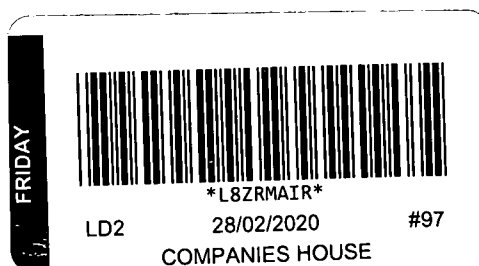


**Company Registration No. 08070525 (England and Wales)**

**IMPROBABLE WORLDS LIMITED  
REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31 MAY 2019**



# **IMPROBABLE WORLDS LIMITED**

## **COMPANY INFORMATION**

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<b>Directors</b>	H Narula C Dixon P Lipka D Nishar
<b>Secretary</b>	P Timoney
<b>Company number</b>	08070525
<b>Registered office</b>	10 Bishops Square London E1 6EG
<b>Independent auditors</b>	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH

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# IMPROBABLE WORLDS LIMITED

## STRATEGIC REPORT

### FOR THE YEAR ENDED 31 MAY 2019

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The directors present the strategic report for the year ended 31 May 2019 for Improbable Worlds Limited (the "Company") and its subsidiaries (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 core technology platform, SpatialOS, and increased investment in production and go-to-market capabilities. In support of these efforts, headcount grew by 48% and overhead costs increased as a result.

The Group expanded beyond its offices in London and San Francisco, establishing a presence in Virginia, Canada, Singapore and China during the year.

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

#### 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.

#### Liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due. The series B funded has mitigated this risk but the group manages liquidity risk through detailed review of expenditures and forecasts.

#### Interest rate risk

The Group is exposed to interest rate risk through the investments and cash balances and this is mitigated through regular review with portfolio managers and providers to ensure the company is maximizing its return on investments.

#### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The Group currently does not trade with customers so it has no significant credit risk.

#### Future developments

In the course of 2020/21, the Group will continue developing and iterating the platform whilst pursuing opportunities for its commercial exploitation.

#### Key performance indicators

During the year, the Group has monitored absolute levels of expenditure incurred. The directors are of the opinion that, during the year, 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 the Group 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

X *How Nam*  
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# **IMPROBABLE WORLDS LIMITED**

## **STRATEGIC REPORT (CONTINUED)**

**FOR THE YEAR ENDED 31 MAY 2019**

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H Narula

Director

30/9/19

# **IMPROBABLE WORLDS LIMITED**

## **DIRECTORS' REPORT**

### **FOR THE YEAR ENDED 31 MAY 2019**

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The directors present their annual report and the audited consolidated financial statements for the year ended 31 May 2019.

#### **Principal activities**

The principal activity of the Company and Group 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 Lipka  
D Nishar

#### **Results and dividends**

The results for the year are set out on page 9.

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

#### **Research and development**

The company carried out research and development in the year. All costs associated with research and development activities are charged to the the statement of comprehensive income in the period in which they occur. Research and development of £17,408,759 (2018: £10,745,917) was undertaken in the year.

#### **Disabled persons**

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment within the group continues and that the appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

#### **Employee involvement**

The group's policy is to consult and discuss with employees, through unions, staff councils and at meetings, matters likely to affect employees' interests.

Information about matters of concern to employees is given through information bulletins and reports which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the group's performance.

There is no employee share scheme at present, but the directors are considering the introduction of such a scheme as a means of further encouraging the involvement of employees in the company's performance.

# **IMPROBABLE WORLDS LIMITED**

## **DIRECTORS' REPORT (CONTINUED)**

### **FOR THE YEAR ENDED 31 MAY 2019**

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#### **Subsequent events**

On 6 September 2019, Improbable Worlds Limited ('Improbable') acquired 100% of the share capital of Midwinter Entertainment. Midwinter Entertainment is a Seattle based games developer and Improbable technology partner. The acquisition of the established studio signals its further commitment to building and supporting outstanding games which both use and advance Improbable's SpatialOS game development platform. The consideration was through cash and shares.

On 24 September 2019, Improbable acquired 100% of the share capital of The Multiplayer Guys Limited (TMPGL). TMPGL team combined have over 100 years of experience in developing multiplayer games and further strengthen Improbable's commitment to building and launching games using Spatial OS. Consideration was through cash.

#### **Independent auditors**

In accordance with the company's articles, a resolution proposing that PricewaterhouseCoopers LLP be reappointed as auditors of the group will be put at a General Meeting.

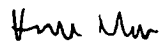
#### **Strategic report**

The group has chosen in accordance with Companies Act 2006, s. 414C(11) to set out in the Group's strategic report information required by Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, Sch. 7 to be contained in the directors' report. It has done so in respect of the review of the business, principal risks and uncertainties, future developments and key performance indicators.

