

Intelligent Ultrasound Limited

REPORT AND FINANCIAL STATEMENTS

for the period ended

31 December 2019



Intelligent Ultrasound Limited

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Intelligent Ultrasound Limited

OFFICERS AND ADVISERS

DIRECTORS

Andrew Barker
Stuart Gall
Helen Jones (appointed 1 January 2020)
Alison Noble
Nicholas Sleep

SECRETARY

Helen Jones (appointed 1 January 2020)

REGISTERED OFFICE

Cardiff Medicentre
Heath Park
Cardiff
CF14 4UJ

AUDITOR

BDO LLP
Bridgewater House
Finzels Reach
Counterslip
Bristol
BS1 6BX

Intelligent Ultrasound Limited

DIRECTORS' REPORT

The Directors submit the report and financial statements of Intelligent Ultrasound Limited ("the Company" or "IUL") for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company continues to be that of developing medical imaging software.

REVIEW OF THE BUSINESS AND KEY PERFORMANCE INDICATORS

A review of the development, performance and position of the Company's operations is included in the Strategic Review section of the 2019 Annual Report of the Company's ultimate parent company, Intelligent Ultrasound Group plc.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties of the Company are integrated with the principal risks of the group and are not managed separately. The principal risks and uncertainties of the Intelligent Ultrasound Group plc group of companies, which includes the Company, are discussed in the Strategic Review within the Group's 2019 Annual Report.

RESULTS AND DIVIDENDS

The Company's results for the year ended 31 December 2019 are shown in the Statement of Comprehensive Income on page 9. The Directors do not recommend the payment of a dividend.

FUTURE DEVELOPMENTS

A review of future developments of the Company is contained in the Strategic Review of the Intelligent Ultrasound Group plc 2019 Annual Report.

RESEARCH AND DEVELOPMENT

The Board considers that the Company's research and development activity plays an important role in the operational and financial success of the business. In the year to 31 December 2019 the Company spent £532,051 (2018: £494,432) on research and development activities. The Company received Research and Development Grant income of £Nil during the period (2018: £24,038).

GOING CONCERN

The financial statements have been prepared on a going concern basis. The Group meets its day-to-day working capital requirements from its cash reserves. Post year end on 4 May shareholders of the parent company approved an equity placing to raise £4.8m net of transaction costs which ensures that the Group has sufficient funds to continue to trade for at least the next 15 months, taking into account a number of potential outcomes of the impact of Covid-19 on the Group in the short to medium term. The Group is currently monitoring the Covid-19 situation on a regular basis with cash preservation continuing to be a primary focus. These financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

DIRECTORS AND THEIR INTERESTS

DIRECTORS

The following Directors have held office during the period and to the date of this report:

Intelligent Ultrasound Limited

DIRECTORS' REPORT *(continued)*

Andrew Barker
Stuart Gall
Wilson Jennings
Alison Noble
Nicholas Sleep
Helen Jones

Resigned 31 December 2019

Appointed 1 January 2020

The movements in Directors' interests in shares and share options of the parent company, Intelligent Ultrasound Group plc, are disclosed in the Group's 2019 Annual Report.

Section 172

A statement which describes how the Directors have had regard to the matters set out in section 172 (1) (a) to (f) and forms the Directors' statement required under 414CZA of the Companies Act 2016 is contained in the Strategic Review of PLC's Annual Report.

Insurance

The Company provides indemnity cover for the Directors.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

The Directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditor is unaware. Each of the Directors has confirmed that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

In preparing this report the Directors have taken advantage of the small companies exemption provided by Section 415A of the Companies Act 2006.

By approval of the Board on 28 May 2020.



