

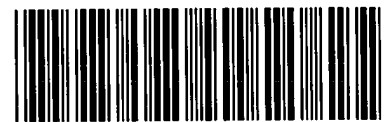
Registered number: 09973282

SECONDMIND LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

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SECONDMIND LIMITED

COMPANY INFORMATION

Directors	Dr D Kim Dr H M Hauser Professor C E Rasmussen Mr K Dillon Mr G Brotman Mr A Broun Mr I M Lane (appointed 20 April 2022) Passion Capital Nominees Limited (appointed 13 May 2022) Ms E Burbidge (resigned 13 May 2022) Mr A Williamson (resigned 20 April 2022)
Company secretary	OHS Secretaries Limited
Registered number	09973282
Registered office	9th Floor 107 Cheapside London EC2V 6DN
Trading Address	72 Hills Road Cambridge CB2 1LA
Independent auditors	Price Bailey LLP Chartered Accountants & Statutory Auditors Tennyson House Cambridge Business Park Cambridge CB4 0WZ

SECONDMIND LIMITED

CONTENTS

	Page
Group Strategic Report	1 - 3
Directors' Report	4 - 5
Independent Auditors' Report	6 - 9
Consolidated Statement of Comprehensive Income	10
Consolidated Balance Sheet	11
Company Balance Sheet	12
Consolidated Statement of Changes in Equity	13 - 14
Company Statement of Changes in Equity	15 - 16
Consolidated Statement of Cash Flows	17
Consolidated Analysis of Net Debt	18
Notes to the Financial Statements	19 - 40

SECONDMIND LIMITED

GROUP STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

The directors present their strategic report together with the audited financial statements for the year ended 31 December 2022.

Principal activities

The principal activities of the Group were the development and distribution of autonomous optimization systems to transform product engineering in Automotive.

Business review

The Group revenue was £2.39m, 83.3 % higher than the prior year with £1.31m.

During the year the Group continued to invest in research and development of Active Learning approaches to solving high-complexity engineering problems in automotive design and development.

Secondmind is positioned to be a market leader in AI software as a service in the Automotive sector. The Group strategy is to invest in its people, products and advanced machine learning to become the global leader in cloud-based autonomous systems that will transform Automotive product engineering, design simulation, and ongoing optimization across the lifecycle of the software defined vehicle. The Group's dedicated applied research team has established the commercial benefits of using Active Learning, underpinned by Gaussian Process and Bayesian Optimisation, to address a broad range of engineering applications from optimizing early designs of complex systems to in-vehicle performance and driving experiences.

Secondmind monitors its key markets and its product development.

Principal risks and uncertainties

Changes in the economic condition in the global market is a continuing risk for the Group which was compounded by the worldwide Covid-19 pandemic. The Group managed to move to a remote working environment with minor disruption to the operating business and in 2022 moved to a hybrid working environment allowing staff to return to working in the Group offices as well as being able to work from home.

The Group manages the credit risk arising from bad debt by continually developing regular communication with customers at all levels throughout the organisation and ensuring all employees understand the importance of managing this risk.

The Group manages the foreign currency risk by holding funds in local currencies in the local subsidiaries and through credit terms.

Financial risk management objectives and policies

The Group uses financial instruments such as cash, borrowings, receivables and payables in order to raise finance for the Group's operations. The existence of these instruments exposes the Group to financial risks which are detailed below:

Liquidity risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Group has managed to raise significant funds but also taken steps to reduce its cost base and extend the cash runway.

SECONDMIND LIMITED

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

Interest risk

The Group does not have any debt financing from its banking arrangements.

In December 2020, the Group acquired funds through the Future Fund by the issue of convertible loan notes. The convertible loan notes are due to mature 36 months after the execution date of the Convertible Loan Agreement (CLA) unless there is an earlier event such as sale of the business. The interest charged is 8% and accumulates over the term and is only charged on conversion of the CLA into shares. The Group may elect to repay the interest prior to conversion.

Management do not consider either the availability of future debt nor probable interest rate movements to be a significant risk to the business.

Credit risk

The principal credit risk for the Group arises from its trade receivables. Secondmind's customer base is made up of large financially secure corporations and as such credit risk is deemed to be low. This is demonstrated by the trivial nature of historic bad debt write offs in the group.

As at 31 December 2022, there were no material credit risk balances that were not provided for.

Liquidity and going concern

The Group's activities are described above. The directors believe the Group is structured to successfully manage and control the business risks it faces, despite the current economic uncertainty. The Group manages liquidity needs through its cash balances.

On this basis the directors have a reasonable expectation that the Group can continue in operational existence for the foreseeable future and they therefore continue to adopt the going concern basis in preparing the annual report and accounts.

Environment

The Group recognises that all its activities interact with the environment and is committed to minimising the adverse impacts and improving process efficiency. The Group has developed and implemented a broad ESG program that includes initiatives designed to minimise the Group's impact on the environment including cycle to work schemes and the provision of a secure bike park rather than extensive car parking at the Group's main office. The Group also encourages employees to recycle using separation of waste. The pandemic has significantly changed working arrangements both in terms of working remotely which reduced commuting and in terms of international travel. The Group will look to continue flexible working arrangements to reduce commuting and where possible to use technology rather than international travel for meetings and events.

