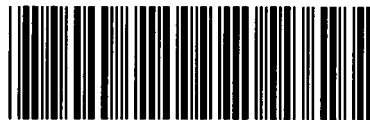


CROSSWORD CYBERSECURITY PLC

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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COMPANY INFORMATION

DIRECTORS

Sir R Dearlove (Chairman)
T Ilube (CEO)
Dr D Secher
Professor D Stupples
A Gueritz
G Matthew

REGISTERED NUMBER

08927013

REGISTERED OFFICE

60 Gracechurch Street
London
EC3V 0HR
United Kingdom

INDEPENDENT AUDITOR

MHA MacIntyre Hudson
Chartered Accountants & Statutory Auditors
New Bridge Street House
30-34 New Bridge Street
London
EC4V 6BJ

CONTENTS

	Page
Strategic report of the directors	1-2
Report of the directors	3-4
Independent auditor's report	5-6
Consolidated statement of comprehensive income	7
Consolidated and company statement of financial position	8
Consolidated and company statement of changes in equity	9-10
Consolidated and company statement of cash flow	11
Notes to the financial statements	12-25
For the information of the directors only:	
Schedule of overhead expenses	26

STRATEGIC REPORT OF THE DIRECTORS

INTRODUCTION

The directors present their strategic report with the audited financial statements of the Group for the year ended 31 December 2016.

BUSINESS REVIEW

I am pleased to report another strong year of great progress in 2016, as we scale up Crossword Cybersecurity PLC's technology commercialisation business, focused exclusively on the cyber security sector.

There was no let up in 2016 to the challenge that cyber security issues pose to companies, governments and individuals. HM Government's Cyber Security Breaches Survey 2016, launched in May, revealed that 65% of large businesses experienced a cyber breach or attack in the past year. Tesco Bank was the victim of a cyberattack with thousands of customers losing money from their accounts, leaving the bank at risk of a substantial fine from the Financial Conduct Authority (FCA). One of the largest denial of service attacks in the USA, the so called Dyn Denial of Service (DDoS) attack using Internet of things devices, disrupted many of the world's largest websites. Yahoo revealed that it had been a victim with over 1 billion accounts compromised in the biggest data breach in history.

Crossword works with universities to commercialise technology based on their extensive cyber research and in 2016 we made great strides in building those relationships and bringing our products and services to market.

Crossword established a relationship with the University of Surrey to explore commercialising their cyber security research, including patent pending research into multifactor passwords. We also established a new relationship with the University of South Wales, a leader in cyber forensics with a state of the art forensics lab. This brings the number of relationships with leading cyber security research universities to six; Bristol, Warwick, Coventry, Surrey, South Wales and City, University of London.

Crossword announced the creation of CyberOwl Limited, a spin out from Coventry University with Mercia Fund Management providing the seed funding. CyberOwl is commercialising Coventry's patent pending research into early warning of cyber attacks in extremely large scale environments. CyberOwl subsequently raised a further £510,000 and after a rigorous process was one of just seven cyber security companies UK wide selected to join GCHQ's new Cyber Accelerator.

In partnership with the University of Warwick, Crossword won a Ministry of Defence contract for a proof of concept for blockchain enabled smart documents. The project is extremely interesting and we are exploring next steps to commercialise the output.

The UK Government's Department for Culture Media & Sport (DCMS) commissioned Crossword to lead a delegation of leading UK cyber security Professors to meet counterparts in the USA, at Harvard, MIT, Stanford and UC Berkeley. Crossword published a report on this major cyber commercialisation mission and distributed it to over 250 recipients across the university and cyber security sector.

Our cyber risk product, Rizikon, based on City University of London research, is making good progress as we take it to market, with several professional firms signed up as partners and revenue starting to come through. The introduction of the General Data Protection Regulation with its stiff penalties for breaches is driving Board level interest in cyber risk assessment.

