

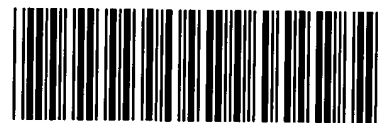
Intelligent Ultrasound Limited

REPORT AND FINANCIAL STATEMENTS

for the period ended

31 December 2018

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Intelligent Ultrasound Limited

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Intelligent Ultrasound Limited

OFFICERS AND ADVISERS

DIRECTORS

Andrew Barker
Stuart Gall
Wilson Jennings
Alison Noble
Nicholas Sleep

SECRETARY

Wilson Jennings

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 2018.

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

The Company is wholly owned by Intelligent Ultrasound Group plc (formerly MedaPhor Group plc) ("PLC").

A review of the development, performance and position of the Company's operations is included within the Chairman's Statement and Strategic Review of PLC's Annual Report.

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 Intelligent Ultrasound Limited, are discussed in the Strategic Review within that group's Annual Report.

RESULTS AND DIVIDENDS

The Company's results for the year ended 31 December 2018 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 PLC's 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 2018 the Company spent £494,432 (15 months to 31 December 2017: £416,186) on research and development activities. The Company received Research and Development Grant income of £24,038 during the period (15 months to 31 December 2017: £45,693).

GOING CONCERN

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.

Intelligent Ultrasound Limited

DIRECTORS' REPORT (*continued*)

CONTINGENT LIABILITY

The Company has been made aware of a potential over-claim of R&D tax credits made by IUL in periods prior to its acquisition by the Company arising from an omission to file certain tax elections with HMRC on a timely basis. IUL has made full disclosure of this matter to HMRC and requested that they accept retrospective elections for the accounting periods concerned. The Company has estimated that the potential amount that IUL could be asked to repay if the retrospective elections are not permitted is approximately £434,000 including interest and possible penalties, but considers that the likelihood of HMRC demanding repayment is possible rather than probable and consequently no provision has been made for this contingent liability.

DIRECTORS AND THEIR INTERESTS

DIRECTORS

The following directors have held office during the period:

Andrew Barker
Stuart Gall
Wilson Jennings
Alison Noble
Nicholas Sleep

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

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 6 June 2019.



Wilson Jennings
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.

Intelligent Ultrasound Limited

Opinion

We have audited the financial statements of Intelligent Ultrasound Limited ("the Company") for the year ended 31 December 2018 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 2018 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 Directors report and financial statements, 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.

Intelligent Ultrasound Limited (*continued*)

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 Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' report has 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 Director's 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; or
- the Directors were not entitled to take advantage of the small companies' exemptions in preparing the Directors' report and from the requirement to prepare a Strategic report.

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 at the Financial Reporting Council's website at:

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

Intelligent Ultrasound Limited (*continued*)

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

8 June 2019

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 2018

		12 months 31 December 2018	15 months 31 December 2017
	Notes	£	£
REVENUE		-	-
Cost of sales		-	-
Gross profit		-	-
Other operating income	6	24,038	45,693
Administrative expenses		(709,502)	(964,814)
Total administrative expenses		(685,464)	(919,121)
OPERATING LOSS	7	(685,464)	(919,121)
Finance costs		-	-
LOSS BEFORE INCOME TAX		(685,464)	(919,121)
Income tax	8	22,718	102,219
LOSS AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS		(662,746)	(816,902)

There were no discontinued operations in the year to 31 December 2018 or the 15 months to 31 December 2017. Accordingly the results relate to continuing operations.

The notes on pages 13 to 28 are an integral part of these financial statements.

Intelligent Ultrasound Limited

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2018

	Note	Share capital £	Share premium £	Share-based payment reserve £	Accumulated losses £	Total equity attributable to shareholders £
BALANCE AS AT 1 October 2016		3,456	2,007,390	-	(2,063,233)	(52,387)
COMPREHENSIVE INCOME FOR THE PERIOD						
Loss for the period		-	-	-	(816,902)	(816,902)
CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS						
Shares issued	13	754	549,246	-	-	550,000
Cost of share-based payment awards	14	-	-	34,000	-	34,000
Total contributions by and distributions to owners		754	549,246	34,000	-	584,000
BALANCE AS AT 31 December 2017		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						
Shares issued	13	-	-	-	-	-
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)

Equity comprises the following:

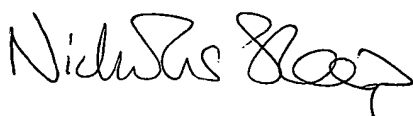
- *Ordinary share capital* represents the nominal value of equity shares.
- Share-based payment reserve represents the cumulative amount expensed to the Statement of Comprehensive Income in respect of share-based payments.
- *Accumulated losses* represent retained losses.