Employees

The Group is committed to staff retention and development and we have internal training courses designed to provide employees with the skills necessary for their role and future development. The Group has targeted hiring highly qualified technical and research employees as well as experienced executives to lead the Group through to the next stage of development. The Group has targeted diversity of employees as an appropriate goal through a workforce comprising of many different nationalities and promoting policies intended to bolster gender diversity.

The Group has a share option scheme for all its employees to enable them to share in the future wealth creation of the Group. The Group's benefit scheme is continually reviewed to ensure employees are rewarded and recognised during their employment.

SECONDMIND LIMITED

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

Future prospects

The Group has strong client relationships, has achieved significant results and provides a platform, together with its talented employees and extensive financial resources, to execute its objectives to become the global leader in autonomous optimisation systems for Automotive.

Key performance indicators

The Directors of the Group continue to review and manage both financial and non-financial KPIs on a regular basis. These KPIs include Revenue, EBITDA, and the research and development expenditure during the year as set out in the table below.

	2022	2021
	£	£
Revenue	2,393,155	1,305,408
EBITDA	(6,705,598)	(10,207,207)
Research and development expenditure	4,859,077	3,639,546

03 Apr 2023

This report was approved by the board on

and signed on its behalf.

Gary Brotman

Gary Brotman (Apr 3, 2023, 4:41 pm)

.....
Mr G Brotman
Director

SECONDMIND LIMITED

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.

Directors

The Directors who served during the year were:

Dr D Kim
Dr H M Hauser
Professor C E Rasmussen
Mr K Dillon
Mr G Brotman
Mr A Broun
Mr I M Lane (appointed 20 April 2022)
Passion Capital Nominees Limited (appointed 13 May 2022)
Ms E Burbidge (resigned 13 May 2022)
Mr A Williamson (resigned 20 April 2022)

Results and dividends

The loss for the year, after taxation, amounted to £7,340,917 (2021 - loss £10,555,529).

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.

Future developments

The Group has strong client relationships, has achieved significant results and provides a platform, together with its talented employees and extensive financial resources, to execute its objectives to become the global leader in autonomous optimisation systems for Automotive.

SECONDMIND LIMITED

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

Disclosure of information to auditors

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 auditors are 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 auditors are aware of that information.

Post balance sheet events

There have been no significant events affecting the Group since the year end.

Auditors

Under section 487(2) of the Companies Act 2006, Price Bailey LLP will be deemed to have been reappointed as auditors 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

03 Apr 2023

This report was approved by the board on

and signed on its behalf.

Gary Brotman

Gary Brotman (Apr 3, 2023, 4:41pm)

.....
Mr G Brotman
Director

SECONDMIND LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SECONDMIND LIMITED

Opinion

We have audited the financial statements of Secondmind Limited (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 Auditors' 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.

Material uncertainty related to going concern

We draw attention to note 2.3 in the financial statements, which indicates that there is a need for the Group to secure some additional funding via existing or new investors. As stated in note 2.3, these events or conditions, along with the other matters as set forth in note 2.3, indicate that a material uncertainty exists that may cast significant doubt on the Group's or the parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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. Our evaluation of the Directors' assessment of the Group's ability to continue to adopt the going concern basis of accounting included a review of the forecasts and plans going forward, which highlighted the need to secure some additional funding to continue trading for a period of at least 12 months.

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

SECONDMIND LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SECONDMIND LIMITED (CONTINUED)

Other information

The other information comprises the information included in the Annual Report other than the financial statements and our Auditors' 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.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, 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.

SECONDMIND LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SECONDMIND LIMITED (CONTINUED)

Auditors' 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 Auditors' 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 gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates and considered the risk of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations. This included those regulations directly related to the financial statements, including financial reporting, tax legislation and distributable profits and industry regulations including GDPR, employment law and health and safety.

We communicated the identified laws and regulations with the audit team and remained alert to any indications of non-compliance throughout the audit. We carried out specific procedures to address the risks identified. These included the following:

- agreeing the financial statement disclosures to underlying supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiries of management including those responsible for key regulations;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;

In addressing the risk of management override of controls, we carried out testing of journal entries and other adjustments for appropriateness, assessing whether the judgements made in making accounting estimates are indicative of a potential bias and evaluating the business rationale of significant transactions outside the normal course of business.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

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 Auditors' Report.

SECONDMIND LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SECONDMIND LIMITED (CONTINUED)

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditors' 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.

