

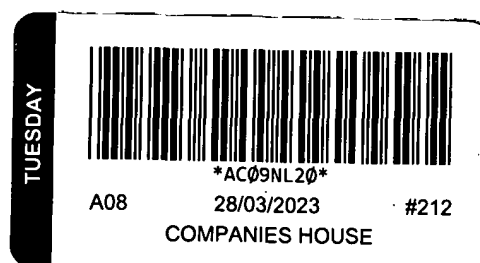
Zeptolab UK Limited

Annual Report and Financial Statements

Year Ended

31 January 2022

Company Number 07493468



Zeptolab UK Limited

Company Information

Director	Mikhail Lyalin
Company secretary	MH Secretaries Limited
Registered number	07493468
Registered office	80 Cheapside London EC2V 6EE
Auditors	BDO LLP 55 Baker Street London W1U 7EU

Zeptolab UK Limited

Contents

	Page
Strategic Report	1 - 2
Director's Report	3
Director's Responsibilities Statement	4
Independent Auditors' Report	5 - 8
Statement of Comprehensive Income	9
Statement of Financial Position	10
Statement of Changes in Equity	11
Statement of Cash Flows	12
Notes to the Financial Statements	13 - 24

Zeptolab UK Limited

Strategic Report For the Year Ended 31 January 2022

Business review

The Company ('Zeptolab') continued to exploit, under license agreements or as intellectual property owner, titles such as Cut the Rope, King of Thieves, CATS and other new games launched in 2021.

In 2022, Zeptolab released Downhill, developed by a third party and the intellectual property of Zeptolab.

The Company entered into a sale agreement with Zeptolab LLC for all of its legacy intellectual property on 11 February 2021. The Company subsequently entered into license agreement with Zeptolab LLC to distribute and publish their titles and intellectual property.

Revenue has increased by 113% from 2021 and Earnings Before Interest, Tax, Depreciation, and Amortisation (EBITDA) has increased to a profit of \$2,839,328 (2021: \$802,228).

Post balance sheet events

On 21 July 2022, the Licensing and Intellectual Property Transfer Agreements between Zeptolab LLC (Purchaser/Licenser) and the Company (Purchaser/Licensee) were terminated. As a result, the Intellectual Property and related IP rights were returned to the Company and the related outstanding liability of the Purchaser has been extinguished. The receivable and payable between two parties related to the Licensing Agreement have also been set off and are due to be settled on or before December 2023.

On 4 August 2022, the Company entered into a deed of release with Zeptolab Jersey Limited for the outstanding payable of £2,006,643 and US\$4,421,532.

On 19 October 2022, the Company has established Zeptolab LLC Belgrade, a fully-owned subsidiary registered in Serbia.

On 5 January 2023, the Company entered into a deed of cancellation with ZeptoLab Jersey Limited as the performance of the business activity of the Company had been better than expected and therefore the Company intended on repaying some or all of the loans that were due to Zeptolab Jersey.

Principal risks and uncertainties

The success of the Company depends significantly on its ability to acquire, develop and exploit its intellectual property. The fast moving nature of the sector in which the Company operates means that key business risks include changes in trends and technologies that can affect the demand and delivery of the Company's software titles and products. The Company is also affected by its ability to protect against infringement of its intellectual property.

The functional currency is the US Dollar and the Company is subject to foreign exchange risk on its borrowings which are denominated in Great British Pounds.

Zeptolab UK Limited

Strategic Report (continued) For the Year Ended 31 January 2022

Financial key performance indicators

The Company uses the following key performance indicators (KPIs) to assist in the understanding of the development, performance and positions of the business. Amounts are not disclosed as this information is considered commercially sensitive:

Number of digital downloads

The Company monitors the daily number of downloads per title to measure digital revenue and the success of each game including the in application purchase options.

Unique monthly audience

The unique monthly audience figures show how many different people are using the software per month. This helps assess the number of end users and repeat users playing the gaming software titles.

