

Company Registration No. 08070525 (England and Wales)

IMPROBABLE WORLDS LIMITED
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 MAY 2018

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IMPROBABLE WORLDS LIMITED

COMPANY INFORMATION

Directors	H Narula C Dixon P Lipka D Nishar
Secretary	P Timoney
Company number	08070525
Registered office	20 Farringdon Road London EC1M 3HE
Auditor	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH

IMPROBABLE WORLDS LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 MAY 2018

The directors present the strategic report for the year ended 31 May 2018 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 64% 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 period.

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.

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.

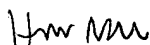
Future developments

In the course of fiscal year 2019, 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 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



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H Narula

Director

28.9.18
.....

IMPROBABLE WORLDS LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MAY 2018

The directors present their annual report and the audited consolidated financial statements for the year ended 31 May 2018.

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 6.

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 £10,745,917 (2017:£7,262,598) was undertaken in the period.

Post reporting date events

After the balance sheet date, the company issued a further 724,231 B2 Preference shares of 0.0001p each for total consideration of £36,906,812 and a further 403,930 B Ordinary shares of 0.0001p for total consideration of £45,718.

Independent auditors

In January 2018 RSM UK Audit LLP resigned as auditors of the Group. PricewaterhouseCoopers LLP were subsequently duly appointed as auditors 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.

IMPROBABLE WORLDS LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2018

Statement of directors' responsibilities

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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the 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 Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

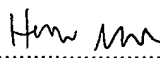
Strategic report

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


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H Narula
Director

28.9.18
.....

Independent auditors' report to the members of Improbable Worlds Limited

Report on the audit of the financial statements

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 2018 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 Report and Financial Statements (the "Annual Report"), which comprise: the consolidated and company statements of financial position as at 31 May 2018; 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

We have nothing to report in respect of the following matters in relation to which 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.

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.

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 2018 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 for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 3, 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. 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.

Other required reporting

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

28 September 2018

IMPROBABLE WORLDS LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MAY 2018

	Note	2018 £	2017 £
Turnover	3	579,859	7,822,289
Cost of sales		(10,745,917)	(7,850,131)
Gross loss		(10,166,058)	(27,842)
Administrative expenses		(28,443,447)	(8,932,836)
Other operating income	3	94,604	778,906
Operating loss	7	(38,514,901)	(8,181,772)
Interest receivable and similar income	9	3,403,399	703,556
Interest payable and similar expenses	10	(12,048,601)	(21)
Exceptional items	11	-	2,584,997
Other gains and losses	12	(3,278,839)	-
Loss before taxation		(50,438,942)	(4,893,240)
Tax on loss	13	-	-
Loss for the financial year		(50,438,942)	(4,893,240)
Other comprehensive income net of taxation			
Currency translation differences		24,068	10,662
Total comprehensive expense for the year		(50,414,874)	(4,882,578)

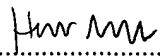
Loss for the financial year is all attributable to the owners of the parent company.

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 2018**

	Note	2018 £	£	2017 £	£
Fixed assets					
Tangible assets	14	3,132,689		837,798	
Investments	15	17,307		17,307	
		<u>3,149,996</u>		<u>855,105</u>	
Current assets					
Debtors: Amounts falling due after one year	17	8,862,891		541,270	
Debtors: Amounts falling due within one year	17	3,098,483		2,461,964	
Investments	18	94,466,602		-	
Cash at bank and in hand		255,444,928		94,165,704	
		<u>361,872,904</u>		<u>97,168,938</u>	
Creditors: amounts falling due within one year	19	<u>(4,128,489)</u>		<u>(2,988,025)</u>	
Net current assets		<u>357,744,415</u>		<u>94,180,913</u>	
Total assets less current liabilities		<u><u>360,894,411</u></u>		<u><u>95,036,018</u></u>	
Capital and reserves					
Called up share capital	22	2,939		1,780	
Share premium account	23	426,053,634		113,866,914	
Profit and loss account	23	(65,162,162)		(18,832,676)	
Total equity		<u><u>360,894,411</u></u>		<u><u>95,036,018</u></u>	