Paul Cullen FCCA (Senior Statutory Auditor)

for and on behalf of

Price Bailey LLP

Chartered Accountants

Statutory Auditors

Tennyson House

Cambridge Business Park

Cambridge

CB4 0WZ

4 April 2023

SECONDMIND LIMITED

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

	Note	2022 £	2021 £
Turnover	4	2,393,157	1,305,408
Gross profit		<u>2,393,157</u>	<u>1,305,408</u>
Administrative expenses		(10,055,304)	(9,861,707)
Exceptional administrative expenses		(450,000)	(1,784,648)
Other operating income	5	485,037	462,830
Fair value movements		725,480	(578,321)
Operating loss	6	<u>(6,901,630)</u>	<u>(10,456,438)</u>
Interest receivable and similar income	10	64,609	797
Interest payable and similar expenses	11	(1,370,939)	(1,162,090)
Loss before taxation		<u>(8,207,960)</u>	<u>(11,617,731)</u>
Tax on loss	12	867,043	1,062,202
Loss for the financial year		<u>(7,340,917)</u>	<u>(10,555,529)</u>
Other comprehensive income			
Currency translation differences		383	(6,225)
Share based payments		1,046,304	994,891
Other comprehensive income for the year		<u>1,046,687</u>	<u>988,666</u>
(Loss) for the year attributable to:			
Owners of the parent Company		<u>(7,340,917)</u>	<u>(10,555,529)</u>
Total comprehensive income for the year attributable to:			
Owners of the parent Company		<u>1,046,687</u>	<u>988,666</u>

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 19 to 40 form part of these financial statements.

SECONDMIND LIMITED
REGISTERED NUMBER: 09973282

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2022

	Note	2022 £	2021 £
Fixed assets			
Intangible assets	15	222,508	251,230
Tangible assets	16	44,994	348,786
		267,502	600,016
Current assets			
Debtors: amounts falling due after more than one year	18	-	742,363
Debtors: amounts falling due within one year	18	4,088,219	1,933,104
Cash at bank and in hand	19	2,300,295	7,583,288
		6,388,514	10,258,755
Creditors: amounts falling due within one year	20	(16,311,403)	(14,220,189)
Net current liabilities		(9,922,889)	(3,961,434)
Net liabilities		(9,655,387)	(3,361,418)
Capital and reserves			
Called up share capital	22	4	4
Share premium account	23	38,263,518	38,263,257
Foreign exchange reserve	23	4,904	4,521
Other reserves	23	4,565,885	4,272,692
Profit and loss account	23	(52,489,698)	(45,901,892)
		(9,655,387)	(3,361,418)

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 03 Apr 2023

Gary Brotman

Gary Brotman (Apr 3, 2023, 4:41 pm)

.....
Mr G Brotman
Director

The notes on pages 19 to 40 form part of these financial statements.

SECONDMIND LIMITED
REGISTERED NUMBER: 09973282

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2022

	Note	2022 £	2021 £
Fixed assets			
Intangible assets	15	222,508	251,230
Tangible assets	16	43,933	347,420
Investments	17	8,040	8,039
		274,481	606,689
Current assets			
Debtors: amounts falling due after more than one year	18	-	742,363
Debtors: amounts falling due within one year	18	4,102,646	1,978,235
Cash at bank and in hand	19	2,184,720	7,511,944
		6,287,366	10,232,542
Creditors: amounts falling due within one year	20	(16,243,855)	(14,199,316)
Net current liabilities		(9,956,489)	(3,966,774)
Net liabilities		(9,682,008)	(3,360,085)
Capital and reserves			
Called up share capital	22	4	4
Share premium account	23	38,263,518	38,263,257
Other reserves	23	4,565,885	4,272,692
Profit and loss account brought forward		(45,896,038)	(36,873,305)
Loss for the year		(7,368,488)	(10,641,248)
Other changes in the profit and loss account		753,111	1,618,515
		(52,511,415)	(45,896,038)
Profit and loss account carried forward		(9,682,008)	(3,360,085)

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

Gary Brotman

03 Apr 2023

Gary Brotman (Apr 3, 2023, 4:41 pm)

Mr G Brotman
 Director

The notes on pages 19 to 40 form part of these financial statements.

SECONDMIND LIMITED

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

	Called up share capital	Share premium account	Foreign exchange reserve	Share based payment reserve	Profit and loss account	Total equity
	£	£	£	£	£	£
At 1 January 2022	4	38,263,257	4,521	4,272,692	(45,901,892)	(3,361,418)
Comprehensive income for the year						
Loss for the year	-	-	-	-	(7,340,917)	(7,340,917)
Currency translation differences	-	-	383	-	-	383
Share based payments	-	-	-	1,046,304	-	1,046,304
Total comprehensive income for the year	-	-	383	1,046,304	(7,340,917)	(6,294,230)
Contributions by and distributions to owners						
Shares issued during the year	-	261	-	-	-	261
Transfer to/from profit and loss account	-	-	-	(753,111)	753,111	-
Total transactions with owners	-	261	-	(753,111)	753,111	261
At 31 December 2022	4	38,263,518	4,904	4,565,885	(52,489,698)	(9,655,387)

The notes on pages 19 to 40 form part of these financial statements.