Crossword's second product, Nixer is a next generation Denial of Service (DDoS) platform using machine learning (ML) techniques emerging from university research. We have established a relationship with IOMart, the cloud provider, to co-operate on developing this machine learning based platform which will be launched soon. We launched Crossword Consulting, led by a former KPMG executive and staffed by ex-national security, military and cyber industry professionals in partnership with cyber security university experts. It is revenue generating and getting good traction with a range of clients.

STRATEGIC REPORT OF THE DIRECTORS (continued)

On the corporate front, we were delighted to announce former Government Chief Scientific Adviser for National Security, Professor Nick Jennings CB FREng, as a senior adviser. We also appointed Hybridan LLP as our Corporate Broker and raised £1.4m in a placing and subscription.

On 1st September Crossword appointed Sir Richard Dearlove KCMG OBE as non-executive Chairman. He succeeded Tom Ilube, who continues in his role as CEO. Sir Richard was Chief of the Secret Intelligence Service (MI6). He retired from the Service in 2004. He is currently Chair of Trustees of the University of London and was previously Master of Pembroke College, Cambridge. Sir Richard is Chairman of Ascot Underwriting at Lloyd's of London and a Director of New York Stock Exchange listed Kosmos Energy.

PRINCIPAL RISKS AND UNCERTAINTIES

The key risks to the Group are as follows:

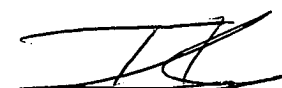
- failure to develop an appropriate commercial application for its developing products;
- failure to establish commercialisation partnerships with leading research universities;
- competition from existing IP transfer businesses seeking to engage in cyber security commercialisation activity; and
- inability to attract and retain experienced cyber security experts in a highly competitive market.

At present the directors are pleased with progress in these areas and consider these risks are sufficiently mitigated.

FINANCIAL AND NON FINANCIAL KEY PERFORMANCE INDICATORS

The directors consider the key financial performance indicator to be cash 'burn rate'. At present they consider that this is within reasonable parameters and will continue to monitor this in the future.

At this stage in its development, the directors do not consider that there are any relevant non-financial key performance indicators.



.....
T Ilube
Director

26 April 2017

REPORT OF THE DIRECTORS

The directors present their report and the financial statements for the period ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Group for the year continued to be the research and development of cyber security products.

DIRECTORS

The directors who served during the year were as follows:

Sir R Dearlove (appointed 1 September 2016) (Chairman)
T Ilube (CEO)
Dr D Secher
Professor D Stupples
A Gueritz
G Matthew

RESULTS

The statement of comprehensive income is set out on page 7 and shows the loss for the year. The Group is in an early stage of development and the directors consider the loss for the year to be satisfactory. The directors do not recommend a payment of any dividend (2015: Nil).

FUTURE DEVELOPMENTS

2017 promises to be another exciting year for the Group with the rolling out of Rizikon and Nixer, the expansion of the consulting business and other opportunities that are being considered at the present time.

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:


- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient
- enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and performance, and
- make an assessment of the group's ability to continue as a going concern

REPORT OF THE DIRECTORS (continued)

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

We, the directors of the company who held office at the date of approval of these Financial Statements as set out above each confirm, so far as we are aware, that:

- there is no relevant audit information of which the company's auditors are unaware; and
- we have taken all the steps that we ought to have taken as directors in order to make ourselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.


.....
T Hube
Director

26 April 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CROSSWORD CYBERSECURITY PLC

We have audited the financial statements of Crossword Cybersecurity Plc for the year ended 31 December 2016 which comprise the group statement of comprehensive income, the group and parent company statement of financial position, the group and parent company statement of changes in equity, the group statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's shareholders, as a body. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report and the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the group and parent company's affairs as at 31 December 2016 and of the group's loss for the period then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

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

- the information given in the Strategic Report and the Directors Report is consistent with the financial statements; and
- the Strategic Report and the Directors Report have been prepared in accordance with applicable legal requirements.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CROSSWORD CYBERSECURITY PLC
(continued)**

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of our knowledge and understanding of the company and its environment obtained in the course of our audit, we have not identified material misstatements in the Strategic Report and the Directors Report.

