

COMPANY REGISTRATION NUMBER: 08766928

Artificial Labs Ltd

Filleted Unaudited Financial Statements

31 December 2022

Artificial Labs Ltd

Financial Statements

Year ended 31 December 2022

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Artificial Labs Ltd

Directors' Report

Year ended 31 December 2022

The directors present their report and the unaudited financial statements of the company for the year ended 31 December 2022 .

Principal activities

The principal activity of the company during the year was software design and development.

Directors

The directors who served the company during the year were as follows:

Mr D L King

Mr J S Bridges

Mr O Tikhturov

Mr M A Gifford

Mr W J Volckaert (Appointed 10 March 2022)

Mr M R D Reith (Appointed 17 October 2022)

Mr J R Downes (Resigned 16 November 2022)

Our business

Artificial is an InsurTech company whose mission is to enable specialty risks to be underwritten more efficiently and with superior risk selection. We do this through the use of our powerful algorithmic underwriting platform that's powered by our domain-specific programming language, which we have created specifically for specialty insurance.

The language is incredibly powerful and allows us to model complex insurance contracts digitally, within a fully computational programming language, unlocking the future of commercial insurance - computational contracts. It can natively glue together internal or external systems and data sources to enrich insurance risks and automatically progress them through their lifecycle.

We overlay this technological capability with the ability to intrinsically codify underwriting appetite parameters and portfolio characteristics, which generates algorithms for assessing insurance risks in real-time. We then augment the algorithm with improved risk selection capabilities over time, as additional risks are evaluated. Ultimately, this leads to improvements of an insurer's expense ratio by mirroring current behaviours more accurately and efficiently, whilst improving loss ratio and therefore combined ratio over time through more data and predictive portfolio modelling.

We're now working with many leading brokers and underwriters, allowing them to consider and place risks between each other algorithmically. Furthermore, we have created peripheral services such as fully-digital contract builders that create both machine and human readable versions of MRCs. We also fit into existing industry workflows seamlessly using our in-house ML-based tools for extracting data from insurance specific documents to feed our ecosystem of tools.

We completed our Series A investment in Q1 2022. This significant equity raise allowed us to completely re-focus our efforts on preparing ourselves for our improved go-to-market strategy. This refocusing was achieved by scaling down our commitments and revenues from legacy customers and projects, from whom we have learned a great deal over the last few years.

This was a necessary step in order to fully unlock the potential future growth of the business, as the demands from prior commitments proved to be unscalable to run in parallel with world-class research and development and supporting the algorithmic underwriting of risks across many instances.

During FY22, the engineering teams doubled in size, ensuring our product ecosystem is well supported and prepared for our future facing go-to-market strategy. We are incredibly excited about the next 24 months and beyond, as algorithmic underwriting of specialty risk - particularly smart-follow underwriting, becomes more mainstream with Artificial well positioned to help define this segment as leaders in this space.

Market & problem

There continues to be a vast opportunity in specialty insurance to transact business more efficiently and to use data to improve risk selection. Traditionally, these types of risks have been predominantly negotiated face-to-face in Lloyd's of London, a marketplace where brokers and underwriters meet.

The complexity of the underlying insurance contracts being transacted in specialty insurance and the dated technology in use, means there are few examples of end-to-end, fully digital transactions. The industry continues to struggle with cost and speed, and through necessity it accommodates broken data pipelines with offline and manual processes, impacting the industry's ability to modernise and facilitate a faster pace of change.

The addressable market size is significant, with Lloyd's of London processing over \$91Bn in premium per year.

Team

Our team continues to comprise of; expert engineers, data scientists and designers that collaborate with insurance industry domain experts. In 2022, we maintained a similar FTE headcount to 2021, whilst increasing the number of specialist external contributors to the business. This allowed for flexible bursts of growth, quickly and avoided long lead times and large costs associated with hiring FTEs during this critical period of change.