Daily average audience

The daily average audience figures indicates the number of people using the software each day. The Company monitors these to ascertain the daily usage of the gaming software and a measure of popularity.

Cash flow operations

The Company monitors operating cash flows as a key element in understanding the performance and position of the business. This measure is the same as that in the cash flow statement. Management expects to continue to have a positive cash position for the foreseeable future.

COVID-19

COVID-19 has not affected the revenues of the Company significantly. Downloads and usage revenue increased in 2022 and advertising prices have dropped which has resulted in an increased revenue position when compared to 2021.

The Company's operations have not been significantly affected either, with the Company adapting to the remote work environment easily, with no significant impact on costs.

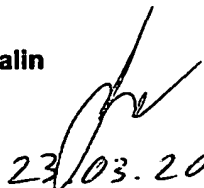
Future developments

Long term, Zeptolab will continue to act as a developer and publishing company, developing new relationships and collaborating across all their revenue streams: digital, advertising, and merchandising & licensing.

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

Mikhail Lyalin
Director

Date:


23.03.2023

Zeptolab UK Limited

Director's Report For the Year Ended 31 January 2022

The director presents his report and the audited financial statements for the year ended 31 January 2022.

Results and dividends

The profit for the year, after taxation, amounted to \$3,659,147 (2021: \$316,348).

In 2022 the Company has not declared a dividend (2021: \$Nil).

Director

The directors who served during the year were:

Mikhail Lyalin
Spartak Zuy (resigned 1 October 2022)

Going concern

The accounts have been prepared on a going concern basis. The Company's forecast and projections show that the Company will be able to operate within the level of its current financial means for at least twelve months from the signing of these financial statements.

Careful consideration has been made by the directors of the loan notes issued and other amounts due to the parent company, which are repayable on demand. Although the directors have no reason to believe that the parent company will demand repayment, there is no contractual certainty on this. This indicates that a material uncertainty exists which may cast significant doubt on the Company's ability to continue as a going concern.

However, the director has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Therefore, the Company continues to adopt the going concern basis in preparing the financial statements.

Please refer to note 2.2 for further disclosure on going concern.

Disclosure of information to auditors

The director at the time when this report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

Mikhail Lyalin
Director

Date: 23.03.2023

Zeptolab UK Limited

Director's Responsibilities Statement For the Year Ended 31 January 2022

The director is responsible for preparing the Strategic Report, the Director's 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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, the director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Zeptolab UK Limited

Independent Auditor's Report to the Members of Zeptolab UK Limited

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 January 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Zeptolab UK Limited ("the Company") for the year ended 31 January 2022 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the notes to the financial statements, 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).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

We draw attention to note 2.2 in the financial statements, which indicates that the Company has loans notes issued and other amounts due to parent company which are repayable on demand which, depending on the amount recalled, may be outside of that permitted by the Company's cash flow forecast. As stated in note 2.2, these events or conditions, along with other matters as set out in note 2.2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

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

Zeptolab UK Limited

Independent Auditor's Report to the Members of Zeptolab UK Limited (continued)

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements, other than the financial statements and our auditors' 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. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

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

- the information given in the Strategic Report and the Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Director's Report have been prepared in accordance with applicable legal requirements.

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 and the Director's 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, 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 Director's 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, and for such internal control as the directors determines 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 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 Company or to cease operations, or have no realistic alternative but to do so.

Zeptolab UK Limited

Independent Auditor's Report to the Members of Zeptolab UK Limited (continued)

Auditor's responsibilities for the audit of the financial statements

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

Extent to which the audit was capable of detecting irregularities, including fraud

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

We obtained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates and held discussions with management to understand the laws and regulations relevant to the Company. We considered the significant laws and regulations to be the financial reporting framework, Companies Act 2006 and tax legislation.

