Registered number: 08927013

CROSSWORD CYBERSECURITY PLC

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

COMPANY INFORMATION

DIRECTORS	Sir Richard Dearlove (Chairman) T Ilube (CEO) Dr D Secher Professor D Stupples A Gueritz G Matthew R Anderson (appointed 01 February 2018)
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

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STRATEGIC REPORT OF THE DIRECTORS

INTRODUCTION

It gives us great pleasure to present the annual report and financial statements for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal business of the Company is to commercialise cybersecurity related technology emerging from universities and research organisations. Headquartered in London, we work with universities in the UK and internationally to identify exciting and commercially viable intellectual property that we can commercialise.

REVIEW OF THE YEAR

2017 was the year when Crossword transitioned from an R&D focused company to unleashing our sales and marketing capability. We generated more revenue in the first half of 2017 than we did in the whole of 2016, and this momentum continued through the year. As reported in our trading update in February 2018, we ended the year having grown revenue by over 113%.

As we continue to develop Crossword's technology commercialisation business focused exclusively on cybersecurity, there is no let-up in global cyber security incidents. 2017 saw several of the biggest and most alarming cyber security challenges to date. Equifax, the global credit reference agency, reported a data breach affecting over 145m consumers. Hackers accessed Uber's servers containing the personal details of 57 million customers. Wannacry was described as the worst cyber attack ever. This global cyber event impacted hundreds of thousands of computers worldwide, including crippling NHS hospitals on a large scale, once again thrusting cyber security into the national headlines. It was quickly followed by the Petya ransomware virus that leveraged some of the same techniques.

Crossword works with universities to commercialise technology based on their extensive cyber research. In 2017 we extended the group of universities that we are working with to include Imperial College, Edinburgh University, EPFL in Switzerland and MIT in the USA. This brings to a total of ten the number of universities that we are involved with: Bristol, Warwick, Coventry, Surrey, South Wales, City, Imperial, Edinburgh, EPFL and MIT.

In the middle of 2017, Crossword launched a major initiative, CyberAI, applying leading edge Artificial Intelligence and Machine Learning techniques to real world cyber security challenges. CyberAI brought together world leading academic researchers from MIT, Imperial College and Edinburgh University with four major companies: a global investment bank, a FTSE 100 retail bank, a multinational insurance company and a big four professional services firm. Led by Crossword, this powerful group has identified a specific AI-based, cybersecurity concept aimed at very large scale corporate customers. The next stage is to deliver a proof of concept and ultimately a commercial product.

CyberOwl, the spin out from Coventry University funded by Mercia Fund Management that Crossword created, is making strong progress, having been selected for and participated successfully in GCHQ's new Cyber Accelerator. Mercia and Coventry University invested a further £750k into CyberOwl, bringing the total they have invested so far to £1.4m. CyberOwl has also secured over £100k in government grants and expects to launch its early warning cybersecurity product in early 2018.

In partnership with the University of Warwick, Crossword completed a Ministry of Defence funded proof of concept for blockchain-enabled smart documents. Based on the positive results of this proof of concept work, we engaged with the world renown blockchain team at EPFL, the federal university in Switzerland, to leverage their expertise. We then created a spin out company called ByzGen, and helped it raise £500k of funding from RFS Ltd.

With the imminent introduction of GDPR (General Data Protection Regulation) in 2018, our cyber risk product Rizikon Assurance, based on City, University of London research, is attracting considerable interest. Rizikon Assurance, a Software-as-a-Service (SaaS) solution based on a recurring revenue model, is designed to enable medium and large companies to assess and monitor the cyber security risks of their large supplier base.

We estimate that the UK market alone for Rizikon Assurance is worth £300m per annum.

Our specialist cyber security consulting subsidiary, Crossword Consulting Ltd, goes from strength to strength, building on its experienced team of ex-military, intelligence and corporate cybersecurity professionals.

On the corporate front, Rob Johnson joined Crossword as Chief Operating Officer from Mercia Technologies, the AIM listed tech transfer business, where he managed the software and internet investments. Prior to his role with Mercia, Rob was a successful entrepreneur and has led five technology companies through successful exits. General Nick Houghton, Baron Houghton of Richmond, former Chief of Defence Staff of the British Armed Forces joined Crossword as a senior adviser bringing his considerable knowledge of global security issues to the company as we start to consider international expansion.