We have nothing to report in respect of the following matters where 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

MHA MacIntyre Hudson

Rajeev Shaunak FCA (Senior statutory auditor)

for and on behalf of

MHA MacIntyre Hudson

Chartered Accountants

Statutory Auditors

New Bridge Street House

30-34 New Bridge Street

London

EC4V 6BJ

Date: **27 April 2017**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	Year ended 31 December 2016 £	Year ended 31 December 2015 £
REVENUE	2	344,736	20,613
Cost of sales	3	(788,666)	(247,630)
GROSS LOSS		(443,930)	(227,017)
Other operating income – research and development tax credits		78,354	-
Administrative expenses	3	(585,329)	(530,414)
Finance income – bank interest receivable		1,354	2,181
Finance costs – other interest payable		(73)	-
NET LOSS BEFORE TAXATION		(949,624)	(755,250)
Tax expense	7	(3,267)	-
LOSS FOR THE YEAR		(952,891)	(755,250)
OTHER COMPREHENSIVE INCOME			
Items that will not be classified to profit or loss:			
Foreign Exchange Translation Gain (Loss)		6,205	(1,659)
TOTAL COMPREHENSIVE LOSS		(946,686)	(756,909)
EARNINGS PER SHARE	14	(£0.39)	(£0.38)

The notes on pages 12 to 25 form part of these financial statements.

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016**

	Note	Group £ 2016	Company £ 2016	Group £ 2015	Company £ 2015
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	8	2,280	-	3,635	-
Intangible assets	9	583	-	816	-
Investments in other unlisted investment and subsidiary	10, 11	31	1,048	-	1,017
Total non-current assets		2,894	1,048	4,451	1,017
CURRENT ASSETS					
Trade and other receivables	12	178,154	166,271	43,464	46,738
Cash and cash equivalents		1,548,906	1,525,551	1,227,481	1,209,495
Total current assets		1,727,060	1,691,822	1,270,945	1,256,233
TOTAL ASSETS		1,729,954	1,692,870	1,275,396	1,257,250
EQUITY					
Attributable to the owners of the company					
Share capital	14	156,015	156,015	119,173	119,173
Share premium account	14	3,413,416	3,413,416	2,080,827	2,080,827
Retained earnings		(1,946,821)	(1,975,150)	(993,930)	(1,008,519)
Translation of foreign operations		3,264	-	(2,941)	-
Total equity		1,625,874	1,594,281	1,203,129	1,191,481
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	13	104,080	98,589	72,267	65,769
Total current liabilities		104,080	98,589	72,267	65,769
TOTAL LIABILITIES		104,080	98,589	72,267	65,769
TOTAL EQUITY AND LIABILITIES		1,729,954	1,692,870	1,275,396	1,257,250

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



T Ilube
Director

Date: **26 April 2017**

The notes on pages 12 to 25 form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2016**

GROUP	Share Capital £	Share Premium £	Retained Earnings £	Translation of Foreign Operations £	Total £
At 1 January 2016	119,173	2,080,827	(993,930)	(2,941)	1,203,129
Total comprehensive loss for the period	-	-	(952,891)	6,205	(946,686)
Issue of shares	36,842	1,332,589	-	-	1,369,431
Balance at 31 December 2016	156,015	3,413,416	(1,946,821)	3,264	1,625,874

	Share Capital £	Share Premium £	Retained Earnings £	Translation of Foreign Operations £	Total £
At 1 January 2015	79,697	620,303	(238,680)	(1,282)	460,038
Total comprehensive loss for the period	-	-	(755,250)	(1,659)	(756,909)
Issue of shares	39,476	1,460,524	-	-	1,500,000
Balance at 31 December 2015	119,173	2,080,827	(993,930)	(2,941)	1,203,129

The notes on pages 12 to 25 form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2016**
COMPANY

