

LUMINANCE TECHNOLOGIES LTD

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

LUMINANCE TECHNOLOGIES LTD

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LUMINANCE TECHNOLOGIES LTD

COMPANY INFORMATION

Directors	V Colomar V Foca A M Kanter Dr M R Lynch (resigned 4 February 2022) R S Webb C K C Golunski (appointed 7 February 2022)
Company secretary	H Borovick
Registered number	09857705
Registered office	Nine Hills Road Cambridge CB2 1GE
Independent auditor	SB Audit LLP Chartered Accountants & Statutory Auditor Fitzroy House Crown Street Ipswich Suffolk IP1 3LG

LUMINANCE TECHNOLOGIES LTD

GROUP STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

Introduction

Luminance's specialised legal co-pilot software uses next-generation AI to automate the generation, negotiation and analysis of contracts. The platform comprises multiple artificial intelligence software-as-a-service products serving corporate and law firm customers.

The group employs research and development professionals who are largely based in its Cambridge office, including PHD mathematicians, AI and machine learning experts and software engineers. The group has personnel in the UK, Germany, USA and Singapore.

Luminance Inc operations comprise of providing marketing and sales support for the UK parent company, with personnel largely based out of the office in New York.

Business review

During its 2022 financial year, Luminance grew recognised revenue from £3.8 million to £5.9 million. This revenue growth was driven predominantly by new customers in the year, led by sales of Corporate product subscriptions, which resulted in overall subscription ARR (annualized recurring revenue) growing by approximately 3x year on year to December 2022. The group recorded an operating loss in the year, as the business continued to invest in research and development of the product as well as in adding new customers. Product development focused on building an end-to-end legal AI co-pilot for all corporate customers' contracting needs.

The group had net liabilities at year end in December 2022 of £13 million. In April 2023 the company completed a new equity financing round. As part of this financing, the long-term liabilities as at year end which were convertible loan notes, converted to equity resulting in a positive net asset balance.

LUMINANCE TECHNOLOGIES LTD

GROUP STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

Principal risks and uncertainties

Luminance considers the principal risks and uncertainties it faces to be in four primary categories. These are risks around its:

- People attraction, development and retention
- Technology and products
- Foreign exchange – translation risk
- Data security

People attraction, development and retention

The group relies on the talents of highly skilled personnel, including its management team and its technologists. Retention of senior and high-performing staff is central to the group's strategy of organic growth. In addition Luminance relies on its employees to service its customers and add new customers. Failure to continue to attract, train and retain such may adversely affect the group's operating performance and financial results.

Technology and product

The group's ability to penetrate its target market and continue to grow is based on the effectiveness of its products in assisting legal and other professionals. The Directors believe that Luminance's legal AI co-pilot gives it a market advantage and leadership position. The market is rapidly developing and the success of the group therefore depends on its continued ability to lead the market. If it fails to maintain this leadership position or fails to invest appropriately, its product development is not effective or its technology advancements are outpaced by the advancements of others, its business and operating results could be affected.

Foreign exchange – translation risk

Material changes in the strength of the GBP against the functional currencies of the group could have an effect on the reported GBP profit in the financial statements.

Data security

The group works with some of the world's leading law firms and blue chip corporates which are highly security conscious, including handling their confidential, sensitive and personal data. Failure to handle this data properly could expose the group to reputational risk and penalties. The company implements security policies and has a dedicated Security Advisory Board in an effort to mitigate this risk.

Financial risk management

Liquidity risk

Prudent liquidity risk management involves maintaining sufficient cash and marketable securities to meet obligations when due and to close out market positions. The Company received additional funding in April 2023 and continues to monitor revenues and expenditure to meet liquidity requirements.

Credit risk

The principal credit risk relates to trade receivables. The Company seeks to deal with trading entities where the risk of result is low and reviews payment terms based on an assessment of credit risk relating to the customer or partner.

Future developments

On the back of growth in subscription sales, in particular in the Corporate product, the pipeline of potential new customers has grown and customer interest in the group's technology and products is consistent with achieving the growth and operating objectives of management and Directors.

LUMINANCE TECHNOLOGIES LTD

GROUP STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

This report was approved by the board on 14 November 2023 and signed on its behalf.

R S Webb
Director

LUMINANCE TECHNOLOGIES LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

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

Principal activity

The principal activity of the Company is the development of software and services based on proprietary algorithms for use by corporates and law firms.

Directors

The directors who served during the year were:

V Colomar
V Foca
A M Kanter
Dr M R Lynch (resigned 4 February 2022)
R S Webb
C K C Golunski (appointed 7 February 2022)

Directors' responsibilities statement

The directors are responsible for preparing the Group Strategic Report, the Directors' Report and the consolidated financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

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

- select suitable accounting policies for the Group's financial statements and then apply them consistently;
- make judgments 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 Group 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 the Group and to 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Qualifying third party indemnity provisions

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were in force throughout the year and remain in force at the date of this report.