#### **Statement of disclosure to auditors**

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company auditors are unaware. Additionally, each director has taken all the necessary steps that they ought to have taken as a director in order to make themselves aware of all relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board



H Narula

Director

30/9/19

# **IMPROBABLE WORLDS LIMITED**

## **DIRECTORS' RESPONSIBILITIES STATEMENT**

### **FOR THE YEAR ENDED 31 MAY 2019**

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The directors are responsible for preparing the Annual 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 prepared the group and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', 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 and company 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.

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.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group 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.

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

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### **Opinion**

In our opinion, Improbable Worlds Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 May 2019 and of the group's loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and company statements of financial position as at 31 May 2019; the consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Independence**

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### **Conclusions relating to going concern**

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.



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

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### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

### ***Strategic Report and Directors' Report***

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 May 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

### ***Responsibilities of the directors for the financial statements***

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 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 company or to cease operations, or have no realistic alternative but to do so.

### ***Auditors' 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 auditors' 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### **Use of this report**

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

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### Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Brian Henderson (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

30 September 2019

# IMPROBABLE WORLDS LIMITED

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MAY 2019

		2019	2018
	Notes	£	as restated £
Turnover	4	1,215,602	579,859
Cost of sales		(17,408,758)	(10,745,917)
<b>Gross loss</b>		<b>(16,193,156)</b>	<b>(10,166,058)</b>
Administrative expenses		(47,589,724)	(28,443,447)
Other operating income	4	64,260	94,604
<b>Operating loss</b>	5	<b>(63,718,620)</b>	<b>(38,514,901)</b>
Interest receivable and similar income	10	24,422,304	4,187,133
Interest payable and similar expenses	11	-	(12,048,601)
Other gains and losses	12	103,874	(4,062,573)
<b>Loss before taxation</b>		<b>(39,192,442)</b>	<b>(50,438,942)</b>
Tax on loss	13	-	-
<b>Loss for the financial year</b>		<b>(39,192,442)</b>	<b>(50,438,942)</b>
<b>Other comprehensive expense net of taxation</b>			
Currency translation differences		(307,389)	24,068
<b>Total comprehensive expense for the year</b>		<b>(39,499,831)</b>	<b>(50,414,874)</b>

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

Total comprehensive expense 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 2019**

	Note	2019 £	£	2018 £	£
<b>Fixed assets</b>					
Tangible assets	14	5,638,338		3,132,689	
Investments	15	17,307		17,307	
		<u>5,655,645</u>		<u>3,149,996</u>	
<b>Current assets</b>					
Debtors: Amounts falling due after one year	17	9,452,954	8,862,891		
Debtors: Amounts falling due within one year	17	5,891,600	3,098,483		
Investments	18	158,314,937	94,466,602		
Cash at bank and in hand		193,243,229	255,444,928		
		<u>366,902,720</u>	<u>361,872,904</u>		
<b>Creditors: amounts falling due within one year</b>	19	<u>(10,682,717)</u>	<u>(4,128,489)</u>		
<b>Net current assets</b>		356,220,003		357,744,415	
<b>Total assets less current liabilities</b>		<u>361,875,648</u>		<u>360,894,411</u>	
<b>Provisions for liabilities</b>	21	(335,417)			-
<b>Net assets</b>		<u>361,540,231</u>		<u>360,894,411</u>	
<b>Capital and reserves</b>					
Called up share capital	23	3,053		2,939	
Share premium account	24	463,009,309		426,053,634	
Profit and loss account	24	(101,472,131)		(65,162,162)	
<b>Total equity</b>		<u>361,540,231</u>		<u>360,894,411</u>	

The financial statements on pages 9 to 37 were approved by the Board of Directors on 30/9/19 and signed on its behalf by:

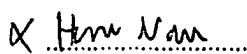
X H N Narula  
H Narula  
Director

**IMPROBABLE WORLDS LIMITED****COMPANY STATEMENT OF FINANCIAL POSITION****AS AT 31 MAY 2019**

	Notes	2019 £	£	2018 £	£
<b>Fixed assets</b>					
Tangible assets	14	4,398,742		2,996,428	
Investments	15	1,437,253		229,688	
		<u>5,835,995</u>		<u>3,226,116</u>	
<b>Current assets</b>					
Debtors: Amounts falling due after one year	17	9,354,106		8,862,891	
Debtors: Amounts falling due within one year	17	19,142,428		5,897,736	
Investments	18	158,314,937		94,466,602	
Cash at bank and in hand		189,667,711		255,085,721	
		<u>376,479,182</u>		<u>364,312,950</u>	
<b>Creditors: amounts falling due within one year</b>	19	<u>(10,438,447)</u>		<u>(4,216,296)</u>	
<b>Net current assets</b>		<u>366,040,735</u>		<u>360,096,654</u>	
<b>Total assets less current liabilities</b>		<u>371,876,730</u>		<u>363,322,770</u>	
<b>Provisions for liabilities</b>	21	<u>(335,417)</u>		<u>-</u>	
<b>Net assets</b>		<u><u>371,541,313</u></u>		<u><u>363,322,770</u></u>	
<b>Capital and reserves</b>					
Called up share capital	23	3,053		2,939	
Share premium account	24	463,009,309		426,053,634	
Profit and loss account	24	<u>(91,471,049)</u>		<u>(62,733,803)</u>	
<b>Total equity</b>		<u><u>371,541,313</u></u>		<u><u>363,322,770</u></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 financial statements. The company's loss for the year was £31,927,108 (2018 - £48,496,141 loss).