RESULTS AND FINANCIAL POSITION

Crossword generated revenue of £736,546 during the year ended 31 December 2017 (2016 - £344,736).

At the period end, Crossword had £490,090 in cash and cash equivalents, as part of total equity of £586,266.

While the group results show an increased loss of £1.24m against £953k in the prior year, this is as budgeted as the group is seeking to expand its presence in the market particularly with investment in staff capability in the areas discussed in the review of the year.

In May 2017, Crossword raised £145k in a placing and subscription at £2.30/share, a 20% premium to the then prevailing share price. Following the year end, in March 2018, Crossword further strengthened its balance sheet by raising £2.16m from existing and new shareholders at £2.70/share. This will strengthen the balance sheet position in order to provide sufficient cash flow for the business to develop in line with its objectives.

No dividends were paid or recommended to be paid during the year.

KEY PERFORMANCE INDICATORS

The Board monitors the activities and performance of the Group on a regular basis. The indicators set out below were used during 2017 and will continue to be used by the Board to assess performance over the coming year.

UNIVERSITY RELATIONSHIPS

The number of active university relationships is a key performance indicator as it represents the pipeline of potential opportunities that may turn into commercial products in due course. We regularly review these relationships and the actions being taken to enhance existing relationships and establish new ones.

TECHNICAL DEVELOPMENT

We monitor progress demonstrated in the development of our cybersecurity products that are in the development phase.

BUSINESS DEVELOPMENT

We monitor relationships with existing customers the pipeline of potential new clients, pipeline conversion and the rate of acquisition of new customers, for our products that have completed development and are in the commercial phase.

HUMAN RESOURCES

We monitor and review the development of a well-balanced management team and the recruitment, performance and retention of suitably skills personnel.

FINANCIAL INDICATORS

The Board use financial indicators based on budget verses actual to assess the performance of the Group. The key aspects monitored is the Group's working capital requirements, its current cash balance, monthly expenditure against forecast expenditure and quarterly revenue growth. These are as follows:

		2017	2016
		£	£
Working capital		572,956	1,622,980
Cash balance		490,090	1,548,906
Expenditure	- Actual	2,019,878	1,374,068
	- Budgeted	2,000,000	1,246,885

Working capital is defined as current assets minus current liabilities.

POST YEAR END

In February 2018, Ruth Anderson joined the Board as a Non-Executive Director. Ruth has over 15 years of experience in the field of security, intelligence, cybercrime and risk management. She is currently Head of IT and Cyber Risk at Lloyds Banking Group and was previously a director of Cyber in the Financial Service Department of KPMG. Ruth previously held senior roles at the Child Exploitation and Online Protection Centre and served in intelligence and security in the British Army, following a degree in Arabic and Modern Middle Eastern Studies from Oxford University.

In March 2018, Crossword strengthened its balance sheet with an oversubscribed funding round, raising £2.16m from existing and new investors, including over £100,000 from the Chief Executive and other senior executives.

OUTLOOK

Crossword is seeing strong interest in Rizikon Assurance, our supplier risk assessment product. We are investing rapidly in our product sales team and are aiming to have in the region of a hundred meetings with potential commercial clients by the middle of 2018. We are very excited about the prospects for Rizikon Assurance as the General Data Protection Regulation (GDPR) comes into force in May 2018.

In addition to rolling out Rizikon, we aim to launch our second product, Nixer, into the market in 2018 and we are actively working on our third product that should emerge from our CyberAI initiative. Meanwhile, we expect to see continued strong revenue growth from our expert consulting team.

PRINCIPAL RISKS AND UNCERTAINTIES

The management of the business and the nature of the Group's strategy are subject to a number of risks. The Directors have set out below the principal risks facing the business:

- *Intellectual property acquisition & development*

  Crossword acquires intellectual property (IP) rights from universities via licencing and IP transfer arrangements and then develops this IP into commercial products. Failure to secure good quality IP deals will make it difficult for us to generate new products. Crossword has in-house expertise on IP arrangements and makes use of external law firms where assistance is required.

- *Reputational risk*

  As a cybersecurity company, Crossword is very conscious of its external reputation. If we are compromised as a result of a cyber incident it would impact our client's confidence. Crossword has an experienced Chief Information Security Officer (CISO) and a strong technical team who actively mitigate threats.

