

Registered number: 09973282

SECONDMIND LIMITED
(formerly PROWLER.IO LIMITED)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020



SECONDMIND LIMITED

COMPANY INFORMATION

DIRECTORS

Dr D Kim
Ms E Burbidge
Dr H M Hauser
Professor C E Rasmussen
Mr A Williamson
Mr K Dillon
Mr V Chatrath (resigned 12 January 2021)
Mr G Brotman (appointed 8 July 2021)
Mr A Broun (appointed 8 July 2021)

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

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SECONDMIND LIMITED

GROUP STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

BUSINESS REVIEW

The Group revenue was £1.7m, 299% higher than the prior year with £0.4m. During the year the Group continued to invest in research and development in the application of Gaussian Processes and Bayesian Optimisation in various sectors.

In September, 2020 the Group was rebranded as Secondmind.

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 and products to become the global leader in autonomous systems to transform Automotive product engineering and design simulation. The dedicated Research team has established the commercial benefits of using Gaussian Processes and Bayesian Optimisation to solve complex problems in a range of different scenarios and environments.

Secondmind monitors its key markets and its product development. As a result of a detailed operational review in January 2021 it was decided to focus on the Automotive business sector and to open an office in Yokohama, Japan to support its key customers in that region. The Directors and Management believe that this restructuring will give Secondmind the best opportunity for growth.

In July 2021 the Board appointed Adam Broun as Co-Chairman and Gary Brotman as CEO to further strengthen the executive management team and to match the vision and technology innovation of Secondmind.

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. 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.

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.

SECONDMIND LIMITED

GROUP STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020, 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. In December 2020 as part of the Future Fund the major shareholders invested £4.39m which was matched by the Future Fund to inject total funds of £8.78m in return for Convertible Loan Notes. 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. Initiatives designed to minimise the Group's impact on the environment include 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 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.

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 systems for Automotive.

SECONDMIND LIMITED

GROUP STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020

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:

	2020	2019
	£	£
EBITDA	(14,377,195)	(14,883,917)
Research and Development Expenditure	5,907,128	7,352,016

This report was approved by the board on 12 Aug 2021

and signed on its behalf.

Carl Edward Rasmussen

.....
Professor C E Rasmussen
Director

SECONDMIND LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

The Directors present their report and the financial statements for the year ended 31 December 2020.

DIRECTORS

The Directors who served during the year were:

Mr K Dillon
Dr D Kim
Ms E Burbidge
Dr H M Hauser
Professor C E Rasmussen
Mr A Williamson
Mr V Chatrath (resigned 12 January 2021)
Mr G Brotman (appointed 8 July 2021)
Mr A Broun (appointed 8 July 2021)

RESULTS AND DIVIDENDS

The loss for the year, after taxation, amounted to £12,746,980 (2019 - loss £12,488,966).

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 systems for Automotive.

SECONDMIND LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

On 15 February 2021 the Board announced that the Company was going to undertake a restructuring process in order to allow it to focus on becoming the market leader in AI software in the automotive sector.

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.

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

Carl Edward Rasmussen

.....
Carl Rasmussen (Aug 12, 2021, 3:27pm)
Professor C E Rasmussen
Director

Date: 12 Aug 2021

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 2020, 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 2020 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.

EMPHASIS OF MATTER - Going Concern

We draw attention to note 2.3 in the financial statements, which describes the directors' assessment of going concern, including the current and future effects of the COVID 19 pandemic on the company. Our opinion is not modified in respect of this matter.

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.

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

20 August 2021

SECONDMIND LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 £	As restated 2019 £
Turnover	4	1,711,799	427,758
GROSS PROFIT		<u>1,711,799</u>	<u>427,758</u>
Administrative expenses		(14,927,152)	(16,125,162)
Exceptional administrative expenses	12	(1,161,972)	-
Other operating income	5	624,194	589,330
Fair value movements		(906,380)	-
OPERATING LOSS	6	<u>(14,659,511)</u>	<u>(15,108,074)</u>
Interest receivable and similar income	10	62,211	5,049
LOSS BEFORE TAX		<u>(14,597,300)</u>	<u>(15,103,025)</u>
Tax on loss	11	1,850,320	2,614,059
LOSS FOR THE FINANCIAL YEAR		<u>(12,746,980)</u>	<u>(12,488,966)</u>
PROFIT FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the parent company		<u>12,746,980</u>	<u>12,488,966</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			

The notes on pages 19 to 38 form part of these financial statements.