The financial statements were approved by the board of directors and authorised for issue on 28.9.18
and are signed on its behalf by:


.....
H Narula
Director

IMPROBABLE WORLDS LIMITED**COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 MAY 2018**

	Notes	2018 £	£	2017 £	£
Fixed assets					
Tangible assets	14	2,996,428		822,774	
Investments	15	229,688		17,315	
		<u>3,226,116</u>		<u>840,089</u>	
Current assets					
Debtors: Amounts falling due after one year	17	8,862,891		541,270	
Debtors: Amounts falling due within one year	17	5,897,736		3,208,289	
Investments	18	94,466,602		-	
Cash at bank and in hand		255,085,721		93,941,451	
		<u>364,312,950</u>		<u>97,691,010</u>	
Creditors: amounts falling due within one year	19	<u>(4,216,296)</u>		<u>(2,985,455)</u>	
Net current assets		<u>360,096,654</u>		<u>94,705,555</u>	
Total assets less current liabilities		<u><u>363,322,770</u></u>		<u><u>95,545,644</u></u>	
Capital and reserves					
Called up share capital	22	2,939		1,780	
Share premium account	23	426,053,634		113,866,914	
Profit and loss account	23	(62,733,803)		(18,323,050)	
Total equity		<u><u>363,322,770</u></u>		<u><u>95,545,644</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 accounts. The company's loss for the year was £48,496,141 (2017 - £4,372,952 loss).

The financial statements were approved by the board of directors and authorised for issue on 28.9.18 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 2018

	Note	Share capital £	Share premium account £	Profit and loss reserves £	Total £
Balance at 1 June 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 expense net of taxation:					
Currency translation differences		-	-	10,662	10,662
Total comprehensive expense for the year		-	-	(4,882,578)	(4,882,578)
Issue of share capital	22	313	80,263,474	-	80,263,787
Reclassification of preference shares		567	33,603,440	-	33,604,007
Balance at 31 May 2017		1,780	113,866,914	(18,832,676)	95,036,018
Year ended 31 May 2018:					
Loss for the year		-	-	(50,438,942)	(50,438,942)
Other comprehensive expense net of taxation:					
Currency translation differences on overseas subsidiaries		-	-	24,068	24,068
Total comprehensive expense for the year		-	-	(50,414,874)	(50,414,874)
Issue of share capital	22	1,159	312,186,720	-	312,187,879
Credit to equity for equity settled share-based payments	6	-	-	4,085,388	4,085,388
Balance at 31 May 2018		2,939	426,053,634	(65,162,162)	360,894,411

IMPROBABLE WORLDS LIMITED

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

	Note	Share capital £	Share premium account £	Profit and loss reserves £	Total £
Balance at 1 June 2016		900	-	(13,950,098)	(13,949,198)
Year ended 31 May 2017:					
Loss and total comprehensive expense for the year		-	-	(4,372,952)	(4,372,952)
Issue of share capital	22	313	80,263,474	-	80,263,787
Reclassification of preference shares		567	33,603,440	-	33,604,007
Balance at 31 May 2017		1,780	113,866,914	(18,323,050)	95,545,644
Year ended 31 May 2018:					
Loss and total comprehensive expense for the year		-	-	(48,496,141)	(48,496,141)
Issue of share capital	22	1,159	312,186,720	-	312,187,879
Credit to equity for equity settled share-based payments	6	-	-	4,085,388	4,085,388
Balance at 31 May 2018		2,939	426,053,634	(62,733,803)	363,322,770

IMPROBABLE WORLDS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MAY 2018

	Note	2018 £	£	2017 £	£
Cash flows from operating activities					
Cash absorbed by operations	24	(42,969,057)		(9,957,993)	
Interest paid		-		(21)	
Income taxes refunded		993,928		624,914	
Net cash outflow from operating activities		(41,975,129)		(9,333,100)	
Investing activities					
Purchase of tangible fixed assets		(2,659,817)		(506,495)	
Purchase of investments		(97,099,984)		-	
Interest and dividends received		2,354,593		26,701	
Net cash used in investing activities		(97,405,208)		(479,794)	
Financing activities					
Proceeds from issue of shares		312,187,879		80,263,787	
Net cash generated from financing activities		312,187,879		80,263,787	
Net increase in cash and cash equivalents		172,807,542		70,450,893	
Cash and cash equivalents at beginning of year		94,165,704		23,027,294	
Effect of foreign exchange rates		(11,528,318)		687,517	
Cash and cash equivalents at end of year		255,444,928		94,165,704	

IMPROBABLE WORLDS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2018

1 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.