Helen Jones
Company Secretary

Intelligent Ultrasound Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

The Directors are responsible for preparing 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 International Financial Reporting Standards (IFRS) as adopted by the European Union 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 Company and of the profit or loss of the 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 they have been prepared in accordance with IFRS as adopted by the European Union, 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 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF

Intelligent Ultrasound Limited

Opinion

We have audited the financial statements of Intelligent Ultrasound Limited ("the Company") for the year ended 31 December 2019 which comprise Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Financial Position and Statement of Cash Flows, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- 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 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.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF

Intelligent Ultrasound Limited (*continued*)

the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Directors' report.

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

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

Responsibilities of Directors

As explained more fully in the Statement of Directors Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the 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 Company or to cease operations, or have no realistic alternative but to do so.

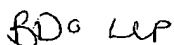
Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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 Financial Reporting Council's website at:

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

 BDO LLP

Sarah Joannidi (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Bristol, UK
2 June 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Intelligent Ultrasound Limited

STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2019

	Notes	2019	2018
		£	£
REVENUE		15,400	-
Cost of sales		-	-
GROSS PROFIT		15,400	-
Other operating income	6	-	24,038
Administrative expenses		(927,676)	(709,502)
Total administrative expenses		(927,676)	(685,464)
OPERATING LOSS	7	(912,276)	(685,464)
Finance costs		-	-
LOSS BEFORE INCOME TAX		(912,276)	(685,464)
Income tax	8	161,600	22,718
LOSS AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS		(750,676)	(662,746)

There were no discontinued operations in the year to 31 December 2019 or the year to 31 December 2018. Accordingly the results relate to continuing operations.

The notes on pages 12 to 25 are an integral part of these financial statements.

Intelligent Ultrasound Limited

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2019

	Note	Share capital £	Share premium £	Share-based payment reserve £	Accumulated losses £	Total equity attributable to shareholders £
BALANCE AS AT 1 January 2018		4,210	2,556,636	34,000	(2,880,135)	(285,289)
COMPREHENSIVE INCOME FOR THE YEAR						
Loss for the year		-	-	-	(662,746)	(662,746)
CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS						
Cost of share-based payment awards	14	-	-	27,000	-	27,000
Total contributions by and distributions to owners		-	-	27,000	-	27,000
BALANCE AS AT 31 December 2018		4,210	2,556,636	61,000	(3,542,881)	(921,035)
COMPREHENSIVE INCOME FOR THE YEAR						
Loss for the year		-	-	-	(750,676)	(750,676)
CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS						
Cost of share-based payment awards	14	-	-	19,000	-	19,000
Total contributions by and distributions to owners		-	-	19,000	-	19,000
BALANCE AS AT 31 DECEMBER 2019		4,210	2,556,636	80,000	(4,293,557)	(1,652,711)

Equity comprises the following:

- *Ordinary share capital* represents the nominal value of equity shares.
- Share-based payment reserve represents the cumulative amount expensed to the Statement of Comprehensive Income in respect of share-based payments.
- *Accumulated losses* represent retained losses.

Intelligent Ultrasound Limited

STATEMENT OF FINANCIAL POSITION as at 31 December 2019

		2019	2018
	Notes	£	£
NON CURRENT ASSETS			
Property, plant and equipment	10	20,326	18,004
CURRENT ASSETS			
Trade and other receivables	11	34,472	61,029
Current tax asset		61,600	-
Cash and cash equivalents		73,505	102,895
		<u>149,577</u>	<u>163,924</u>
TOTAL ASSETS		169,903	181,928
CURRENT LIABILITIES			
Trade and other payables	12	(1,842,614)	(1,002,963)
Income tax		-	(100,000)
TOTAL LIABILITIES		<u>(1,842,614)</u>	<u>(1,102,963)</u>
NET LIABILITIES		<u>(1,652,711)</u>	<u>(921,035)</u>
EQUITY			
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Share capital	13	4,210	4,210
Share premium		2,556,636	2,556,636
Accumulated losses		(4,293,557)	(3,542,881)
Share-based payment reserve	14	80,000	61,000
TOTAL EQUITY		<u>(1,652,711)</u>	<u>(921,035)</u>

These financial statements were approved by the Board of Directors and authorised for issue on 28 May 2020 and are signed on their behalf by:



S Gall
Director



H Jones
Director

The notes on pages 12 to 25 are an integral part of these financial statements.