Our testing included but was not limited to:

- Our audit planning identified fraud risks in relation to management override and risk of fraud in revenue recognition. We considered processes and controls that the Company has established to address risks identified, or that otherwise prevent, deter, and detect fraud and how management monitors that processes and controls.
- We performed testing on the financial statement disclosures to supporting documentation, performing substantive testing on account balances which require judgement by management and those considered to be greater risk of susceptibility to fraud.
- We designed our audit procedures to detect irregularities, including fraud. Our procedures included targeted journal testing based on identified characteristics the audit team considered could be indicative of fraud, for example credit entries to revenue without a corresponding entry to trade receivables, cash, or accrued income as well as a focus on large and unusual transactions based on our knowledge of the business and its principal activity.
- We made enquiries of management and those responsible for legal and compliance procedures as to whether there was any correspondence from regulators in so far as the correspondence related to the financial statements.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditors' report.

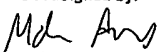
Zeptolab UK Limited

Independent Auditor's Report to the Members of Zeptolab UK Limited (continued)

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:



09E023A6ED65410...

Mark Ayres (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK

Date: 23 March 2023

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Zeptolab UK Limited

Statement of Comprehensive Income For the Year Ended 31 January 2022

	Note	2022 \$	As restated 2021 \$
Turnover	4	51,340,393	24,104,159
Cost of sales		(47,680,507)	(21,693,705)
Gross profit		3,659,886	2,410,454
Administrative expenses		(907,614)	(3,308,621)
Other income	5	-	275,641
Operating profit/(loss)	6	2,752,272	(622,526)
Interest receivable and similar income	9	46,787	15,563
Profit/(loss) before tax		2,799,059	(606,963)
Tax on profit/(loss)	10	860,088	923,311
Profit for the financial year		3,659,147	316,348

There was no other comprehensive income for 2022 (2021: \$Nil).

The notes on pages 13 to 24 form part of these financial statements.

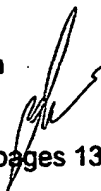
Zeptolab UK Limited
Registered number: 07493468

Statement of Financial Position
As at 31 January 2022

	Note	2022 \$	2021 \$
Fixed assets			
Intangible assets	11	449,476	410,077
Current assets			
Debtors	12	14,559,235	11,091,984
Cash at bank and in hand	13	1,918,513	4,799,609
		<u>16,477,748</u>	<u>15,891,593</u>
Creditors: amounts falling due within one year	14	(12,935,413)	(15,969,006)
Net current assets/(liabilities)		<u>3,542,335</u>	<u>(77,413)</u>
Total assets less current liabilities		<u>3,991,811</u>	<u>332,664</u>
Net assets		<u><u>3,991,811</u></u>	<u><u>332,664</u></u>
Capital and reserves			
Share capital	16	155	155
Profit and loss account		3,991,656	332,509
		<u><u>3,991,811</u></u>	<u><u>332,664</u></u>

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

Mikhail Lyalin
Director

 23.03.2023

The notes on pages 13 to 24 form part of these financial statements.

Zeptolab UK Limited

Statement of Changes in Equity For the Year Ended 31 January 2022

	Share capital \$	Retained earnings \$	Total equity \$
At 1 February 2020	155	16,161	16,316
Total comprehensive profit for the year	-	316,348	316,348
At 1 February 2021	155	332,509	332,664
Total comprehensive profit for the year	-	3,659,147	3,659,147
At 31 January 2022	155	3,991,656	3,991,811

The notes on pages 13 to 24 form part of these financial statements.