	Share Capital £	Share Premium £	Retained Earnings £	Total £
At 1 January 2016	119,173	2,080,827	(1,008,519)	1,191,481
Total comprehensive loss for the period	-	-	(966,631)	(966,631)
Issue of shares	36,842	1,332,589	-	1,369,431
Balance at 31 December 2016	156,015	3,413,416	(1,975,150)	1,594,281

	Share Capital £	Share Premium £	Retained Earnings £	Total £
At 1 January 2015	79,697	620,303	(238,680)	461,320
Total comprehensive loss for the period	-	-	(769,839)	(769,839)
Issue of shares	39,476	1,460,524	-	1,500,000
Balance at 31 December 2015	119,173	2,080,827	(1,008,519)	1,191,481

The notes on pages 12 to 25 form part of these financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	2016 £	2015 £
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	16	(1,053,300)	(715,170)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		<u>(1,053,300)</u>	<u>(715,170)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	8	(880)	(853)
Purchase of shares in other unlisted investment	10	(31)	-
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		<u>(911)</u>	<u>(853)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	16	1,369,431	1,500,000
NET CASH INFLOW FROM INVESTING ACTIVITIES		<u>1,369,431</u>	<u>1,500,000</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		<u>315,220</u>	<u>783,977</u>
FOREIGN CURRENCY TRANSLATION DIFFERENCE		6,205	(1,659)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		1,227,481	445,163
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		<u>1,548,906</u>	<u>1,227,481</u>

Cash and cash equivalents relate solely to amounts held on demand at recognised financial institutions.

The notes on pages 12 to 25 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. ACCOUNTING POLICIES**1.1 The group and its operations**

These group financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2016 for Crossword Security Plc (referred to as the company).

Crossword Cybersecurity Plc is a company incorporated in England and Wales and limited by shares. Its registered office is 60 Gracechurch Street, London, EC3V 0HR. Its principal place of business is Gainsborough House, 2 Sheen Rd, London TW9 1AE. The group financial statements consolidate those of the company and its subsidiary (together referred to as a group). The group's payment policy is to abide by the terms of the suppliers. The trade creditors to purchases ratio expressed in days was 28 days.

1.2 Basis of preparation of financial statements

The principal accounting policies adopted in the preparation of the financial statements are set out below and have been consistently applied to all years presented.

In publishing the parent company financial statements here together with the group financial statements, the company has taken advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form part of these approved financial statements. There was no difference between the company only loss and the group loss for the period.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) issued by the International Accounting Standards Board (IASB) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies preparing their accounts under IFRS. The financial statements have been prepared under the historical cost convention.

At the period end the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

IFRS 9 "*Financial Instruments*"

IFRS 14 "*Regulatory Deferral Accounts*"

IFRS 15 "*Revenue from Contracts with Customers*"

IFRS 16 *Leases*

Amendments to IFRS 10, IFRS 12 and IAS 28: *Investment Entities- Applying Consolidation Exception*

Amendments to IFRS 10 and IAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Amendments to IAS 12 : *Recognition of Deferred Tax Assets for Unrealised Losses*

Amendments to IAS 7: *Disclosure Initiative*

The Group is assessing the impact of the new standard and amendments listed above, but expect immaterial impact as a result of the new standards and amendments'.

1.3 Going concern

The financial statements have been prepared on a going concern basis which the directors believe to be appropriate as the group and the company have sufficient funds to finance its operations for the next 12 months from approval of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. ACCOUNTING POLICIES (continued)**1.4 Basis of consolidation**

Subsidiaries are fully consolidated from the date on which control is transferred to the group. Control exists when then the group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The purchase method of accounting is used to account for the acquisition of subsidiaries by the group.

All intra-group transactions, balances income and expenses are eliminated on consolidation. Uniform accounting policies are applied by the group companies to ensure consistency.

1.5 Revenue recognition

Revenue includes mainly: income from the provision of consulting services, Rizikon, CyberOwl Limited (see Note 10) and arranging an overseas visit to the USA on behalf of the Department of Media, Culture and Sport.

