

Company Registration No. SC468392 (Scotland)

EDINBURGH ALTERNATIVE FINANCE LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021
PAGES FOR FILING WITH REGISTRAR

EDINBURGH ALTERNATIVE FINANCE LIMITED

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EDINBURGH ALTERNATIVE FINANCE LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

	Notes	2021 £	£	2020 £	£
Fixed assets					
Tangible assets	5		14,062		16,028
Current assets					
Debtors	6	131,975		281,454	
Cash at bank and in hand		808,956		1,118,278	
		<u>940,931</u>		<u>1,399,732</u>	
Creditors: amounts falling due within one year	7	<u>(289,845)</u>		<u>(405,640)</u>	
Net current assets			651,086		994,092
Total assets less current liabilities			665,148		1,010,120
Creditors: amounts falling due after more than one year	8		<u>(527,169)</u>		<u>(240,000)</u>
Net assets			<u>137,979</u>		<u>770,120</u>
Capital and reserves					
Called up share capital	10	1,819,702		1,651,493	
Share premium account		7,043,681		6,351,851	
Profit and loss reserves		<u>(8,725,404)</u>		<u>(7,233,224)</u>	
Total equity			<u>137,979</u>		<u>770,120</u>

The directors of the company have elected not to include a copy of the income statement within the financial statements.

These financial statements have been prepared and delivered in accordance with the provisions applicable to companies subject to the small companies regime.

The financial statements were approved by the board of directors and authorised for issue on 27 April 2022 and are signed on its behalf by:

S Lunn
Director

Company Registration No. SC468392

EDINBURGH ALTERNATIVE FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

1 Accounting policies

Company information

Edinburgh Alternative Finance Limited is a private company limited by shares incorporated in Scotland. The registered office is 23 Manor Place, Edinburgh, EH3 7DX.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006 as applicable to companies subject to the small companies regime. The disclosure requirements of section 1A of FRS 102 have been applied other than where additional disclosure is required to show a true and fair view.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historic cost convention, modified to include certain items at fair value. The principle accounting policies adopted are set out below.

1.2 Going concern

Whilst the company made a loss for the year, this was anticipated and tightly controlled. The loss was due in part to reduced activity as a result of the Covid pandemic. The company had bank balances of £0.8m at the year end.

On 3 February 2022, a new facility agreement was established to provide £100m of institutional funding for SME loans through the company's platform to support SMEs as they recover from the coronavirus pandemic and return to growth.

The company has prepared various scenario forecast models. Under the base case scenario it is concluded that no additional equity funding is required, however it is acknowledged that under other forecast scenarios additional funding and/or cost savings would be required.

The directors are satisfied that should this additional funding be required, then it would be available from the shareholder base and that should they be required, the necessary cost savings would be achievable.

The key assumptions in management's forecasts are the size and phasing of borrower demand and availability of additional equity funding and/or cost savings should they be required. Whilst unconfirmed at this time, none of these uncertainties are assessed to be significant, as there is confidence in their deliverability, therefore the directors are satisfied that it remains appropriate to prepare the accounts on a going concern basis.

1.3 Turnover

Turnover represents commission charged to borrowers and lenders for the use of the LendingCrowd platform. Commission charged to lenders is recognised over the term of the loan and recognised when repayments are made, whilst commission charged to borrowers is recognised on acceptance of the loan.

1.4 Research and development expenditure

Research and development expenditure is written off against profits in the year in which it is incurred.

1.5 Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost, net of depreciation and any impairment losses.

EDINBURGH ALTERNATIVE FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

1 Accounting policies

(Continued)

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives on the following bases:

Plant and equipment	33% per annum
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The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

1.6 Cash at bank and in hand

Cash at bank and in hand are basic financial assets and include cash in hand and deposits held at call with banks.

1.7 Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include debtors and cash and bank balances, are current assets and are therefore measured at transaction price.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Basic financial liabilities

Basic financial liabilities, including creditors, are current liabilities and are therefore measured at transaction price.