Intelligent Ultrasound Limited

STATEMENT OF CASH FLOWS for the year ended 31 December 2019

	2019	2018
	£	£
CASH FLOW FROM CONTINUING OPERATING ACTIVITIES		
Loss before tax	(912,276)	(685,464)
Depreciation	5,658	5,400
Share-based payments	19,000	27,000
Operating cash flows before movement in working capital	(887,618)	(653,064)
Movement in trade and other receivables	(19,106)	29,250
Movement in trade and other payables	86,744	4,758
Cash used in operations	(819,980)	(619,056)
Income taxes received	-	122,718
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(819,980)	(496,338)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(7,981)	(9,382)
NET CASH USED IN INVESTING ACTIVITIES	(7,981)	(9,382)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from the parent company	687,507	582,919
Advances from other group companies	111,064	(45,663)
NET CASH GENERATED FROM FINANCING ACTIVITIES	798,571	537,256
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(29,390)	31,536
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	102,895	71,359
CASH AND CASH EQUIVALENTS AT END OF YEAR	73,505	102,895

The notes on pages 12 to 25 are an integral part of these financial statements.

Intelligent Ultrasound Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019

1. GENERAL INFORMATION

Intelligent Ultrasound ("the Company") is a private company limited by shares incorporated in the United Kingdom (registration number 08107443). The Company is domiciled in the United Kingdom and its registered address is Cardiff Medicentre, Heath Park, Cardiff, CF14 4UJ.

The Company's principal activity is the development of medical image software.

2. STATEMENT OF COMPLIANCE WITH IFRS

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as endorsed by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

New and amended standards adopted by the Company

Standards and amendments to IFRSs which were effective for the first time in the current period did not have a material effect on these financial statements.

Standards, interpretations and amendments not yet effective

None of the new standards, interpretations and amendments, which are effective for periods beginning after 1 January 2020 and which have not been adopted early, are expected to have a material effect on the Company's 2018 financial statements.

3. BASIS OF PREPARATION

Going concern

The financial statements have been prepared on a going concern basis. The Company meets its day-to-day working capital requirements from its cash reserves in the form of intercompany loan funding from its parent company. Post year end on 4 May shareholders of its parent company approved an equity placing to raise £4.8m net of transaction costs which ensures that the Group has sufficient funds to continue to trade for at least the next 15 months, taking into account a number of potential outcomes of the impact of Covid-19 on the Group in the short to medium term.. The Group is currently monitoring the Covid-19 situation on a regular basis with cash preservation continuing to be a primary focus.

Accounting policies

The accounting policies set out in note 4 have been applied consistently to all periods presented in these financial statements.

Functional currency

These financial statements are presented in Sterling as that is considered to be the currency of the primary economic environment in which the Company operates. This decision was based on the Company's workforce being based mainly in the UK and that Sterling is the currency in which management reporting and decision making is based.

Intelligent Ultrasound Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019 *(continued)*

4. ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. If in the future such estimates and assumptions which are based on management's best judgement at the date of the financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the year in which the circumstances change. Where necessary, the comparatives have been reclassified or extended from the previously reported results to take into account presentational changes. Critical accounting judgements and estimates are described in note 5.

SHARE-BASED PAYMENTS

The Company's holding company, Intelligent Ultrasound Group plc, issues options over its unissued share capital to certain employees and Directors in the Company. IFRS 2 requires the Company to treat these arrangements as equity-settled share-based payments. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of equity-settled share-based payments relating to the Company's employees is recharged to the Company by Intelligent Ultrasound Group plc and is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. The fair value is measured by use of a binomial probability option pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions, and behavioural considerations. No expense is recognised for awards that do not ultimately vest.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Trade receivables

The Company did not have any trade receivables at the year end (2018: £Nil).