We have continued to hire for key roles on a global basis, remote by default, with a London HQ. Office attendance became increasingly popular again throughout 2022 post-Covid restrictions and we seek to occupy a larger space at some time in the near future.

Small company provisions

This report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption.

This report was approved by the board of directors on 10 July 2023 and signed on behalf of the board by:

Mr J S Bridges

Director

Registered office:

10 Bow Lane

London

EC4M 9AL

Artificial Labs Ltd

Accountants Report to the Board of Directors on the Preparation of the Unaudited Statutory Financial Statements of Artificial Labs Ltd

Year ended 31 December 2022

In order to assist you to fulfil your duties under the Companies Act 2006, we have prepared for your approval the financial statements of Artificial Labs Ltd for the year ended 31 December 2022, which comprise the statement of financial position and the related notes from the company's accounting records and from information and explanations you have given us. As a practising member firm of the Association of Chartered Certified Accountants, we are subject to its ethical and other professional requirements which are detailed at www.accaglobal.com/en/member/professional-standards/rules-standards/acca-rulebook.html. This report is made solely to the Board of Directors of Artificial Labs Ltd, as a body. Our work has been undertaken solely to prepare for your approval the financial statements of Artificial Labs Ltd and state those matters that we have agreed to state to you, as a body, in this report in accordance with the requirements of the Association of Chartered Certified Accountants as detailed at www.accaglobal.com/content/dam/ACCA_Global/Technical/fact/technical-factsheet-163.pdf. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Artificial Labs Ltd and its Board of Directors, as a body, for our work or for this report.

It is your duty to ensure that Artificial Labs Ltd has kept adequate accounting records and to prepare statutory financial statements that give a true and fair view of the assets, liabilities, financial position and loss of Artificial Labs Ltd. You consider that Artificial Labs Ltd is exempt from the statutory audit requirement for the year. We have not been instructed to carry out an audit or a review of the financial statements of Artificial Labs Ltd. For this reason, we have not verified the accuracy or completeness of the accounting records or information and explanations you have given to us and we do not, therefore, express any opinion on the statutory financial statements.

BAILHACHE LINTON LLP Accountants

Bourne House 475 Godstone Road Whyteleafe Surrey CR3 0BL

10 July 2023

Artificial Labs Ltd

Statement of Financial Position

31 December 2022

		2022	2021
	Note	£	£
Fixed assets			
Tangible assets	5	50,609	35,265
Investments	6	1,041	1,041
		51,650	36,306
Current assets			
Debtors	7	1,402,364	1,315,600
Cash at bank and in hand		3,318,362	305,536
		4,720,726	1,621,136
Creditors: amounts falling due within one year	8	927,619	4,486,983
Net current assets/(liabilities)		3,793,107	(2,865,847)
Total assets less current liabilities		3,844,757	(2,829,541)
Provisions	9	7,694	2,691
Net assets/(liabilities)		3,837,063	(2,832,232)
Capital and reserves			
Called up share capital	11	412	254
Share premium account		15,972,292	5,520,239
Profit and loss account		(12,135,641)	(8,352,725)
Shareholders funds/(deficit)		3,837,063	(2,832,232)

These financial statements have been prepared and delivered in accordance with the provisions applicable to companies subject to the small companies' regime and in accordance with Section 1A of FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

In accordance with section 444 of the Companies Act 2006, the statement of comprehensive income has not been delivered.

For the year ending 31 December 2022 the company was entitled to exemption from audit under section 477 of the Companies Act 2006 relating to small companies.

Directors' responsibilities:

- The members have not required the company to obtain an audit of its financial statements for the year in question in accordance with section 476 ;
- The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of financial statements .

Artificial Labs Ltd

Statement of Financial Position *(continued)*

31 December 2022

These financial statements were approved by the board of directors and authorised for issue on 10 July 2023 , and are signed on behalf of the board by:

Mr J S Bridges

Director

Company registration number: 08766928

Artificial Labs Ltd

Notes to the Financial Statements

Year ended 31 December 2022

1. General information

The company is a private company limited by shares, registered in England and Wales. The address of the registered office is 10 Bow Lane, London, EC4M 9AL.