LUMINANCE TECHNOLOGIES LTD

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

Matters covered in the Group Strategic Report

Details of the Group's financial risk management objectives and policies, including its use of financial instruments and the key risks of which it is exposed are included in the strategic report. Details of the Group's overseas operations, and research and development activities are also included in the strategic report.

Post balance sheet events

The convertible loans per note 17 were covered into 1,489,968 C Ordinary shares of £0.01 each on 17 April 2023.

The Company also issued a further 307,758 C Ordinary shares of £0.01 each for £5,001,067.50 on 17 April 2023.

The C Ordinary shares carry full voting rights, entitlement to dividends and a right to distributions after repayment of the capital of the A Ordinary shares shareholders.

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.

Auditor

The auditor, Scrutton Bland LLP, transferred part of their business to a newly incorporated limited liability partnership, SB Audit LLP, on 1 April 2023. Accordingly, Scrutton Bland LLP formally resigned as the Company's auditor with the Directors duly appointing SB Audit LLP to fill the vacancy arising.

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

This report was approved by the board on 14 November 2023 and signed on its behalf.

R S Webb
Director

LUMINANCE TECHNOLOGIES LTD

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LUMINANCE TECHNOLOGIES LTD

Opinion

We have audited the financial statements of Luminance Technologies Ltd (the 'parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2022, which comprise the Group Statement of Comprehensive Income, the Group and Company Balance Sheets, the Group Statement of Cash Flows, the Group and Company Statement of Changes in Equity and the related notes, 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 2022 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 in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council'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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's or the parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

LUMINANCE TECHNOLOGIES LTD

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LUMINANCE TECHNOLOGIES LTD (CONTINUED)

Other information

The other information comprises the information included in the Annual Report other than the financial statements and our Auditor's Report thereon. The directors are responsible for the other information contained within the Annual Report. 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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves.

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.

Opinion on other matters prescribed by the Companies Act 2006

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

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

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

- adequate accounting records have not been kept 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.

LUMINANCE TECHNOLOGIES LTD

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LUMINANCE TECHNOLOGIES LTD (CONTINUED)

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, 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.

LUMINANCE TECHNOLOGIES LTD

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LUMINANCE TECHNOLOGIES LTD (CONTINUED)

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 Group financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We obtained an understanding of the legal and regulatory frameworks applicable to the Company and the industry in which it operates. We determined that the the following laws and regulations were most significant:

- Those laws and regulations considered to have a direct effect on the financial statements including United Kingdom Accounting Standards, Companies Act 2006 and the relevant tax compliance regulations in the jurisdictions in which the Company operates.
- Those laws and regulations considered to have an indirect effect on the financial statements including those relating to employment matters and data security and protection.

Audit procedures were undertaken in response to the potential risks relating to irregularities (which include fraud and non-compliance with laws and regulations) and comprised of:

- We obtained an understanding of how the Company is complying with those legal and regulatory frameworks by making inquiries of management and those responsible for legal and compliance procedures. We corroborated our inquiries through our review of board minutes;
- We enquired of management whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud. We corroborated this through our review of legal and professional fees incurred during the year;
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the engagement team included:
 - identifying and assessing the design effectiveness of controls management has in place to prevent and detect fraud;
 - challenging assumptions and judgements made by management in making its significant accounting estimates;
 - identifying and testing journal entries, in particular any large or unusual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; and
 - assessing the extent of compliance with certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements; and
- We communicated relevant laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

- It is the audit partner's assessment that the audit team collectively had the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.
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LUMINANCE TECHNOLOGIES LTD

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LUMINANCE TECHNOLOGIES LTD (CONTINUED)

- The Company's management has not noted any matters of non-compliance with laws and regulations or fraud that were communicated with the audit team.
- We completed audit procedures to conclude on the compliance of disclosures in the Annual Report and financial statements with applicable financial reporting requirements.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Irregularities that result from fraud might be inherently more difficult to detect than irregularities that result from error. As explained above, there is an unavoidable risk that material misstatements may not be detected, even though the audit has been planned and performed in accordance with ISAs (UK).

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

Other matters

The group comparatives have not been audited. The parent company comparatives have been audited. This is the first year that the group has prepared consolidated financial statements.

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.

Luke Morris (Senior Statutory Auditor)

for and on behalf of

SB Audit LLP

Chartered Accountants

Statutory Auditor

Fitzroy House

Crown Street

Ipswich

Suffolk

IP1 3LG

22 November 2023

LUMINANCE TECHNOLOGIES LTD

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 £	2021 £
Turnover	4	5,852,910	3,834,640
Cost of sales		(1,561,343)	(834,901)
Gross profit		4,291,567	2,999,739
Administrative expenses		(15,016,419)	(8,318,051)
Operating loss	5	(10,724,852)	(5,318,312)
Interest receivable and similar income	9	496	389
Interest payable and similar expenses	10	(1,016,852)	(397,857)
Loss before taxation		(11,741,208)	(5,715,780)
Tax on loss	11	582,726	548,705
Loss for the financial year		(11,158,482)	(5,167,075)
Translation reserve movement		(27,355)	(48,322)
Total comprehensive income for the year		(11,185,837)	(5,215,397)
(Loss) for the year attributable to:			
Owners of the parent Company		(11,158,482)	(5,167,075)
		(11,158,482)	(5,167,075)
Total comprehensive income for the year attributable to:			
Owners of the parent Company		(11,185,837)	(5,215,397)
		(11,185,837)	(5,215,397)

There were no recognised gains and losses for 2022 or 2021 other than those included in the consolidated statement of comprehensive income.