Intelligent Ultrasound Limited

STATEMENT OF FINANCIAL POSITION as at 31 December 2018

		December 2018	December 2017
	Notes	£	£
NON CURRENT ASSETS			
Property, plant and equipment	10	18,004	14,022
CURRENT ASSETS			
Trade and other receivables	11	61,029	44,616
Cash and cash equivalents		102,895	71,359
		<u>163,924</u>	<u>115,975</u>
TOTAL ASSETS		181,928	129,997
CURRENT LIABILITIES			
Trade and other payables	12	(1,002,963)	(415,286)
Income tax		(100,000)	-
TOTAL LIABILITIES		<u>(1,102,963)</u>	<u>(415,286)</u>
NET LIABILITIES		<u>(921,035)</u>	<u>(285,289)</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		(3,542,881)	(2,880,135)
Share-based payment reserve		61,000	34,000
TOTAL EQUITY		<u>(921,035)</u>	<u>(285,289)</u>

These financial statements were approved by the Board of Directors and authorised for issue on *6 June* 2019 and are signed on their behalf by:



N J Sleep
Director



W W Jennings
Director

The notes on pages 13 to 28 are an integral part of these financial statements.

Intelligent Ultrasound Limited

STATEMENT OF CASH FLOWS for the year ended 31 December 2018

	12 months 31 December 2018	15 months 31 December 2017
	£	£
CASH FLOW FROM CONTINUING OPERATING ACTIVITIES		
Loss before tax	(685,464)	(919,121)
Depreciation	5,400	5,211
Share-based payments	27,000	34,000
Operating cash flows before movement in working capital	(653,064)	(879,910)
Movement in trade and other receivables	29,250	27,132
Movement in trade and other payables	4,758	294,129
Cash used in operations	(619,056)	(558,649)
Income taxes received	122,718	102,219
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(496,338)	(456,430)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(9,382)	(11,569)
NET CASH USED IN INVESTING ACTIVITIES	(9,382)	(11,569)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from related parties	-	-
Advances from the parent company	582,919	350,000
Advances to other group companies	(45,663)	
NET CASH GENERATED FROM FINANCING ACTIVITIES	537,256	350,000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	31,536	(117,999)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	71,359	189,358
CASH AND CASH EQUIVALENTS AT END OF YEAR	102,895	71,359

The notes on pages 13 to 28 are an integral part of these financial statements.

Intelligent Ultrasound Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2018

1. GENERAL INFORMATION

Intelligent Ultrasound ("the Company") is a private limited company 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. See note 17 for the impact of first time adoption of 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 2019 and which have not been adopted early, are expected to have a material effect on the Company's 2018 financial statements.

The impact of the following standard which becomes effective from 1 January 2019 has been assessed by the Company and concluded to be not material.

IFRS 16, 'Leases'. The main change is expected to relate to the recognition of the Company's balance sheet of assets and liabilities relating to leases which are currently being accounted for as operating leases. The Company has undertaken an initial review to assess the full impact of IFRS 16 which becomes effective for accounting periods beginning on or after 1 January 2019 and the current view is that it will not have a material impact on the Company's financial statements.

3. BASIS OF PREPARATION

Going concern

The financial statements have been prepared on the going concern basis. 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.

Intelligent Ultrasound Limited

NOTES TO THE FINANCIAL STATEMENTS (*continued*) for the year ended 31 December 2018

3. BASIS OF PREPARATION (*continued*)

Accounting policies

The accounting policies set out in note 4 have been applied consistently to all periods presented in these financial statements, other than the Company has applied IFRS 9 *Financial instruments* and IFRS 15 *Revenue from contracts* for the first time in the year to 31 December 2108.

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.

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 (2017: £Nil).

Intelligent Ultrasound Limited

NOTES TO THE FINANCIAL STATEMENTS (*continued*) for the year ended 31 December 2018

4. ACCOUNTING POLICIES (*continued*)

FINANCIAL INSTRUMENTS (*continued*)

Amounts owed by fellow subsidiary undertakings

The Company has adopted IFRS 9 *Financial instruments* in the financial statements for the year ended 31 December 2018. 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.

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:

Intelligent Ultrasound Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)* for the year ended 31 December 2018

4. ACCOUNTING POLICIES (continued)

INTANGIBLE ASSETS (continued)

- 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

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.