Revenue from these services are recognised at the fair value of the consideration received or receivable when the significant risks and rewards will flow to the Group, on services rendered to third parties, less any discounts. Revenue is presented net of VAT. In addition, project and other fees are recognised following completion of the work.

1.6 Functional and presentation currency

The presentation currency of the group is pounds sterling (GBP). The functional currency of the parent company is pounds sterling. The functional currency of the company's Polish subsidiary is Polish Zloty (PLN).

1.7 Foreign currency transactions

Transactions in foreign currencies are translated to GBP at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to GBP at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to GBP at the exchange rate at the date that the fair value was determined. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. The exchange differences arising upon consolidation on retranslation from a functional currency other than GBP are recognised as a separate component of equity.

1.8 Property, plant and equipment

Property, plant and equipment is stated at purchase price less accumulated depreciation and impairment losses. The cost includes all expenses directly related with the purchase of a relevant asset.

All other repair and maintenance costs are charged to the income statement for the period during the reporting period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. ACCOUNTING POLICIES (continued)**1.9 Depreciation**

Each item of property, plant and equipment is depreciated using the straight-line method over its estimated useful life, and depreciation charge is included in the income statement for the period. The depreciation is charged to the income statement for the period and determined using the straight-line method over the estimated useful life of the item of property, plant and equipment.

The expected useful lives of property, plant and equipment in the reporting and comparative periods are as follows:

	Useful lives in years
Office equipment	3.33

The residual value of an asset is the estimated amount that the group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Items costing less than £2,000 per individual asset are written off in the period of acquisition.

1.10 Impairment of non-financial assets

At the end of each reporting period management assesses whether the indicators of impairment of property, plant and equipment exists. The carrying amounts of property, plant and equipment and all other non-financial assets are reviewed for impairment if there is any indication that the carrying amount may not be recoverable.

For the purpose of impairment testing the recoverable amount is measured by reference to the higher of value in use (being the net present value of expected future cash flows of a relevant cash generating unit) and fair value less costs to sell (the amount obtainable from the sale of an asset or cash generating unit in an arm's length transaction between knowledgeable, willing parties, who are independent from each other, less the costs of disposal). Where there is no binding sale agreement or active market, fair value less costs to sell is based on the best information available to reflect the amount the group could receive for the cash generating unit. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the income statement so as to reduce the carrying amount in the statement of financial position to its recoverable amount. A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a reversal of the conditions that originally resulted in the impairment. This reversal is recognised in profit or loss for the year and is limited to the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in prior years.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. ACCOUNTING POLICIES (continued)**1.11 Financial instruments**

Financial instruments are recorded as follows:-

- Trade and other payables are initially recognised at fair value and subsequently at amortised cost using the effective rate of interest.
- Cash and cash equivalents consist of cash at bank on demand.
- Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.
- Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected.
- Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

1.12 Financial Instruments - Risk

The Group could be exposed to risks that arise from its use of financial instruments.

Risks in relation to financial assets include:

1.12.1 Market risk.

Market risk covers foreign exchange risk, price risk and interest rate risk. As the majority of the company's transactions are either in Sterling or in Polish Zloty (through invoices raised by its wholly owned Polish subsidiary, which is entirely within its control) the Group considers its exposure to foreign exchange risk to be minimal.

There are no derivatives and hedging instruments.

The Group is not exposed to price risk given that no securities are held under financial assets.

The Group is not exposed to interest rate or cash flow risk due to the fact that the Group has no borrowing or complex financial instruments.

1.12.2 Credit risk

Credit risk is considered to be the risk of financial loss incurred by the Group in the event that a customer or counterparty to an asset fails to meet contractual obligations.

The Group does not consider credit risk to be significant given the type of services it provides.

