	631,640
	<u>5,105,857</u>	<u>5,896,867</u>	<u>5,078,355</u>	<u>5,896,867</u>

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2017

27 Operating lease commitments (Continued)

Lessor

At the reporting end date the group had contracted with tenants for the following minimum lease payments:

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Within one year	-	249,792	-	249,792
	<u>-</u>	<u>249,792</u>	<u>-</u>	<u>249,792</u>
	<u>-</u>	<u>249,792</u>	<u>-</u>	<u>249,792</u>

There were no significant leasing arrangements in regards to the operating lease.

28 Events after the reporting date

After the balance sheet date, the company issued a further 11,590,597 B1 Preference shares of 0.0001p each for total consideration of £312,188,094.

29 Related party transactions

Remuneration of key management personnel

The remuneration of key management personnel of the group, who are also directors, is as follows.

	2017	2016
	£	£
Aggregate compensation	70,205	59,403
	<u>70,205</u>	<u>59,403</u>

During the year the Chief Executive Officer and director received loan repayments from the company of £1,296,238 (2016: £102,646). The amount owed to the director at the balance sheet date is £Nil (2016: £1,296,238).

30 Controlling party

As at the year end, the group was under the control of Herman Narula, a director and shareholder on account of the rights conveyed by his sole ownership of the A Ordinary Shares of the company.