The financial statements on pages 9 to 37 were approved by the Board of Directors on 30/9/19 and signed on its behalf by:

  
 H Narula  
 Director

# IMPROBABLE WORLDS LIMITED

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MAY 2019

	Notes	Share capital £	Share premium account £	Profit and loss reserves £	Total £
<b>Balance at 1 June 2017</b>		1,780	113,866,914	(18,832,676)	95,036,018
<b>Year ended 31 May 2018:</b>					
Loss for the year		-	-	(50,438,942)	(50,438,942)
Other comprehensive income net of taxation:					
Currency translation differences		-	-	24,068	24,068
Total comprehensive income for the year		-	-	(50,414,874)	(50,414,874)
Issue of share capital	23	1,159	312,186,720	-	312,187,879
Credit to equity for equity settled share-based payments	9	-	-	4,085,388	4,085,388
<b>Balance at 31 May 2018</b>		2,939	426,053,634	(65,162,162)	360,894,411
<b>Year ended 31 May 2019:</b>					
Loss for the year		-	-	(39,192,442)	(39,192,442)
Other comprehensive income net of taxation:					
Currency translation differences		-	-	(307,389)	(307,389)
Total comprehensive income for the year		-	-	(39,499,831)	(39,499,831)
Issue of share capital	23	114	36,955,675	-	36,955,789
Credit to equity for equity settled share-based payments	9	-	-	3,189,862	3,189,862
<b>Balance at 31 May 2019</b>		3,053	463,009,309	(101,472,131)	361,540,231

# IMPROBABLE WORLDS LIMITED

## COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MAY 2019

	Notes	Share capital £	Share premium account £	Profit and loss reserves £	Total £
<b>Balance at 1 June 2017</b>		1,780	113,866,914	(18,323,050)	95,545,644
<b>Year ended 31 May 2018:</b>					
Loss and total comprehensive income for the year		-	-	(48,496,141)	(48,496,141)
Issue of share capital	23	1,159	312,186,720	-	312,187,879
Credit to equity for equity settled share-based payments	9	-	-	4,085,388	4,085,388
<b>Balance at 31 May 2018</b>		2,939	426,053,634	(62,733,803)	363,322,770
<b>Year ended 31 May 2019:</b>					
Loss and total comprehensive income for the year		-	-	(31,927,108)	(31,927,108)
Issue of share capital	23	114	36,955,675	-	36,955,789
Credit to equity for equity settled share-based payments	9	-	-	3,189,862	3,189,862
<b>Balance at 31 May 2019</b>		3,053	463,009,309	(91,471,049)	371,541,313

# IMPROBABLE WORLDS LIMITED

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MAY 2019

		2019	2018
	Note	£	as restated £
<b>Cash flows from operating activities</b>			
Cash absorbed by operations	25	(55,699,586)	(42,969,057)
Income taxes (paid)/refunded		-	993,928
<b>Net cash outflow from operating activities</b>		<u>(55,699,586)</u>	<u>(41,975,129)</u>
<b>Investing activities</b>			
Purchase of tangible fixed assets		(3,826,965)	(2,659,817)
Purchase of investments		(63,744,461)	(97,883,718)
Interest received		<u>6,582,754</u>	<u>3,138,327</u>
<b>Net cash used in investing activities</b>		<u>(60,988,672)</u>	<u>(97,405,208)</u>
<b>Financing activities</b>			
Proceeds from issue of shares		<u>36,955,789</u>	<u>312,187,879</u>
<b>Net cash generated from financing activities</b>		<u>36,955,789</u>	<u>312,187,879</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<u>(79,732,469)</u>	<u>172,807,542</u>
Cash and cash equivalents at beginning of year		255,444,928	94,165,704
Effect of foreign exchange rates		<u>17,530,770</u>	<u>(11,528,318)</u>
<b>Cash and cash equivalents at end of year</b>		<u><u>193,243,229</u></u>	<u><u>255,444,928</u></u>



# **IMPROBABLE WORLDS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 31 MAY 2019**

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#### **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 principal place of business is 10 Bishops Square, London, E1 6EG.

The "group" consists of Improbable Worlds Limited and its subsidiaries.

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, modified to include certain investments and financial instruments at fair value. The principal accounting policies adopted are set out below.