1.12.3 Liquidity risk

Management monitor rolling forecasts of the Group's liquidity reserves, cash and cash equivalents on the basis of expected cash flows and therefore monitors liquidity risk sufficiently.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. ACCOUNTING POLICIES (continued)**1.13 Intangible assets**

Costs relating to the acquisition of intellectual property have been capitalised. These have been amortised over 3 years as this is considered to be the useful economic life of the assets.

1.14 Research and development

Research and development expenditure is written off as incurred.

1.15 Taxes

Income taxes include all taxes based upon the taxable profits of the company. Other taxes not based on income, such as property and capital taxes, are included within operating expenses or financial expenses according to their nature.

Deferred income tax is provided, using the liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts, in the financial statements. Deferred income tax assets relating to the carry-forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Current and deferred income tax assets and liabilities are offset when the income taxes are levied by the same taxation authority and when there is a legally enforceable right to offset them.

1.16 Critical accounting estimates and judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. If in the future such estimates and assumptions, which are based on management's best judgement at the date of the financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the year in which the circumstances change. Where necessary, the comparatives will be reclassified from the previously reported results to take into account presentational changes.

Management consider the key judgments to be as follows:

- (i) The financial statements have been prepared on a going concern basis. The directors have considered the group's future and forecast business and cash requirements and have determined that the current cash resource is sufficient to enable the group's going concern for a period of twelve months from the date of approval of these financial statements.
- (ii) The acquisition of intellectual property is at an early stage and the directors have capitalised a small sum based on their assessment of relevant cost. The amount disclosed in the Statement of Financial Position as at 31 December 2016 is £583 (2015: £816)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. REVENUE

An analysis of the Group and Company's revenue for the year for its continuing operations, is as follows:

	Group 2016	Company 2016	Group 2015	Company 2015
	£	£	£	£
Revenue from the sale of goods/licences	7,050	7,050	20,613	20,613
Revenue from the rendering of services	117,423	117,423	-	-
Revenue from CyberOwl Limited	58,932	58,932	-	-
Revenue from Consulting	161,331	161,331	-	-
Total revenue	344,736	344,736	20,613	20,613

There were no operations that were discontinued during the year (2015: Nil).

3. EXPENSES BY NATURE

	Group 2016	Company 2016	Group 2015	Company 2015
	£	£	£	£
Staff and related costs	794,980	655,614	394,475	270,094
Consultancy and related costs	236,669	363,924	123,609	262,294
Professional fees	152,823	152,823	136,277	136,277
Property related costs	75,362	61,118	45,931	39,144
Depreciation	2,235	-	2,704	-
Other expenses	111,926	157,403	75,048	84,899
Total cost of sales and administrative expenses	1,373,995	1,390,882	778,044	792,708

4. STAFF COSTS – GROUP AND COMPANY

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

	Group 2016 £	Group 2015 £
Wages and salaries	563,406	242,885
Social security costs	63,209	24,211
	626,615	267,096

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

	Group 2016 No.	Group 2015 No.
Staff	10	5
Directors	3	3

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

5. DIRECTORS' REMUNERATION – GROUP AND COMPANY

	2016 £	2015 £
Remuneration	<u>126,333</u>	<u>90,617</u>

Key management compensation paid during the year was £126,333 (2015: £90,617).

No contributions to a pension scheme were made on behalf of the directors during the period.

No other payments were made under long term incentive schemes or otherwise during the period.

6. AUDITOR'S REMUNERATION

The expenses for services rendered by the Group auditor present themselves as follows:

	Group 2016 £	Group 2015 £
Fees for legal audit of consolidated financial statements	14,000	9,000
Fees for tax advisory services	13,948	8,447
Fees for other services	500	-
Total	<u>28,448</u>	<u>17,447</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

7. TAX

Income tax

	Group 2016 £	Group 2015 £
Current income tax expense	3,267	-
Deferred income tax	-	-
Total tax expense	3,267	-

There is no tax charge in respect of other comprehensive income.

