

## **MQA Limited**

Annual Report and Financial Statements

Year Ended

31 December 2018

Company Number 09123512

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# MQA Limited

## Company Information

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<b>Directors</b>	S D Jagoe J R Stuart A E Rupert M J Jbara
<b>Company secretary</b>	Reed Smith Corporate Services Limited
<b>Registered number</b>	09123512
<b>Registered office</b>	The Broadgate Tower Third Floor 20 Primrose Street London United Kingdom EC2A 2RS
<b>Independent auditor</b>	BDO LLP 31 Chertsey Street Guildford Surrey GU1 4HD

# MQA Limited

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# **MQA Limited**

## **Group Strategic Report For the Year Ended 31 December 2018**

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### **Introduction**

The directors present their Strategic Report together with the financial statements for the year ended 31 December 2018.

### **Business review**

MQA Limited (MQAL or 'the Company') was established to exploit intellectual property (IP) developed by Bob Stuart, Peter Craven and Malcolm Law: a team that began collaborating 40 years ago and has a collective 100 years of experience in high-quality music recording, coding, and playback.

The IP embodies a new approach to digital audio coding, based on recent advances in neuroscience and a new understanding of the importance of distortion in the time domain. The IP enables the bit stream that is approved in the studio to be delivered to a listener. Further, MQA is backward compatible with existing formats.

The business plan is driven by creating demand for MQA's technologies on the consumer end through favorable relationships with content creators and services. MQA provides tools that enable content creators and distributors to produce, encode, and transmit content and licenses decoding and rendering technologies to the manufacturers of consumer electronics to ensure that content is experienced in its original quality with an assurance of provenance.

### **Key Drivers:**

- MQA has established approximately 70 consumer product license agreements to-date.
- MQA has executed format licenses and equity deeds with all major music companies and the independent music trade group, Merlin – creating a natural, growing catalog of new music prepared using MQA's technology.
- Unique Enabler: MQA's technology efficiency supports smartphone playback of authenticated, master quality sound – making it possible for services to reach 100% of the music consumer base. Competitors use Adaptive Streaming and Progressive technologies which cannot provide the combination of data efficiency, assurance of provenance and resolution that MQA provides.

The key commercial activities in 2018 included:

Completion of approximately 30 new agreements including iFi, HiBy, Essential, Control4 (home), QNX/Blackberry (automotive), the expansion of MQA's Astell&Kern agreement, and audio receiver business within Onkyo Corporation.

These deals are harnessed through the increased demand for those products due to the growth in the subscriber based with MQA-capable music services.

# **MQA Limited**

## **Group Strategic Report (continued) For the Year Ended 31 December 2018**

### **Principal risks and uncertainties**

- To activate MQA on a music service, the labels and services must agree on Terms for the improved service. MQA is not party to those agreements and is limited in its ability to accelerate the completion of those agreements.
- Mainstream music fans remain unsure about the value proposition of a premium audio. They are not yet aware of the difference the improvement can make in their enjoyment and have perceptions that it requires expensive new equipment.
- The premature and misleading marketing around 5G has created a perception that improved data efficiency will not be required.
- Ongoing responsibility to achieve profitability with the time provided by available cash resources.

MQA's continued ability to expand acceptance and support from major copyright holders and music journalists, the expanding base of MQA-licensed playback consumer devices, and MQA's product roadmap give the board confidence that MQA is well positioned to succeed.

### **Future Development**

MQA's business development will be driven by expansion of recorded music content availability and extensions of MQA's product technology. With the 2019 launch of MQA's first music collaboration in China, MQA will see increases in hardware revenues in China and surrounding markets. Market response to the real-time capability of MQA's Live technology will lead to its expanded use into broadcast platforms. MQA's existing licensees will also be driving business in the audio accessories category.

### **Capital Raise**

In June 2018, MQA initiated, as anticipated, its 3rd capital raise. The Board recognized, when it approved the raise in November 2017, that Revenues would continue to lag due to slow pace of label/service agreements relative to original plan.