SECONDMIND LIMITED

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

	Called up share capital	Share premium account	Foreign exchange reserve	Share based payment reserve	Profit and loss account	Total equity
	£	£	£	£	£	£
At 1 January 2021	4	38,075,168	10,746	4,896,316	(36,964,878)	6,017,356
Comprehensive income for the year						
Loss for the year	-	-	-	-	(10,555,529)	(10,555,529)
Currency translation differences	-	-	(6,225)	-	-	(6,225)
Share based payments	-	-	-	994,891	-	994,891
Total comprehensive income for the year	-	-	(6,225)	994,891	(10,555,529)	(9,566,863)
Shares issued during the year	-	188,089	-	-	-	188,089
Reserve transfer from the share based payment reserve	-	-	-	(1,618,515)	1,618,515	-
Total transactions with owners	-	188,089	-	(1,618,515)	1,618,515	188,089
At 31 December 2021	4	38,263,257	4,521	4,272,692	(45,901,892)	(3,361,418)

The notes on pages 19 to 40 form part of these financial statements.

SECONDMIND LIMITED

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

	Called up share capital £	Share premium account £	Share based payment reserve £	Profit and loss account £	Total equity £
At 1 January 2022	4	38,263,257	4,272,692	(45,896,038)	(3,360,085)
Comprehensive income for the year					
Loss for the year	-	-	-	(7,368,488)	(7,368,488)
Share based payments	-	-	1,046,304	-	1,046,304
Total comprehensive income for the year	<u>-</u>	<u>-</u>	<u>1,046,304</u>	<u>(7,368,488)</u>	<u>(6,322,184)</u>
Contributions by and distributions to owners					
Shares issued during the year	-	261	-	-	261
Transfer to/from profit and loss account	-	-	(753,111)	753,111	-
At 31 December 2022	<u>4</u>	<u>38,263,518</u>	<u>4,565,885</u>	<u>(52,511,415)</u>	<u>(9,682,008)</u>

The notes on pages 19 to 40 form part of these financial statements.

SECONDMIND LIMITED

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

	Called up share capital	Share premium account	Share based payment reserve	Profit and loss account	Total equity
	£	£	£	£	£
At 1 January 2021	4	38,075,168	4,896,316	(36,873,305)	6,098,183
Comprehensive income for the year					
Loss for the year	-	-	-	(10,641,248)	(10,641,248)
Share based payments	-	-	994,891	-	994,891
Total comprehensive income for the year	-	-	994,891	(10,641,248)	(9,646,357)
Shares issued during the year	-	188,089	-	-	188,089
Reserve transfer from the share based payment reserve	-	-	(1,618,515)	1,618,515	-
Total transactions with owners	-	188,089	(1,618,515)	1,618,515	188,089
At 31 December 2021	4	38,263,257	4,272,692	(45,896,038)	(3,360,085)

The notes on pages 19 to 40 form part of these financial statements.

SECONDMIND LIMITED

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

	2022 £	2021 £
Cash flows from operating activities		
Loss for the financial year	(7,340,917)	(10,555,529)
Adjustments for:		
Amortisation of intangible assets	28,722	28,722
Depreciation of tangible assets	167,310	220,528
Loss on disposal of tangible assets	154,633	14,766
Interest received	(64,609)	(797)
Taxation charge	(867,043)	(1,062,202)
(Increase)/decrease in debtors	(1,412,752)	527,664
Increase in creditors	2,816,694	1,247,019
Net fair value (gains)/losses recognised in P&L	(725,480)	578,321
Corporation tax received	867,043	1,062,202
Foreign exchange	383	(6,225)
Share based payments	1,046,304	994,891
Net cash generated from operating activities	(5,329,712)	(6,950,640)
Cash flows from investing activities		
Purchase of tangible fixed assets	(29,701)	(20,180)
Sale of tangible fixed assets	11,550	1
Interest received	64,609	797
Net cash from investing activities	46,458	(19,382)
Cash flows from financing activities		
Issue of ordinary shares	261	188,089
Net cash used in financing activities	261	188,089
Net (decrease) in cash and cash equivalents	(5,282,993)	(6,781,933)
Cash and cash equivalents at beginning of year	7,583,288	14,365,221
Cash and cash equivalents at the end of year	2,300,295	7,583,288
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	2,300,295	7,583,288

The notes on pages 19 to 40 form part of these financial statements.

SECONDMIND LIMITED

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

	At 1 January 2022 £	Cash flows £	At 31 December 2022 £
Cash at bank and in hand	7,583,288	(5,282,993)	2,300,295

The notes on pages 19 to 40 form part of these financial statements.

SECONDMIND LIMITED

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

1. General information

Secondmind Limited is a private company limited by shares incorporated in England and Wales, United Kingdom. The address of the registered office is 9th Floor, 107 Cheapside, London, EC2V 6DN.

The principal activity of the company continued to be that of the development of autonomous decision making systems.