The deferred income taxes for the year 2016 and deferred tax assets as at 31 December 2016 were considered to be nil as the Directors consider there is no sufficient certainty over the recoverability of the corporation tax losses available. Corporation tax losses carried forward for offset against future year's trading profits amount to approximately £1,600,000 (2015: £700,000).

The factors affecting tax charge for the years ended 2016 and 2015 are as follows:

	Group 2016 £	Group 2015 £
Loss before taxation	949,624	755,250
Average rate of corporation tax	20%	20%
Tax on profit	(189,925)	(151,050)
Effects of:		
Expenses not deductible for tax purposes, other than goodwill and impairment.	989	7,890
Depreciation for the year in excess of capital allowances	429	370
Deferred tax not recognised	185,240	142,970
Total tax charge	3,267	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

8. PROPERTY, PLANT AND EQUIPMENT

GROUP

	Computers £	Total £
Cost		
At 1 January 2016	6,442	6,442
Additions	880	880
At 31 December 2016	<u>7,322</u>	<u>7,322</u>
Accumulated Depreciation		
At 1 January 2016	2,807	2,807
Charge for the year	2,235	2,235
At 31 December 2016	<u>5,042</u>	<u>5,042</u>
Net Book Value		
At 31 December 2016	<u>2,280</u>	<u>2,280</u>

GROUP

	Computers £	Total £
Cost		
At 1 January 2015	5,589	5,589
Additions	853	853
At 31 December 2015	<u>6,442</u>	<u>6,442</u>
Accumulated Depreciation		
At 1 January 2015	103	103
Charge for the period	2,704	2,704
At 31 December 2015	<u>2,807</u>	<u>2,807</u>
Net Book Value		
At 31 December 2015	<u>3,635</u>	<u>3,635</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

9. INTANGIBLE ASSETS

GROUP

	Intellectual Property £	Total £
Cost		
At 1 January 2016	816	816
Additions		
At 31 December 2016	<u>816</u>	<u>816</u>
Accumulated Amortisation		
At 1 January 2016	-	-
Charge for the year	233	233
At 31 December 2016	<u>233</u>	<u>233</u>
Net Book Value		
At 31 December 2016	<u>583</u>	<u>583</u>

GROUP

	Intellectual Property £	Total £
Cost		
Additions	816	816
At 31 December 2015	<u>816</u>	<u>816</u>
Accumulated Amortisation		
At 1 January 2015	-	-
Charge for the year	-	-
At 31 December 2015	<u>-</u>	<u>-</u>
Net Book Value		
At 31 December 2015	<u>816</u>	<u>816</u>

The intangible assets represent computer software and commenced amortisation in 2016 (2015: Nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

10. OTHER UNLISTED INVESTMENT

	Total £
Cost	
At 1 January 2016	-
Additions	31
At 31 December 2016	<u>31</u>
Carrying Amount	
At 31 December 2016	<u>31</u>

The above investment represents Crossword Cybersecurity Plc's 14.58% holding in CyberOwl Limited which was purchased on 18 April 2016.

11. INVESTMENTS IN SUBSIDIARY (INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD)

	Total £
Cost	
At 1 January 2016	1,017
Additions	-
At 31 December 2016	<u>1,017</u>
Carrying Amount	
At 31 December 2016	<u>1,017</u>

	Total £
Cost	
At 1 January 2015	1,017
Additions	-
At 31 December 2015	<u>1,017</u>
Carrying Amount	
At 31 December 2015	<u>1,017</u>

The above investment represents the company's holding in its subsidiary, Crossword Cybersecurity Sp. Z.o.o, a company registered in Poland.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

12. TRADE AND OTHER RECEIVABLES

	Group 2016 £	Company 2016 £	Group 2015 £	Company 2015 £
Trade debtors	40,724	21,450	-	-
Other receivables	115,522	124,775	33,612	36,886
Prepayments and accrued income	21,908	20,046	9,852	9,852
	178,154	166,271	43,464	46,738

All of the above amounts are considered to be due within one year. The maximum exposure to credit risk at the reporting date is the carrying value as above and none are either past due or impaired. Of the above amounts, £39,883 (2015: £24,726) is denominated in Polish Zloty with the remainder in GBP.