SECONDMIND LIMITED
REGISTERED NUMBER: 09973282

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2020

	Note	2020 £	As restated 2019 £
FIXED ASSETS			
Intangible assets	14	279,952	-
Tangible assets	15	563,882	646,148
		843,834	646,148
CURRENT ASSETS			
Debtors due after more than 1 year	17	742,363	742,363
Debtors due within 1 year	17	2,460,768	2,744,092
Bank and cash balances	18	14,365,221	13,430,838
		17,568,352	16,917,293
Creditors: amounts falling due within one year	19	(2,613,633)	(1,706,148)
NET CURRENT ASSETS		14,954,719	15,211,145
TOTAL ASSETS LESS CURRENT LIABILITIES		15,798,553	15,857,293
Creditors: amounts falling due after more than one year	20	(9,781,197)	(216,292)
NET ASSETS		6,017,356	15,641,001
CAPITAL AND RESERVES			
Called up share capital	22	4	4
Share premium account	23	38,075,168	37,915,173
Foreign exchange reserve	23	10,746	4,998
Other reserves	23	4,896,316	2,836,449
Profit and loss account	23	(36,964,878)	(25,115,623)
		6,017,356	15,641,001

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

12 Aug 2021

~~Carl Edward Rasmussen~~.....
Professor C E Rasmussen
Carl Rasmussen (Aug 12, 2021, 3:27pm)
 Director

The notes on pages 19 to 38 form part of these financial statements.

SECONDMIND LIMITED
REGISTERED NUMBER: 09973282

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2020

	Note	2020 £	As restated 2019 £
FIXED ASSETS			
Intangible assets	14	279,952	-
Tangible assets	15	563,882	646,148
Investments	16	8,040	724
		851,874	646,872
CURRENT ASSETS			
Debtors due after more than 1 year	17	742,363	742,363
Debtors due within 1 year	17	2,683,721	2,765,952
Cash at bank and in hand	18	14,192,939	13,408,323
		17,619,023	16,916,638
Creditors: amounts falling due within one year	19	(2,591,517)	(1,711,344)
NET CURRENT ASSETS		15,027,506	15,205,294
TOTAL ASSETS LESS CURRENT LIABILITIES		15,879,380	15,852,166
Creditors: amounts falling due after more than one year	20	(9,781,197)	(216,292)
NET ASSETS		6,098,183	15,635,874
CAPITAL AND RESERVES			
Called up share capital	22	4	4
Share premium account	23	38,075,168	37,915,173
Other reserves	23	4,896,316	2,836,449
Profit and loss account brought forward		(25,115,752)	(12,753,899)
Loss for the year		(12,655,278)	(12,687,029)
Other changes in the profit and loss account		897,725	325,176
Profit and loss account carried forward		(36,873,305)	(25,115,752)
		6,098,183	15,635,874

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

12 Aug 2021

Carl Edward Rasmussen

Professor C.E. Rasmussen
 Director

The notes on pages 19 to 38 form part of these financial statements.

SECONDMIND LIMITED

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020**

	Called up share capital	Share premium account	Foreign exchange reserve	Share based payments reserve	Profit and loss account	Total equity
	£	£	£	£	£	£
At 1 January 2020 (as previously stated)	4	37,915,173	4,998	2,251,731	(24,530,905)	15,641,001
Prior year adjustment	-	-	-	584,718	(584,718)	-
At 1 January 2020 (as restated)	4	37,915,173	4,998	2,836,449	(25,115,623)	15,641,001
Comprehensive income for the year						
Loss for the year	-	-	-	-	(12,746,980)	(12,746,980)
Currency translation differences	-	-	5,748	-	-	5,748
Share based payments	-	-	-	2,957,592	-	2,957,592
Contributions by and distributions to owners						
Shares issued during the year	-	159,995	-	-	-	159,995
Reserve transfer from the share based payment reserve	-	-	-	(897,725)	897,725	-
At 31 December 2020	4	38,075,168	10,746	4,896,316	(36,964,878)	6,017,356

The notes on pages 19 to 38 form part of these financial statements.