2 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 20 Farringdon Road, London, EC1M 3HE.

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.

IMPROBABLE WORLDS LIMITED

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

2 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.

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 2018. 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 £50,438,942 (2017: £4,893,240) and had net current assets of £357,744,415 (2017: £94,180,913). 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 £312,187,879 (2017: £80,263,787) from the issue of ordinary and preference shares.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2018

2 Accounting policies (Continued)

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.

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.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2018

2 Accounting policies (Continued)

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.

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.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2018

2 Accounting policies (Continued)

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.

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.

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.

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.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2018

2 Accounting policies (Continued)

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

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 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.

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.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2018

2 Accounting policies (Continued)

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 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 with a corresponding credit to equity.

A new share option scheme was established in FY18 (the "Unapproved Scheme"). Fair value of the options at the date of grant is established using an option pricing model.

3 Turnover and other revenue

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

	2018 £	2017 £
Turnover analysed by class of business		
Sales of services	579,859	7,822,289
	<u> </u>	<u> </u>
Other operating income		
Grants received	94,604	500,351
Rent receivable	-	278,555
	<u> </u>	<u> </u>
	94,604	778,906
	<u> </u>	<u> </u>
Turnover analysed by geographical market		
	2018 £	2017 £
United Kingdom	-	3,142,205
United States of America	533,101	4,680,084
Rest of World	46,758	-
	<u> </u>	<u> </u>
	579,859	7,822,289
	<u> </u>	<u> </u>

During the year, the company and group received grant income of £94,604 (2017: £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 2018

4 Employees

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

	Group 2018 Number	2017 Number	Company 2018 Number	2017 Number
Sales and product	60	35	55	32
Software engineering	111	70	104	67
Operations	51	30	50	29
	<u>222</u>	<u>135</u>	<u>209</u>	<u>128</u>

Their aggregate remuneration comprised:

	Group 2018 £	2017 £	Company 2018 £	2017 £
Wages and salaries	17,584,167	8,361,847	15,919,372	7,988,502
Social security costs	1,987,220	981,251	1,887,593	948,297
Pension costs	105,623	185,502	105,623	185,502
	<u>19,677,010</u>	<u>9,528,600</u>	<u>17,912,588</u>	<u>9,122,301</u>

The Group also incurred share based payment expenses in the year in relation to remuneration of employees of £4,085,388 (2017: £Nil).

5 Directors' remuneration

	2018 £	2017 £
Remuneration for qualifying services	127,513	69,750
Company pension contributions to defined contribution schemes	436	455
	<u>127,949</u>	<u>70,205</u>

The number of directors to whom retirement benefits are accruing under defined contribution scheme was 1 (2017: 2).

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2018

6 Share-based payment transactions

Group	Number of share options		Weighted average exercise price	
EMI Scheme	2018 Number	2017 Number	2018 £	2017 £
Outstanding at 1 June 2017	3,135,700	2,343,200	0.0001	0.0001
Granted	-	1,005,600	0.0001	0.0001
Forfeited	(95,405)	(111,200)	0.0001	0.0001
Exercised	(8,300)	(101,900)	0.0001	0.0001
Expired	(17,995)	-	0.0001	0.0001
Outstanding at 31 May 2018	3,014,000	3,135,700	0.0001	0.0001
Exercisable at 31 May 2018	2,278,447	1,928,100	0.0001	0.0001
Group	Number of share options		Weighted average exercise price	
Unapproved Option Scheme	2018 Number	2017 Number	2018 £	2017 £
Outstanding at 1 June 2017	-	-	-	-
Granted	941,900	-	1.88	-
Forfeited	(7,500)	-	0.01	-
Outstanding at 31 May 2018	934,400	-	1.89	-
Exercisable at 31 May 2018	179,232	-	1.50	-
	Group 2018 £	2017 £	Company 2018 £	2017 £
Expenses recognised in the year				
Arising from equity settled share based payment transactions	4,085,388	-	3,990,613	-