- *Working capital management*

  Crossword needs to manage its working capital tightly to ensure that its funds are properly controlled. Failure to do so could cause problems with cash flow. Crossword has robust internal procedures to ensure that working capital is managed carefully on an ongoing basis.

CREATING COMMERCIALLY VIABLE PROPOSITIONS

The Group's strategy is to convert interesting academic cybersecurity ideas into commercially viable products. Failure to develop appropriate commercial opportunities for its emerging products represents a major risk. The Group is managing this risk by conducting significant market research to position our emerging products and investing in a strong, professional sales, marketing and product management team.

MAINTAINING UNIVERSITY PARTNERSHIPS

Crossword needs to establish and maintain relationships with leading cybersecurity universities. Failure to establish commercialisation partnerships with leading research universities will limit our ability to generate new products. Crossword has recruited a Chief Scientific Officer with a strong reputation and significant experience specifically to focus on university relationships. Over the past year we have been able to expand our set of relationships from six to ten leading universities.

COMPETITION FROM ESTABLISHED TECH TRANSFER BUSINESSES

The Group faces competition from existing IP transfer businesses seeking to engage in cybersecurity commercialisation activity. Crossword ensures that we know the main players in the UK technology transfer sector and we tend to cooperate with them rather than compete. We have deep cybersecurity sector knowledge and they have considerable financial resources to deploy, so the relationships are largely complimentary.

ATTRACTING AND RETAINING CYBERSECURITY TALENT

The market for experienced cyber security experts is highly competitive. Crossword relies on having real expertise in our teams. We go out of our way to create a positive working environment that is attractive to talented individuals and we adopt flexible working practices to fit in with individual's lifestyles. In contrast to large corporates and consultancies, our team are treated as individuals. We also have incentives in place, such as share options for all staff.

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

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T Ilube
Director

Date: 25 April 2018

REPORT OF THE DIRECTORS

The directors present their report and the financial statements for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Group for the year is to commercialise cybersecurity related technology emerging from universities and research organisations. Headquartered in London, we work with universities in the UK and internationally to identify exciting and commercially viable intellectual property that we can commercialise.

DIRECTORS

The directors who served during the year and up to the date of approval were as follows:

Sir Richard Dearlove (Chairman)
T Ilube (CEO)
Dr D Secher
Professor D Stupples
A Gueritz
G Matthew
R Anderson (appointed 1 February 2018)

RESULTS AND DIVIDENDS

The statement of comprehensive income is set out on page 9 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 (2016: Nil).

FUTURE DEVELOPMENTS

In accordance with s414C (ii) of the Companies Act the Directors have chosen to include the following items in the group strategic report:

- Strategy of the group
- Post year end events
- Risks and performance

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.

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.

BY ORDER OF THE BOARD

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T Ilube
Director

Date: 25 April 2018

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS, AS A BODY, OF CROSSWORD CYBERSECURITY PLC

Opinion

We have audited the financial statements of Crossword Cybersecurity PLC (the parent 'Company') and its subsidiaries for the year ended 31 December 2017, which comprise the Group Statement of comprehensive income, the Group and parent Company Balance sheets, the Group Statement of cash flows the Group and parent 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 and parent Company's affairs as at 31 December 2017 and of the group loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our Auditor's report thereon. 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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS, AS A BODY, OF CROSSWORD CYBERSECURITY PLC (continued)

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 Company and its environment obtained in the course of the audit, we have not identified material misstatements in the 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 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 on page 8, 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 and 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 parent Company or to cease operations, or have no realistic alternative but to do so.

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 Auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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: 26/04/18

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	Year ended 31 December 2017 £	Year ended 31 December 2016 £
REVENUE	2	736,546	344,736
Cost of sales	3	(1,062,350)	(788,666)
GROSS LOSS		(325,804)	(443,930)
Other operating income including research and development tax credits		97,716	78,354
Administrative expenses	3	(956,126)	(585,329)
Share based payments	4	(50,875)	-
Finance income – bank interest receivable		976	1,354
Finance costs – other interest payable		(1,402)	(73)
NET LOSS BEFORE TAXATION		**(1,235,515)**	**(949,624)**
Tax expense	7	(4,730)	(3,267)
LOSS FOR THE YEAR		**(1,240,245)**	**(952,891)**
OTHER COMPREHENSIVE INCOME			
Items that will not be classified to profit or loss:			
Foreign Exchange Translation Gain		4,265	6,205
TOTAL COMPREHENSIVE LOSS		**(1,235,980)**	**(946,686)**
EARNINGS PER SHARE	14	(£0.39)	(£0.39)
DILUTED EARNINGS PER SHARE	14	(£0.38)	(£0.37)