Foreign exchange risk is currently considered insignificant.

13. TRADE AND OTHER PAYABLES

	Group 2016 £	Company 2016 £	Group 2015 £	Company 2015 £
Trade payables	63,263	62,637	24,884	24,835
Accruals and deferred income	30,559	30,559	40,934	40,934
Other payables	10,258	5,393	6,449	-
	104,080	98,589	72,267	65,769

All of the above amounts are considered to be due within one year. Of the above amounts £5,491 (2015: £6,498) is denominated in Polish Zloty with the remainder in GBP.

Foreign exchange risk is currently considered insignificant.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

14. SHARE CAPITAL**Allotted, called up and fully paid**

3,120,250 (2015: 2,383,460) ordinary shares of £0.05 each £156,015

2016**£****Share capital**

At 1 January 2016	119,173
Shares issued in period	36,842
Carried forward	<u><u>156,015</u></u>

Share premium

At 1 January 2016	2,080,827
Shares issued in period	1,332,589
Carried forward	<u><u>3,413,416</u></u>

2015**£****Share capital**

At 1 January 2015	79,697
Shares issued in period	39,476
Carried forward	<u><u>119,173</u></u>

Share premium

At 1 January 2015	620,303
Shares issued in period	1,460,524
Carried forward	<u><u>2,080,827</u></u>

The shares issued during the year represent the additional financing requirements of the Group.

Earnings per share is calculated by dividing the loss for the year attributable to ordinary equity shareholders of the parent by the weighted average number of ordinary shares outstanding during the year. During the year this calculation was based on the loss for the year of £946,686 (2015: £756,909) divided by the weighted average number of ordinary shares of 2,458,102 (2015: 2,007,056).

15. RESERVES

The following describes the nature and purpose of each reserve within owners' equity:

Reserve	Description and purpose
Share capital	This represents the nominal value of shares issued.
Share premium	Amount subscribed for share capital in excess of nominal value.
Retained earnings	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income.
Translation of foreign operations	Is the difference that arises due to consolidation of foreign subsidiaries using an average rate during the year and a closing rate for the year end statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

16. NET CASH OUTFLOWS

	2016 £	2015 £
Loss for the year	(952,891)	(755,250)
Increase in debtors	(134,690)	(168)
Increase in creditors	31,813	37,544
Depreciation and amortisation	2,468	2,704
Net cash outflow from operations	<u>(1,053,300)</u>	<u>(715,170)</u>

17. NET CASH INFLOWS FROM FINANCING ACTIVITIES

	2016 £	2015 £
Financing		
Proceeds of issue of ordinary shares	<u>1,369,431</u>	<u>1,500,000</u>

18. FINANCIAL ASSETS – (LOANS AND RECEIVABLES) AND FINANCIAL LIABILITIES – (AT AMORTISED COST)

	Group 2016 £	Company 2016 £	Group 2015 £	Company 2015 £
Financial Assets				
Investments	31	1,048	-	1,017
Cash and cash equivalents	1,548,906	1,525,551	1,227,481	1,209,495
Trade and other receivables	165,045	146,225	43,464	46,738
	<u>1,713,982</u>	<u>1,672,824</u>	<u>1,270,945</u>	<u>1,257,250</u>
Financial Liabilities				
Trade and other payables	73,521	68,030	31,333	24,835
Accruals	30,599	30,599	40,934	40,934
	<u>104,120</u>	<u>98,629</u>	<u>72,267</u>	<u>65,769</u>

19. RELATED PARTY TRANSACTIONS

A loan was made from Crossword Cybersecurity Plc to its 100% owned subsidiary Crossword Cybersecurity Sp. Z.o.o of £28,000 during the year. This was still outstanding at year end.

20. CONTROLLING PARTY

The ultimate controlling party throughout the current and previous year was T Ilube, a director.