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 following principal accounting policies have been applied:

2.2 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 consolidated financial statements incorporate the results of business combinations using the purchase method. In the Balance Sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the Consolidated Statement of Comprehensive Income from the date on which control is obtained. They are deconsolidated from the date control ceases.

In accordance with the transitional exemption available in FRS 102, the Group has chosen not to retrospectively apply the standard to business combinations that occurred before the date of transition to FRS 102, being 01 January 2018.

SECONDMIND LIMITED

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

2. Accounting policies (continued)

2.3 Going concern

The directors have considered the going concern basis of preparation of the financial statements, noting the result for the year, forecasts and plans going forward. The current plans and forecasts indicate that losses will continue in the short term as the Group continues to incur expenditure on the development of its platform.

Since the balance sheet date the Group has received verbal agreements from internal and external investors to inject additional funds of circa £3.1m in Q2 2023. The directors are confident from the discussions held with investors that they have the intention and ability to provide the additional funding and support needed in order for the Group to meet its liabilities as they fall due for a period of not less than 12 months from the date of approval of these financial statements.

Forecasts have been prepared by the directors factoring in such levels of investment. The most recent cash flow forecasts indicate that depending on the timing of cash flows this will provide the Group with sufficient resources through 2024.

In the absence of a formal agreement being in place at the date of approval of these financial statements and in the unlikely event that the verbally agreed funding is not forthcoming there may be a material uncertainty which may cast significant doubt on the Group and the parent company's ability to continue as a going concern.

In conclusion the financial statements have been prepared on a going concern basis and do not include any adjustments that would result if the Group was not able to continue as a going concern.

2.4 Turnover

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the Group and the turnover can be reliably measured. Turnover 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 turnover is recognised:

Rendering of services

Turnover 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 turnover 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.

SECONDMIND LIMITED

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

2. Accounting policies (continued)

2.5 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.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

The estimated useful lives range as follows:

Re-branding costs	-	10	years straight line
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2.6 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.

At each reporting date the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

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:

Leasehold property improvements	-	5/10	years straight line
Office equipment	-	4	years straight line
Computer equipment	-	3	years straight line

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.

2.7 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

2.8 Debtors

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

SECONDMIND LIMITED

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

2. Accounting policies (continued)

2.9 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.

2.10 Financial instruments

Non-basic debt instruments, including convertible loans, are measured at fair value with any changes in value being recognised in the Statement of Comprehensive Income.

Basic 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.

2.11 Creditors

Short-term creditors are measured at the transaction price.

SECONDMIND LIMITED

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

2. Accounting policies (continued)

2.12 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 profit or loss 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 within 'finance income or costs'.

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. All income and expenditure is translated at the average rate for the year. Exchange differences arising between the rates are allocated to a foreign exchange reserve within equity.

2.13 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. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

SECONDMIND LIMITED

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

2. Accounting policies (continued)

2.14 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.

2.15 Operating leases: the Group as lessor

Rental income from operating leases is credited to profit or loss on a straight-line basis over the lease term.

Amounts paid and payable as an incentive to sign an operating lease are recognised as a reduction to income over the lease term on a straight-line basis, unless another systematic basis is representative of the time pattern over which the lessor's benefit from the leased asset is diminished.

2.16 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.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight-line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

2.17 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 payment obligations.

The contributions are recognised as an expense in profit or loss 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.

SECONDMIND LIMITED

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

2. Accounting policies (continued)

2.18 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.

2.19 Interest income

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

2.20 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.

2.21 Exceptional items

Exceptional items are transactions that fall within the ordinary activities of the Group but are presented separately due to their size or incidence.

2.22 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.

SECONDMIND LIMITED

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

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

In the application of the Group's accounting policies, the directors are required to make significant judgments, estimates and assumptions. The estimates and associated assumptions are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results ultimately may differ from those estimates.

These estimates and judgments are continually evaluated and based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances prevailing at that time. In preparation of the company's financial statements, estimates and assumptions have been made by the Directors concerning the fair value of share options, fair value of convertible loans, revenue recognition, the non-recognition of deferred tax assets, the estimated useful lives of tangible and intangible assets, accruals and provisions required, and similar evaluations. Actual amounts may differ from estimates.

Revisions to accounting estimates are recognised in the year in which the estimate is reviewed if the revision affects only that year, or in the year of the revision and future years if the revision affects both the current and future years.

4. Turnover

The whole of the turnover is attributable to the one principal activity of the Group.