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2018

7 Operating loss

	2018	2017
	£	£
Operating loss for the year is stated after charging/(crediting):		
Exchange (gains)/losses	-	752
Research and development costs	10,745,917	7,262,592
Government grants	(94,604)	(500,351)
Depreciation of owned tangible fixed assets	364,926	140,005
Share-based payments	4,085,388	-
Operating lease charges	2,565,737	1,335,123

8 Auditors' remuneration

	2018	2017
	£	£
Fees payable to the company's auditor and associates:		
For audit services		
Audit of the financial statements of the group and company	28,000	23,500
For other services		
Taxation compliance services	17,500	16,515
All other non-audit services	66,359	54,200
	83,859	70,715

9 Interest receivable and similar income

	2018	2017
	£	£
Interest income		
Interest on bank deposits	256,934	26,701
Interest on other loan receivable	11,317	-
Other interest income on short term investments	3,135,148	-
Foreign exchange gains	-	676,855
Total interest receivable and similar income	3,403,399	703,556

10 Interest payable and similar expenses

	2018	2017
	£	£
Other finance costs:		
Finance costs on loan receivable measured at amortised cost	92,866	-
Interest payable	-	21
Foreign exchange losses	11,955,735	-
Total interest payable and similar expenses	12,048,601	21

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2018

11 Exceptional items - income

	2018 £	2017 £
Adjustment to provision related to an early collaborator	-	559,652
Release of accrued preference share dividend	-	2,025,345
Total exceptional items	-	2,584,997

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 had been reclassified within other creditor falling due within one year for the agreed settlement amount. As a result, £559,652 had 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 had 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.

12 Other gains and losses

	2018 £	2017 £
Changes in the fair value of investments	(3,278,839)	-

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2018

13 Taxation

The total tax charge 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:

	2018 £	2017 £
Loss before taxation	(50,438,942)	(4,893,240)
Expected tax credit based on the standard rate of corporation tax in the UK of 19.00% (2017: 19.83%)	(9,583,399)	(970,329)
Tax effect of expenses that are not deductible in determining taxable profit	1,406,531	16,524
Tax effect of income not taxable in determining taxable profit	-	(401,684)
Permanent capital allowances in excess of depreciation	(435)	6,440
Deferred tax not recognised	8,177,303	1,349,049
Taxation charge for the year	-	-

The Group has estimated losses and deductions of £58,587,059 (2017: £13,906,358) available for carry forward against future trading profits. Deferred tax assets in relation to losses and other deductions at the end of year of £9,959,800 (2017: £2,202,698) have not been provided for.

14 Tangible fixed assets

Group	Leasehold land and buildings £	Fixtures and fittings £	Computer equipment £	Total £
Cost				
At 1 June 2017	338,682	214,596	618,261	1,171,539
Additions	1,636,803	43,641	979,373	2,659,817
At 31 May 2018	1,975,485	258,237	1,597,634	3,831,356
Accumulated depreciation and impairment				
At 1 June 2017	79,759	68,626	185,356	333,741
Depreciation charged in the year	77,431	27,168	260,327	364,926
At 31 May 2018	157,190	95,794	445,683	698,667
Carrying amount				
At 31 May 2018	1,818,295	162,443	1,151,951	3,132,689
At 31 May 2017	258,923	145,970	432,905	837,798

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2018

14 Tangible fixed assets (Continued)

Company	Leasehold land and buildings	Fixtures and fittings	Computer equipment	Total
	£	£	£	£
Cost				
At 1 June 2017	338,682	214,596	602,488	1,155,766
Additions	1,636,803	41,463	847,004	2,525,270
At 31 May 2018	1,975,485	256,059	1,449,492	3,681,036
Accumulated depreciation and impairment				
At 1 June 2017	79,759	68,626	184,607	332,992
Depreciation charged in the year	77,431	26,788	247,397	351,616
At 31 May 2018	157,190	95,414	432,004	684,608
Carrying amount				
At 31 May 2018	1,818,295	160,645	1,017,488	2,996,428
At 31 May 2017	258,923	145,970	417,881	822,774