Amounts owed by fellow subsidiary undertakings

The Company has adopted IFRS 9 *Financial instruments* in the financial statements. IFRS 9 makes no distinction between unrelated third party and related party transactions such as amounts due by fellow subsidiary undertakings. Entities that prepare stand-alone financial statements are required to apply the full provisions of the standard to all transactions within its scope. This means that amounts owed by subsidiary undertakings must be classified and measured in accordance with the requirements of IFRS 9 including, where relevant, applying the Expected Credit Loss (ECL) model for impairment. Amounts owed by subsidiary undertakings are considered to be in default when there is evidence that the borrower will have insufficient liquid assets to repay the amount due on demand.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value. For the purposes of the Statement of Cash Flows, cash and cash equivalents includes bank overdrafts.

Intelligent Ultrasound Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019 (continued)

4. ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. A financial liability is a contracted obligation to deliver cash or another financial asset to another entity. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Trade payables

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

Forward currency contracts

Forward currency contracts are included in the Statement of Financial Position as assets or liabilities at their fair value at the period end. No forward contracts were used in the year.

INTANGIBLE ASSETS

An intangible asset, which is an identifiable non-monetary asset without physical substance, is recognised to the extent that it is probable that the expected future economic benefits attributable to the asset will flow to the Company and that its cost can be measured reliably. Such intangible assets are carried at cost net of related grants received less amortisation.

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Development expenditure is capitalised as an intangible asset only if the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefit;
- the development cost of the asset can be measured reliably;
- it meets the Company's criteria for technical and commercial feasibility; and
- sufficient resources are available to meet the development to either sell or use as an asset.

Development expenditure thus capitalised is amortised on a straight-line basis over its useful life. Where the criteria are not met, development expenditure is recognised as an expense in the Administrative Expenses line of the Statement of Comprehensive Income. To date no development expenditure has been capitalised.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less any subsequent accumulated depreciation or impairment losses.

Depreciation is provided on all property, plant and equipment at rates calculated to write each asset down to its estimated residual value over its expected useful life, as follows:

Plant & equipment –		
Fixtures & Fittings	20%	Straight line
Computer Equipment	20%	Straight line

Intelligent Ultrasound Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019 *(continued)*

4. ACCOUNTING POLICIES (CONTINUED)

The assets' residual values and useful lives are reviewed at each year end and adjusted if appropriate. The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

LEASES (PRIOR TO 1 JANUARY 2019)

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. The cost of operating leases (net of any incentives received from the lessor) is charged to the Statement of Comprehensive Income on a straight line basis over the periods of the leases.

LEASES (FROM 1 JANUARY 2019)

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

FOREIGN CURRENCIES

The functional currency of the Company is Sterling. Foreign currency monetary assets and liabilities are converted to Sterling at the rates of exchange ruling at the end of the financial year.

Transactions in foreign currencies are converted to Sterling at the rates of exchange ruling at the transaction date. All of the resulting exchange differences are recognised in the Statement of Comprehensive Income as they arise. Realised gains and losses in the year were taken to profit or loss within Administrative Expenses.

The Company's activities expose it to the financial risks of changes in foreign currency exchange rates. The Company uses foreign exchange forward contracts to hedge these exposures if appropriate. These financial instruments are included in the statement of financial position as assets or liabilities at their fair values. The Company does not use derivative financial instruments for speculative purposes but its financial instruments do not qualify for hedge accounting and consequently changes in their fair values are recognised in the Statement of Comprehensive Income as they arise.

INCOME TAX

The tax expense represents the sum of the current tax expense and deferred tax expense.

Tax currently payable is based on the taxable profit for the year. Taxable profit or loss differs from net profit or loss as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Intelligent Ultrasound Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019 (*continued*)

4. ACCOUNTING POLICIES (CONTINUED)

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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 upon tax rates that have been enacted or substantively enacted.