The notes on pages 24 to 44 form part of these financial statements.

LUMINANCE TECHNOLOGIES LTD

REGISTERED NUMBER:09857705

**CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2022**

	Note	2022 £	2021 £
Fixed assets			
Tangible assets	12	427,263	289,378
		<u>427,263</u>	<u>289,378</u>
Current assets			
Debtors	14	3,327,362	2,903,972
Cash at bank and in hand	15	3,872,537	2,348,727
		<u>7,199,899</u>	<u>5,252,699</u>
Creditors: amounts falling due within one year	16	(3,341,760)	(1,885,071)
Net current assets		<u>3,858,139</u>	<u>3,367,628</u>
Total assets less current liabilities		<u>4,285,402</u>	<u>3,657,006</u>
Creditors: amounts falling due after more than one year	17	(17,074,038)	(6,104,613)
Provisions for liabilities			
Other provisions		(220,851)	-
		<u>(220,851)</u>	<u>-</u>
Net liabilities		<u>(13,009,487)</u>	<u>(2,447,607)</u>
Capital and reserves			
Called up share capital	21	29,831	29,831
Share premium account	22	18,813,062	18,813,062
Translation reserve	22	(27,355)	-
Profit and loss account	22	(31,825,025)	(21,290,500)
Equity attributable to owners of the parent Company		<u>(13,009,487)</u>	<u>(2,447,607)</u>

LUMINANCE TECHNOLOGIES LTD

REGISTERED NUMBER:09857705

CONSOLIDATED BALANCE SHEET (CONTINUED) AS AT 31 DECEMBER 2022

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 14 November 2023.

R S Webb
Director

The notes on pages 24 to 44 form part of these financial statements.

LUMINANCE TECHNOLOGIES LTD

REGISTERED NUMBER:09857705

COMPANY BALANCE SHEET**AS AT 31 DECEMBER 2022**

	Note	2022 £	2021 £
Fixed assets			
Tangible assets	12	425,829	288,941
Investments	13	274	174
		<u>426,103</u>	<u>289,115</u>
Current assets			
Debtors	14	3,313,409	2,902,489
Cash at bank and in hand	15	3,734,364	2,295,461
		<u>7,047,773</u>	<u>5,197,950</u>
Creditors: amounts falling due within one year		<u>(3,341,125)</u>	<u>(1,883,894)</u>
Net current assets		<u>3,706,648</u>	<u>3,314,056</u>
Total assets less current liabilities		<u>4,132,751</u>	<u>3,603,171</u>
Creditors: amounts falling due after more than one year		(17,074,038)	(6,104,613)
Provisions for liabilities			
Other provisions		(220,851)	-
		<u>(220,851)</u>	<u>-</u>
Net liabilities		<u>(13,162,138)</u>	<u>(2,501,442)</u>
Capital and reserves			
Called up share capital	21	29,831	29,831
Share premium account	22	18,813,062	18,813,062
Profit and loss account brought forward		(21,344,335)	(16,457,364)
Loss for the year		(11,284,653)	(5,165,954)
Other changes in the profit and loss account		623,957	278,983
		<u>(32,005,031)</u>	<u>(21,344,335)</u>
Deficit in shareholders' funds		<u>(13,162,138)</u>	<u>(2,501,442)</u>

LUMINANCE TECHNOLOGIES LTD

REGISTERED NUMBER:09857705

COMPANY BALANCE SHEET (CONTINUED)

AS AT 31 DECEMBER 2022

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 14 November 2023.

R S Webb

Director

The notes on pages 24 to 44 form part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022**

	Called up share capital	Share premium account	translation reserve	Profit and loss account	Equity attributable to owners of parent Company	Total equity
	£	£	£	£	£	£
At 1 January 2022	29,831	18,813,062	-	21,290,500	(2,447,607)	(2,447,607)
Comprehensive loss for the year						
Loss for the year	-	-	-	11,158,482	11,158,482	11,158,482
Translation reserve movement	-	-	(27,355)	-	(27,355)	(27,355)
Total comprehensive loss for the year	-	-	(27,355)	11,158,482	11,185,837	11,185,837
Credit to equity for share based payments	-	-	-	623,957	623,957	623,957
Total transactions with owners	-	-	-	623,957	623,957	623,957
At 31 December 2022	29,831	18,813,062	(27,355)	31,825,025	13,009,487	13,009,487

The notes on pages 24 to 44 form part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021**

	Called up share capital	Share premium account	Translation reserve	Profit and loss account	Equity attributable to owners of parent Company	Total equity
	£	£	£	£	£	£
At 1 January 2021	29,629	18,791,017	48,322	16,402,408	2,466,560	2,466,560
Comprehensive loss for the year						
Loss for the year	-	-	-	(5,167,075)	(5,167,075)	(5,167,075)
Translation reserve movement	-	-	(48,322)	-	(48,322)	(48,322)
Total comprehensive loss for the year	-	-	(48,322)	(5,167,075)	(5,215,397)	(5,215,397)
Shares issued during the year	202	22,045	-	-	22,247	22,247
Credit to equity for share based payments	-	-	-	278,983	278,983	278,983
Total transactions with owners	202	22,045	-	278,983	301,230	301,230
At 31 December 2021	29,831	18,813,062	-	21,290,500	(2,447,607)	(2,447,607)

The notes on pages 24 to 44 form part of these financial statements.