This year has seen several high-quality audio services launch and the major streaming services are engaged in discussions with MQA regarding adoption.

We have obtained commitments from investors in excess of our minimum raise objectives. Funding will be completed no later than November 2019. MQA management has shown it is able to manage costs responsibly and aligned with revenue development. We have confidence in the 2020 budget that is being developed.

### **Financial key performance indicators**

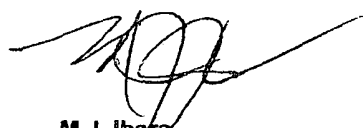
In the short term, the board will:

- Remain focused on cash burn rate and reserves
- Monitor development of hardware-based revenues
- Support program of getting MQA decoders and content into more music services

This report was approved by the board on

*October 14, 2019*

and signed on its behalf.

  
**M J Jbara**  
Director

# **MQA Limited**

## **Directors' Report For the Year Ended 31 December 2018**

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The directors present their report and the financial statements for the year ended 31 December 2018.

### **Directors' responsibilities statement**

The directors are responsible for preparing the Strategic Report, 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 group and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- 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.

### **Results and dividends**

The loss for the year, after taxation, amounted to £4,548,552 (2017 - £7,108,397).

The directors do not recommend payment of a dividend (2017: £Nil)

### **Directors**

The directors who served during the year were:

S D Jagoe  
J R Stuart  
A E Rupert  
M J Jbara

### **Environmental matters**

The Group will seek to minimise adverse impacts on the environment from its activities, whilst continuing to address health, safety and economic issues. The Group has complied with all applicable legislation and regulations.

### **Future developments**

The Company's future developments are shown in the Strategic Report.

# MQA Limited

## Directors' Report (continued) For the Year Ended 31 December 2018

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### Disclosure of information to auditor

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the company and the Group's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company and the Group's auditor is aware of that information.

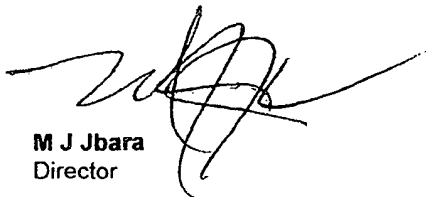
### Post balance sheet events

No events have arisen between 31 December 2018 and the date of this report that would have had a material effect on the financial statements as at 31 December 2018.

### Auditor

The auditor, BDO LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on *October 14 2019* and signed on its behalf.



**M J Jbara**  
Director

# **MQA Limited**

## **Independent Auditor's report to MQA Limited**

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### **Opinion**

We have audited the financial statements of MQA Limited ("the Parent Company") and its subsidiary ("the Group") for the year ended 31 December 2018 which comprise the consolidated Statement of Comprehensive Income, the consolidated and company Balance Sheet, the consolidated and company Statement of Changes in Equity, the consolidated Statement of Cash Flows and 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 United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 Group and the Parent 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 Group or the Parent 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.



# MQA Limited

## Independent Auditor's report to MQA Limited (continued)

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### Other information

The Directors are responsible for the other information. The other information comprises the information included in the Directors' 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

- 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
- 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 Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and 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 by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company 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.

# MQA Limited

## Independent Auditor's report to MQA Limited (continued)

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### Responsibilities of directors

As explained more fully in the Directors' responsibilities statement, 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 Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent 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.

### 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**

**Nick Poulter** (Senior Statutory Auditor)  
For and on behalf of BDO LLP, statutory auditor  
Guildford  
United Kingdom

Date: 16 OCTOBER 2019

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

# MQA Limited

## Consolidated Statement of Comprehensive Income For the Year Ended 31 December 2018

	Note	2018 £	2017 £
Turnover	4	376,950	148,959
Cost of sales		(28,709)	(18,710)
<b>Gross profit</b>		<b>348,241</b>	<b>130,249</b>
Administrative expenses		(4,977,355)	(7,245,545)
<b>Operating loss</b>	5	<b>(4,629,114)</b>	<b>(7,115,296)</b>
Interest receivable and similar income	9	7,718	6,899
Interest payable	10	(62,494)	-
<b>Loss before taxation</b>		<b>(4,683,890)</b>	<b>(7,108,397)</b>
Tax on loss	11	135,338	-
<b>Loss for the financial year</b>		<b>(4,548,552)</b>	<b>(7,108,397)</b>
Foreign currency translation		(53,236)	36,644
<b>Other comprehensive income for the year</b>		<b>(53,236)</b>	<b>36,644</b>
<b>Total comprehensive income for the year</b>		<b>(4,601,788)</b>	<b>(7,071,753)</b>

All amounts relate to continuing operations.