INVENTORIES

Inventories are valued at the lower of cost and net realisable value. Cost is determined on a first in first out basis and includes all direct expenditure and production overheads based on a normal level of activity. Net realisable value is the price at which the stocks can be sold in the normal course of business after allowing for the costs of realisation and where appropriate for the costs of conversion from its existing state to a finished condition. Provision is made for obsolete, slow moving and defective stocks.

LEASES

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.

The Company does not hold any assets under finance leases.

Intelligent Ultrasound Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)* for the year ended 31 December 2018

4. ACCOUNTING POLICIES (continued)

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.

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.

Intelligent Ultrasound Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)* for the year ended 31 December 2018

4. ACCOUNTING POLICIES (continued)

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 judgements in applying the Company's accounting policies

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.

Amounts owed by group undertakings

The Company has applied the IFRS 9 general approach to measure expected credit losses arising from amounts owed by its fellow subsidiary undertakings. This required the Directors to make judgements to arrive at a weighted average expected credit loss based on a number of forecast cash flow scenarios and the assignment of probability factors to each scenario. The directors concluded that the carrying amount of the amount due by the Company's fellow subsidiary, MedaPhor Limited, at 31 December 2018 of £45,663 (2017: £Nil) was not impaired.

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 which options will be exercised and the

Intelligent Ultrasound Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)* for the year ended 31 December 2018

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Share-based payments *(continued)*

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 £27,000 (15 months to 31 December 2017: £34,000).

6. OTHER OPERATING INCOME

	Year to 31 December 2018 £	15 months to 31 December 2017 £
Government grants	24,038	45,693

7. OPERATING LOSS

	Year to 31 December 2018 £	15 months to 31 December 2017 £
Operating loss is stated after charging/(crediting):		
Depreciation - owned fixed assets	5,400	5,211
Staff costs (note 9)	567,579	758,682
Research and development costs expensed:		
Salaried staff included in staff costs	254,612	256,671
Consultants and freelancers included in staff costs	230,210	155,502
Other costs	9,610	4,013
	494,432	416,186
	Year to 31 December 2018 £	15 months to 31 December 2017 £
Auditor's remuneration		
- audit services	12,000	3,000
- tax advisory services	2,000	-

Intelligent Ultrasound Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)* for the year ended 31 December 2018

8. INCOME TAX

Analysis of credit in the year

	Year to 31 December 2018	15 months to 31 December 2017
	£	£
R&D tax credit in respect of expenditure	(122,718)	(102,219)
Adjustment for over-claim of R&D tax credit in prior periods	100,000	-
Income tax credit	<u>(22,718)</u>	<u>(102,219)</u>

Factors affecting the tax charge

The Company has made a taxable loss for the period (15 months to 31 December 2017: 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.

	Year to 31 December 2018	15 months to 30 September 2017
	£	£
Loss before tax	<u>(685,464)</u>	<u>(919,211)</u>
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2016/17: 19.4%)	(130,238)	(178,327)
Effects of:		
Expenses not deductible/income not taxable	169,855	9,660
Differences between R&D expenditure credit and capitalised revenue expenditure	32,565	(98,754)
Deferred tax not recognised	<u>(94,900)</u>	<u>165,202</u>
Total tax	<u>(22,718)</u>	<u>(102,219)</u>

Deferred tax

The unrecognised and recognised deferred tax asset/(liability) comprises the following:

	31 December 2018	Unrecognised 31 December 2017	31 December 2018	Recognised 31 December 2017
	£	£	£	£
Accelerated capital allowances	-	-	(3,400)	(3,000)
Tax losses	225,100	320,000	3,400	3,000
Total asset	<u>225,100</u>	<u>320,000</u>	<u>-</u>	<u>-</u>

Intelligent Ultrasound Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)* for the year ended 31 December 2018

9. EMPLOYEES

	Year to 31 December 2018	15 months to 31 December 2017
	No.	No.
The average monthly number of persons (including Executive Directors) employed by the Company was:		
Management and administration	1	2
Research & Development	5	4
	<u>6</u>	<u>6</u>

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

	Year to 31 December 2018	15 months to 31 December 2017
	£	£
Wages and salaries	338,995	300,394
Social security costs	37,383	31,701
Pensions	8,769	5,118
Share-based payment charge	27,000	34,000
	<u>412,147</u>	<u>371,213</u>
Consultants and freelancers	228,923	387,469
Recharged to fellow group companies	(73,491)	-
Staff costs included under administrative expenses	<u>567,579</u>	<u>758,682</u>

Fees paid to Consultants and Freelancers include £49,050 (15 months to 31 December 2017: £37,375) 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 £3,975 paid to Andrew Barker who is a director of the Company (15 months to 31 December 2017, paid to Anchard Associates LLP in respect of services provided by Andrew Barker: £84,000).