The notes on pages 14 to 28 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Note	Group £ 2017	Company £ 2017	Group £ 2016	Company £ 2016
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	8	12,408	-	2,280	-
Intangible assets	11	-	-	583	-
Investments in other unlisted investment and subsidiary	9, 10	31	1,048	31	1,048
Total non-current assets		**12,439**	**1,048**	**2,894**	**1,048**
CURRENT ASSETS					
Trade and other receivables	11	175,813	447,503	178,154	166,271
Cash and cash equivalents		490,090	463,603	1,548,906	1,525,551
Total current assets		665,903	911,106	1,727,060	1,691,822
TOTAL ASSETS		**678,342**	**912,154**	**1,729,954**	**1,692,870**
EQUITY					
Attributable to the owners of the company					
Share capital	13	159,173	159,173	156,015	156,015
Share premium account	13	3,555,522	3,555,522	3,413,416	3,413,416
Other reserves	4	50,875	50,875	-	-
Retained earnings		(3,186,833)	(2,947,789)	(1,946,821)	(1,975,150)
Translation of foreign operations		7,529	-	3,264	-
Total equity		**586,266**	**817,781**	**1,625,874**	**1,594,281**
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	12	92,076	94,373	104,080	98,589
Total current liabilities		92,076	94,373	104,080	98,589
TOTAL LIABILITIES		**92,076**	**94,373**	**104,080**	**98,589**
TOTAL EQUITY AND LIABILITIES		**678,342**	**912,154**	**1,729,954**	**1,692,870**

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

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T Ilube
Director

Date: 25 April 2018

The notes on pages 14 to 28 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2017

GROUP	Share Capital £	Share Premium £	Equity Reserve £	Retained Earnings £	Translation of Foreign Operations £	Total £
At 1 January 2017	156,015	3,413,416	-	(1,946,821)	3,264	1,625,874
Total comprehensive loss for the period	-	-		(1,240,245)	4,265	(1,235,980)
Issue of shares	3,158	142,106	-	-	-	145,264
Share based payments	-	-	50,875	-	-	50,875
Balance at 31 December 2017	**159,173**	**3,555,522**	**50,875**	**(3,187,066)**	**7,529**	**586,033**

	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 year	-	-	(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**

The notes on pages 14 to 28 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2017

COMPANY	Share Capital £	Share Premium £	Equity Reserve £	Retained Earnings £	Total £
At 1 January 2017	156,015	3,413,416	-	(1,975,150)	1,594,281
Total comprehensive loss for the year	-	-		(972,639)	(972,639)
Issue of shares	3,158	142,106	-	-	145,264
Share based payment	-	-	50,875	-	50,875
Balance at 31 December 2017	**159,173**	**3,555,522**	**50,875**	**(2,947,789)**	**817,781**

	Share Capital £	Share Premium £	Equity Reserve £	Retained Earnings £	Total £
At 1 January 2016	119,173	2,080,827	-	(1,008,519)	1,191,481
Total comprehensive loss for the year	-	-	-	(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**

The notes on pages 14 to 28 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £	2016 £
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	16	(1,192,688)	(1,053,300)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		(1,192,688)	(1,053,300)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	8	(15,657)	(880)
Purchase of shares in other unlisted investment	9	-	(31)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(15,657)	(911)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	16	145,264	1,369,431
NET CASH INFLOW FROM INVESTING ACTIVITIES		145,264	1,369,431
NET INCREASE IN CASH AND CASH EQUIVALENTS		(1,063,081)	315,220
FOREIGN CURRENCY TRANSLATION DIFFERENCE		4,265	6,205
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		1,548,906	1,227,481
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**490,090**	**1,548,906**

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

The notes on pages 14 to 28 form part of these financial statements.

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 2017 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 26 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 year.