LUMINANCE TECHNOLOGIES LTD

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£	£	£	£
At 1 January 2022	29,831	18,813,062	(21,344,335)	(2,501,442)
Comprehensive income for the year				
Loss for the year	-	-	(11,284,653)	(11,284,653)
Total comprehensive income for the year	-	-	(11,284,653)	(11,284,653)
Credit to equity for share based payments	-	-	623,957	623,957
Total transactions with owners	-	-	623,957	623,957
At 31 December 2022	29,831	18,813,062	(32,005,031)	(13,162,138)

The notes on pages 24 to 44 form part of these financial statements.

LUMINANCE TECHNOLOGIES LTD

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£	£	£	£
At 1 January 2021	29,629	18,791,017	(16,457,364)	2,363,282
Comprehensive income for the year				
Loss for the year	-	-	(5,165,954)	(5,165,954)
Total comprehensive income for the year	-	-	(5,165,954)	(5,165,954)
Shares issued during the year	202	22,045	-	22,247
Credit to equity for share based payments	-	-	278,983	278,983
Total transactions with owners	202	22,045	278,983	301,230
At 31 December 2021	29,831	18,813,062	(21,344,335)	(2,501,442)

The notes on pages 24 to 44 form part of these financial statements.

LUMINANCE TECHNOLOGIES LTD

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2022

	2022 £	2021 £
Cash flows from operating activities		
Loss for the financial year	(11,158,482)	(5,167,075)
Adjustments for:		
Depreciation of tangible assets	208,650	111,903
Interest paid	1,016,852	397,857
Interest received	(496)	(389)
Taxation credit	(582,726)	(548,705)
Increase in debtors	(462,188)	(581,521)
Increase in creditors	1,456,689	1,123,998
Credit to equity for share based payments	623,957	278,983
Provision for USA sales taxes	220,851	-
Corporation tax received	574,936	19,162
Corporation tax paid	(331)	(36,418)
Translation reserve movement	(27,355)	(48,322)
Net cash generated from operating activities	(8,129,643)	(4,450,527)
Cash flows from investing activities		
Purchase of tangible fixed assets	(346,535)	(262,836)
Interest received	496	389
Net cash from investing activities	(346,039)	(262,447)

LUMINANCE TECHNOLOGIES LTD

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

	2022 £	2021 £
Cash flows from financing activities		
Proceeds from issues of convertible loan notes	10,000,000	5,706,853
Interest paid	(508)	(97)
Net cash used in financing activities	9,999,492	5,706,756
Net increase in cash and cash equivalents	1,523,810	993,782
Cash and cash equivalents at beginning of year	2,348,727	1,354,945
Cash and cash equivalents at the end of year	3,872,537	2,348,727
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	3,872,537	2,348,727
	3,872,537	2,348,727

The notes on pages 24 to 44 form part of these financial statements.

LUMINANCE TECHNOLOGIES LTD

CONSOLIDATED ANALYSIS OF NET DEBT FOR THE YEAR ENDED 31 DECEMBER 2022

	At 1 January 2022 £	Cash flows £	Other non-cash changes £	At 31 December 2022 £
Cash at bank and in hand	2,348,727	1,523,810	-	3,872,537
Debt due after 1 year	(6,104,613)	(10,000,000)	(969,425)	(17,074,038)
	<u>(3,755,886)</u>	<u>(8,476,190)</u>	<u>(969,425)</u>	<u>(13,201,501)</u>

The notes on pages 24 to 44 form part of these financial statements.

LUMINANCE TECHNOLOGIES LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. General information

Luminance Technologies Ltd is a private company limited by shares and incorporated in England and Wales. Registered number 09857705. Its registered office is located at Nine Hills Road, Cambridge, CB2 1GE. The principal place of business is 6 Duke Street St James's, London, SW1Y 6BN.

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 judgment in applying the Group's accounting policies (see note 3).

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 parent company is included in the consolidated financial statements and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The disclosure exemptions from preparing a separate parent company statement of cash flows and making certain disclosures in respect of financial instruments have been applied.

The following principal accounting policies have been applied:

2.2 Going concern

The Directors have considered a period of at least one year from the date these financial statements were approved and authorised in assessing the going concern basis of preparation of the Group's financial statements. They have reviewed forecasts and considered the wider business environment. They believe that the Group will have sufficient cash available to continue to trade and to settle its liabilities and other obligations as they fall due for the foreseeable future, being a period of at least 12 months from the date of approval of these financial statements. On this basis, the Directors believe the going concern basis of preparation to be appropriate.