The notes on pages 15 to 30 form part of these financial statements.

**MQA Limited**  
Registered number: 09123512

**Consolidated Balance Sheet**  
As at 31 December 2018

	Note	2018 £	2017 £
<b>Fixed assets</b>			
Intangible assets	12	255,750	-
Tangible assets	13	13,989	11,084
Investments	14	1	-
		<u>269,740</u>	<u>11,084</u>
<b>Current assets</b>			
Debtors: amounts falling due within one year	15	207,283	196,947
Cash at bank and in hand	16	4,672,685	3,750,035
		<u>4,879,968</u>	<u>3,946,982</u>
Creditors: amounts falling due within one year	17	(1,098,208)	(1,085,272)
<b>Net current assets</b>		<u>3,781,760</u>	<u>2,861,710</u>
<b>Total assets less current liabilities</b>		<u>4,051,500</u>	<u>2,872,794</u>
Creditors: amounts falling due after more than one year	18	(3,591,825)	-
<b>Net assets</b>		<u><u>459,675</u></u>	<u><u>2,872,794</u></u>
<b>Capital and reserves</b>			
Called up share capital	21	14	14
Share premium account	22	22,307,250	21,753,250
Foreign exchange reserve	22	(16,592)	36,644
Convertible loan note reserve	22	1,634,669	-
Profit and loss account	22	(23,465,666)	(18,917,114)
		<u><u>459,675</u></u>	<u><u>2,872,794</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

*October 14 2019*

**M J Jbara**  
Director

The notes on pages 15 to 30 form part of these financial statements.

**MQA Limited**  
Registered number: 09123512

**Company Balance Sheet**  
As at 31 December 2018

	Note	2018 £	2017 £
<b>Fixed assets</b>			
Intangible assets	12	255,750	-
Tangible assets	13	13,989	11,084
Investments	14	81	80
		<u>269,820</u>	<u>11,164</u>
<b>Current assets</b>			
Debtors: amounts falling due within one year	15	206,759	901,674
Cash at bank and in hand	16	4,602,673	3,684,440
		<u>4,809,432</u>	<u>4,586,114</u>
Creditors: amounts falling due within one year	17	(1,098,208)	(1,085,272)
<b>Net current assets</b>		<u>3,711,224</u>	<u>3,500,842</u>
<b>Total assets less current liabilities</b>		<u>3,981,044</u>	<u>3,512,006</u>
Creditors: amounts falling due after more than one year	18	(3,591,825)	-
<b>Net assets</b>		<u><u>389,219</u></u>	<u><u>3,512,006</u></u>
<b>Capital and reserves</b>			
Called up share capital	21	14	14
Share premium account	22	22,307,250	21,753,250
Convertible loan note reserve	22	1,634,669	-
Profit and loss account	22	(23,552,714)	(18,241,258)
		<u><u>389,219</u></u>	<u><u>3,512,006</u></u>

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Statement of Comprehensive Income in these financial statements. The loss after tax of the parent Company for the year was £5,311,456 (2017 - £6,569,157).

The financial statements were approved and authorised for issue by the board and were signed on its behalf on October 14 2019

**M J Jbara**  
Director



The notes on pages 15 to 30 form part of these financial statements.