SECONDMIND LIMITED

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Called up share capital £	Share premium account £	Foreign exchange reserve £	Share based payments reserve £	Profit and loss account £	Total equity £
At 1 January 2019 (as previously stated)	2	11,500,073	(8,151)	1,344,440	(12,657,241)	179,123
Prior year adjustment	-	-	-	294,592	(294,592)	-
At 1 January 2019 (as restated)	2	11,500,073	(8,151)	1,639,032	(12,951,833)	179,123
Comprehensive income for the year						
Loss for the year	-	-	-	-	(12,488,966)	(12,488,966)
Currency translation differences	-	-	13,149	-	-	13,149
Share based payments	-	-	-	1,522,593	-	1,522,593
Contributions by and distributions to owners						
Shares issued during the year	2	26,415,100	-	-	-	26,415,102
Reserve transfer from the share based payment reserve	-	-	-	(325,176)	325,176	-
At 31 December 2019	4	37,915,173	4,998	2,836,449	(25,115,623)	15,641,001

The notes on pages 19 to 38 form part of these financial statements.

SECONDMIND LIMITED

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020**

	Called up share capital £	Share premium account £	Share based payment reserve £	Profit and loss account £	Total equity £
At 1 January 2020 (as previously stated)	4	37,915,173	2,251,731	(24,531,034)	15,635,874
Prior year adjustment	-	-	584,718	(584,718)	-
At 1 January 2020 (as restated)	<u>4</u>	<u>37,915,173</u>	<u>2,836,449</u>	<u>(25,115,752)</u>	<u>15,635,874</u>
Comprehensive income for the year					
Loss for the year	-	-	-	(12,655,278)	(12,655,278)
Share based payments	-	-	2,957,592	-	2,957,592
Contributions by and distributions to owners					
Shares issued during the year	-	159,995	-	-	159,995
Reserve transfer from the share based payment reserve	-	-	(897,725)	897,725	-
At 31 December 2020	<u><u>4</u></u>	<u><u>38,075,168</u></u>	<u><u>4,896,316</u></u>	<u><u>(36,873,305)</u></u>	<u><u>6,098,183</u></u>

The notes on pages 19 to 38 form part of these financial statements.

SECONDMIND LIMITED

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Called up share capital £	Share premium account £	Share based payment reserve £	Profit and loss account £	Total equity £
At 1 January 2019 (as previously stated)	2	11,500,073	1,344,440	(12,459,307)	385,208
Prior year adjustment	-	-	294,592	(294,592)	-
At 1 January 2019 (as restated)	<u>2</u>	<u>11,500,073</u>	<u>1,639,032</u>	<u>(12,753,899)</u>	<u>385,208</u>
Comprehensive income for the year					
Loss for the year	-	-	-	(12,687,029)	(12,687,029)
Share based payments	-	-	1,522,593	-	1,522,593
Contributions by and distributions to owners					
Shares issued during the year	2	26,415,100	-	-	26,415,102
Reverse transfer from the share based payment reserve	-	-	(325,176)	325,176	-
At 31 December 2019	<u><u>4</u></u>	<u><u>37,915,173</u></u>	<u><u>2,836,449</u></u>	<u><u>(25,115,752)</u></u>	<u><u>15,635,874</u></u>

The notes on pages 19 to 38 form part of these financial statements.

SECONDMIND LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 £	As restated 2019 £
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the financial year	(12,746,980)	(12,488,966)
ADJUSTMENTS FOR:		
Amortisation of intangible assets	7,160	-
Depreciation of tangible assets	275,156	223,261
Loss on disposal of tangible assets	147	1,139
Interest received	(62,211)	(5,049)
Taxation charge	(1,850,320)	(2,614,050)
(Increase) in debtors	(272,769)	(63,626)
Increase/(decrease) in creditors	9,566,009	(1,053,942)
Net fair value losses recognised in P&L	906,380	-
Corporation tax received	2,406,414	753,650
Share based payments	2,957,592	1,522,593
Foreign exchange reserve	5,748	13,149
NET CASH GENERATED FROM OPERATING ACTIVITIES	<u>1,192,326</u>	<u>(13,711,841)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of intangible fixed assets	(287,112)	-
Purchase of tangible fixed assets	(194,173)	(405,113)
Sale of tangible fixed assets	1,136	-
Interest received	62,211	5,049
NET CASH FROM INVESTING ACTIVITIES	<u>(417,938)</u>	<u>(400,064)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of ordinary shares	159,995	26,415,102
NET CASH USED IN FINANCING ACTIVITIES	<u>159,995</u>	<u>26,415,102</u>
INCREASE IN CASH AND CASH EQUIVALENTS	934,383	12,303,197
Cash and cash equivalents at beginning of year	13,430,838	1,127,641
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	<u>14,365,221</u>	<u>13,430,838</u>
CASH AND CASH EQUIVALENTS AT THE END OF YEAR COMPRISE:		
Cash at bank and in hand	<u>14,365,221</u>	<u>13,430,838</u>

The notes on pages 19 to 38 form part of these financial statements.