LUMINANCE TECHNOLOGIES LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. Accounting policies (continued)

2.3 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.

2.4 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, using the straight-line method.

Depreciation is provided on the following basis:

Appliances	- 5 years
Computer equipment	- 2 to 3 years
Fixtures and fittings	- 2 to 3 years

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 profit or loss.

2.5 Investments

Investments in subsidiaries are measured at cost less accumulated impairment.

2.6 Debtors

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. Accounting policies (continued)

2.7 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.

2.8 Financial instruments

The Company has entered into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors 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.

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 Statement of Comprehensive Income.

2.9 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.

LUMINANCE TECHNOLOGIES LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. Accounting policies (continued)

2.10 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.

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.

2.11 Finance costs

Finance costs are charged to profit or loss 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.

2.12 Share-based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to profit or loss over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the Group keeping the scheme open or the employee maintaining any contributions required by the scheme).

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees, profit or loss is charged with fair value of goods and services received.

LUMINANCE TECHNOLOGIES LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. Accounting policies (continued)

2.13 Pensions

Defined contribution pension plan

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

The contributions are recognised as an expense in profit or loss when they fall due. Amounts not paid are shown in other creditors as a liability in the Balance Sheet. The assets of the plan are held separately from the Company in independently administered funds

2.14 Interest income

Interest income is recognised in profit or loss using the effective interest method.

2.15 Taxation

Tax is recognised in profit or loss 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.

LUMINANCE TECHNOLOGIES LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. Accounting policies (continued)

2.16 Basis of consolidation

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

The Parent Company is included in the consolidated financial statements, and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The disclosure exemption from preparing a separate Parent Company statement of cash flows has been applied.

2.17 Operating leases: the Group as lessee

Rentals paid under operating leases are charged to profit or loss on a straight-line basis over the lease term.

2.18 Provisions for liabilities

Provisions are made where an event has taken place that gives the Group a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to profit or loss in the year that the Group becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

2.19 Convertible debt

The proceeds received on issue of the Group's convertible debt are allocated into their liability and equity components and presented separately in the balance sheet date.

The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that did not include an option to convert.

The difference between the net proceeds of the convertible debt and the amount allocated to the debt component is credited direct to equity and is not subsequently remeasured. On conversion, the debt and equity elements are credited to share capital and share premium as appropriate.

Transaction costs that relate to the issue of the instrument are allocated to the liability and equity components of the instrument in proportion to the allocation of proceeds.

LUMINANCE TECHNOLOGIES LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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

The preparation of financial information in conformity with FRS 102 requires the directors to make critical accounting estimates and judgements that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The key judgement area impacting the financial statements is the directors' assessment regarding going concern and is discussed in note 2.2.

The key sources of estimation uncertainty affecting the financial statement are the measurement of the share based payment expense and the measurement of the liability component of the convertible debt. The key estimates made as part of the determination of the share based payment expense are the fair value of the options when they were granted, and the length of the vesting period. The key estimate made as part of the determination of the liability component is the market rate of interest that would be payable on a similar debt that does not include a conversion option.

4. Turnover

Turnover in the current year and the prior year is attributable to the principal activity of the Company. All turnover relates to the sale of services.

Analysis of turnover by country of destination:

	2022 £	2021 £
United Kingdom	1,273,743	1,024,436
Rest of Europe	1,875,731	1,529,787
Rest of the World	2,703,436	1,280,417
	<u>5,852,910</u>	<u>3,834,640</u>

5. Operating loss

The operating loss is stated after charging:

	2022 £	2021 £
Depreciation	208,650	111,903
Net foreign exchange losses	(197,368)	21,280
Other operating lease rentals	1,047,181	318,165
Share-based payment	<u>623,957</u>	<u>278,893</u>

LUMINANCE TECHNOLOGIES LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

6. Auditor's remuneration

During the year, the Group obtained the following services from the Company's auditor:

	2022 £	2021 £
Fees payable to the Company's auditor for the audit of the consolidated and parent Company's financial statements	26,500	22,000
Taxation compliance services	2,650	3,000
Research and development claim	5,100	4,800

7. Employees

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

	Group 2022 £	Group 2021 £	Company 2022 £	Company 2021 £
Wages and salaries	8,324,305	4,923,938	7,321,207	4,590,379
Social security costs	898,087	504,378	811,844	476,772
Cost of defined contribution scheme	208,493	130,478	205,082	127,895
	<u>9,430,885</u>	<u>5,558,794</u>	<u>8,338,133</u>	<u>5,195,046</u>

The average monthly number of employees, including the directors, during the year was as follows:

	Group 2022 No.	Group 2021 No.	Company 2022 No.	Company 2021 No.
General	<u>164</u>	<u>106</u>	<u>152</u>	<u>101</u>

8. Directors' remuneration

	2022 £	2021 £
Directors' emoluments	<u>35,000</u>	<u>35,000</u>

None of the directors were accruing retirement benefits in respect of defined contribution pension schemes in either the current or prior years.