REVENUE

Revenue excludes Value Added Tax and any equivalent sales taxes chargeable on revenue. The Company's revenue in the year was derived from recharging consultant staff time spent on an R&D project of the Company's fellow subsidiary, Medaphor Limited.

GOVERNMENT GRANTS

Government grants are recognised in the profit and loss account in an appropriate manner that matches them with the expenditure towards which they are intended to contribute. Grants for immediate financial support or to cover costs already incurred are recognised immediately in the profit and loss account. Grants towards general activities of the entity over a specific period are recognised in the profit and loss account over that period. Grants towards fixed assets are recognised over the expected useful lives of the related assets and are treated as deferred income and released to the profit and loss account over the useful life of the asset concerned. All grants in the profit and loss account are recognised when all conditions for receipt have been complied with.

WARRANTY CLAIMS

Provision is made for liabilities arising in respect of expected warranty claims based upon management's best estimate of the Company's liability for remedial work and warranties granted on products sold.

PENSION COSTS

Pension allowances, contributions to defined contribution pension schemes and contributions to personal pension schemes are charged to the statement of comprehensive income in the year to which they relate.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical accounting judgements

In the process of applying the Company's accounting policies, which are described in note 4, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

Share-based payments

In determining the fair value of equity-settled share-based payments and the related charge to the Statement of Comprehensive Income, the Company makes assumptions about future events and market conditions. In particular, judgement must be made as to the likely number of shares that will vest and the fair value of each award granted. The fair value is determined using a valuation model which is dependent on further estimates, including the parent company's dividend policy, employee turnover, the timing with

Intelligent Ultrasound Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019 (continued)

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

which options will be exercised and the future volatility in the price of the parent company's shares. Such assumptions are based on publicly available information and reflect market expectations and advice taken from qualified personnel. Different assumptions about these factors to those made by the Company could materially affect the reported value of share-based payments. The share-based payment charge for the year was £19,000 (2018: £27,000).

6. OTHER OPERATING INCOME

	2019 £	2018 £
Government grants	-	24,038

7. OPERATING LOSS

	2019 £	2018 £
Operating loss is stated after charging/(crediting):		
Depreciation - owned fixed assets	5,658	5,400
Staff costs (note 9)	708,229	567,579
Research and development costs expensed:		
Salaried staff included in staff costs	432,097	254,612
Consultants and freelancers included in staff costs	214,338	230,210
Other costs	-	9,610
	646,435	494,432
	2019 £	2018 £
Auditor's remuneration		
- audit services	15,000	12,000
- tax advisory services	4,664	2,000

8. INCOME TAX

Analysis of credit in the year

	2019 £	2018 £
R&D tax credit in respect of expenditure	(81,600)	(122,718)
R&D tax credit repayment provision (release)/charge (see below)	(80,000)	100,000
Income tax credit	(161,600)	(22,718)

Intelligent Ultrasound Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019 (continued)

8. INCOME TAX (CONTINUED)

The Company was given to believe that it had a potential R&D tax credit repayment in relation to periods prior to its acquisition by Intelligent Ultrasound Group plc arising from an omission to file certain tax elections with HMRC. Subsequently, HMRC informed the Company that it will not be seeking repayment of the R&D tax credits. Consequently, the provision made in 2018 was reversed in the year resulting in an income tax credit of £100,000 in the period. An additional provision of £20,000 has been made in the period in relation to a further potential repayment of a prior period R&D tax credit claim. This has been netted against the current tax asset of £81,600.

Factors affecting the tax charge

The Company has made a taxable loss for the period (2018: Loss) but has not recognised the deferred tax asset arising due to uncertainty over the timing of future profits and consequently there has been no deferred tax credit recognised in the income statement.