SECONDMIND LIMITED

CONSOLIDATED ANALYSIS OF NET DEBT
FOR THE YEAR ENDED 31 DECEMBER 2020

	At 1 January 2020 £	Cash flows £	Other non- cash changes £	At 31 December 2020 £
Cash at bank and in hand	13,430,838	934,383	-	14,365,221
Related derivatives	-	(8,777,704)	(906,380)	(9,684,084)
	<u>13,430,838</u>	<u>(7,843,321)</u>	<u>(906,380)</u>	<u>4,681,137</u>

The notes on pages 19 to 38 form part of these financial statements.

SECONDMIND LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. GENERAL INFORMATION

During the year on 15 September 2020 the company passed a resolution to change its name from PROWLER.io Limited to Secondmind Limited.

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 2020

2. ACCOUNTING POLICIES (CONTINUED)

2.3 GOING CONCERN

Since the beginning of 2020 the Coronavirus SARS-CoV-2 (COVID19) has spread rapidly around the world with increasingly drastic effects on society and the economy. At the time of writing the full consequences are still impossible to foresee, and new restraining actions are being developed on a day to day basis.

The Group have been able to set up working remotely and have been able to continue their normal service levels, and have sufficient cash resources so that they consider that the short-term financial impact will be minimal. However, the effects of COVID19 are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.

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 company continues to incur expenditure on the development of its platform.

The current plans and forecasts indicate that the company will require the continued support of the investors to meet its liabilities as they fall due for the foreseeable future, being a period of not less than 12 months from the date of approval of these financial statements. The directors are confident that the investors have the intention and ability to provide the support needed, however revised forecasts and budgets have been prepared if the funding was not available and the company is confident that costs could be controlled to enable liabilities to be settled as they fall due.

Accordingly the financial statements have been prepared on a going concern basis and do not include any adjustments that would result if the company 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 2020

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.

Amortisation is provided on the following bases:

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	-	5/10	years straight line
improvements			
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 2020

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 2020

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 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.

SECONDMIND LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

2. ACCOUNTING POLICIES (CONTINUED)

2.14 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.

2.15 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.

2.16 PENSIONS

Defined contribution pension plan

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

2.17 HOLIDAY PAY ACCRUAL

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

2.18 INTEREST INCOME

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

2.19 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.

2.20 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.

SECONDMIND LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

2. ACCOUNTING POLICIES (CONTINUED)

2.21 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.

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 judgements, 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 revised 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.

There are no critical judgments or estimates.

4. TURNOVER

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

	2020 £	2019 £
United Kingdom	328,376	232,852
Rest of Europe	473,417	3,716
Rest of the world	910,006	191,190
	<u>1,711,799</u>	<u>427,758</u>

SECONDMIND LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

5. OTHER OPERATING INCOME

	2020	2019
	£	£
Rents receivable	623,819	588,230
Sundry income	375	1,100
	624,194	589,330

6. OPERATING LOSS

The operating loss is stated after charging:

	2020	As restated 2019
	£	£
Research & development charged as an expense	269,048	400,449
Exchange differences	(486,362)	567,213
Other operating lease rentals	849,630	917,859
Share based payment	2,857,581	1,522,593
Depreciation	275,156	223,157
Amortisation	7,160	-
	7,160	-

7. AUDITORS' REMUNERATION

	2020	2019
	£	£
Fees payable to the Group's auditor and its associates for the audit of the Group's annual financial statements	12,750	10,000
	12,750	10,000

SECONDMIND LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

8. EMPLOYEES

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

	Group 2020 £	Group 2019 £	Company 2020 £	Company 2019 £
Wages and salaries	7,447,230	7,932,822	7,386,143	7,874,930
Social security costs	1,087,395	981,900	1,085,108	977,208
Cost of defined contribution scheme	134,752	139,644	134,752	139,644
	<u>8,669,377</u>	<u>9,054,366</u>	<u>8,606,003</u>	<u>8,991,782</u>

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

	Group 2020 No.	Group 2019 No.	Company 2020 No.	Company 2019 No.
Directors	7	7	7	7
Employees	102	107	101	106
	<u>109</u>	<u>114</u>	<u>108</u>	<u>113</u>

Directors includes 4 (2019 - 4) Directors that did not receive remuneration.