LUMINANCE TECHNOLOGIES LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

9. Interest receivable

	2022 £	2021 £
Other interest receivable	496	389
	<u>496</u>	<u>389</u>

10. Interest payable and similar expenses

	2022 £	2021 £
Bank interest payable	508	97
Interest on convertible loan notes	969,425	397,760
Effect of discounting debtors due after one year	46,919	-
	<u>1,016,852</u>	<u>397,857</u>

11. Taxation

	2022 £	2021 £
Corporation tax		
Research and development tax credit on losses for the year	641,207	585,123
Adjustments in respect of previous periods	(57,819)	-
Foreign tax		
Foreign tax on income for the year	(662)	(36,418)
Taxation on loss on ordinary activities	<u>582,726</u>	<u>548,705</u>

LUMINANCE TECHNOLOGIES LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

11. Taxation (continued)

Factors affecting tax credit for the year

The tax assessed for the year is higher than (2021 - higher than) the standard rate of corporation tax in the UK of 19% (2021 - 19%). The differences are explained below:

	2022 £	2021 £
Loss on ordinary activities before tax	<u>(11,741,208)</u>	<u>(5,715,780)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2021 - 19%)	(2,230,830)	(1,085,998)
Effects of:		
Expenses not deductible for tax purposes	149,230	60,307
Capital allowances for year in excess of depreciation	(47,853)	(32,215)
Surrender of tax losses for R&D tax credit refund	(641,207)	(585,123)
Additional deduction for R&D expenditure	(474,897)	(433,359)
Deferred tax asset not recognised	2,742,911	1,497,972
Adjustments to tax charge in respect of prior periods	(57,819)	-
Difference between the UK and overseas tax rates	(22,261)	29,711
Total tax charge for the year	<u>(582,726)</u>	<u>(548,705)</u>

Factors that may affect future tax charges

On 3 March 2021, the Chancellor of the Exchequer announced that the main rate of corporation tax in the United Kingdom will rise to 25% with effect from 1 April 2023 for companies earning annual taxable profits in excess of £250,000. Companies earning annual taxable profits of £50,000 or less will continue to pay corporation tax at 19% with a marginal rate adjustment for companies earning annual taxable profits between the two levels. Accordingly, all recognised and unrecognised deferred tax assets and liabilities are stated at 25%.

At 31 December 2022, the Company had tax losses amounting to approximately £28.3m (2021 - £17.2m) which are available for offset against future taxable profits. A deferred tax asset of £7.1m (2021 - £4.3m) has not been recognised as the directors consider that it is uncertain that the tax losses will be utilised in the foreseeable future.

LUMINANCE TECHNOLOGIES LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

12. Tangible fixed assets

Group

	Appliances £	Computer equipment £	Fixtures and fittings £	Total £
Cost				
At 1 January 2022	87,858	441,542	114,890	644,290
Additions	-	313,689	32,846	346,535
At 31 December 2022	87,858	755,231	147,736	990,825
Depreciation				
At 1 January 2022	86,688	260,417	7,807	354,912
Charge for the year on owned assets	1,170	153,583	53,897	208,650
At 31 December 2022	87,858	414,000	61,704	563,562
Net book value				
At 31 December 2022	-	341,231	86,032	427,263
At 31 December 2021	1,170	181,125	107,083	289,378

LUMINANCE TECHNOLOGIES LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

12. Tangible fixed assets (continued)

Company

	Fixtures and fittings £	Office equipment £	Other fixed assets £	Total £
Cost or valuation				
At 1 January 2022	441,079	114,890	87,858	643,827
Additions	311,766	32,846	-	344,612
At 31 December 2022	752,845	147,736	87,858	988,439
Depreciation				
At 1 January 2022	260,391	7,807	86,688	354,886
Charge for the year on owned assets	152,657	53,897	1,170	207,724
At 31 December 2022	413,048	61,704	87,858	562,610
Net book value				
At 31 December 2022	339,797	86,032	-	425,829
At 31 December 2021	180,688	107,083	1,170	288,941

LUMINANCE TECHNOLOGIES LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

13. Fixed asset investments

Company

	Investments in subsidiary companies £
Cost or valuation	
At 1 January 2022	174
Additions	100
At 31 December 2022	<u>274</u>

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Registered office	Class of shares	Holding
Luminance Limited	Nine Hills Road, Cambridge, CB2 1GE	Ordinary	100 %
Luminance, Inc.	Nine Hills Road, Cambridge, CB2 1GE	Ordinary	100 %
Luminance Technology Ltd	Nine Hills Road, Cambridge, CB2 1GE	Ordinary	100 %

On 10 March 2022, the Company incorporated a wholly owned dormant subsidiary undertaking, Luminance Technology Limited for a consideration of £100.

Luminance, Inc. was incorporated in the USA.