##### **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.

# IMPROBABLE WORLDS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 MAY 2019

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#### 1 Accounting policies (Continued)

##### **Basis of consolidation**

The consolidated financial statements incorporate those of Improbable Worlds Limited and its subsidiaries (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 2019. 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 £39,192,442 (2018: £50,438,942) and had net current assets of £356,220,003 (2018: £357,744,415). 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 £36,955,789 (2018: £312,187,879) 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 in the statement of comprehensive income 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% straight line
Computer equipment	25% straight line

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 2019**

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#### **1 Accounting policies (Continued)**

##### **Fixed asset investments**

In the separate financial statements 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 any impairment.

##### **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 amounts owed by group undertakings, are initially measured at transaction price including transaction costs and 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 2019

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#### 1 Accounting policies (Continued)

##### ***Other financial assets***

Other financial assets, including trade investments and certain other debtors, 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 and amounts owed to group undertakings, 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 proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the group.

##### ***Taxation***

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.

# **IMPROBABLE WORLDS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### **FOR THE YEAR ENDED 31 MAY 2019**

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#### **1 Accounting policies (Continued)**

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.

#### **Leases**

Rentals payable under operating leases, including any lease incentives received, are charged to profit or loss 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 leased 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.

# **IMPROBABLE WORLDS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### **FOR THE YEAR ENDED 31 MAY 2019**

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#### **1 Accounting policies (Continued)**

##### **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.

The assets and liabilities of foreign subsidiaries are translated into sterling using exchange rates at the reporting date. The components of shareholders' equity are stated at historical value. Average exchange rates for the period are used to translate income and expense items of foreign operations. However, if exchange rates fluctuate significantly, the exchange rates at the dates of the transactions are used. All resulting exchange differences are recognised in other comprehensive income.

##### **Share based payments**

The Company issues equity-settled share options to certain employees, advisors 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 company grants options throughout the year and determines the fair value by engaging an independent third party expert on an ad hoc basis to maintain an up to date fair value for options granted. The equity-settled share-based payment expense is recognised in line with the vesting profiles of the options granted, adjusted for the group's estimate of the number of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

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 2019

### 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.

#### Other debtors

Management has assessed the recoverability of other debtors in respect of funding provided to third parties to finance projects. This assessment has included consideration of the success of the projects.

#### Share based payments

The charge recognised in relation to share-based payments made under the Group's unapproved option scheme is recognised based upon the grant date fair value of share options. The grant date fair value of is estimated using an option pricing model which requires the use of assumptions, including the expected share price volatility, the risk free rate of return, and the estimated life of each award.

### 3 Prior period adjustment

A prior year adjustment has been made to reclassify interest totalling £783,734 which was incorrectly classified as other gains and losses. There was no impact on profit for the year ended 31 May 2018 as a result of this adjustment. The impact on the financial statements can be seen below:

#### Changes to the income statement - group

	Period ended 31 May 2018		
	As previously reported	Adjustment	As restated
	£	£	£
Interest receivable and similar income	3,403,399	783,734	4,187,133
Other gains and losses	(3,278,839)	(783,734)	(4,062,573)
Loss after taxation	(50,438,942)	-	(50,438,942)

# IMPROBABLE WORLDS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 MAY 2019

#### 3 Prior period adjustment (Continued)

##### Changes to the income statement - company

	Period ended 31 May 2018		
	As previously reported	Adjustment	As restated
	£	£	£
Interest receivable and similar income	3,403,399	783,734	4,187,133
Other gains and losses	(3,278,839)	(783,734)	(4,062,573)
Loss after taxation	(48,496,141)	-	(48,496,141)

#### 4 Turnover and other revenue

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

	2019 £	2018 £
<b>Turnover analysed by class of business</b>		
Sales of services	1,215,602	579,859
<b>Other operating income</b>		
Grants received	64,260	94,604
	64,260	94,604
<b>Turnover analysed by geographical market</b>		
	2019 £	2018 £
United Kingdom	245,332	-
United States of America	888,443	533,101
Rest of World	81,827	46,758
	1,215,602	579,859

During the year, the company and group received grant income of £64,260 (2018: £94,604) 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 2019

### 5 Operating loss

	2019 £	2018 £
Operating loss for the year is stated after charging/(crediting):		
Exchange gains	(16,775)	-
Research and development costs	17,408,759	10,745,917
Government grants	(64,260)	(94,604)
Depreciation of owned tangible fixed assets	1,321,316	364,926
Share-based payments	3,189,862	4,085,388
Operating lease charges	5,319,483	2,565,737

### 6 Independent auditors' remuneration

	2019 £	2018 £
Fees payable to the company's auditor and associates:		
<b>For audit services</b>		
Audit of the financial statements of the group and company	30,000	28,000
<b>For other services</b>		
Taxation compliance services	57,750	17,500
All other non-audit services	125,000	66,359
	182,750	83,859

### 7 Employees

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

	Group 2019 Number	2018 Number	Company 2019 Number	2018 Number
Sales and product	94	60	62	55
Software engineering	161	111	146	104
Operations	74	51	66	50
	329	222	274	209

Their aggregate remuneration comprised:

	Group 2019 £	2018 £	Company 2019 £	2018 £
Wages and salaries	27,641,693	17,584,167	21,990,553	15,919,372
Social security costs	3,036,964	1,987,220	2,707,760	1,887,593
Pension costs	333,739	105,623	305,657	105,623
	31,012,396	19,677,010	25,003,970	17,912,588

# IMPROBABLE WORLDS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2019

### 7 Employees (Continued)

The Group also incurred share based payment expenses in the year in relation to remuneration of employees of £3,189,862 (2018: £4,085,388).