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

	Year to 31 December 2018	15 months to 31 December 2017
	£	£
Wages and salaries	3,975	30,475
Social security costs	89	2,355
Pensions	396	-
Fee paid to third party in respect of services provided	49,050	121,375
Share-based payment charge	-	3,590
	<u>53,510</u>	<u>157,795</u>

Intelligent Ultrasound Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)* for the year ended 31 December 2018

9. EMPLOYEES (continued)

Directors' remuneration comprises the following:

	Year to 31 December 2018 £	15 months to 31 December 2017 £
Salaries and fees (including estimated value of other benefits)	53,025	155,440
Directors' pension costs	396	-
The number of directors accruing benefits under group pension schemes is: Nil (2017: Nil)		
This remuneration includes the following amounts in respect of the highest paid director:		
Salaries and fees (including estimated value of other benefits)	49,050	118,065

The Company is a wholly owned subsidiary of Intelligent Ultrasound Group plc (PLC) a company whose shares are traded on AIM. On 31 December 2018 the highest paid director of Intelligent Ultrasound Limited held 1,496,430 (31 December 2017: 997,620) shares in PLC. None of the directors exercised any of their share options during the year (31 December 2017: None). Further details of directors' fees and salaries, bonuses, pensions and share options are given in the 2018 Annual Report and Accounts of PLC.

10. PROPERTY, PLANT & EQUIPMENT

	Fixtures & fittings £	Computer equipment £	Total £
COST			
As at 1 October 2016	995	18,237	19,232
Additions	-	11,569	11,569
As at 31 December 2017	995	29,806	30,801
Additions	-	9,382	9,382
As at 31 December 2018	995	39,188	40,183
DEPRECIATION			
As at 1 October 2016	504	11,064	11,568
Charge for period	249	4,962	5,211
As at 31 December 2017	753	16,026	16,779
Charge for year	242	5,158	5,400
As at 31 December 2018	995	21,184	22,179
NET BOOK VALUE			
As at 31 December 2018	-	18,004	18,004
As at 31 December 2017	242	13,780	14,022
As at 1 October 2016	491	7,173	7,664

Total depreciation expenses of £5,400 (15 months ended 31 December 2017: £5,211) have been charged to administrative expenses in the Statement of Comprehensive Income.

At 31 December 2018, the Company had contractual commitments to acquire plant and equipment at a cost of £Nil (31 December 2017: £Nil).

Intelligent Ultrasound Limited

NOTES TO THE FINANCIAL STATEMENTS (*continued*) for the year ended 31 December 2018

11. TRADE AND OTHER RECEIVABLES

	2018 £	2017 £
Other receivables and prepayments	15,366	44,616
Amounts owed by group undertakings	45,663	-
	<u>61,029</u>	<u>44,616</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.

The Company has applied the IFRS 9 general approach to measure expected credit losses arising from amounts owed by its fellow subsidiary undertakings. This required the Directors to make judgements to arrive at a weighted average expected credit loss based on a number of forecast cash flow scenarios and the assignment of probability factors to each scenario. The directors concluded that the carrying amount of the amount due by the Company's fellow subsidiary, MedaPhor Limited, at 31 December 2018 of £45,663 (2017: £Nil) was not impaired.

12. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	2018 £	2017 £
Trade payables	22,797	16,281
Amounts owed to group undertakings	932,919	350,000
Amounts owed to related parties	-	-
Taxation and social security	11,829	8,059
Accruals and deferred income	33,094	40,946
Other creditors	2,324	-
	<u>1,002,963</u>	<u>415,286</u>

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

13. SHARE CAPITAL

	No.	2018 £	No.	2017 £
Authorised	Unlimited	Unlimited	Unlimited	Unlimited
Allotted, issued and fully paid				
Ordinary shares of £0.01 each	420,969	4,210	420,969	4,210

Intelligent Ultrasound Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)* for the year ended 31 December 2018

13. SHARE CAPITAL (continued)

The brought forward share capital has been increased by 27 shares to bring it in line with the underlying records.

On 6 October 2017 75,342 new ordinary shares in the company with a nominal value of 1 pence each and a share premium of £7.29 per share were issued to holders of £550,000 of convertible loans in the Company, on the conversion of those loans into ordinary shares in the Company. On the same day the entire share capital of the Company was acquired by Intelligent Ultrasound Group plc.

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 2018 was £27,000 (15 months to 30 September 2017: £34,000).