LUMINANCE TECHNOLOGIES LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

14. Debtors

	Group 2022 £	Group 2021 £	Company 2022 £	Company 2021 £
Due after more than one year				
Other debtors	275,701	322,620	275,701	322,620
	275,701	322,620	275,701	322,620
Due within one year				
Trade debtors	1,061,575	618,145	1,058,451	618,145
Corporation tax receivable	1,168,180	1,160,059	1,168,511	1,160,059
Called up share capital not paid	22,247	22,247	22,247	22,247
VAT receivable	146,919	142,749	146,919	142,749
Other debtors	15,971	1,588	4,811	1,588
Prepayments and accrued income	636,769	636,564	636,769	635,081
	3,327,362	2,903,972	3,313,409	2,902,489

15. Cash and cash equivalents

	Group 2022 £	Group 2021 £	Company 2022 £	Company 2021 £
Cash at bank and in hand	3,872,537	2,348,727	3,734,364	2,295,461

16. Creditors: Amounts falling due within one year

	Group 2022 £	Group 2021 £	Company 2022 £	Company 2021 £
Trade creditors	433,068	376,065	433,068	374,714
Amounts owed to group undertakings	-	-	274	174
Other taxation and social security	212,345	121,033	211,436	121,033
Other creditors	60,419	33,051	60,419	33,051
Accruals and deferred income	2,635,928	1,354,922	2,635,928	1,354,922
	3,341,760	1,885,071	3,341,125	1,883,894

LUMINANCE TECHNOLOGIES LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

17. Creditors: Amounts falling due after more than one year

	Group 2022 £	Group 2021 £	Company 2022 £	Company 2021 £
Convertible loan notes	17,074,038	6,104,613	17,074,038	6,104,613
	<u>17,074,038</u>	<u>6,104,613</u>	<u>17,074,038</u>	<u>6,104,613</u>

In February 2021, the Company secured funding through a convertible loan note agreement with new and existing investors. The loan notes attract interest at 8% per annum, which will be converted into shares upon conversion. The loan notes will mature and convert into shares after 36 months from the date of issue unless an earlier conversion event occurs, or a majority of the lenders request cash repayment by giving 30 days' notice.

18. Loans

Analysis of the maturity of loans is given below:

	Group 2022 £	Group 2021 £	Company 2022 £	Company 2021 £
Amounts falling due 2-5 years				
Convertible loan notes	<u>17,074,038</u>	<u>6,104,613</u>	<u>17,074,038</u>	<u>6,104,613</u>

LUMINANCE TECHNOLOGIES LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

19. Financial instruments

	Group 2022 £	Group 2021 £	Company 2022 £	Company 2021 £
Financial assets				
Financial assets that are debt instruments measured at amortised cost	<u>5,199,320</u>	<u>3,291,219</u>	<u>5,073,327</u>	<u>3,237,814</u>
Financial liabilities				
Other financial liabilities measured at amortised cost	<u>20,203,453</u>	<u>7,868,654</u>	<u>20,203,727</u>	<u>7,867,474</u>

Financial assets measured at amortised cost comprise cash and cash equivalents, trade debtors, and other debtors.

Financial liabilities measured at amortised cost comprise of trade creditors, amounts owed to subsidiary undertakings, other creditors, accruals and deferred income and convertible loan notes.

20. Provisions

Group

	USA sales taxes £	Total £
Charged to profit or loss	<u>220,851</u>	<u>220,851</u>
At 31 December 2022	<u>220,851</u>	<u>220,851</u>

LUMINANCE TECHNOLOGIES LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

20. Provisions (continued)

Company

	USA sales taxes £	Total £
Charged to profit or loss	220,851	220,851
At 31 December 2022	220,851	220,851

The company is in the process of registering for sales taxes in various states of the USA. A provision has been made for estimated tax liabilities which will become payable when the company has registered.

21. Share capital

	2022 £	2021 £
Allotted, called up and fully paid		
1,000,000 (2021 - 1,000,000) A Ordinary shares of £0.01 each	10,000	10,000
1,962,928 (2021 - 1,962,928) B Ordinary shares of £0.01 each	19,629	19,629
20,225 (2021 - 20,225) Growth shares of £0.01 each	202	202
	29,831	29,831

Share rights

A Ordinary shares carry full voting rights but have no rights to dividends. Holders of A Ordinary shares are not conferred any rights to distribution, with the exception of £0.01 for each A Ordinary share held.

B Ordinary shares carry full voting rights, entitlement to dividends and a right to distributions after repayment of the capital of the A Ordinary shares shareholders.

The Growth shares do carry any voting rights or entitlement to dividends. They may be purchased by the Company at an amount equal to the original subscription price or may be converted into deferred shares. In the event of a winding-up, the Growth shares entitle the holder to participate in excess of a hurdle amount set for the shares at the time of issue.

Share issues

The Company issued 20,225 Growth shares for a consideration of £22,247 on 11 May 2021. The consideration remained outstanding as at 31 December 2021 and 31 December 2022.

LUMINANCE TECHNOLOGIES LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

22. Reserves

Share premium account - includes any premium received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Profit and loss account - includes the current and prior year losses.