Zeptolab UK Limited

Statement of Cash Flows For the Year Ended 31 January 2022

	2022 \$	2021 \$
Cash flows from operating activities		
Profit for the financial year	3,659,147	316,348
Adjustments for:		
Amortisation of intangible assets	87,056	1,640,244
Interest received	(46,787)	(15,563)
Taxation charge	(860,088)	(923,311)
Increase in debtors	(1,244,301)	(1,862,879)
Increase in amounts owed by related parties	(138)	-
Increase in creditors	636,356	1,368,573
Decrease in amounts owed to group companies	1,146,164	(292,760)
Corporation tax receipt	-	1,431,863
Foreign exchange on loan notes	91,298	330,928
Gain from disposal of the intangible assets	(1,066,545)	-
Net cash generated from operating activities	2,402,162	1,993,443
Cash flows from investing activities		
Purchase of intangible assets	(468,189)	-
Sale of intangible assets	166,636	-
Interest received	9,165	15,563
Net cash (used in)/generated from investing activities	(292,388)	15,563
Cash flows from financing activities		
Repayment of other loans	(4,990,870)	(564,456)
Net cash used in from financing activities	(4,990,870)	(564,456)
Net (decrease)/increase in cash and cash equivalents	(2,881,096)	1,444,550
Cash and cash equivalents at beginning of year	4,799,609	3,355,059
Cash and cash equivalents at the end of year	1,918,513	4,799,609
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	1,918,513	4,799,609
	1,918,513	4,799,609

The notes on pages 13 to 24 form part of these financial statements.

Zeptolab UK Limited

Notes to the Financial Statements For the Year Ended 31 January 2022

1. General information

These financial statements are presented in US Dollars ("USD"), as that is the currency in which the majority of the Company's transactions are denominated. They comprise the financial statements of the Company for the year ended 31 January 2022 and are presented to the nearest dollar.

The continuing activities of Zeptolab UK Limited are that of exploiting and developing its intellectual property and game publisher under licensing arrangements.

The Company is a United Kingdom private company limited by shares. It is both incorporated and domiciled in England and Wales. The address of its registered office is 80 Cheapside, London, EC2V 6EE.

2. Summary of significant accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, issued by the Financial Reporting Council.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Going concern

On 11 March 2020, the World Health Organization declared the outbreak of the coronavirus (COVID 19) a global pandemic. To date, there has been no material change in the business. After reviewing and assessing the level of current activities, the directors are confident that the pandemic will not have a material adverse effect on the Company in the long run. The Company has recently released a new game title and has entered into a new licensing arrangements, bringing in \$0.6m to \$1.6m of revenue on a monthly basis. The directors note that after modelling cash flow forecasts prepared under stress test methodology of restricting revenue to existing games, the business would maintain a positive cash position for at least twelve months from the date of signing the financial statements. In addition, the directors have not deemed it necessary to take any significant cost reductions.

As at 31 January 2022, loan notes issued and other amounts due to the parent company amounted to \$3,747,590 and \$4,421,532. These are repayable upon demand which, depending on the amount recalled, may be outside of that permitted by the Company's cash flow forecast. Although the director has no reason to believe that the parent company will demand repayment, there is no contractual certainty on this. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern and therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The director has compiled these financial statements on the going concern basis, as the director believes the Company will continue to trade profitably in the future, and that the loan notes and amounts due to parent company will not be recalled, and therefore have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The financial statements do not include any adjustments should the going concern basis be inappropriate.

Zeptolab UK Limited

Notes to the Financial Statements For the Year Ended 31 January 2022

2. Summary of significant accounting policies (continued)

2.3 Turnover

Turnover is comprised of digital royalties, advertising royalties and merchandise licensing royalties earned from licensed and owned intellectual properties. Turnover also includes licence income from publishing arrangements.

Digital Royalties

Digital royalties are earned on the sale of gaming software to digital publishing companies and direct to end users. Revenue is recognised in full at the point at which end users download the software or the digital publishing companies make sales of the software to users who are located around the world.

Advertising Royalties

Advertising royalties are earned on click through advertisements within the game software. Revenue is recognised in full at the point at which the click through is registered with the advertising companies.

Merchandise Licensing Royalties

Merchandise licensing royalties are recognised when the licensed product is sold by the licensee. Non-refundable advances and minimum guarantee royalty payments are recognised as revenue in full when received.

Licence Income

Licence income is earned on the reimbursement of full amount of costs incurred by the Company in distributing licensed intellectual properties.