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 year end the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective. The Group is assessing their impact but do not expect a significant impact other than detailed below:

IFRS 15 *"Revenue from Contracts with Customers"*
This standard is effective from years commencing 1 January 2018 and introduces a new revenue model based on the transfer of control. The Group does not consider that this will impact its current revenue recognition policy and nor will the additional disclosures required have an impact.
IFRS 16 "*Leases*"
This standard is effective from years commencing 1 January 2019 and requires new leases to be brought on balance sheet as assets and liabilities. The Group does not currently have any leases but will be affected by any such lease agreements entered into in future years.
IFRS 9 *"Financial Instruments"*
This standard is effective from years commencing 1 January 2018 and introduces changes to the classification of financial assets and a new model for impairment losses. The Group does not consider this will impact is current classifications.
IFRS 17 *"Insurance Contracts"*
Amendments to IFRS 2 *"Share Based Payments"*
Amendments to IFRS 11: "*Accounting for Acquisition of Interests in Joint Operation*"
Amendments to IFRS 9: "*Prepayment Features with Negative Compensation*"
Amendments to IAS 40 : *Transfer of Investment Property*

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.

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

Revenue includes mainly from the provision of consulting services, Rizikon, CyberOwl Limited, Byzgen Limited and the launch of a major initiative in respect of CyberAI.

Revenue from these services are recognised as 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.

On consolidation, the assets and liabilities of foreign operations are translated into GBP at the rate of exchange at the reporting date. Their statements of profit or loss are transacted at exchange rates at the dates of transaction. 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 to 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.

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
Computers	3.33

1.10 Impairment of non-financial assets

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.

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.

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.

1. ACCOUNTING POLICIES (continued)

1.13 Research and development

Research and development expenditure is written off as incurred.

1.14 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.

1.15 Share Based Payments

On occasion, the company has made share-based payments to certain Directors and employees by way of issue of share options. The fair value of these payments is calculated by the company using the binomial option valuation model. The expense is recognised on a straight-line basis over the period from the date of award to the date of vesting, based on the company's best estimate of the number of shares that will eventually vest.

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 accounts presentational changes.

Management consider the key judgments to the financial statements which 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.

2. REVENUE

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

	Group 2017	Company 2017	Group 2016	Company 2016
	£	£	£	£
Revenue from the sale of goods/licences	26,900	26,900	7,050	7,050
Revenue from the rendering of services	255,362	255,362	117,423	117,423
Revenue from CyberOwl Limited	153,222	153,222	58,932	58,932
Revenue from Consulting	301,062	-	161,331	161,331
Total revenue	**736,546**	**435,484**	**344,736**	**344,736**

There were no operations that were discontinued during the year (2016: Nil).

3. EXPENSES BY NATURE

	Group 2017	Company 2017	Group 2016	Company 2016
	£	£	£	£
Staff and related costs	1,293,951	601,370	794,980	655,614
Consultancy and related costs	270,252	519,955	236,669	363,924
Professional fees	179,858	156,598	152,823	152,823
Property related costs	91,021	90,922	75,362	61,118
Depreciation	5,474	-	2,235	-
Other expenses	177,920	129,649	111,926	157,403
Total cost of sales and administrative expenses	**2,018,476**	**1,498,494**	**1,373,995**	**1,390,882**

Segmental Information

The Group has two business streams, one of which relates to cybersecurity software development and application and is the major part of the business covering 97% (2016 – 64%) of revenues. The other business stream is consultancy and this relates to cybersecurity consultancy for businesses. This is a much smaller proportion of revenue when compared to previous years (3% this year as against 36% of revenues in the prior year).

The Directors do not consider the consultancy business stream to be material to the Group's operations and therefore have not presented segmental information separately in this regard.

The Group sell in the UK at present and therefore have only one geographical segment and do not need to present separate geographical analysis.