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

	Options	2018 Weighted average exercise price	Options	2017 Weighted average exercise price
Outstanding at 1 January/1 October	2,944,415	23.13p	1,320,000	32.96p
Granted during the period	5,192,000	11.14p	1,759,415	15.23p
Forfeited during the period	-	-	(135,000)	16.22p
Outstanding at end of period	<u>8,136,415</u>	15.48p	<u>2,944,415</u>	23.13p
Exercisable at end of period	<u>1,481,331</u>	21.41p	<u>1,274,438</u>	22.26p

Intelligent Ultrasound Limited

NOTES TO THE FINANCIAL STATEMENTS (*continued*) for the year ended 31 December 2018

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.

Cash held on deposit with financial institutions

The Company's main objective in managing its surplus cash is to maximise returns from funds held on deposit balanced with the need to safeguard the assets of the business and ensure that the Company has access to sufficient funds to service its working capital requirements on a timely basis. The Company holds funds on short term deposit with HSBC to fulfil this objective.

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.

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.

Intelligent Ultrasound Limited

NOTES TO THE FINANCIAL STATEMENTS (*continued*) for the year ended 31 December 2018

15. FINANCIAL INSTRUMENTS (*continued*)

Capital risk management (*continued*)

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

	2018 £	2017 £
Trade and other receivables excluding prepayments	60,255	36,961
Provision for impairment	-	-
	<u>60,255</u>	<u>36,961</u>
Cash and cash equivalents	102,895	71,359
	<u>163,150</u>	<u>108,320</u>

Liabilities as per statement of financial position

	2018 £	2017 £
Trade and other payables excluding statutory liabilities	<u>991,134</u>	<u>407,227</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.

16. RELATED PARTY TRANSACTIONS

The University of Oxford, IP Group plc, Professor Aris Papageorgiou, Professor Alison Noble and Andrew Barker are shareholders in the Company's holding company, Intelligent Ultrasound Group plc (the Group). Professor Alison Noble and Andrew Barker are also directors 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 Papageorgiou and Professor Noble and expenses incurred by OUIL on behalf of the Company. The University of Oxford and IP Group also made loans to the Company in the prior period that were converted into shares in the Company on 6 October 2017. Andrew Barker is a designated member of Anchard Associates LLP (Anchard) and this Limited Liability Partnership made charges

Intelligent Ultrasound Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)* for the year ended 31 December 2018

16. RELATED PARTY TRANSACTIONS *(continued)*

to the Company in respect of services provided by Mr. Barker to the Company during the prior year. IP Group plc made charges to the Company in respect of legal and company secretarial services provided during the 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 2018, 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 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:

	Year to 31 December 2018	15m to 31 December 2017
	£	£
Anchard (services of Mr. Barker)	-	(84,000)
IP Group plc (working capital)	-	(250,000)
IP Group plc (legal & secretarial services)	(151)	(2,106)
Group (working capital)	(577,687)	(350,000)
Group (expenses)	(5,242)	-
MedaPhor (expenses)	(22,836)	-
Medaphor (labour and overhead charge)	88,189	-
OUIL (services of Prof. Papageorgiou)	(65,750)	(35,000)
OUIL (services of Prof. Noble)	(49,050)	(37,375)
OUIL (expenses)	(1,287)	-
The University of Oxford (loans)	-	(25,000)

Amounts owed (to)/by each related party:

	31 December 2018	31 December 2017
	£	£
Group	(932,919)	(350,000)
MedaPhor	45,663	-
OUIL	(29,200)	(18,000)

18. CONTINGENT LIABILITY

The Company was given to believe that it had made a potential over-claim of R&D tax credits in periods prior to its acquisition by Intelligent Ultrasound Group plc arising from an omission to file certain tax elections with HMRC on a timely basis. IUL made full disclosure of this matter to HMRC and requested that they accept retrospective elections for the accounting periods

Intelligent Ultrasound Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)* for the year ended 31 December 2018

18. CONTINGENT LIABILITY *(continued)*

concerned. HMRC has subsequently written back to the Company indicating that they would not normally give consideration to retrospective elections unless the Company could provide evidence of exceptional circumstances and inviting the Company to provide any such evidence. The Company has estimated that the potential amount that it could be asked to repay if the retrospective elections were required and are not permitted is approximately £434,000 including interest and possible penalties. However, significant new information has recently been provided to the Company by the previous advisors and management team and so the Company currently considers that the likelihood of HMRC demanding repayment is possible rather than probable and consequently no provision has been made for this contingent liability.

19. 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.