### 8 Directors' remuneration

	2019 £	2018 £
Remuneration for qualifying services	193,122	127,513
Company pension contributions to defined contribution schemes	1,080	436
	<u>194,202</u>	<u>127,949</u>

The number of directors to whom retirement benefits are accruing under defined contribution scheme was 1 (2018: 1).

### 9 Share-based payment transactions

The company issues equity settled share options to certain employees, advisors 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 company grants options throughout the year and determines the fair value by engaging an independent third party expert on an ad hoc basis to maintain an up to date fair value for options granted. The equity-settled share-based payment expense is recognised in line with the vesting profiles of the options granted, adjusted for the group's estimate of the number of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

The company operates 3 share option schemes, the EMI scheme, Advisor scheme and Unapproved Scheme. The EMI scheme and Advisor scheme are issued on substantially similar terms and disclosures are aggregated accordingly. Where options are issued to employees, the vesting of the options is subject to continued employment within the Group.

The EMI and Advisor schemes operate with a vesting profile extending up to 4 years from the date of grant. The options are granted with an exercise price equalling the nominal value of the shares and expire ten years after the date of grant. The EMI and Advisor schemes are closed to new participants. Management considered the most appropriate method of valuation for these schemes at the point of grant was a maintainable earnings method. This basis of valuation is consistent with the market valuations agreed with HMRC on the actual market value of options at the point of grant.

The Unapproved scheme operates with a vesting profile over a period of 4 years, with 25% of the options vesting on the first anniversary of the grant date and the remaining vesting equally on a monthly basis up to the 4th anniversary of the grant date. The exercise price of the options are varied based on the tax residence of the option holder and expire ten years after the date of grant. Management consider the most appropriate method of valuation for the Unapproved scheme to be an option pricing model and the company engage an independent third party valuer to perform valuations on an ad hoc basis to ensure the assessment of fair value remains appropriate. The option pricing model adopts the Black-Scholes option pricing methodology and is selected as it accounts for the liquidation preferences of the company's preference shareholders.

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 with a corresponding credit to equity.

# IMPROBABLE WORLDS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 MAY 2019

#### 9 Share-based payment transactions (Continued)

Group	Number of share options		Weighted average exercise price	
EMI Scheme & Investor/Advisor Scheme	2019 Number	2018 Number	2019 £	2018 £
Outstanding at 1 June 2018	3,113,900	3,135,700	0.00	0.00
Granted	-	99,900	-	0.01
Forfeited	(32,742)	(95,405)	0.00	0.00
Exercised	(414,872)	(8,300)	0.00	0.00
Expired	(3,333)	(17,995)	0.00	0.00
Outstanding at 31 May 2019	2,662,953	3,113,900	0.00	0.00
Exercisable at 31 May 2019	2,400,507	2,278,447	0.00	0.00
Group	Number of share options		Weighted average exercise price	
Unapproved Option Scheme	2019 Number	2018 Number	2019 £	2018 £
Outstanding at 1 June 2018	834,500	-	2.12	-
Granted	363,315	842,000	4.81	2.10
Forfeited	(163,132)	(7,500)	4.84	0.01
Exercised	(6,626)	-	6.62	-
Outstanding at 31 May 2019	1,028,057	834,500	2.61	2.12
Exercisable at 31 May 2019	336,744	79,232	2.38	3.39
	Group 2019 £	2018 £	Company 2019 £	2018 £
Expenses recognised in the year				
Arising from equity settled share based payment transactions	3,189,862	4,085,388	3,031,096	3,990,613

# IMPROBABLE WORLDS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2019

### 10 Interest receivable and similar income

	2019	2018 as restated
	£	£
Interest on bank deposits	82,730	256,934
Interest on other loan receivable	11,783	11,317
Other interest income on short term investments	6,488,241	3,918,882
	<u>17,839,550</u>	<u>-</u>
Total interest receivable and similar income	<u>24,422,304</u>	<u>4,187,133</u>

### 11 Interest payable and similar expenses

	2019	2018
	£	£
Other finance costs:		
Finance costs on loan receivable measured at amortised cost	-	92,866
Foreign exchange losses	-	11,955,735
	<u>-</u>	<u>12,048,601</u>
Total interest payable and similar expenses	<u>-</u>	<u>12,048,601</u>

### 12 Other gains and losses

	2019	2018 as restated
	£	£
Fair value gains/(losses) on financial instruments		
Change in value of financial assets held at fair value through profit or loss	103,874	(4,062,573)
	<u>103,874</u>	<u>(4,062,573)</u>