2. Statement of compliance

These financial statements have been prepared in compliance with Section 1A of FRS 102, 'The Financial Reporting Standard applicable in the UK and the Republic of Ireland'.

3. Accounting policies

Basis of preparation

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain financial assets and liabilities measured at fair value through profit or loss. The financial statements are prepared in sterling, which is the functional currency of the entity.

Consolidation

The entity has taken advantage of the option not to prepare consolidated financial statements contained in Section 398 of the Companies Act 2006 on the basis that the entity and its subsidiary undertakings comprise a small group.

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported. These estimates and judgements are continually reviewed and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Revenue recognition

Turnover is measured at the fair value of the consideration received or receivable and represents amounts receivable for services rendered, stated net of discounts and of Value Added Tax. Revenue from the sale of services is recognised when the amount of revenue can be measured reliably, it is probable that the associated economic benefits will flow to the entity, and the costs incurred or to be incurred in respect of the transactions can be measured reliably.

Income tax

The taxation expense represents the aggregate amount of current and deferred tax recognised in the reporting period. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, tax is recognised in other comprehensive income or directly in equity, respectively. Current tax is recognised on taxable profit for the current and past periods. Current tax is measured at the amounts of tax expected to pay or recover using the tax rates and laws that have been enacted or substantively enacted at the reporting date.

Deferred tax is recognised in respect of all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

Foreign currencies

Foreign currency transactions are initially recorded in the functional currency, by applying the spot exchange rate as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the reporting date, with any gains or losses being taken to the Statement of Comprehensive Income.

Operating leases

Lease payments are recognised as an expense over the lease term on a straight-line basis. The aggregate benefit of lease incentives is recognised as a reduction to expense over the lease term, on a straight-line basis.

Tangible assets

Tangible assets are initially recorded at cost, and subsequently stated at cost less any accumulated depreciation and impairment losses. Any tangible assets carried at revalued amounts are recorded at the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. An increase in the carrying amount of an asset as a result of a revaluation, is recognised in other comprehensive income and accumulated in equity, except to the extent it reverses a revaluation decrease of the same asset previously recognised in profit or loss. A decrease in the carrying amount of an asset as a result of revaluation, is recognised in other comprehensive income to the extent of any previously recognised revaluation increase accumulated in equity in respect of that asset. Where a revaluation decrease exceeds the accumulated revaluation gains accumulated in equity in respect of that asset, the excess shall be recognised in profit or loss.

Depreciation

Depreciation is calculated so as to write off the cost or valuation of an asset, less its residual value, over the useful economic life of that asset as follows:

Fixtures and fittings	-	25% straight line
Computer Equipment	-	25% straight line
Leasehold improvements	-	Over 5 years, being the term of the lease

Investments

Fixed asset investments are initially recorded at cost, and subsequently stated at cost less any accumulated impairment losses.

Listed investments are measured at fair value with changes in fair value being recognised in profit or loss.

Investments in associates

Investments in associates accounted for in accordance with the cost model are recorded at cost less any accumulated impairment losses. Investments in associates accounted for in accordance with the fair value model are initially recorded at the transaction price. At each reporting date, the investments are measured at fair value, with changes in fair value recognised in other comprehensive income/profit or loss. Where it is impracticable to measure fair value reliably without undue cost or effort, the cost model will be adopted. Dividends and other distributions received from the investment are recognised as income without regard to whether the distributions are from accumulated profits of the associate arising before or after the date of acquisition.

Investments in joint ventures

Investments in jointly controlled entities accounted for in accordance with the cost model are recorded at cost less any accumulated impairment losses. Investments in jointly controlled entities accounted for in accordance with the fair value model are initially recorded at the transaction price. At each reporting date, the investments are measured at fair value, with changes in fair value recognised in other comprehensive income/profit or loss. Where it is impracticable to measure fair value reliably without undue cost or effort, the cost model will be adopted. Dividends and other distributions received from the investment are recognised as income without regard to whether the distributions are from accumulated profits of the joint venture arising before or after the date of acquisition.