Analysis of turnover by country of destination:

	2022 £	2021 £
Rest of Europe	-	46,597
Rest of the world	2,393,157	1,258,811
	<u>2,393,157</u>	<u>1,305,408</u>

5. Other operating income

	2022 £	2021 £
Net rents receivable	<u>485,037</u>	<u>462,830</u>

SECONDMIND LIMITED

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

6. Operating loss

The operating loss is stated after charging:

	2022 £	2021 £
Research & development charged as an expense	414,626	258,271
Exchange differences	(18,628)	24,966
Other operating lease rentals	522,569	991,622
Share-based payment	1,046,304	1,094,902
Depreciation	167,310	220,509
Amortisation	28,722	28,722
	4,199,858	4,528,991

7. Auditors' remuneration

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

	2022 £	2021 £
Fees payable to the Company's auditors for the audit of the consolidated and parent Company's financial statements	33,250	33,100

8. Employees

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

	Group 2022 £	Group 2021 £	Company 2022 £	Company 2021 £
Wages and salaries	4,512,594	4,640,437	4,232,551	4,449,913
Social security costs	511,606	583,135	486,300	568,078
Cost of defined contribution scheme	166,196	96,088	166,196	96,088
	5,190,396	5,319,660	4,885,047	5,114,079

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.
Directors	8	8	8	8
Employees	53	57	50	55
	61	65	58	63

Directors includes 5 (2021 - 4) Directors that did not receive remuneration.

SECONDMIND LIMITED

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

9. Directors' remuneration

	2022 £	2021 £
Directors' emoluments	409,455	304,511
Group contributions to defined contribution pension schemes	14,625	5,801
	424,080	310,312

During the year retirement benefits were accruing to 2 Directors (2021 - 3) in respect of defined contribution pension schemes.

The highest paid Director received remuneration of £267,270 (2021 - £131,460).

The value of the Group's contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £10,125 (2021 - £2,356).

During the year there were 3 Directors (2021 - 3) that received share options or equivalent equity instruments during the year.

10. Interest receivable

	2022 £	2021 £
Other interest receivable	64,609	797
	64,609	797

11. Interest payable and similar expenses

	2022 £	2021 £
Other interest payable	1,370,939	1,162,090
	1,370,939	1,162,090

12. Taxation

	2022 £	2021 £
Corporation tax		
Current tax on profits for the year	(867,043)	(992,175)
Adjustments in respect of previous periods	-	(70,027)
	(867,043)	(1,062,202)
Total current tax		

SECONDMIND LIMITED

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

12. Taxation (continued)

Factors affecting tax charge 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	(8,207,960)	(11,617,731)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2021 - 19%)	(1,559,512)	(2,207,369)
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	233,210	246,573
Capital allowances for year in excess of depreciation	7,188	712
Enhanced research and development expenditure	(566,935)	(662,715)
Losses surrendered for research and development tax credit	1,003,040	1,172,496
Adjustments to tax charge in respect of prior periods	-	(70,027)
Research and development tax credit	(845,996)	(971,893)
Other timing differences leading to an increase (decrease) in taxation	231	364
Adjustments to brought forward values	-	(2,653)
Movement in deferred tax not recognised	858,423	2,926,588
Remeasurement of deferred tax for changes in tax rates	-	(1,480,700)
Other differences leading to an increase (decrease) in the tax charge	(2,300)	(13,578)
Group relief	5,608	-
Total tax charge for the year	(867,043)	(1,062,202)

Factors that may affect future tax charges

The company losses totaling £28,989,444 (2021 - £24,746,977) available for carry forward against future profits.

The company has a potential deferred tax asset of £7,247,361 (2021 - £6,186,745) on the above losses. This has not been recognised in the financial statements due to the uncertainty when such losses will be utilised.

SECONDMIND LIMITED

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

13. Exceptional items

	2022	2021
	£	£
Restructure costs	450,000	1,784,648
	<u>450,000</u>	<u>1,784,648</u>

Following the restructuring and rebranding of the group during the year, these costs have been included as exceptional items.

14. Parent company profit for the year

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 £7,368,488 (2021 - loss £10,641,248).

15. Intangible assets

Group and Company

	Trademarks £
Cost	
At 1 January 2022	287,112
At 31 December 2022	<u>287,112</u>
Amortisation	
At 1 January 2022	35,882
Charge for the year on owned assets	28,722
At 31 December 2022	<u>64,604</u>
Net book value	
At 31 December 2022	<u>222,508</u>
At 31 December 2021	<u>251,230</u>

SECONDMIND LIMITED

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

16. Tangible fixed assets

Group

	Leasehold property improvements £	Office equipment £	Computer equipment £	Total £
Cost or valuation				
At 1 January 2022	404,834	58,107	340,683	803,624
Additions	18,825	1,392	9,484	29,701
Disposals	(344,062)	(13,420)	(2,299)	(359,781)
Transfers between classes	(50,706)	50,706	-	-
At 31 December 2022	<u>28,891</u>	<u>96,785</u>	<u>347,868</u>	<u>473,544</u>
Depreciation				
At 1 January 2022	161,945	31,416	261,477	454,838
Charge for the year on owned assets	56,920	36,273	74,117	167,310
Disposals	(181,984)	(9,634)	(1,980)	(193,598)
Transfers between classes	(18,833)	18,833	-	-
At 31 December 2022	<u>18,048</u>	<u>76,888</u>	<u>333,614</u>	<u>428,550</u>
Net book value				
At 31 December 2022	<u>10,843</u>	<u>19,897</u>	<u>14,254</u>	<u>44,994</u>
At 31 December 2021	<u>242,889</u>	<u>26,691</u>	<u>79,206</u>	<u>348,786</u>