## MQA Limited

### Consolidated Statement of Changes in Equity For the Year Ended 31 December 2018

	Called up share capital	Share premium account	Foreign exchange reserve	Convertible loan note reserve	Profit and loss account	Total equity
	£	£	£	£	£	£
At 1 January 2018	14	21,753,250	36,644	-	(18,917,114)	2,872,794
<b>Comprehensive income for the year</b>						
Loss for the year	-	-	-	-	(4,548,552)	(4,548,552)
Foreign exchange difference	-	-	(53,236)	-	-	(53,236)
<b>Other comprehensive income for the year</b>	-	-	(53,236)	-	-	(53,236)
<b>Total comprehensive income for the year</b>	-	-	(53,236)	-	(4,548,552)	(4,601,788)
<b>Contributions by and distributions to owners</b>						
Shares issued during the year	-	554,000	-	-	-	554,000
Convertible loan notes issued during the year	-	-	-	1,634,669	-	1,634,669
<b>Total transactions with owners</b>	-	554,000	-	1,634,669	-	2,188,669
<b>At 31 December 2018</b>	<b>14</b>	<b>22,307,250</b>	<b>(16,592)</b>	<b>1,634,669</b>	<b>(23,465,666)</b>	<b>459,675</b>

The notes on pages 15 to 30 form part of these financial statements.

## MQA Limited

### Consolidated Statement of Changes in Equity For the Year Ended 31 December 2017

	Called up share capital	Share premium account	Foreign exchange reserve	Profit and loss account	Total equity
	£	£	£	£	£
At 1 January 2017	13	19,220,134	-	(11,808,717)	7,411,430
<b>Comprehensive income for the year</b>					
Loss for the year	-	-	-	(7,108,397)	(7,108,397)
<b>Total comprehensive income for the year</b>	-	-	36,644	(7,108,397)	(7,071,753)
<b>Contributions by and distributions to owners</b>					
Shares issued during the year	1	2,533,116	-	-	2,533,117
<b>Total transactions with owners</b>	1	2,533,116	-	-	2,533,117
<b>At 31 December 2017</b>	<b>14</b>	<b>21,753,250</b>	<b>36,644</b>	<b>(18,917,114)</b>	<b>2,872,794</b>

The notes on pages 15 to 30 form part of these financial statements.

# MQA Limited

## Company Statement of Changes in Equity For the Year Ended 31 December 2018

	Called up share capital	Share premium account	Convertible loan note reserve	Profit and loss account	Total equity
	£	£	£	£	£
At 1 January 2018	14	21,753,250	-	(18,241,258)	3,512,006
<b>Comprehensive income for the year</b>					
Loss for the year	-	-	-	(5,311,456)	(5,311,456)
<b>Total comprehensive loss for the year</b>	-	-	-	(5,311,456)	(5,311,456)
<b>Contributions by and distributions to owners</b>					
Shares issued during the year	-	554,000	-	-	554,000
Convertible loan notes issued during the year	-	-	1,634,669	-	1,634,669
<b>Total transactions with owners</b>	-	554,000	1,634,669	-	2,188,669
<b>At 31 December 2018</b>	<b>14</b>	<b>22,307,250</b>	<b>1,634,669</b>	<b>(23,552,714)</b>	<b>389,219</b>

## Company Statement of Changes in Equity For the Year Ended 31 December 2017

	Called up share capital	Share premium account	Profit and loss account	Total equity
As restated	£	£	£	£
At 1 January 2016	13	19,220,134	(11,672,101)	7,548,046
<b>Comprehensive income for the year</b>				
Loss for the year	-	-	(6,569,157)	(6,569,157)
<b>Total comprehensive loss for the year</b>	-	-	(6,569,157)	(6,569,157)
<b>Contributions by and distributions to owners</b>				
Shares issued during the year	1	2,533,116	-	2,533,117
<b>Total transactions with owners</b>	1	2,533,116	-	2,533,117
<b>At 31 December 2017</b>	<b>14</b>	<b>21,753,250</b>	<b>(18,241,258)</b>	<b>3,512,006</b>

The notes on pages 15 to 30 form part of these financial statements.