Impairment of fixed assets

A review for indicators of impairment is carried out at each reporting date, with the recoverable amount being estimated where such indicators exist. Where the carrying value exceeds the recoverable amount, the asset is impaired accordingly. Prior impairments are also reviewed for possible reversal at each reporting date. For the purposes of impairment testing, when it is not possible to estimate the recoverable amount of an individual asset, an estimate is made of the recoverable amount of the cash-generating unit to which the asset belongs. The cash-generating unit is the smallest identifiable group of assets that includes the asset and generates cash inflows that largely independent of the cash inflows from other assets or groups of assets.

Provisions

Provisions are recognised when the entity has an obligation at the reporting date as a result of a past event, it is probable that the entity will be required to transfer economic benefits in settlement and the amount of the obligation can be estimated reliably. Provisions are recognised as a liability in the statement of financial position and the amount of the provision as an expense. Provisions are initially measured at the best estimate of the amount required to settle the obligation at the reporting date and subsequently reviewed at each reporting date and adjusted to reflect the current best estimate of the amount that would be required to settle the obligation. Any adjustments to the amounts previously recognised are recognised in profit or loss unless the provision was originally recognised as part of the cost of an asset. When a provision is measured at the present value of the amount expected to be required to settle the obligation, the unwinding of the discount is recognised as a finance cost in profit or loss in the period it arises.

Financial instruments

A financial asset or a financial liability is recognised only when the company becomes a party to the contractual provisions of the instrument. Basic financial instruments are initially recognised at the transaction price, unless the arrangement constitutes a financing transaction, where it is recognised at the present value of the future payments discounted at a market rate of interest for a similar debt instrument. Debt instruments are subsequently measured at amortised cost. Where investments in non-convertible preference shares and non-puttable ordinary shares or preference shares are publicly traded or their fair value can otherwise be measured reliably, the investment is subsequently measured at fair value with changes in fair value recognised in profit or loss. All other such investments are subsequently measured at cost less impairment. Other financial instruments, including derivatives, are initially recognised at fair value, unless payment for an asset is deferred beyond normal business terms or financed at a rate of interest that is not a market rate, in which case the asset is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument. Other financial instruments are subsequently measured at fair value, with any changes recognised in profit or loss, with the exception of hedging instruments in a designated hedging relationship.

Financial assets that are measured at cost or amortised cost are reviewed for objective evidence of impairment at the end of each reporting date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss immediately. For all equity instruments regardless of significance, and other financial assets that are individually significant, these are assessed individually for impairment. Other financial assets are either assessed individually or grouped on the basis of similar credit risk characteristics. Any reversals of impairment are recognised in profit or loss immediately, to the extent that the reversal does not result in a carrying amount of the financial asset that exceeds what the carrying amount would have been had the impairment not previously been recognised.

Defined contribution plans

Contributions to defined contribution plans are recognised as an expense in the period in which the related service is provided. Prepaid contributions are recognised as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund. When contributions are not expected to be settled wholly within 12 months of the end of the reporting date in which the employees render the related service, the liability is measured on a discounted present value basis. The unwinding of the discount is recognised as a finance cost in profit or loss in the period in which it arises.

4. Employee numbers

The average number of persons employed by the company during the year amounted to 21 (2021: 22).