2.4 Cost of sales

Cost of sales include disbursements that are directly attributable to the revenue. These are recognised as incurred in the Statement of Comprehensive Income

2.5 Interest income

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

2.6 Intangible assets

Intangible fixed assets comprise the intellectual property of gaming software rights and trademark. The Company will generate royalties on the sale of the gaming software over the life of the intellectual property, estimated to be 6 years, 3 years, and 4 years respectively from the date of purchase or launch.

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment loss, if any. The carrying value is assessed at each reporting date by the directors, based on discounted cash flow forecasts and is written down to its recoverable value if the carrying value is greater than its estimated recoverable amount.

Amortisation is provided on the following bases:

Intellectual property	-	3 - 6 years straight line
-----------------------	---	---------------------------

Zeptolab UK Limited

Notes to the Financial Statements For the Year Ended 31 January 2022

2. Summary of significant accounting policies (continued)

2.7 Debtors

Short-term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.8 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.9 Financial Instruments

The Company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable and loans from related parties.

Basic financial instruments are initially measured at cost and subsequently amortised cost.

2.10 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities including loan notes from parent company are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.11 Foreign currency translation

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate on the date of the transaction.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

All foreign exchange gains and losses are presented in the Statement of Comprehensive Income within 'administrative expenses'.

Zeptolab UK Limited

Notes to the Financial Statements For the Year Ended 31 January 2022

2. Summary of significant accounting policies (continued)

2.12 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of Financial Position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

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

In preparing the financial statements, management is required to make estimates and assumptions which affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates, together with past experience and expectations of future events that are believed to be reasonable under the circumstances. Actual results in the future could differ from such estimates.

The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed as follows:

(a) Amortisation of intangible assets

The Company estimates the life of its intangible assets based on industry experience as to how long intellectual property is expected to generate royalties. Amortisation is then provided on a straight line basis over this period.

(b) Estimated impairment of intangible assets

The Company tests annually whether the intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 2.6.

(c) Recoverability of deferred tax assets

Deferred tax assets are recognised only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse, and a judgement as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding the future profitable change, there can be an increase or decrease in the level of deferred tax assets recognised which can result in a charge or credit in the period where the change occurs.

Zeptolab UK Limited

Notes to the Financial Statements For the Year Ended 31 January 2022

4. Turnover

Analysis of turnover by country of destination:

	2022 \$	2021 \$
United Kingdom	450,234	395,080
Europe	31,717,771	19,508,683
Rest of the world	19,172,388	4,200,396
	<u>51,340,393</u>	<u>24,104,159</u>

5. Other income

	2022 \$	2021 \$
Compensation income	-	275,641
	<u>-</u>	<u>275,641</u>

6. Operating profit/(loss)

The operating profit/(loss) is stated after (crediting)/charging:

	2022 \$	2021 \$
Amortisation of intangible assets	87,056	1,640,244
Audit fees	74,025	58,659
Accountancy fees	194,159	169,480
Auditors' fees - corporation tax	23,690	23,690
Auditors' fees - other taxation	276,740	128,780
Exchange differences	(80,861)	140,873
Operating lease rental	72,975	67,719
Gain from disposal of intangible assets	<u>1,066,545</u>	<u>-</u>

Zeptolab UK Limited

Notes to the Financial Statements For the Year Ended 31 January 2022

7. Employees

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

	2022 \$	2021 \$
Wages and salaries	229,876	200,444
Social security costs	47,489	7,649
	<u>277,365</u>	<u>208,093</u>

The average number of persons employed by the Company (including directors) during the year, was 3 (2021: 3).