15 Fixed asset investments

	Notes	Group 2018 £	2017 £	Company 2018 £	2017 £
Investments in subsidiaries	16	-	-	212,381	8
Unlisted investments		17,307	17,307	17,307	17,307
		17,307	17,307	229,688	17,315

Movements in fixed asset investments

Group	Unlisted investments £
Cost or valuation	
At 1 June 2017 and 31 May 2018	17,307
Carrying amount	
At 31 May 2018	17,307
At 31 May 2017	17,307

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2018

15 Fixed asset investments (Continued)

Movements in fixed asset investments

Company	Shares in group undertakings £	Unlisted investments £	Total £
Cost or valuation			
At 1 June 2017	8	17,307	17,315
Additions- separately acquired	117,598	-	117,598
Capital contribution	94,775	-	94,775
At 31 May 2018	212,381	17,307	229,688
Carrying amount			
At 31 May 2018	212,381	17,307	229,688
At 31 May 2017	8	17,307	17,315

The capital contribution relates to share options granted to employees of subsidiary undertakings.

16 Subsidiaries

Details of the company's subsidiaries at 31 May 2018 are as follows:

Name of undertaking	Country of incorporation	Nature of business	Class of shares held	% Held	
				Direct	Indirect
Improbable Inc	United States of America	Operating subsidiary	Common stock	100.00	
Improbable SG PTE Ltd	Singapore	Operating subsidiary	Ordinary	100.00	
Improbables Worlds Nominees Limited	United Kingdom	Dormant	Ordinary	100.00	
Guangzhou Improbable Information Technology Company Ltd	China	Dormant	Ordinary	100.00	
Improbable Canada Inc	Canada	Dormant	Ordinary	100.00	
Improbable LLC	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 2018

16 Subsidiaries (Continued)

On 23 August 2017, the Company incorporated 1 ordinary share at £1 of Improbable Worlds Nominees Limited. The registered office of the company is 20 Farringdon Road, London, EC1M 3HE.

On 20 December 2017, the Company incorporated 100 ordinary shares at SGD \$0.01 each of Improbable SG Pte Ltd. The registered office of the company is 51 Circular Road, Singapore, 049406.

On 17 May 2018, the Company incorporated 1,000 ordinary shares at Canadian \$0.01 each of Improbable Canada Inc. The registered office of the company is 2500,450- 1st Street SW, Calgary AB T2P 5H1.

On 28 May 2018 the Company incorporated 1 ordinary share at RMB1,000,000 of Guangzhou Improbable Information Technology Company Ltd. The registered office of the company is Office 5429, Level 54, Guangzhou International Finance Centre, 5 Zhujiang West Road, Guangzhou 510623, China.

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

17 Debtors

	Group		Company	
	2018	2017	2018	2017
	£	£	£	£
Amounts falling due within one year:				
Trade debtors	27,276	445,966	27,274	445,966
Corporation tax recoverable	-	993,928	-	993,928
Amounts owed by group undertakings	-	-	3,324,895	779,692
Other debtors	845,092	339,661	784,407	310,812
Prepayments and accrued income	2,226,115	682,409	1,761,160	677,891
	<u>3,098,483</u>	<u>2,461,964</u>	<u>5,897,736</u>	<u>3,208,289</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>8,862,891</u>	<u>541,270</u>	<u>8,862,891</u>	<u>541,270</u>
Total debtors	<u>11,961,374</u>	<u>3,003,234</u>	<u>14,760,627</u>	<u>3,749,559</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.

Under the agreement Improbable Worlds Limited is committed to future payments of up to \$5.4m (£4.1m) to the third party, subject to the completion of deliverables by the third party.