Other Financial Liabilities

Compound financial instruments issued by the company comprise convertible loans that can be converted to share capital at the option of the lender. The liability component of a compound financial instrument is initially recognised at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognised at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

Derecognition of financial liabilities

Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

EDINBURGH ALTERNATIVE FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

1 Accounting policies

(Continued)

1.8 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.9 Taxation

The tax credit through the tax line of the statement of comprehensive income represents research and development tax credits paid to the company.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement 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 using tax rates that have been enacted or substantively enacted by the reporting end date.

R&D tax credits

R&D tax credits are recognised at the fair value of the asset received or receivable when there is reasonable assurance that claims will be successful. R&D tax credits are recognised as part of the taxation charge or credit in the year the recognition criteria are met. R&D tax credits relating to earlier periods are included within the current tax charge or credit as adjustments in respect of prior periods.

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and 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. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or right to pay less tax, at a future date, at rates expected to apply when they crystallised based on current tax rates and law. Timing differences arise from inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not they will be recovered. Deferred tax assets and liabilities are not discounted.

1.10 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense.

1.11 Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

1.12 Leases

Rentals payable under operating leases are expensed over the life of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

EDINBURGH ALTERNATIVE FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

1 Accounting policies

(Continued)

1.13 Share-based payments

Equity-settled share-based payments for employees are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the service period to vesting, based on the company's estimate of equity instruments that will eventually vest. A corresponding adjustment is made to the profit and loss reserves.

At each balance sheet date, the company revises its estimate of the number of equity instruments expected to vest, as a result of the effect of non market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to profit and loss reserves.

2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Key sources of estimation uncertainty

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows.

Valuation of share options

The determination of the valuation of share options involves significant judgement around the inputs and assumptions used in the options valuation model. The assumptions are reviewed at each grant date by management. See note 10.

3 Employees

The average monthly number of persons (including directors) employed by the company during the year was 30 (2020 - 33).

4 Deferred taxation

The company has a potential deferred tax asset of £1,927,870 (2020: £1,224,500), for unused tax losses that may be offset against future profits, reducing future corporation tax liabilities. The recoverability of deferred tax assets is dependent on the business' ability to generate sufficient future taxable profits to utilise tax losses. Consistent with accounting standards, due to the inherent uncertainty in forecasting the amount and timing of future taxable profits, this has not been recognised in the year to 31 December 2021.

EDINBURGH ALTERNATIVE FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

5 Tangible fixed assets

	Plant and machinery etc
	£
Cost	
At 1 January 2021	59,246
Additions	11,225
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At 31 December 2021	70,471
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Depreciation and impairment	
At 1 January 2021	43,218
Depreciation charged in the year	13,191
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At 31 December 2021	56,409
	<hr/>
Carrying amount	
At 31 December 2021	14,062
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At 31 December 2020	16,028
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6 Debtors

	2021	2020
	£	£
Amounts falling due within one year:		
Trade debtors	1,674	1,396
Amounts owed by connected companies	2,870	1,200
Prepayments and accrued income	45,342	158,522
Other debtors	82,089	120,336
	<hr/>	<hr/>
	131,975	281,454
	<hr/>	<hr/>

7 Creditors: amounts falling due within one year

	2021	2020
	£	£
Trade creditors	19,250	42,291
Amounts owed to connected companies	115,087	255,140
Taxation and social security	51,573	36,913
Other creditors	103,935	71,296
	<hr/>	<hr/>
	289,845	405,640
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EDINBURGH ALTERNATIVE FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

8 Creditors: amounts falling due after more than one year

	2021 £	2020 £
Other creditors	527,169	240,000

On 10 September 2020, a £240,000 convertible loan was issued to the company. This loan, repayable three years after the date of issue, can be converted to share capital at the option of the lender, on pre-agreed terms, up to and including the redemption date. The loan is interest free for the first year and thereafter interest is charged at 8% per annum.

On 30 September 2021, a £500,000 convertible loan note was issued by the company. This loan, repayable ten years after the date of issue, can be converted to share capital at the option of the lender, on pre-agreed terms, up to and including the redemption date. This loan is interest free for the first three years and thereafter interest is charged at 7.72% per annum.