	2019	2018
	£	£
Loss before tax	(912,276)	(685,464)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%)	(173,332)	(130,238)
Effects of:		
Expenses not deductible/income not taxable	163,389	169,855
Differences between R&D expenditure credit and capitalised revenue expenditure	113,243	32,565
Deferred tax not recognised	(264,900)	(94,900)
Total tax	(161,600)	(22,718)

Deferred tax

The unrecognised and recognised deferred tax asset/(liability), calculated using a rate of 19%, comprises the following:

	Unrecognised		Recognised
31	31	31	31
December	December	December	December
2019	2018	2019	2018
£	£	£	£
Accelerated capital allowances	-	(4,000)	(3,400)
Tax losses	490,000	4,000	3,400
Total asset	490,000	-	-

Intelligent Ultrasound Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019

9. EMPLOYEES

	2019 No.	2018 No.
The average monthly number of persons (including Executive Directors) employed by the Company was:		
Management and administration	1	1
Research & Development	6	5
	<u>7</u>	<u>6</u>

Staff costs for the employees and Directors (included under Administrative expenses):

	2019 £	2018 £
Wages and salaries	418,244	338,995
Social security costs	45,407	37,383
Pensions	11,240	8,769
Share-based payment charge	19,000	27,000
	<u>493,891</u>	<u>412,147</u>
Consultants and freelancers	229,738	228,923
Recharged to fellow group companies	(15,400)	(73,491)
Staff costs included under administrative expenses	<u>708,229</u>	<u>567,579</u>

Fees paid to Consultants and Freelancers include £47,000 (2018: £49,050) charged by Oxford University Innovations Limited in respect of services provided by Professor Alison Noble who is also a Director of the Company. Wages and salaries include £Nil paid to Andrew Barker who is a Director of the Company (2018: £3,975). Andrew Barker is now paid via another group company.

Included above are costs relating to the key management of the Company:

	2019 £	2018 £
Wages and salaries	-	3,975
Social security costs	-	89
Pensions	-	396
Fee paid to third party in respect of services provided	47,000	49,050
Share-based payment charge	4,848	8,320
	<u>51,848</u>	<u>61,830</u>

Directors' remuneration comprises the following:

	2019 £	2018 £
Salaries and fees (including estimated value of other benefits)	51,848	61,345
Directors' pension costs	-	396

The number of Directors accruing benefits under group pension schemes is: Nil (2018: 1)

This remuneration includes the following amounts in respect of the highest paid Director:

Salaries and fees (including estimated value of other benefits)	<u>51,848</u>	<u>57,370</u>
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Intelligent Ultrasound Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019 (continued)

9. EMPLOYEES (CONTINUED)

The Company is a wholly owned subsidiary of Intelligent Ultrasound Group plc (PLC) a company whose shares are traded on AIM. On 31 December 2019 the highest paid Director of Intelligent Ultrasound Limited held 1,496,430 (31 December 2018: 1,496,430) shares in PLC. None of the Directors exercised any of their share options during the year (31 December 2018: None). Further details of Directors' fees and salaries, bonuses, pensions and share options are given in the 2019 Annual Report and Accounts of the Group.

10. PROPERTY, PLANT & EQUIPMENT

	Fixtures & fittings £	Computer equipment £	Total £
COST			
As at 1 January 2018	995	29,906	30,801
Additions	-	9,382	9,382
As at 31 December 2018	995	39,188	40,183
Additions	-	7,980	7,980
As at 31 December 2019	995	47,168	48,163
DEPRECIATION			
As at 1 January 2018	753	16,026	16,779
Charge for year	242	5,158	5,400
As at 31 December 2018	995	21,184	22,179
Charge for year	-	5,658	5,658
As at 31 December 2019	995	26,842	27,837
NET BOOK VALUE			
As at 31 December 2019	-	20,326	20,326
As at 31 December 2018	-	18,004	18,004
As at 1 January 2018	242	13,780	14,022

Total depreciation expenses of £5,658 (2018: £5,400) have been charged to administrative expenses in the Statement of Comprehensive Income.