# MQA Limited

## Consolidated Statement of Cash Flows For the Year Ended 31 December 2018

	2018 £	2017 £
<b>Cash flows from operating activities</b>		
Loss for the financial year	(4,548,552)	(7,108,397)
<b>Adjustments for:</b>		
Depreciation of tangible assets	4,286	3,031
Interest paid	62,494	-
Interest received	(7,718)	(6,899)
Taxation charge	(135,338)	-
(Increase)/decrease in debtors	(9,812)	6,441
Increase/(decrease) in creditors	12,935	(222,412)
Corporation tax received	134,814	-
Share issue in exchange for services	1,634,669	2,533,117
<b>Net cash generated from operating activities</b>	<b>(2,852,222)</b>	<b>(4,795,119)</b>
<b>Cash flows from investing activities</b>		
Purchase of intangible fixed assets	(255,750)	-
Purchase of tangible fixed assets	(7,191)	(6,647)
Interest received	7,718	6,899
<b>Net cash from investing activities</b>	<b>(255,223)</b>	<b>252</b>
<b>Cash flows from financing activities</b>		
Issue of equity loan notes	554,000	-
Other new loans	3,591,825	-
Interest paid	(62,494)	-
<b>Net cash used in financing activities</b>	<b>4,083,331</b>	<b>-</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>975,886</b>	<b>(4,794,867)</b>
Cash and cash equivalents at beginning of year	3,750,035	8,508,258
Foreign exchange gains and losses	(53,236)	36,644
<b>Cash and cash equivalents at the end of year</b>	<b>4,672,685</b>	<b>3,750,035</b>
<b>Cash and cash equivalents at the end of year comprise:</b>		
Cash at bank and in hand	4,672,685	3,750,035
	<b>4,672,685</b>	<b>3,750,035</b>

The notes on pages 15 to 30 form part of these financial statements.

# MQA Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

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### 1. General information

MQA Limited is a company incorporated in England and Wales under the Companies Act. It is a company limited by shares. The address of the registered office is given on the company information page and the nature of the company's operations and principal activities are given in the directors' report and strategic report.

### 2. Accounting policies

#### 2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires group management to exercise judgement in applying the group's accounting policies (see note 3).

The following principal accounting policies have been applied:

#### 2.2 Basis of consolidation

The consolidated financial statements present the results of the Group and its own subsidiary ("the Group") as if they form a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

#### 2.3 Going concern

The directors acknowledge that, at the reporting date, the Group had net assets of £459k but made a loss for the year of £4.6m. Having considered the Group's future cash needs and prepared detailed cash flow forecasts, the directors acknowledge that additional funding is required in the short term. Commitments from investors have been obtained for amounts in excess of the minimum raise objectives and this will be completed no later than November 2019, thus allowing the Group to meet its liabilities as they fall in due in the foreseeable future. As a result, Directors have prepared the accounts on a Going Concern basis.

#### 2.4 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

##### Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Group will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

# MQA Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

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### 2. Accounting policies (continued)

#### 2.5 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, as shown below.

Depreciation is provided on the following basis:

Computer equipment	- 25% straight line
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The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Consolidated Statement of Comprehensive Income.

#### 2.6 Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

The estimated useful lives range as follows:

Portal development	-	4 years straight line
Website	-	4 years straight line

#### 2.7 Research and development

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives, which range from 3 to 6 years.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

#### 2.8 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

#### 2.9 Debtors

Short term debtors are measured at transaction price, less any impairment.

# MQA Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

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### 2. Accounting policies (continued)

#### 2.10 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Consolidated Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

#### 2.11 Financial instruments

The Group only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks, other third parties and loans to related parties.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in the case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Consolidated Statement of Comprehensive Income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the Group would receive for the asset if it were to be sold at the balance sheet date.

Financial assets and liabilities are offset and the net amount reported in the Consolidated Balance Sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

#### 2.12 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

# **MQA Limited**

## **Notes to the Financial Statements For the Year Ended 31 December 2018**

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### **2. Accounting policies (continued)**

#### **2.13 Foreign currency translation**

##### **Functional and presentation currency**

The Company's functional and presentational currency is GBP.