4. STAFF COSTS

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

	Group 2017 £	Company 2017 £	Group 2016 £	Company 2016 £
Wages and salaries	1,154,469	542,753	563,406	563,406
Social security costs	135,606	55,037	63,209	63,209
Share based payments	50,875	50,875	-	-
Other pension costs	3,876	3,580	-	-
	1,344,826	**652,245**	**626,615**	**626,615**

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

	Group 2017 £	Company 2017 £	Group 2016 £	Company 2016 £
Staff	15	10	10	10
Directors	4	3	3	3

Share based payments

The amount recognised in the year in respect of share based payments was £50,875. The Group has established share option programmes that entitle certain employees to purchase shares in the Group. These were issued in July 2014, November 2014, July 2015, December 2015, January 2016, June 2016, September 2016 and June 2017. The financial impact of these has not been considered material to the financial statements until this date. There are no performance conditions attaching to these options and none have been exercised at 31 December 2017. Total options issued amount to £118,990. The share options have been valued using a binomial model applying the following inputs:

Stock price – bid price of a share at grant date
Exercise price – equal to the share price as options are granted at the money
Vesting date – all options vest in three tranches, on the first, second and third anniversary from the grant date
Expiry/Exercise date – 10 years from the grant date
Volatility – given the thinly traded shares on the NEX exchange this has been calculated at 35% using quoted comparator companies.
Risk free rate – yield on a zero coupon government security at each grant date with a life congruent with the expected option life
Dividend yield and staff turnover – 0%

Reconciliation of share options – group and company

	2017	Weighted average exercise price 2017	2016	Weighted average exercise price 2017
1 January 2017	107,491	£1.79	86,332	£1.76
Granted during the year	11,499	£1.90	21,159	£1.90
31 December 2017	**118,990**	**£1.80**	**107,491**	**£1.79**

5. DIRECTORS' REMUNERATION

	2017 £	2016 £
Remuneration	**260,968**	**126,333**

Key management compensation paid during the year was £287,809 (2016: £126,333).

Pension contributions of £130 were made to a pension scheme on behalf of the directors during the Period (2016: £nil).

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 2017 £	Group 2016 £
Fees for legal audit of consolidated financial statements	20,500	14,000
Fees for tax advisory services	5,000	13,948
Fees for other services	-	500
Total	**25,500**	**28,448**

7. TAX

Income tax

	Group 2017 £	Group 2016 £
Current income tax expense	4,730	3,267
Deferred income tax	-	-
Total tax expense	**4,730**	**3,267**

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

The deferred income taxes for the year 2017 and deferred tax assets as at 31 December 2017 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 £2,500,000 (2016: £1,600,000).

The factors affecting tax charge for the years ended 2017 and 2016 are as follows:

	Group 2017 £	Group 2016 £
Loss before taxation	1,235,515	949,624
Average rate of corporation tax	19.25%	20%
Tax on profit	(237,837)	(189,925)
Effects of:		
Expenses not deductible for tax purposes, other than goodwill and impairment	-	989
Depreciation for the year in excess of capital allowances	-	429
Deferred tax not recognised	-	185,240
Total tax charge	**4,730**	**3,267**

Factors they may affect future tax charges:

A reduction in the UK corporation tax rate from 20% to 19% was enacted in October 2015 and took effect from 1 April 2017. A further valuation from 19% to 17% was substantively enacted on the same date and will take effect from 1 April 2020.

8. PROPERTY, PLANT AND EQUIPMENT

GROUP

	Computers £	Total £
Cost		
At 1 January 2017	7,322	7,322
Additions	15,602	15,602
At 31 December 2017	**22,924**	**22,924**
Accumulated Depreciation		
At 1 January 2017	5,042	5,042
Charge for the year	5,474	5,474
At 31 December 2017	**10,516**	**10,516**
Net Book Value		
At 31 December 2017	**12,408**	**12,408**

GROUP

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

9. OTHER UNLISTED INVESTMENT

	Total £
Cost	
At 1 January 2017	**31**
Additions	-
At 31 December 2017	**31**
Carrying Amount	
At 31 December 2017	**31**

The above investment represents Crossword Cybersecurity Plc's 11.069% (2016: 14.58%) holding in CyberOwl Limited which was purchased on 18 April 2016.

10. INVESTMENTS IN SUBSIDIARIES (INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD)

The following are subsidiary undertakings of the company:

Name	Country of Incorporation	Proportion of voting rights & ordinary share capital held	Nature of business
Crossword Cybersecurity Sp. Z.o.o	Poland	100%	Software Engineering
Crossword Consulting Limited*	England & Wales	100%	Cybersecurity Consultancy

* Crossword Consulting Limited was incorporated on 19 January 2016.