At 31 December 2019, the Company had no contractual commitments to acquire plant and equipment (31 December 2018: £Nil).

11. TRADE AND OTHER RECEIVABLES

	2019 £	2018 £
Other receivables and prepayments	34,472	15,366
Amounts owed by group undertakings	-	45,663
	<u>34,472</u>	<u>61,029</u>

The Directors consider that the carrying amount of trade and other receivables approximates to their fair values. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Company does not hold any collateral as security.

Intelligent Ultrasound Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019 (continued)

12. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	2019	2018
	£	£
Trade payables	12,730	22,797
Amounts owed to group undertakings	1,685,826	932,919
Amounts owed to related parties	-	-
Taxation and social security	12,198	11,829
Accruals and deferred income	129,433	33,094
Other creditors	2,427	2,324
	<u>1,842,614</u>	<u>1,002,963</u>

The Directors consider that the carrying amount of trade payables approximates to their fair value.

13. SHARE CAPITAL

	No.	2019 £	No.	2018 £
Authorised	<u>Unlimited</u>	<u>Unlimited</u>	<u>Unlimited</u>	<u>Unlimited</u>
Allotted, issued and fully paid				
Ordinary shares of £0.01 each	<u>420,969</u>	<u>4,210</u>	<u>420,969</u>	<u>4,210</u>

14. SHARE-BASED PAYMENTS

Certain employees of the Company have been granted options in shares of the Company's parent company, Intelligent Ultrasound Group plc. The purpose of the option schemes is to retain and motivate eligible employees and Directors.

The number of share options in issue to employees during the period and the number of options exercisable at the period end are listed in the tables below.

The fair value of the share options determined at the grant date is expensed to the holding company's profit and loss account on a straight line basis over the vesting period, based upon the group's estimate of participants eligible to receive shares at the point of vesting. The amount relating to employees of Intelligent Ultrasound Limited is recharged to it by Intelligent Ultrasound Group plc.

The charge for the year to 31 December 2019 was £19,000 (2018: £27,000).

Intelligent Ultrasound Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019 *(continued)*

14. SHARE-BASED PAYMENTS (CONTINUED)

As at 31 December options under the share options, including those held by Directors, were outstanding over:

	Options	2019 Weighted average exercise price	Options	2018 Weighted average exercise price
Outstanding at 1 January	8,136,415	15.49p	2,944,415	23.13p
Granted during the period	100,000	11.00p	5,192,000	11.14p
Outstanding at end of period	<u>8,236,415</u>	15.43p	<u>8,136,415</u>	15.49p
Exercisable at end of period	<u>1,680,096</u>	20.80p	<u>1,481,331</u>	21.41p

15. FINANCIAL INSTRUMENTS

Financial risk factors

The Company's activities expose it to a variety of financial risks: liquidity risk, market risk (including currency risk), credit risk and risk associated with cash held on deposit with financial institutions. Where appropriate, the Company seeks to mitigate potential adverse effects on its financial performance.

Liquidity risk

The Company is currently dependent on financial support from its holding company, Intelligent Ultrasound Group plc. The Group Board receives rolling cash flow projections on a monthly basis and monitors these against the Group's long term projections. These projections indicate that the Group will have sufficient funds to continue to trade for the next 15 months. Consequently, the Directors have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future and therefore be able to continue to support the Company. The Directors have therefore continued to adopt the going concern basis of accounting in preparing the Company annual financial statements.

Credit risk

The Company's principal financial assets are bank balances, cash and trade and other receivables. The Company's credit risk is primarily attributable to its trade receivables and the Company attaches considerable importance to the collection and management of trade receivables. The Company minimises its credit risk through the application of appropriate credit limits to customers based on an assessment of net worth and trading history with the Company. Standard credit terms are net 30 days from date of invoice. Overdue trade receivables are managed through a phased escalation culminating in legal action.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Intelligent Ultrasound Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019 (continued)

15. FINANCIAL INSTRUMENTS (CONTINUED)

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expense are recognised, in respect of each class of financial asset, liability and equity instrument are disclosed in note 4 to the financial statements.

Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

There are no externally imposed capital requirements.

Financial instruments by category

Assets as per statement of financial position

	2019	2018
	£	£
Trade and other receivables excluding prepayments	29,096	60,255
Provision for impairment	-	-
	<u>29,096</u>	<u>60,255</u>
Cash and cash equivalents	73,505	102,895
	<u>102,601</u>	<u>163,150</u>

Liabilities as per statement of financial position

	2019	2018
	£	£
Trade and other payables excluding statutory liabilities	<u>1,830,416</u>	<u>991,134</u>

The contractual maturities of all financial liabilities are up to 1 month.

The carrying amount of short term (less than 12 months) trade receivables and payables approximates their fair values.

Currency denomination

The Company's financial assets and liabilities as per the Statement of Financial Position are all denominated Sterling.

Intelligent Ultrasound Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019 (continued)

16. RELATED PARTY TRANSACTIONS

The University of Oxford, IP Group plc, Professor Aris Papageorghiou and Professor Alison Noble are shareholders in the Company's holding company, Intelligent Ultrasound Group plc (the Group). Professor Alison Noble is also a Director of the Company. During the period, The University of Oxford, through Oxford University Innovations Limited (OUIL) made charges to the Company in respect of services provided by Professor Papageorghiou and Professor Noble and in the prior period OUIL also made charges to the Company in respect of expenses incurred by OUIL on behalf of the Company. IP Group plc made charges to the Company in respect of legal and company secretarial services provided during the prior period.

On 6 October 2017 the Company became the wholly owned subsidiary of the Group and since that date the Group has provided working capital finance to the Company. During the year to 31 December 2019, MedaPhor Limited (MedaPhor) which is also a subsidiary of the Group has also made charges to the Company in respect of expenses incurred by MedaPhor on the Company's behalf. The Company has also made charges to Medaphor in respect of the cost of Professor Noble for time that she spent working on a Medaphor R&D project. In the prior year the Company has also charged MedaPhor with the cost of the Company's staff who have been engaged in a research and development project on behalf of MedaPhor. These charges included an additional 20% allowance for overheads.

Related party transactions – value of staff costs charged to/(charges and loans or working capital made by) each related party:

	2019	2018
	£	£
IP Group plc (legal & secretarial services)	-	(151)
Group (working capital)	(669,305)	(577,687)
Group (expenses)	(18,201)	(5,242)
Group (share-based payment charge)	(19,000)	(27,000)
MedaPhor (expenses)	(65,401)	(22,836)
Medaphor (consultant/staff and overhead charges)	15,400	88,189
OUIL (services of Prof. Papageorghiou)	(65,750)	(65,750)
OUIL (services of Prof. Noble)	(49,050)	(49,050)
OUIL (expenses)	-	(1,287)

Amounts owed (to)/by each related party:

	31 December 2019	31 December 2018
	£	£
Group	(1,620,426)	(932,919)
MedaPhor	(65,401)	45,663
OUIL	(40,000)	(29,200)

Intelligent Ultrasound Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019 *(continued)*

17. ULTIMATE PARENT AND CONTROLLING PARTY

Intelligent Ultrasound Group plc became the Company's immediate and ultimate parent undertaking on 6 October 2017. There remains no overall controlling party.

Intelligent Ultrasound Group plc is a company incorporated in the United Kingdom whose shares are traded on AIM, a market operated by the London Stock Exchange. Intelligent Ultrasound Group plc has the same registered address as the Company. The results of the Company are included within the consolidated financial statements of Intelligent Ultrasound Group plc, the largest and smallest group of undertakings for which group accounts are drawn up. Copies of the consolidated financial statements of Intelligent Ultrasound Group plc can be obtained from the Company's registered office or on the Group website at www.intelligentultrasound.com.