##### **Transactions and balances**

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Statement of Comprehensive Income except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Consolidated Statement of Comprehensive Income. All other foreign exchange gains and losses are also presented in the Consolidated Statement of Comprehensive Income.

On consolidation, the results of overseas operations are translated into Sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income.

#### **2.14 Finance costs**

Finance costs are charged to the Consolidated Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

#### **2.15 Operating leases: Lessee**

Rentals paid under operating leases are charged to the Consolidated Statement of Comprehensive Income on a straight line basis over the lease term.

# **MQA Limited**

## **Notes to the Financial Statements For the Year Ended 31 December 2018**

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### **2. Accounting policies (continued)**

#### **2.16 Pensions**

##### **Defined contribution pension plan**

The Group operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payments obligations.

The contributions are recognised as an expense in the Consolidated Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Group in independently administered funds.

#### **2.17 Holiday pay accrual**

A liability is recognised to the extent of any unused holiday pay entitlement which is accrued at the Balance Sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the Balance Sheet date.

#### **2.18 Interest income**

Interest income is recognised in the Consolidated Statement of Comprehensive Income using the effective interest method.

#### **2.19 Borrowing costs**

All borrowing costs are recognised in the Consolidated Statement of Comprehensive Income in the year in which they are incurred.

# MQA Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

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### 2. Accounting policies (continued)

#### 2.20 Taxation

Tax is recognised in the Consolidated Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the company and the Group operate and generate income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where they relate to timing differences in respect of interests in subsidiaries, associates, branches and joint ventures and the Group can control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

### 3. Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the directors have made the following judgements:

- Determine whether leases entered into by the Group either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- Assessing the going concern status of the Company and Group (see note 2.3).
- Determine the fair value of share premium on shares issued in exchange for services.

### 4. Turnover

The whole of the turnover is attributable to the principal activity of the group.

All turnover arose within the United Kingdom.

# MQA Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

### 5. Operating loss

The operating loss is stated after charging:

	2018 £	2017 £
Depreciation of tangible fixed assets	4,286	3,031
Exchange differences	(70,622)	56,687
Defined contribution pension cost	81,317	65,760
	<u>81,317</u>	<u>65,760</u>

### 6. Auditor's remuneration

	2018 £	2017 £
Fees payable to the Group's auditor for the audit of the Group's annual financial statements	22,550	13,300
	<u>22,550</u>	<u>13,300</u>
Fees payable to the Group's auditor in respect of other services	6,250	4,500
	<u>6,250</u>	<u>4,500</u>

### 7. Employees

Staff costs, including directors' remuneration, were as follows:

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Wages and salaries	1,670,675	1,628,673	1,370,260	1,311,097
Social security costs	160,193	143,361	143,361	136,989
Cost of defined contribution scheme	81,317	70,176	70,176	58,581
	<u>1,912,185</u>	<u>1,842,210</u>	<u>1,583,797</u>	<u>1,506,667</u>

The average monthly number of employees, including the directors, during the year was 21 (2017: 18). All employees fall into the administration category.



# MQA Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

### 8. Directors' remuneration

	2018 £	2017 £
Directors' emoluments	670,441	661,249
Company contributions to defined contribution pension schemes	3,623	3,430
	<u>674,064</u>	<u>664,679</u>

During the year retirement benefits were accruing to 1 directors (2017 - 1) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £403,494 (2017 - £245,440).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £3,623 (2017 - £3,430).

### 9. Interest receivable

	2018 £	2017 £
Other interest receivable	<u>7,718</u>	<u>6,899</u>

### 10. Interest payable and similar expenses

	2018 £	2017 £
Other loan interest payable	<u>62,494</u>	<u>-</u>

# MQA Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

### 11. Taxation

	2018 £	2017 £
<b>Corporation tax</b>		
Current tax on result for the year	(135,338)	-
<b>Total current tax</b>	<u>(135,338)</u>	<u>-</u>

#### Factors affecting tax charge for the year

The tax assessed for the year is higher than (2017 - lower than) the standard rate of corporation tax in the UK of 19.00% (2017 - 19.25%). The differences are explained below:

	2018 £	2017 £
Loss on ordinary activities before tax	<u>(4,683,890)</u>	<u>(7,108,397)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2017 - 19.25%)	(889,939)	(1,368,366)
<b>Effects of:</b>		
Expenses not deductible for tax purposes	57,912	5,924
Deferred tax not recognised	832,027	2,308,914
Adjustments to tax charge in respect of prior periods	(135,338)	-
Prior year adjustment to losses	-	(946,472)
<b>Total tax charge for the year</b>	<u>(135,338)</u>	<u>-</u>

#### Factors that may affect future tax charges

There is an unrecognised deferred tax asset at the year end of £4,641,530 (2017: £3,207,585) in respect of taxable losses in MQA Limited of £27,303,119 (2017: £18,704,416). The Directors have not recognised this on the basis there is insufficient certainty as to whether future revenue will exceed costs to generate sufficient, taxable profits to warrant the recognition of this asset.

# MQA Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

### 12. Intangible assets

#### Group and Company

	Portal development and website £
<b>Cost</b>	
Additions	255,750
At 31 December 2018	<u>255,750</u>
<b>Net book value</b>	
At 31 December 2018	<u>255,750</u>
At 31 December 2017	<u>-</u>

All of the Group's intangible fixed assets are held in the Parent company. As the asset is not yet in use, there has been no depreciation charged in the year.

# MQA Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

### 13. Tangible fixed assets

#### Group and Company

	Computer equipment £
<b>Cost</b>	
At 1 January 2018	14,440
Additions	7,191
At 31 December 2018	<u>21,631</u>
<b>Depreciation</b>	
At 1 January 2018	3,356
Charge for the year on owned assets	4,286
At 31 December 2018	<u>7,642</u>
<b>Net book value</b>	
At 31 December 2018	<u><u>13,989</u></u>
At 31 December 2017	<u><u>11,084</u></u>

# MQA Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

### 14. Fixed asset investments

#### Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Class of shares	Holding	Principal activity
MQA Inc.	Ordinary	100 %	This company incurs costs in respect of US employees of the group
MQA Trustees Limited	Ordinary	100 %	Non-trading entity set up for the sole purpose of administration of the life assurance

The registered office of MQA Inc. is Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, USA.

The registered office of MQA Trustee Limited is The Broadgate Tower, Third Floor, 20 Primrose Street, London EC2A 2RS.

#### Company

	Investments in subsidiary companies £
<b>Cost</b>	
At 1 January 2018	80
Additions	1
At 31 December 2018	81
<b>Net book value</b>	
At 31 December 2018	81
At 31 December 2017	80

# MQA Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

### 15. Debtors

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Trade debtors	23,327	36,628	23,327	36,628
Amounts owed by group undertakings	-	-	-	704,727
Other debtors	98,186	113,060	97,662	113,060
Prepayments and accrued income	85,770	47,259	85,770	47,259
	<u>207,283</u>	<u>196,947</u>	<u>206,759</u>	<u>901,674</u>

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

The impairment loss recognised in the year in respect of bad and doubtful debts was £1,051,396 (2017: £Nil) for the Company only. There was no impairment loss recognised in the year for the Group (2017: £Nil).

### 16. Cash and cash equivalents

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Cash at bank and in hand	4,672,685	3,750,035	4,602,673	3,684,440

### 17. Creditors: Amounts falling due within one year

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Other loans	750,000	750,000	750,000	750,000
Trade creditors	55,148	47,117	55,148	47,117
Other taxation and social security	52,068	50,127	52,068	50,127
Other creditors	18,706	33,956	18,706	33,956
Accruals and deferred income	222,286	204,072	222,286	204,072
	<u>1,098,208</u>	<u>1,085,272</u>	<u>1,098,208</u>	<u>1,085,272</u>

# MQA Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

### 18. Creditors: Amounts falling due after more than one year

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Other loans	<u>3,591,825</u>	<u>-</u>	<u>3,591,825</u>	<u>-</u>

The other loans relates to the debt element of the convertible loan notes issued during the year. Interest is charged at 4% per annum and the loan notes mature in September 2023 unless converted at an earlier date.