9. DIRECTORS' REMUNERATION

	2020 £	2019 £
Directors' emoluments	367,075	342,752
Company contributions to defined contribution pension schemes	3,941	3,544
	<u>371,016</u>	<u>346,296</u>

During the year retirement benefits were accruing to 3 Directors (2019 - 3) in respect of defined contribution pension schemes.

The highest paid Director received remuneration of £144,082 (2019 - £129,078).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £1,314 (2019 - £1,188).

During the year there were 2 Directors (2019 - Nil) that received options during the year and 1 received unapproved options (2019 - Nil).

SECONDMIND LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

10. INTEREST RECEIVABLE

	2020 £	2019 £
Other interest receivable	62,211	5,049
	62,211	5,049

11. TAXATION

	2020 £	2019 £
CORPORATION TAX		
Current tax on profits for the year	(1,896,330)	(2,455,907)
Adjustments in respect of previous periods	46,010	(158,152)
TOTAL CURRENT TAX	(1,850,320)	(2,614,059)

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax assessed for the year is higher than (2019 - higher than) the standard rate of corporation tax in the UK of 19% (2019 - 19%). The differences are explained below:

	2020 £	2019 £
Loss on ordinary activities before tax	(14,597,299)	(14,685,973)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019 - 19%)	(2,742,853)	(2,790,335)

EFFECTS OF:

Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	612,796	251,767
Capital allowances for year in excess of depreciation	16,827	979
Enhanced research and development expenditure	(1,459,060)	(1,819,056)
Losses surrendered for research and development tax credit	2,581,415	3,218,330
Adjustments to tax charge in respect of prior periods	46,010	(158,152)
Research and development tax credit	(1,900,000)	(2,456,094)
Changes in provisions leading to an increase (decrease) in the tax charge	16,308	-
Tax deduction arising from exercise of employee options	(16,092)	-
Unrelieved tax losses carried forward	994,329	1,138,315
Other differences leading to an increase (decrease) in the tax charge	-	187
TOTAL TAX CHARGE FOR THE YEAR	(1,850,320)	(2,614,059)

SECONDMIND LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

11. TAXATION (CONTINUED)

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

The company losses totalling £17,429,241 (2019 - £12,047,970) available for carry forward against future profits.

The company has a potential deferred tax asset of £3,311,556 (2019 - £2,289,114) on the above losses. This has not been recognised in the financial statements due to the uncertainty when such losses will be utilised.

12. EXCEPTIONAL ITEMS

	2020 £	2019 £
Restructure costs	528,639	-
Directors loss of office	300,000	-
Rebranding costs	333,333	-
	<u>1,161,972</u>	<u>-</u>

Following the restructuring and rebranding of the group during the year, specific costs including redundancy, directors loss of office and rebranding have been included as exceptional items.

13. 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 £12,655,278 (2019 - loss £12,687,029).

SECONDMIND LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

14. INTANGIBLE ASSETS

Group and Company

	Re-branding costs £
Cost	
Additions	287,112
At 31 December 2020	<u>287,112</u>
Amortisation	
Charge for the year on owned assets	7,160
At 31 December 2020	<u>7,160</u>
Net book value	
At 31 December 2020	<u>279,952</u>
At 31 December 2019	<u>-</u>