8. Directors' remuneration

	2022 \$	2021 \$
Directors' emoluments	<u>115,017</u>	<u>200,444</u>

9. Interest receivable and similar income

	2022 \$	2021 \$
Other interest receivable	<u>46,787</u>	<u>15,563</u>

Zeptolab UK Limited

Notes to the Financial Statements For the Year Ended 31 January 2022

10. Taxation

	2022 \$	2021 \$
Corporation tax		
Current tax on profits for the year	10,485	-
R&D tax credit	(302,936)	(881,287)
Foreign tax on income for the year	86,138	-
Total current tax	(206,313)	(881,287)
Deferred tax		
Deferred tax (see note 15)	(653,775)	(42,024)
Taxation credit on profit/(loss) on ordinary activities	(860,088)	(923,311)
Factors affecting tax credit for the year		
	2022 \$	2021 \$
Profit/(loss) on ordinary activities before tax	2,799,059	(606,963)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2021: 19%)	539,390	(115,323)
Effects of:		
Expenses not deductible for tax purposes	69,124	-
Other permanent differences	(16,365)	-
Foreign tax credits	86,138	-
Remeasurement of deferred tax for changes in tax rates	(1,235,439)	-
Amortisation intangible assets	-	150,942
Prior period R&D claim	(302,936)	-
Current period R&D claim	-	(881,287)
Losses carried forward	-	(77,643)
Total tax credit for the year	(860,088)	(923,311)

Zeptolab UK Limited

Notes to the Financial Statements For the Year Ended 31 January 2022

11. Intangible assets

	Intellectual property \$
Cost	
At 1 February 2021	69,794,273
Additions	468,189
Disposals	(69,794,273)
At 31 January 2022	<u>468,189</u>
Amortisation	
At 1 February 2021	69,384,196
Charge for the year	87,056
On disposals	(69,452,539)
At 31 January 2022	<u>18,713</u>
Net book value	
At 31 January 2022	<u><u>449,476</u></u>
At 31 January 2021	<u><u>410,077</u></u>

On 11 February 2021 the Company sold all its legacy intellectual property as of that date for consideration of \$1,666,669.

Zeptolab UK Limited

Notes to the Financial Statements For the Year Ended 31 January 2022

12. Debtors

	2022 \$	2021 \$
Due after more than one year		
Amounts owed by related parties	647,654	-
Other debtors	638,891	226,652
Deferred tax asset (see note 15)	5,147,660	4,493,885
	<u>6,434,205</u>	<u>4,720,537</u>
Due within one year		
Trade debtors	3,369,117	3,566,848
Amounts owed by related parties	652,117	20,368
Other debtors	570,511	553,810
Prepayments and accrued income	1,639,954	640,026
R&D tax credit	1,893,331	1,590,395
	<u>14,559,235</u>	<u>11,091,984</u>

13. Cash and cash equivalents

	2022 \$	2021 \$
Cash at bank and in hand	<u>1,918,513</u>	<u>4,799,609</u>

Included in cash at bank is \$40,374 (2021: \$55,467) held in a trust account by a third party.

Zeptolab UK Limited

Notes to the Financial Statements For the Year Ended 31 January 2022

14. Creditors: amounts falling due within one year

	2022 \$	2021 \$
Loan notes issued to parent company	3,747,590	8,647,162
Trade creditors	1,370,477	1,152,012
Amounts owed to group companies	4,980,147	4,706,091
Amounts owed to related parties	872,103	-
Corporation tax	83,461	-
Other taxation and social security	959,382	-
Other creditors	118,634	-
Accruals and deferred income	803,619	1,463,741
	<u>12,935,413</u>	<u>15,969,006</u>

The Company issued £37,800,000 of loan notes to Zeptolab Jersey Limited, the parent company, on 30 June 2011. Redemptions of £3,516,372 (2021: £450,000) were made during the year. At the Statement of Financial Position date £2,790,272 (2021: £6,306,654) of notes were outstanding. These are disclosed in US dollars at the year end exchange rate. All loan notes and amounts owed to Parent company, group companies and related parties are unsecured, interest free and repayable on demand.