	Total £
Cost	
At 1 January 2017	1,017
Additions	-
At 31 December 2017	**1,017**
Carrying Amount	
At 31 December 2017	**1,017**

	Total £
Cost	
At 1 January 2016	1,017
Additions	-
At 31 December 2016	**1,017**
Carrying Amount	
At 31 December 2016	**1,017**

11. TRADE AND OTHER RECEIVABLES

	Group 2017 £	Company 2017 £	Group 2016 £	Company 2016 £
Trade debtors	91,690	75,741	40,724	21,450
Other receivables	49,788	338,610	115,522	124,775
Prepayments and accrued income	34,335	33,152	21,908	20,046
	175,813	**447,503**	**178,154**	**166,271**

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 held within the Company, £62,223 (2016: £39,883) is denominated in Polish Zloty with the remainder in GBP.

There has been a restated figure of £583 in relation to intangible assets/amortisation that was incorrectly accounted for in 2016. This is not viewed as being significant.

Foreign exchange risk is currently considered minimal as balances in Polish Zloty are between the parent and its wholly owned subsidiary.

12. TRADE AND OTHER PAYABLES

	Group 2017 £	Company 2017 £	Group 2016 £	Company 2016 £
Trade payables	44,101	67,742	63,263	62,637
Accruals and deferred income	34,370	24,959	30,559	30,559
Other payables	13,605	1,672	10,258	5,393
	92,076	**94,373**	**104,080**	**98,589**

All of the above amounts are considered to be due within one year. Of the above amounts held within the company £31,149 (2016: £5,491) is denominated in Polish Zloty with the remainder in GBP.

Foreign exchange risk is currently considered minimal as balances in Polish Zloty are between the parent and its wholly owned subsidiary.

13. SHARE CAPITAL

Allotted, called up and fully paid

3,183,408 (2016: 3,120,250) ordinary shares of £0.05 each	**£159,173**

	2017
	£
Share capital	
At 1 January 2017	156,015
Shares issued in period	3,158
Carried forward	**159,173**
Share premium	
At 1 January 2017	3,413,416
Shares issued in period	142,106
Carried forward	**3,555,522**

	2016
	£
Share capital	
At 1 January 2016	119,173
Shares issued in period	36,842
Carried forward	**156,015**
Share premium	
At 1 January 2016	2,080,827
Shares issued in period	1,332,589
Carried forward	**3,413,416**

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

14. EARNINGS & DILUTED EARNINGS PER SHARE

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 £1,234,515 (2016: £946,686) divided by the weighted average number of ordinary shares of 3,158,318 (2016: 2,458,102).

Diluted earnings per share is calculated by dividing the loss of the year by the weighted average number of ordinary shares outstanding during the year plus unexercised the share based payments. The weighted average number of ordinary shares used in the calculation of diluted earnings per share was 3,277,481 (2016: 2,565,592).

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.
Equity reserve	Represents amounts charged on share options that have been granted to employees.
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.

16. NET CASH OUTFLOWS

	2017 £	2016 £
Loss for the year	(1,240,245)	(952,891)
Increase in debtors	(48,200)	(134,690)
Increase in creditors	39,408	31,813
Depreciation and amortisation	5,474	2,468
Share based payment	50,875	-
Net cash outflow from operations	**(1,192,688)**	**(1,053,300)**

17. NET CASH INFLOWS FROM FINANCING ACTIVITIES

	2017 £	2016 £
Financing		
Proceeds of issue of ordinary shares	**145,264**	**1,369,431**

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

	Group 2017 £	Company 2017 £	Group 2016 £	Company 2016 £
Financial Assets				
Investments	31	1,048	31	1,048
Cash and cash equivalents	490,090	463,603	1,548,906	1,525,551
Trade and other receivables	141,478	414,351	165,045	146,225
	631,599	**879,002**	**1,713,982**	**1,672,824**
Financial Liabilities				
Trade and other payables	57,706	69,415	73,521	68,030
Accruals	34,370	24,959	30,599	30,599
	92,076	**94,374**	**104,120**	**98,629**

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 prior year. A balance of £23,000 was still outstanding at year end.

A loan was made to Crossword Consulting Limited, 100% owned subsidiary of the company, of £300,000. This was still outstanding at the year end.

20. CONTROLLING PARTY

The ultimate controlling party throughout the current and previous year was T Ilube, a director, by virtue of his 39% holding of the Company's voting shares.