SECONDMIND LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

15. TANGIBLE FIXED ASSETS

Group and Company

	Leasehold property improvements £	Office equipment £	Computer equipment £	Total £
COST				
At 1 January 2020	325,453	122,702	620,675	1,068,830
Additions	69,315	36,870	87,988	194,173
Disposals	-	(395)	(51,770)	(52,165)
At 31 December 2020	<u>394,768</u>	<u>159,177</u>	<u>656,893</u>	<u>1,210,838</u>
Depreciation				
At 1 January 2020	62,217	53,314	307,151	422,682
Charge for the year on owned assets	48,576	38,373	188,207	275,156
Disposals	-	(239)	(50,643)	(50,882)
At 31 December 2020	<u>110,793</u>	<u>91,448</u>	<u>444,715</u>	<u>646,956</u>
Net book value				
At 31 December 2020	<u>283,975</u>	<u>67,729</u>	<u>212,178</u>	<u>563,882</u>
At 31 December 2019	<u>263,236</u>	<u>69,388</u>	<u>313,524</u>	<u>646,148</u>

SECONDMIND LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

16. FIXED ASSET INVESTMENTS

Company

	Investments in subsidiary companies £
Cost or valuation	
At 1 January 2020	724
Additions	7,316
At 31 December 2020	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 (Singapore) Pte Ltd	152 Beach Road, 10-18 Gateway East, Singapore (189721)	Ordinary	100%
Secondmind Kabushiki Kaisha	Shin-Yokohama Square Bldg 14F, 2-3-12 Shin- Yokohama, Kohoku-ku, Yokohama, Kanagawa, Japan	Ordinary	100%

SECONDMIND LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

17. DEBTORS

	Group 2020 £	Group 2019 £	Company 2020 £	Company 2019 £
DUE AFTER MORE THAN ONE YEAR				
Other debtors	742,363	742,363	742,363	742,363
DUE WITHIN ONE YEAR				
Trade debtors	92,238	94,986	92,238	94,986
Amounts owed by group undertakings	-	-	222,951	21,858
Other debtors	1,910,235	2,484,832	1,910,235	2,484,832
Prepayments and accrued income	458,299	164,276	458,299	164,276
	<u>3,203,135</u>	<u>3,486,457</u>	<u>3,426,086</u>	<u>3,508,315</u>

18. CASH AND CASH EQUIVALENTS

	Group 2020 £	Group 2019 £	Company 2020 £	Company 2019 £
Cash at bank and in hand	<u>14,365,221</u>	<u>13,430,838</u>	<u>14,192,939</u>	<u>13,408,323</u>

19. CREDITORS: Amounts falling due within one year

	Group 2020 £	Group 2019 £	Company 2020 £	Company 2019 £
Trade creditors	344,874	398,019	341,139	397,937
Amounts owed to group undertakings	-	-	7,316	-
Other taxation and social security	227,871	307,797	227,871	307,797
Other creditors	31,329	5,350	30,441	5,350
Accruals and deferred income	2,009,559	994,982	1,984,750	1,000,260
	<u>2,613,633</u>	<u>1,706,148</u>	<u>2,591,517</u>	<u>1,711,344</u>

SECONDMIND LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

20. CREDITORS: Amounts falling due after more than one year

	Group 2020 £	Group 2019 £	Company 2020 £	Company 2019 £
Other creditors	97,113	216,292	97,113	216,292
Convertible loan (after 1 yr)	9,684,084	-	9,684,084	-
	<u>9,781,197</u>	<u>216,292</u>	<u>9,781,197</u>	<u>216,292</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

Convertible loans mature on 9 December 2023. At the balance sheet date the amount held in the accounts was £9,684,084 (2019 - £Nil).

21. FINANCIAL INSTRUMENTS

	Group 2020 £	Group 2019 £	Company 2020 £	Company 2019 £
FINANCIAL ASSETS				
Financial assets that are debt instruments measured at amortised cost	<u>2,512,509</u>	<u>3,322,181</u>	<u>2,735,460</u>	<u>3,344,039</u>
FINANCIAL LIABILITIES				
Other financial liabilities measured at fair value through profit or loss	(9,684,084)	-	(9,684,084)	-
Financial liabilities measured at amortised cost	<u>(472,496)</u>	<u>(619,663)</u>	<u>(476,012)</u>	<u>(619,579)</u>
	<u>(10,156,580)</u>	<u>(619,663)</u>	<u>(10,160,096)</u>	<u>(619,579)</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 owned to group undertakings and other creditors.