# IMPROBABLE WORLDS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2019

### 13 Taxation

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

	2019 £	2018 £
Loss before taxation	(39,192,442)	(50,438,942)
Expected tax credit based on the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	(7,446,564)	(9,583,399)
Tax effect of expenses that are not deductible in determining taxable profit	704,242	1,406,531
Change in unrecognised deferred tax assets	7,159,280	8,177,303
Permanent capital allowances in excess of depreciation	-	(435)
Other permanent differences	(557,871)	-
Fixed asset differences	140,913	-
Taxation charge for the year	-	-

The Group has estimated losses and deductions of £80,750,688 (2018: £58,587,059) available for carry forward against future trading profits. Deferred tax assets in relation to losses and other deductions at the end of year of £13,727,617 (2018: £9,959,800) have not been provided for.

### 14 Tangible fixed assets

Group	Leasehold land and buildings £	Fixtures and fittings £	Computer equipment £	Total £
<b>Cost</b>				
At 1 June 2018	1,975,485	258,237	1,597,634	3,831,356
Additions	2,173,387	112,195	1,541,383	3,826,965
At 31 May 2019	4,148,872	370,432	3,139,017	7,658,321
<b>Accumulated depreciation and impairment</b>				
At 1 June 2018	157,190	95,794	445,683	698,667
Depreciation charged in the year	675,948	38,275	607,093	1,321,316
At 31 May 2019	833,138	134,069	1,052,776	2,019,983
<b>Carrying amount</b>				
At 31 May 2019	3,315,734	236,363	2,086,241	5,638,338
At 31 May 2018	1,818,295	162,443	1,151,951	3,132,689

# IMPROBABLE WORLDS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2019

### 14 Tangible fixed assets (Continued)

Company	Leasehold land and buildings	Fixtures and fittings	Computer equipment	Total
	£	£	£	£
<b>Cost</b>				
At 1 June 2018	1,975,485	256,059	1,449,492	3,681,036
Additions	1,544,530	52,974	926,768	2,524,272
At 31 May 2019	3,520,015	309,033	2,376,260	6,205,308
<b>Accumulated depreciation and impairment</b>				
At 1 June 2018	157,190	95,414	432,004	684,608
Depreciation charged in the year	597,268	33,019	491,671	1,121,958
At 31 May 2019	754,458	128,433	923,675	1,806,566
<b>Carrying amount</b>				
At 31 May 2019	2,765,557	180,600	1,452,585	4,398,742
At 31 May 2018	1,818,295	160,645	1,017,488	2,996,428

### 15 Fixed asset investments

	Notes	Group 2019 £	2018 £	Company 2019 £	2018 £
Investments in subsidiaries	16	-	-	1,419,946	212,381
Unlisted investments		17,307	17,307	17,307	17,307
		17,307	17,307	1,437,253	229,688

#### Movements in fixed asset investments

Group	Unlisted investments £
<b>Cost or valuation</b>	
At 1 June 2018 and 31 May 2019	17,307
<b>Carrying amount</b>	
At 31 May 2019	17,307
At 31 May 2018	17,307

# IMPROBABLE WORLDS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 MAY 2019

#### 15 Fixed asset investments (Continued)

##### Movements in fixed asset investments Company

	Shares in group undertakings £	Unlisted investments £	Total £
<b>Cost or valuation</b>			
At 1 June 2018	212,381	17,307	229,688
Additions- separately acquired	1,048,799	-	1,048,799
Capital contribution	158,766	-	158,766
<b>At 31 May 2019</b>	<b>1,419,946</b>	<b>17,307</b>	<b>1,437,253</b>
<b>Carrying amount</b>			
At 31 May 2019	1,419,946	17,307	1,437,253
At 31 May 2018	212,381	17,307	229,688

Shares in group undertakings include £253,541 (2018: £94,775) of capital contributions relating to share options granted to employees of subsidiary undertakings.

#### 16 Subsidiaries

Details of the company's subsidiaries at 31 May 2019 are as follows:

Name of undertaking	Registered office key	Nature of business	Class of shares held	% Held Direct Indirect
Guangzhou Improbable Information Technology Company Ltd	1	Operating subsidiary	Ordinary	100.00
Improbable Canada Inc	2	Operating subsidiary	Ordinary	100.00
Improbable Inc	3	Operating subsidiary	Common stock	100.00
Improbable LLC	4	Operating subsidiary	Common stock	100.00
Improbable SG PTE Ltd	5	Operating subsidiary	Ordinary	100.00
Improbable Worlds Nominees Limited	6	Dormant	Ordinary	100.00
Improbable Hong Kong Limited	7	Operating subsidiary	Ordinary	100.00
Improbable (Shanghai) Information Technology Co. Ltd	7	Operating subsidiary	Ordinary	100.00

# **IMPROBABLE WORLDS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### **FOR THE YEAR ENDED 31 MAY 2019**

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#### **16 Subsidiaries (Continued)**

##### **Registered Office addresses:**

- 1 Office 5429, Level 54, Guangzhou International Finance Centre, 5 Zhujiang West Road, Guangzhou 510623, China**
- 2 2500, 450 1st Street SW, Calgary AB, T2P 5H1**
- 3 Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle County, Delaware 19801**
- 4 Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle County, Delaware 19801**
- 5 51 Circular Road, Singapore, 049406**
- 6 10 Bishops Square, London, E1 6EG**
- 7 31/F, Tower Two Times Square, 1 Matheson Street, Causeway Bay, HK**

On 2 November 2018 the Company incorporated 1 ordinary share at HKD \$1 of Improbable Hong Kong Limited.