15. Deferred tax asset

	Deferred tax \$
At beginning of year	4,493,885
Credit to the profit or loss	653,775
At end of year	<u>5,147,660</u>

The deferred tax asset is made up as follows:

	2022 \$	2021 \$
Tax losses carried forward	<u>5,147,660</u>	<u>4,493,885</u>

16. Share capital

	2022 \$	2021 \$
Allotted, called up and fully paid		
100 (2021: 100) Ordinary shares of £1.00 each	<u>155</u>	<u>155</u>

Zeptolab UK Limited

Notes to the Financial Statements For the Year Ended 31 January 2022

17. Commitments under operating leases

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

	2022 \$	2021 \$
Not later than 1 year	53,412	50,869

18. Related party transactions

At the reporting date, Mikhail Lyalin, a director of the Company owed the Company \$271,261 (2021: \$293,489) in relation to advances for reimbursable expenses of \$74,951 loan notes of \$168,140 and \$28,170 unpaid interest. This amount is included within other debtors (note 12). The loan is unsecured and since 4 April 2018 has charged interest at a margin of 2.5% above the UK base rate. During the year, the loan repayment term has been extended to 31 May 2023.

At the reporting date, Spartak Zuy, a former director of the Company owed the Company \$132,579 (2021: \$132,252) in relation to a loan balance of £90,000 drawn down on 29 August 2017. This amount is included in other debtors (note 12). During the year, the loan repayment term has been extended to 28 August 2023.

At the reporting date, Sidestreet Limited, a related party of the Company owed the Company \$253,052 (2021: \$226,652) in relation to a loan balance of \$210,000 entered into on 4 February 2019. The amount is included within other debtors (note 12). The loan is unsecured, charges interest of 4% per annum and is due for repayment on 3 February 2025.

On 19 November 2021, the Company and Zeptolab LLC became related parties under common ownership. Prior to this date transactions with Zeptolab LLC occurred under third party contractual arrangements.

From 19 November 2021 until 31 January 2022 and as at the year end, the Company has the following transactions and balances with Zeptolab LLC. The outstanding balance arising from licence income and licence expense has been set-off and included under amounts owed to related parties within Note 14 and the receivable from sale of intellectual property is presented under amounts owed by related parties within Note 12.

	<u>Income/(Charges)</u> \$	<u>Receivable/(Payable)</u> \$
Licence Income	1,464,679	7,893,366
Licence expense	(2,876,981)	(8,765,469)
Sale of Intellectual property	-	1,279,265

19. Controlling party

The Company's parent undertaking is Zeptolab Jersey Limited, a company incorporated in Jersey. The directors do not consider there to be an ultimate controlling party.

Zeptolab UK Limited

Notes to the Financial Statements For the Year Ended 31 January 2022

20. Prior year adjustment

The financial statements have been restated for the year ended 31 January 2021 to correct the presentation of certain disbursements in relation to licenced and owned intellectual properties from Administrative expenses to Cost of sales.

31 January 2021	As previously reported	Restatement	As restated
	\$	\$	\$
Statement of comprehensive income			
Cost of sales	-	21,693,705	21,693,705
Administrative expenses	25,002,326	(21,693,705)	3,308,621

21. Post balance sheet events

On 21 July 2022, the Licensing and Intellectual Property Transfer Agreements between Zeptolab LLC (Purchaser/Licensor) and the Company (Purchaser/Licensee) were terminated. As a result, the Intellectual Property and related IP rights were returned to the Company and the related outstanding liability of the Purchaser has been extinguished. The receivable and payable between two parties related to the Licensing Agreement have also been set off and are due to be settled on or before December 2023.

On 4 August 2022, the Company entered into a deed of release with Zeptolab Jersey Limited for the outstanding payable of £2,006,643 and US\$4,421,532.

On 19 October 2022, the Company has established Zeptolab LLC Belgrade, a fully-owned subsidiary registered in Serbia.

On 5 January 2023, the Company entered into a deed of cancellation with ZeptoLab Jersey Limited as the performance of the business activity of the Company had been better than expected and therefore the Company intended on repaying some or all of the loans that were due to the Zeptolab Jersey.