### 19. Loans

An analysis of the maturity of loans is given below:

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
<b>Amounts falling due within one year</b>				
Other loans	750,000	750,000	750,000	750,000
<b>Amounts falling due 2-5 years</b>				
Other loans	<u>3,591,825</u>	<u>-</u>	<u>3,591,825</u>	<u>-</u>
	<u>4,341,825</u>	<u>750,000</u>	<u>4,341,825</u>	<u>750,000</u>

### 20. Financial instruments

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
<b>Financial assets</b>				
Financial assets that are debt instruments measured at amortised cost	<u>4,749,873</u>	<u>3,911,408</u>	<u>4,679,863</u>	<u>4,549,487</u>
<b>Financial liabilities</b>				
Financial liabilities measured at amortised cost	<u>(4,628,775)</u>	<u>(1,035,145)</u>	<u>(4,628,773)</u>	<u>(1,035,145)</u>

Financial assets measured at amortised cost comprise trade and other debtors, accrued income and cash and cash equivalents. The company figures also include amounts due from group undertakings.

Financial liabilities measured at amortised cost comprise trade creditors, other creditors, accruals and borrowings.

# MQA Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

### 21. Share capital

	2018 £	2017 £
<b>Allotted, called up and fully paid</b>		
12,499 (2017 - 12,000) Ordinary shares of £0.001 each	12	12
0 (2017 - 1) A Ordinary shares of £0.001 each	-	-
1,910 (2017 - 2,000) B Ordinary shares of £0.001 each	2	2
	<u>14</u>	<u>14</u>

The Ordinary and Ordinary A shares both have the right to a dividend, subject to shareholder agreement. The directors can declare a different dividend on both share classes.

The Ordinary B shares have the right to a dividend only after 1 January 2021. After such time, the dividend will be equal to the Ordinary share dividend.

The Ordinary and Ordinary A shares both carry one vote; the Ordinary B shares do not carry any votes.

On 3 September 2018, the Company issued and allotted 277 Ordinary £0.001 shares in exchange for services. These shares were valued at £554,000 in total.

On 9 November 2018, the Company repurchased and cancelled 1 Ordinary 'A' share of £0.001.

### 22. Reserves

The Group and the Company have the following reserves:

#### Share premium account

The share premium reserve relates to amounts paid or services provided for share capital in excess of nominal value.

#### Profit and loss account

The profit and loss account represents cumulative profits and losses net of dividends paid and other adjustments.

In addition, the Group has the following reserve:

#### Foreign currency translation reserve

The foreign currency translation reserve relates to the differences arising on consolidation as the subsidiary company, MQA Inc., figures are in USD.

### 23. Pension commitments

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £81,317 (2017: £65,760). Contributions totalling £9,190 (2017: £9,665) were payable to the fund at reporting date.



# MQA Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

### 24. Commitments under operating leases

At 31 December 2018 the Group and the Company had future minimum lease payments under non-cancellable operating leases as follows:

	<b>Group 2018 £</b>	<b>Group 2017 £</b>	<b>Company 2018 £</b>	<b>Company 2017 £</b>
Not later than 1 year	<b>152,500</b>	152,500	<b>152,500</b>	152,500
Later than 1 year and not later than 5 years	<b>28,750</b>	143,750	<b>28,750</b>	143,750
	<b>181,250</b>	296,250	<b>181,250</b>	296,250

### 25. Related party transactions

The Company holds a loan from Muse Holdings SARL, a parent company. The loan amount of £750,000 (2017: £750,000) is outstanding at the year end.

During the year Meridian Audio Limited, a company of which J R Stuart is a director, raised invoices for central recharges totalling £264,996 (2017: £264,996). At the year end a balance of £24,583 (2017: £Nil) was outstanding.

### 26. Controlling party

In the opinion of the directors, Reinet Investments S.C.A. is the ultimate controlling party.