5. Tangible assets

	Fixtures and fittings £	Equipment £	Leasehold improve- ments £	Total £
Cost				
At 1 January 2022	33,224	134,110	27,764	195,098
Additions	14,468	27,242	–	41,710
	-----	-----	-----	-----
At 31 December 2022	47,692	161,352	27,764	236,808
	-----	-----	-----	-----
Depreciation				
At 1 January 2022	31,139	105,557	23,137	159,833
Charge for the year	2,528	19,211	4,627	26,366
	-----	-----	-----	-----
At 31 December 2022	33,667	124,768	27,764	186,199
	-----	-----	-----	-----
Carrying amount				
At 31 December 2022	14,025	36,584	–	50,609
	-----	-----	-----	-----
At 31 December 2021	2,085	28,553	4,627	35,265
	-----	-----	-----	-----

6. Investments

	Shares in group undertakings £
Cost	
At 1 January 2022 and 31 December 2022	1,041

Impairment	
At 1 January 2022 and 31 December 2022	—

Carrying amount	
At 31 December 2022	1,041

At 31 December 2021	1,041

7. Debtors

	2022	2021
	£	£
Trade debtors	559,778	340,139
Other debtors	842,586	975,461
	-----	-----
	1,402,364	1,315,600
	-----	-----

8. Creditors: amounts falling due within one year

	2022	2021
	£	£
Bank loans and overdrafts	15	—
Trade creditors	259,509	167,547
Social security and other taxes	72,843	59,000
Other loans	100,000	3,690,000
Other creditors	495,252	570,436
	-----	-----
	927,619	4,486,983
	-----	-----

9. Provisions

	Deferred tax £
At 1 January 2022	2,691
Additions	5,003

At 31 December 2022	7,694

10. Financial instruments

The carrying amount for each category of financial instrument is as follows:

	2022	2021
	£	£
Financial liabilities measured at amortised cost		
Financial liabilities measured at amortised cost	—	3,590,000
	-----	-----

11. Called up share capital

Allotted, issued and fully paid:

	No.	2022	No.	2021
		£		£
Ordinary shares of £0.000025 each	6,137,854	153	6,047,200	151
A Ordinary shares of £0.000025 each	94,826	2	—	—
B Ordinary shares of £0.000025 each	785,021	20	—	—
Preference A shares of £0.000025 each	4,133,200	103	4,133,200	103
Series A shares of £0.000025 each	5,331,357	133	—	—
	-----	----	-----	----
	16,482,258	412	10,180,400	255
	-----	----	-----	----

The company operates an employee option pool for the purposes of staff retention and motivation. During the year, 2,121,399 of options over ordinary shares were added to the pool and 90,654 ordinary shares were issued. The pool has a total of 3,590,745 (2021:1,560,000) share options available for issuance.

12. Operating leases

The total future minimum lease payments under non-cancellable operating leases are as follows:

	2022	2021
	£	£
Not later than 1 year	89,320	89,320
Later than 1 year and not later than 5 years	73,213	162,533
	-----	-----
	162,533	251,853
	-----	-----

13. Directors' advances, credits and guarantees

During the year the directors entered into the following advances and credits with the company:

	2022		
	Balance brought forward	Advances/ (credits) to the directors	Balance outstanding
	£	£	£
Mr D L King	—	6,110	6,110
Mr J S Bridges	—	5,042	5,042
	----	-----	-----
	—	11,152	11,152
	----	-----	-----
	2021		
	Balance brought forward	Advances/ (credits) to the directors	Balance outstanding
	£	£	£
Mr D L King	—	—	—
Mr J S Bridges	—	—	—
	----	----	----
	—	—	—
	----	----	----

14. Related party transactions

The company has no overall controlling party. No. 9 Investments Limited, of which Mr J S Bridges wife, Mrs H McCarthy-Bridges is a director and shareholder, holds 1,379,600 Preferred A and 679,827 Series A shares at the year end (2021: 1,379,600 Preferred A shares). During the year loan notes of £905,000 plus accrued interest of £87,579 were converted together with a subscription of £250,000 to acquire the Series A shares. No. 9 Investments Limited had no convertible loan notes at the year end (2021: £905,000). During the year Mr J D McCarthy, brother of Mrs H McCarthy Bridges, acquired 10,000 ordinary shares in the company, he is a director of No.9 Investments Limited. Mr M A Gifford is also a director of No. 9 Investments Limited.

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