SECONDMIND LIMITED

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

16. Tangible fixed assets (continued)

Company

	Leasehold property improvements £	Office equipment £	Computer equipment £	Total £
Cost or valuation				
At 1 January 2022	404,834	58,107	338,635	801,576
Additions	18,825	1,392	8,041	28,258
Disposals	(344,062)	(13,420)	(2,299)	(359,781)
Transfers between classes	(50,706)	50,706	-	-
At 31 December 2022	<u>28,891</u>	<u>96,785</u>	<u>344,377</u>	<u>470,053</u>
Depreciation				
At 1 January 2022	161,945	31,416	260,795	454,156
Charge for the year on owned assets	56,920	36,273	72,369	165,562
Disposals	(181,984)	(9,634)	(1,980)	(193,598)
Transfers between classes	(18,833)	18,833	-	-
At 31 December 2022	<u>18,048</u>	<u>76,888</u>	<u>331,184</u>	<u>426,120</u>
Net book value				
At 31 December 2022	<u><u>10,843</u></u>	<u><u>19,897</u></u>	<u><u>13,193</u></u>	<u><u>43,933</u></u>
At 31 December 2021	<u><u>242,889</u></u>	<u><u>26,691</u></u>	<u><u>77,840</u></u>	<u><u>347,420</u></u>

SECONDMIND LIMITED

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

17. Fixed asset investments

Company

	Investments in subsidiary companies £
Cost or valuation	
At 1 January 2022	8,040
At 31 December 2022	8,040

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Registered office	Class of shares	Holding
Secondmind Inc	c/o Vcorp Services LLC, 1013 Centre Road, Suite 403-B, Wilmington, New Castle, Delaware 19805, USA	Ordinary	100%
Secondmind Kabushiki Kaisha	Shin-Yokohama Square Bldg 14F, 2-3-12 Shin- Yokohama, Kohoku-ku, Yokohama, Kanagawa, Japan	Ordinary	100%

The aggregate of the share capital and reserves as at 31 December 2022 and the profit or loss for the year ended on that date for the subsidiary undertakings were as follows:

Name	Aggregate of share capital and reserves £	Profit/(Loss) £
Secondmind Inc	10,235	8,094
Secondmind Kabushiki Kaisha	22,412	19,477

SECONDMIND LIMITED

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

18. Debtors

	Group 2022 £	Group 2021 £	Company 2022 £	Company 2021 £
Due after more than one year				
Other debtors	-	742,363	-	742,363

	Group 2022 £	Group 2021 £	Company 2022 £	Company 2021 £
Due within one year				
Trade debtors	2,005,326	549,773	2,005,326	549,773
Amounts owed by group undertakings	-	-	19,499	47,103
Other debtors	1,911,522	1,006,272	1,909,492	1,005,104
Prepayments and accrued income	171,371	377,059	168,329	376,255
	<u>4,088,219</u>	<u>1,933,104</u>	<u>4,102,646</u>	<u>1,978,235</u>

19. Cash and cash equivalents

	Group 2022 £	Group 2021 £	Company 2022 £	Company 2021 £
Cash at bank and in hand	<u>2,300,295</u>	<u>7,583,288</u>	<u>2,184,720</u>	<u>7,511,944</u>

SECONDMIND LIMITED

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

20. Creditors: Amounts falling due within one year

	Group 2022 £	Group 2021 £	Company 2022 £	Company 2021 £
Trade creditors	220,454	102,181	212,149	100,314
Amounts owed to group undertakings	-	-	-	642
Corporation tax	1,727	2,887	-	-
Other taxation and social security	252,313	278,540	221,448	274,601
Other creditors	41,712	271,295	41,712	271,294
Accruals and deferred income	3,725,244	2,140,791	3,698,593	2,127,970
Convertible loan	12,069,953	11,424,495	12,069,953	11,424,495
	<u>16,311,403</u>	<u>14,220,189</u>	<u>16,243,855</u>	<u>14,199,316</u>

Convertible loans have been measured at fair value by discounting future cash flows. The significant assumptions used as part of the fair value measurement include:

- 100% probability of conversion
- 12% discount rate

At the year end the directors estimated that Convertible loans would convert in May 2023 as a result of an expected converting event. At the balance sheet date the amount included in creditors within one year was £12,069,953 (2021 - £11,424,495).

SECONDMIND LIMITED

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

21. Financial instruments

	Group 2022 £	Group 2021 £	Company 2022 £	Company 2021 £
Financial assets				
Financial assets measured at fair value through profit or loss	2,300,295	7,583,288	2,184,720	7,511,944
Financial assets that are debt instruments measured at amortised cost	3,916,848	2,298,408	3,934,317	2,344,343
	<u>6,217,143</u>	<u>9,881,696</u>	<u>6,119,037</u>	<u>9,856,287</u>
Financial liabilities				
Other financial liabilities measured at fair value through profit or loss	(12,069,953)	(11,424,495)	(12,069,953)	(11,424,495)
Derivative financial instruments measured at fair value through profit or loss held as part of a trading portfolio	(262,166)	(373,476)	(253,861)	(372,250)
	<u>(12,332,119)</u>	<u>(11,797,971)</u>	<u>(12,323,814)</u>	<u>(11,796,745)</u>

Financial assets measured at fair value through profit or loss comprise cash at bank and in hand.