£218,000 of the September 2021 loan note was converted into equity prior to the year-end at a conversion rate of £0.65 per share. This amounted to a total of 335,384 "A" ordinary shares being issued. The balance of the loan note remaining at 31 December 2021 was £282,000. The loan note liability that has been recognised is the loan note principal as the difference between the loan note principal and fair value is not assessed to be significant. Similarly, no value has been attributed to the equity element of this loan note on the grounds of materiality.

9 Share-based payment transactions

	Number of share options		Weighted average exercise price	
	2021 Number	2020 Number	2021 £	2020 £
Outstanding at 1 January 2021	231,730	257,384	0.75	0.70
Granted	1,799,229	-	0.19	-
Forfeited	(199,979)	(25,654)	0.84	0.20
Exercised	(488,921)	-	0.19	-
Outstanding at 31 December 2021	1,342,059	231,730	0.19	0.75
Exercisable at 31 December 2021	51,308	231,730	0.20	0.75

EDINBURGH ALTERNATIVE FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

9 Share-based payment transactions (Continued)

Options outstanding at 1 January 2021 were fully vested and were in respect of 2017 and 2018 share options scheme for certain employees.

During the year the company issued equity-settled share options under both an Approved Share Option Scheme and an Unapproved Share Option Scheme.

The options outstanding at 31 December 2021 had an exercise price ranging from £0.19 to £0.20 per share, and a remaining contractual life which runs 10 years from the date of grant.

The options granted have vesting periods ranging from immediately to 3 years. Vesting is contingent on holders remaining in the company's employment throughout the vesting period.

The share options granted during the year were valued using a Black-Scholes model.

The share based payment charge for the year was £350,263 (2020: £nil), and is included within cost of sales in the statement of comprehensive income.

10 Called up share capital

	2021 £	2020 £
Ordinary share capital		
Issued and fully paid		
15,815,184 (2020: 14,469,477) Ordinary shares of £0.10 each	1,581,619	1,446,948
2,380,831 (2020: 2,045,447) A Ordinary shares of £0.10 each	238,083	204,545
	<u>1,819,702</u>	<u>1,651,493</u>

There were 5 allotments of shares in respect of subscriptions and one share conversion made during the year. On 27 July 2021, 384,615 ordinary shares, with a nominal value of £0.10 per share were allotted for consideration of £0.65 per share.

On 7 September 2021, 143,077 ordinary shares, with a nominal value of £0.10 per share were allotted for consideration of £0.65 per share.

On 30 September 2021, 322,401 ordinary shares, with a nominal value of £0.10 per share were allotted for consideration of £0.65 per share.

On 30 November 2021, 488,921 ordinary shares, with a nominal value of £0.10 per share were allotted for consideration of £0.19 per share on the exercise of share options per note 9 and 7,693 ordinary shares, with a nominal value of £0.10 per share were allotted for consideration of £0.65 per share.

On 1 December 2021, 335,384 A ordinary shares with a nominal value of £0.10 were converted from debt to equity as discussed in Note 9 for a consideration of £0.65 per share.

EDINBURGH ALTERNATIVE FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

11 Audit report information

As the income statement has been omitted from the filing copy of the financial statements, the following information in relation to the audit report on the statutory financial statements is provided in accordance with s444(5B) of the Companies Act 2006:

The auditors report was unqualified.

The senior statutory auditor was David Holmes.

The auditor was Johnston Carmichael LLP.

12 Events after the reporting date

On 3 February 2022, a new facility agreement was established to provide £100m of institutional funding for SME loans through the company's platform to support SMEs as they recover from the coronavirus pandemic and return to growth. This will be delivered through both the company's standard loan product and through the UK Government's Recovery Loan Scheme. The company has started to deploy this funding to SMEs across Britain.

This document was delivered using electronic communications and authenticated in accordance with the registrar's rules relating to electronic form, authentication and manner of delivery under section 1072 of the Companies Act 2006.