Included in other debtors is an amount of £293,931, with interest rate of 6% due for repayment by 2027.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2018

18 Current asset investments

	Group 2018 £	2017 £	Company 2018 £	2017 £
Other investments	94,466,602	-	94,466,602	-

Investments of £97,099,984 were made into a managed portfolio of treasury notes and bonds during the year.

As at 31 May 2018, the market value of the investments was £94,466,602, and a fair value loss of £3,278,855 has been recognised.

19 Creditors: amounts falling due within one year

	Group 2018 £	2017 £	Company 2018 £	2017 £
Trade creditors	2,686,913	892,418	2,659,623	892,406
Amounts due to group undertakings	-	-	117,598	-
Other taxation and social security	-	419,053	-	419,053
Other creditors	78,067	568,581	76,414	566,141
Accruals and deferred income	1,363,509	1,107,973	1,362,661	1,107,855
	<u>4,128,489</u>	<u>2,988,025</u>	<u>4,216,296</u>	<u>2,985,455</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 2018 £	2017 £
Carrying amount of financial assets		
Debt instruments measured at amortised cost	4,966,059	1,326,897
Equity instruments measured at cost less impairment	17,307	17,307
Current asset investments measured at fair value through profit or loss	94,466,602	-
Debt instruments measured at fair value through profit or loss	4,957,365	-
	<u>4,128,489</u>	<u>2,484,202</u>
Carrying amount of financial liabilities		
Measured at amortised cost	4,128,489	2,484,202

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2018

21 Retirement benefit schemes

	2018	2017
	£	£
Defined contribution schemes		
Charge to profit or loss in respect of defined contribution schemes	105,623	185,502

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 £63,792 (2017: £nil).

22 Share capital

	Group and company	
	2018	2017
	£	£
Ordinary share capital		
Issued and fully paid		
9,000,000 A Ordinary shares of 0.0001p each	900	900
110,200 B Ordinary shares of 0.0001p each	11	11
	<u>911</u>	<u>911</u>
Preference share capital		
Issued and fully paid		
5,739,600 A Preference shares of 0.0001p each	574	574
14,542,562 B Preference shares of 0.0001p each	1,454	295
	<u>2,028</u>	<u>869</u>

The company has issued the following shares during the year:

On 20 July 2017 the company issued 11,590,597 B1 preference shares of £0.0001 each for total consideration of £312,187,879.

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 and are non-redeemable.

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

23 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 2018

24 Cash generated from group operations

	2018 £	2017 £
Loss for the year after tax	(50,438,942)	(4,893,240)
Adjustments for:		
Finance costs	12,048,601	21
Investment income	(3,403,399)	(703,556)
Depreciation and impairment of tangible fixed assets	364,926	140,005
Other gains and losses	3,278,839	(2,584,997)
Equity settled share based payment expense	4,085,388	-
Movements in working capital:		
(Increase) in debtors	(9,952,068)	(870,944)
Increase/(decrease) in creditors	1,047,598	(1,045,282)
Cash absorbed by operations	(42,969,057)	(9,957,993)

25 Financial commitments, guarantees and contingent liabilities

The Company is committed to future payments of up to \$6m (£4.5m) subject to the completion of game development milestones by a third party.

26 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 2018 £	2017 £	Company 2018 £	2017 £
Within one year	2,698,122	1,120,804	2,661,844	1,093,302
Between one and five years	11,655,436	3,985,053	11,655,436	3,985,053
In over five years	10,329,394	-	10,329,394	-
	<u>24,682,952</u>	<u>5,105,857</u>	<u>24,646,674</u>	<u>5,078,355</u>

27 Events after the reporting date

After the balance sheet date, the company issued a further 724,231 B2 Preference shares of 0.0001p each for total consideration of £36,906,812 and a further 403,930 B Ordinary shares of 0.0001p for total consideration of £45,718.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2018

28 Related party transactions

Remuneration of key management personnel

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

	2018 £	2017 £
Aggregate compensation	371,733	70,205

During the year the director received loan repayments from the company of £Nil (2017: £1,296,238). The amount owed to the director at the balance sheet date is £Nil (2017: £Nil).

29 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.