Financial assets that are debt instruments measured at amortised cost comprise trade debtors, amounts owed by group undertakings and other debtors.

Other financial liabilities measured at fair value through profit and loss comprise convertible loans (after 1 year).

Financial liabilities measured at amortised cost comprise trade creditors, amounts owed to group undertakings and other creditors.

22. Share capital

	2022 £	2021 £
Allotted, called up and fully paid		
1,269,125 (2021 - 1,240,006) Ordinary shares of £0.000001 each	1.269125	1.240006
910,192 (2021 - 910,192) Series A Preference shares of £0.000001 each	0.910192	0.910192
1,471,675 (2021 - 1,471,675) Series B Preference shares of £0.000001 each	1.471675	1.471675
485,437 (2021 - 485,437) Seed shares of £0.000001 each	0.485437	0.485437
	<u>4.136429</u>	<u>4.107310</u>

During the year the company issued 29,119 Ordinary shares of £0.000001 each for cash consideration of £261.

SECONDMIND LIMITED

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

23. Reserves

Share premium account

Includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Foreign exchange reserve

Includes differences between the foreign exchange rates used in the Statement of Comprehensive Income and Balance Sheet.

Profit and loss account

Includes all current and prior period retained profits and losses less any dividends paid.

Share based payment reserve

Represents the movements in relation to the employee share option scheme in place for employees and share option scheme in place for non-employees as disclosed in note 24.

SECONDMIND LIMITED

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

24. Share-based payments

The company has a share option scheme in place for employees. This is an equity-settled share option scheme.

Options are exercisable at a price equal to the estimated fair value of the Company's shares on the date of grant. The vesting period is as follows, 1/4 of the shares to vest on the first anniversary of the Vesting Start Date. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the Company before the options vest.

Details of the share options outstanding during the year 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	55.178	989,753	65.63	921,378
Granted during the year	0.001	469,992	0.001	235,440
Forfeited during the year	22.045	(94,382)	83.58	(66,290)
Exercised during the year	0.898	(29,118)	4.71	(100,775)
Outstanding at the end of the year	39.175	1,336,245	55.018	989,753

The fair value of the share options at the grant date was calculated using the Black Scholes model, which is considered to be the most appropriate generally accepted valuation method of measuring fair value.

Out of the options outstanding at the year end there were 931,176 that were exercisable (2021 - 634,841).

As at 31 December 2022 the share options were valued at £4,565,885 (2021 - £4,272,692). A charge of £1,046,304 (2021 - £1,094,902) has been made to the Statement of Comprehensive Income in the year.

The assumptions used in the calculation were as follows:

- Estimated average time until exercise - 10 years
- Risk-free interest rate - 1.56%
- Volatility - 1.0%

SECONDMIND LIMITED

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

Share based payments (continued)

The company also had a share option scheme in place for non-employees during the year. This is an equity-settled share option scheme.

Options are exercisable at a price equal to the estimated fair value of the Company's shares on the date of grant. The vesting period is as follows, 8,064 of the shares to vest on the execution of the warrant. 5,377 of the shares vest on a monthly basis in equal installments over the period for so long as the holder continues to provide services. If the options remain unexercised after a period of ten years from the date of grant, the options expire.

No options were granted and exercised during the year (2021: 4,480). The options vest on the execution of the warrant.

Details of the share options outstanding during the year 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	-	-	19	5,377
Granted during the year	-	-	19	4,480
Exercised during the year	-	-	(19)	(9,857)
Outstanding at the end of the year	-	-	19	-

The fair value of the share options at the grant date were measured at the fair value of the services received.

As at 31 December 2022 the share options were valued at £Nil (2021: £Nil). No charge (2021: £Nil) has been made to the Statement of Comprehensive Income in the year. All of the options had been exercised at the year end.

25. Pension commitments

The Company 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 £166,196 (2021 - £96,087). Contributions totaling £32,729 (2021 - £31,524) were payable to the fund at the balance sheet date and are included in creditors.

SECONDMIND LIMITED

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

26. Commitments under operating leases - Lessee

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	150,754	971,603	150,754	971,603
Later than 1 year and not later than 5 years	-	3,469,290	-	3,469,290
Later than 5 years	-	2,167,415	-	2,167,415
	<u>150,754</u>	<u>6,608,308</u>	<u>150,754</u>	<u>6,608,308</u>

27. Related party transactions

During the year the Group was charged fees and expenses totalling £121,858 (2021: £69,568) by Pragma LLC, a company in which Mr A Broun is a member.

The amount due to Pragma LLC at the year end was £6,884 (2021: £Nil).