Translation reserve - includes the foreign exchange movements relating to the translation of the overseas subsidiary.

LUMINANCE TECHNOLOGIES LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

23. Share-based payments

The Company has a share option scheme for certain employees. Share options are exercisable at prices determined at the date of grant. The share options vest in 6 month equal tranches over 3 years, subject to continued employment. Options are lapsed if the employee leaves the Company before the option vests. The contractual life of the share options is 10 years.

Movements in the number of share options outstanding and their weighted average exercise prices are as follows:

	Weighted average exercise price (pence) 2022	Number 2022	Weighted average exercise price (pence) 2021	Number 2021
Outstanding at the beginning of the year	1,891	67,315	1,681	63,834
Granted during the year	4,535	49,300	4,051	13,975
Lapsed during the year	(3,645)	(10,258)	(3,845)	(10,349)
Exercised during the year	-	-	(2,335)	(145)
Outstanding at the end of the year	3,062	106,357	1,891	67,315

The weighted average fair value of options granted during the year ended 31 December 2022 was £32.04 (2021 - £26.21). There are 40,040 options exercisable at the year ended 31 December 2022 (2021 - 50,231) with a weighted average exercise price of £6.23 (2021 - £11.57).

The fair value of share based payments has been calculated using the Black-Scholes option pricing model. Expected volatility was determined based on the historic volatility of comparable companies. The expected life is the expected period from date of grant to exercise based on management's best estimate. The following assumptions were used in the model for options granted during the year ended 31 December 2022 and 2021:

	2022	2021
Weighted average share price	£32.04	£39.52
Exercise price (dollars)	\$54.60	\$54.60
Weighted average contractual life (years)	8	8
Expected volatility	65%	65%
Expected dividend growth rate	0%	0%
Risk-free interest rate	4.75%	1.50%

LUMINANCE TECHNOLOGIES LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

23. Share-based payments (continued)

	2022 £	2021 £
Equity-settled schemes	<u>623,957</u>	<u>278,983</u>

24. Pension commitments

The Group operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost charge represents contributions payable by the Group to the fund and amounted to £208,493 (2021 - £130,484). Contributions totalling £57,816 (2021 - £33,051) were payable to the fund at the Balance Sheet date and are included in other creditors.

25. Commitments under operating leases

At 31 December 2022 the Group and the Company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	Group 2022 £	Group 2021 £	Company 2022 £	Company 2021 £
Not later than 1 year	916,914	905,700	905,700	905,700
Later than 1 year and not later than 5 years	1,828,800	2,380,800	1,828,800	2,380,800
Later than 5 years	324,225	677,925	324,225	677,925
	<u>3,069,939</u>	<u>3,964,425</u>	<u>3,058,725</u>	<u>3,964,425</u>

LUMINANCE TECHNOLOGIES LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

26. Related party transactions

During the year the Company has been recharged costs amounting to £762,864 (2021 - £868,335) from ICP London Limited, a related undertaking. During the year the Company made sales to ICP London Limited of £27,466 (2021 - £Nil). At 31 December 2022 a trade creditor balance of £73,589 (2021 - £Nil) was owed to ICP London Limited.

During the year the Company has provided cash funding to a wholly owned subsidiary undertaking Luminance, Inc. amounting to £1,618,650 (2021 - £605,654), and has had costs recharged of £1,654,622 (2021 - £488,564). At 31 December 2022, the Company owed Luminance, Inc. £74 (2021 - £74).

During the year the Company recharged costs of £77,338 (2021 - £Nil) to Neurence Limited, a company under the control of ICP London Limited.

At 31 December 2022 the Company owed £100 (2021 - £100) to Luminance Limited, a wholly owned subsidiary undertaking.

At 31 December 2022 the Company owed a convertible loan note balance of £3,375,287 (2021 - £3,140,423) to Luminance Holding Limited, the immediate parent undertaking. The balance included accrued interest of £439,486 (2021 - £204,621).

At 31 December 2022 the Company owed a convertible loan note balance of £210,258 (2021 - £Nil) to V Colomar, who is a director. The balance included accrued interest of £10,258 (2021 - £Nil).

Aggregate remuneration to key management personnel in the year remunerated by Luminance Technologies Ltd was £515,331 (2021 - £561,065). Additional individuals that are identified as key management personnel, who are not directors of Luminance Technologies Ltd, are remunerated through a fellow group undertaking and the cost is incurred by the Company through a management charge amounting to £791,156 (2021 - £571,196) for the year.

27. Post balance sheet events

The convertible loans per note 17 were covered into 1,489,968 C Ordinary shares of £0.01 each on 17 April 2023.

The company also issued a further 307,758 C Ordinary shares of £0.01 each for £5,001,067.50 on 17 April 2023.

The C Ordinary shares carry full voting rights, entitlement to dividends and a right to distributions after repayment of the capital of the A Ordinary shares shareholders.

28. Controlling party

As at 31 December 2022, the Company's immediate and ultimate parent undertaking and controlling party was Luminance Holding Limited, a company registered in the British Virgin Islands.

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.