SECONDMIND LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

22. SHARE CAPITAL

	2020 £	2019 £
Allotted, called up and fully paid		
1,139,231 (2019 - 1,044,530) Ordinary shares of £0.000001 each	1.139231	1.044530
910,192 (2019 - 910,192) Series A Preference shares of £0.000001 each	0.910192	0.910192
1,461,818 (2019 - 1,453,754) Series B Preference shares of £0.000001 each	1.461818	1.453754
485,437 (2019 - 485,437) Seed shares of £0.000001 each	0.485437	0.485437
	3.996678	3.893913
	3.996678	3.893913

During the year the company issued 94,701 Ordinary shares of £0.000001 each for cash consideration of £10,006.

During the year the company issued 8,064 Series B Preference shares of £0.000001 each for cash consideration of £149,989.

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 2020**

24. SHARE BASED PAYMENTS

The company has a share option scheme in place for employees. This is a 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. 1/48 of the remaining shares to vest each calendar month following 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) 2020	Number 2020	Weighted average exercise price (pence) 2019	Number 2019
Outstanding at the beginning of the year	0.43	709,714	0.01	505,214
Granted during the year	1.00	313,977	1.00	299,400
Forfeited during the year	0.64	(127,957)	0.01	(57,131)
Exercised during the year	0.11	(94,701)	0.01	(37,769)
OUTSTANDING AT THE END OF THE YEAR	0.66	801,033	0.43	709,714

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 330,337 that were exercisable (2019 - 284,643).

As at 31 December 2020 the share options were valued at £4,796,305 (2019 - £2,836,449). A charge of £2,857,581 (2019 - £1,522,593) 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 - 1.00%

SECONDMIND LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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SHARE BASED PAYMENTS (CONTINUED)

The company also has a share option scheme in place for non-employees. This is a 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 to vest each calendar month following 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.

Details of the share options outstanding during the year are as follows:

	Weighted average exercise price (pence) 2020 £	Number 2020 £	Weighted average exercise price (pence) 2019 £	Number 2019 £
Granted during the year	19	13,441	-	-
Exercised during the year	19	(8,064)	-	-
OUTSTANDING AT THE END OF THE YEAR	19	5,377	-	-

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 2020 the share options were valued at £100,011 (2019 - £Nil). A charge of £100,011 (2019 - £Nil) has been made to the Statement of Comprehensive Income in the year. All of the 5,377 options outstanding at the year end were exercisable.

25. PRIOR YEAR ADJUSTMENT

A prior year adjustment has been made in respect of share based payments which were previously being charged on their vesting date rather than spread over the vesting period in accordance with FRS102.

The impact of the restatement on the financial statements is detailed below:

At 31 December 2018

The adjustment resulted in a decrease to profit and loss reserves of £294,592 and an increase to the share based payment reserve of £294,592.

For the year ended 31 December 2019

The adjustment resulted in a cumulative decrease to profit and loss reserves of £584,718 through Administration Expenses and an increase to the share based payment reserve of £584,718. This includes the £294,592 adjustment in 2018 and a further net adjustment of £290,126 in 2019.

26. 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 £134,752 (2019 - £139,644). Contributions totalling £23,063 (2019 - £3,273) were payable to the fund at the balance sheet date and are included in creditors.

SECONDMIND LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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27. COMMITMENTS UNDER OPERATING LEASES - LESSEE

At 31 December 2020 the Group and the Company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	Group 2020 £	Group 2019 £	Company 2020 £	Company 2019 £
Not later than 1 year	997,756	997,197	997,756	997,197
Later than 1 year and not later than 5 years	3,965,370	3,970,754	3,965,370	3,970,754
Later than 5 years	2,495,892	3,485,708	2,495,892	3,485,708
	<u>7,459,018</u>	<u>8,453,659</u>	<u>7,459,018</u>	<u>8,453,659</u>

28. COMMITMENTS UNDER OPERATING LEASES - LESSOR

At 31 December 2020 the Group and the Company had agreed commitments as a lessor under non-cancellable operating leases to receive the receipts as follows:

	Group 2020 £	Group 2019 £	Company 2020 £	Company 2019 £
Not later than 1 year	151,200	313,194	151,200	313,194
Later than 1 year and not later than 5 years	75,600	226,800	75,600	226,800
Later than 5 years	-	-	-	-
	<u>226,800</u>	<u>539,994</u>	<u>226,800</u>	<u>539,994</u>

29. POST BALANCE SHEET EVENTS

On 15 February 2021 the Board announced that the Company was going to undertake a restructuring process in order to allow it to focus on becoming the market leader in AI software in the automotive sector.