On 11 January 2019 Improbable Hong Kong Limited incorporated 1 ordinary share at RMB1,000,000 of Improbable (Shanghai) Information Technology Co. Ltd.

On 20 August 2018 and 10 January 2019 the company subscribed for a further 9 ordinary shares at RMB1,000,000 each of Guangzhou Improbable Information Technology Company Ltd.

Improbable Worlds Nominees Limited is a dormant subsidiary and is therefore exempt from preparing individual financial statements and filing individual financial statements with the registrar by virtue of s394A and s448A of Companies Act 2006.



# IMPROBABLE WORLDS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2019

### 17 Debtors

	Group 2019	2018	Company 2019	2018
	£	£	£	£
<b>Amounts falling due within one year:</b>				
Trade debtors	1,224,850	27,276	1,102,680	27,274
Amounts owed by group undertakings	-	-	13,756,755	3,324,895
Other debtors	1,277,401	845,092	942,493	784,407
Prepayments and accrued income	3,389,349	2,226,115	3,340,500	1,761,160
	<u>5,891,600</u>	<u>3,098,483</u>	<u>19,142,428</u>	<u>5,897,736</u>

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

#### Amounts falling due after more than one year:

Other debtors	<u>9,452,954</u>	<u>8,862,891</u>	<u>9,354,106</u>	<u>8,862,891</u>
<b>Total debtors</b>	<u>15,344,554</u>	<u>11,961,374</u>	<u>28,496,534</u>	<u>14,760,627</u>

Included in other debtors is an amount of funding provided by Improbable Worlds Limited to a third party to finance a project. Repayment of the funding, with a return, is contingent on the financial success of the project. In the event the project does not complete, Improbable Worlds Limited is entitled to retain IP developed during the project and recover any unspent funding.

Included in other debtors due after one year is an amount of £328,773 (2018: £293,931), with an interest rate of 6% due for repayment by 2027.

### 18 Current asset investments

	Group 2019	2018	Company 2019	2018
	£	£	£	£
Other investments	<u>158,314,937</u>	<u>94,466,602</u>	<u>158,314,937</u>	<u>94,466,602</u>

Investments of £61,273,456 (2018: £97,099,984) were made into a managed portfolio of treasury notes and bonds during the year.

As at 31 May 2019, the market value of the investments was £158,314,937 (2018: £94,466,602), and a fair value gain of £103,874 (2018: loss £4,062,573) has been recognised.

# IMPROBABLE WORLDS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2019

### 19 Creditors: amounts falling due within one year

	Group 2019 £	2018 £	Company 2019 £	2018 £
Trade creditors	3,953,598	2,686,913	3,836,969	2,659,623
Amounts owed to group undertakings	-	-	-	117,598
Other creditors	243,731	78,067	242,072	76,414
Accruals and deferred income	6,485,388	1,363,509	6,359,406	1,362,661
	<u>10,682,717</u>	<u>4,128,489</u>	<u>10,438,447</u>	<u>4,216,296</u>

Amounts due to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

### 20 Financial instruments

	Group 2019 £	2018 £
<b>Carrying amount of financial assets</b>		
Debt instruments measured at amortised cost	6,046,854	4,966,059
Equity instruments measured at cost less impairment	17,307	17,307
Instruments measured at fair value through profit or loss	158,314,937	94,466,602
Debt instruments measured at fair value through profit or loss	<u>5,876,077</u>	<u>4,957,365</u>
<b>Carrying amount of financial liabilities</b>		
Measured at amortised cost	<u>6,368,386</u>	<u>4,128,489</u>

### 21 Provisions for liabilities

	Group 2019 £	2018 £	Company 2019 £	2018 £
Onerous lease provision < 1 year	191,666	-	191,666	-
Onerous lease provision > 1 year	335,417	-	335,417	-
	<u>527,083</u>	<u>-</u>	<u>527,083</u>	<u>-</u>

Movements on provisions:

Group	Onerous lease provision £
Additional provisions in the year	<u>527,083</u>

# IMPROBABLE WORLDS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2019

### 21 Provisions for liabilities (Continued)

Company	Onerous lease provision £
Additional provisions in the year	527,083

The onerous lease provision relates to a lease on premises previously occupied by the company, which has been reassigned during the year. Under the terms of the agreement, Improbable Worlds Limited, is to pay a premium to the new occupier. The above provision is to unwind over the remaining length of the original lease, as this is the period over which the premium payments are to be made.

Of the total provision above, £191,666 is expected to unwind within the next 12 months and is included within other creditors.

### 22 Retirement benefit schemes

	2019 £	2018 £
Defined contribution schemes		
Charge to profit or loss in respect of defined contribution schemes	333,739	105,623

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 was a pension creditor of £104,243 (2018: £63,792).

# IMPROBABLE WORLDS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2019

### 23 Share capital

	Group and company	
	2019	2018
	£	£
<b>Ordinary share capital</b>		
<b>Issued and fully paid</b>		
8,827,790 (2018: 9,000,000) A Ordinary shares of 0.0001p each	883	900
106,800 (2018: 110,200) B Ordinary shares of 0.0001p each	11	11
	<u>894</u>	<u>911</u>
<b>Preference share capital</b>		
<b>Issued and fully paid</b>		
5,443,650 (2018: 5,739,600) A Preference shares of 0.0001p each	544	574
16,150,002 (2018: 14,542,562) B Preference shares of 0.0001p each	1,615	1,454
	<u>2,159</u>	<u>2,028</u>

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, B1 Preference Shares, B2 Preference Shares and B3 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 and are non-redeemable.

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 2019

### 23 Share capital (Continued)

#### Reconciliation of movements during the year:

	A Ordinary Number	B Ordinary Number	A Preference Number	B Preference Number
At 1 June 2018	9,000,000	110,200	5,739,600	14,542,562
Issue of fully paid shares	-	411,649	-	724,231
Redesignation	(172,210)	(415,049)	(295,950)	883,209
At 31 May 2019	8,827,790	106,800	5,443,650	16,150,002

The company has issued the following shares during the year:

On 23 July 2018 the company issued 7,719 B Ordinary shares of £0.0001 each for a total consideration of £77.

On 23 July 2018 the company issued 397,577 B Ordinary shares of £0.0001 each for a total consideration of £40.

On 23 July 2018 the company issued 6,353 B Ordinary shares of £0.0001 each for a total consideration of £45,678.

On 23 July 2018 the company issued 724,231 B2 Preference shares of £0.0001 each for a total consideration of £36,906,812.

During the secondary transaction with NetEase various share classes were designated to match the primary transaction. On 23 July 2018 the company reclassified 172,210 A Ordinary shares, 415,049 B Ordinary shares, 262,650 A1 Preference shares and 33,300 A5 Preference shares to B3 Preference shares.

### 24 Reserves

#### Share premium account

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

#### Profit and loss account

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

# IMPROBABLE WORLDS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2019

### 25 Cash absorbed by operations

	2019 £	2018 as restated £
Loss for the year after tax	(39,192,442)	(50,438,942)
Adjustments for:		
Finance costs	-	12,048,601
Investment income	(24,422,304)	(4,187,133)
Loss on disposal of tangible fixed assets	1,391	-
Depreciation of tangible fixed assets	1,321,316	364,926
Other (gains)/losses	(103,874)	4,062,573
Equity settled share based payment expense	3,189,862	4,085,388
Increase in provisions	335,417	-
Movements in working capital:		
(Increase) in debtors	(3,383,180)	(9,952,068)
Increase in creditors	2,239,897	1,047,598
Increase in deferred income	4,314,331	-
<b>Cash absorbed by operations</b>	<b>(55,699,586)</b>	<b>(42,969,057)</b>

### 26 Financial commitments, guarantees and contingent liabilities

The company is committed to future payments of up to \$4,800,000 (£3,600,000) (2018: \$6,000,000 (£4,500,000)) subject to the completion of game development milestones by a third party.

### 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 2019 £	2018 £	Company 2019 £	2018 £
Within one year	1,916,226	2,698,122	1,554,080	2,661,844
Between one and five years	10,459,023	11,655,436	10,334,771	11,655,436
In over five years	7,864,810	10,329,394	7,222,937	10,329,394
	<u>20,240,059</u>	<u>24,682,952</u>	<u>19,111,788</u>	<u>24,646,674</u>

# IMPROBABLE WORLDS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2019

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### 28 Subsequent events

On 6 September 2019, Improbable Worlds Limited ('Improbable') acquired 100% of the share capital of Midwinter Entertainment. Midwinter Entertainment is a Seattle based games developer and Improbable technology partner. The acquisition of the established studio signals its further commitment to building and supporting outstanding games which both use and advance Improbable's SpatialOS game development platform. The consideration was through cash and shares.

On 24 September 2019, Improbable acquired 100% of the share capital of The Multiplayer Guys Limited (TMPGL). TMPGL team combined have over 100 years of experience in developing multiplayer games and further strengthen Improbable's commitment to building and launching games using Spatial OS. Consideration was through cash.

### 29 Related party transactions

#### Remuneration of key management personnel

The remuneration of key management personnel of the group, is as follows.

	2019 £	2018 £
Aggregate compensation	<u>634,872</u>	<u>371,733</u>

### 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.