Cloudtag Active Limited

Financial statements

For the year ended 30 September 2016

Company No. 07824765

Officers and professional advisers

Company registration number	07824765
Registered office	16 Great Queen Street London WC2B 5DG
Director	Massimo Ventimiglia
Independent auditor	Hazlewoods LLP Windsor House Bayshill Road Cheltenham GL50 3AT

Contents

The director presents his report and accounts for the year ended 30 September 2016.

Directors

The following persons served as directors during the year:

Massimo Ventimiglia (appointed 24 March 2016)
Anthony Reeves (resigned 24 March 2016)
Amit Ben-Haim (resigned 24 March 2016)

Director's responsibilities statement

The director is responsible for preparing the Director's Report and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the financial statements under the historical cost convention and in accordance with Financial Reporting Standard 102. The financial statements have been prepared under the historical cost convention, and in accordance with the Companies Act 2006.

Details of how the transition from UK accounting standards to FRS 102 has affected the financial position and financial performance are provided in note 12. The date of transition to FRS 102 was 1 October 2014. Under company law the director must not approve the financial statements unless he is satisfied that they give a true and fair view of the state of affairs and 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 all applicable 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 him to ensure that the financial statements comply with the Companies Act 2006. He is 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.

The director confirms that:

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

Small company provisions

This report has been prepared in accordance with the small companies regime under the Companies Act 2006.

This report was approved by the board on 27 March 2017 and signed on its behalf.

Massimo Ventimiglia
Director

Independent auditor's report to the members of Cloudtag Active Limited

We have audited the financial statements of Cloudtag Active Limited for the year ended 30 September 2016 which comprise the principal accounting policies, the statement of comprehensive income, the statement of financial position, the statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Director's Responsibilities Statement set out on page 3, the director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, 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; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies exemption from the requirement to prepare a strategic report.

Going concern - significant uncertainty

In forming our opinion on the financial statements we have considered the adequacy of the disclosures made in the principal accounting policies of the financial statements, concerning the company's ability to continue as a going concern.

The company incurred a net loss before tax of £569,000 during the year ended 30 September 2016 and, at that date, had net current liabilities of £3,876,000 (including £3,654,000 owing to its parent company). The company is reliant on the support of its parent company in both not calling in existing loans and to provide further funds to support trading activities in the future. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

The Group incurred a net loss of £8,307,000 during the year ended 30 September 2016 and, at that date, the Group had net liabilities of £1,328,000. Although further funds have been raised by the issue of convertible loan notes and draw downs on borrowing facilities since the end of the financial year, the ability of the Group to continue trading is reliant on its ability to raise further funds to finance product development and other activities until such time that sales of its product commence and profits from such exceed fixed costs. The ability to raise future funds is restricted by the fact that the Parent Company's shares will not be traded on AIM after 28 March 2017 following the resignation of the Company's Nominated Adviser. There can be no certainty that further funds can be raised or about the timing of the sales of the Group's product commencing or of the value of such sales. These conditions, along with the other matters explained in the principal accounting policies of the Group financial statements, indicate the existence of a significant uncertainty which may cast doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

David Main
Senior Statutory Auditor
for and on behalf of Hazlewoods LLP
Statutory Auditors
Windsor House
Bayshill Road
Cheltenham
GL50 3AT

27 March 2017

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David Main
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for and on behalf of Hazlewoods LLP
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GL50 3AT

27 March 2017

Principal accounting policies

General information

The company is a private company limited by share capital incorporated in England and Wales.

The address of the registered office is:
16 Great Queen Street
London
WC2B 5DG

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Statement of compliance

These financial statements were prepared in accordance with the Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

This is the first period that the company has applied FRS102. There are no transitional adjustments as a result of adopting FRS 102.

Basis of preparation

The financial statements have been prepared using the historical cost convention except for, where disclosed in these accounting policies, certain items that are shown at fair value.

The presentational currency of the financial statements is Pounds Sterling, being the functional currency of the primary economic environment in which the company operates. Monetary amounts in these financial statements are rounded to the nearest thousand pounds.

The date of transition to FRS 102 was 1 October 2014.

The accounts of Cloudtag Active Limited have also adopted the following disclosure exemptions:

- financial instrument disclosures
- the requirement to present a statement of cash flows and related notes
- related party disclosures with its parent company

Going concern

At 30 September 2016 the Company had no cash balances and was reliant on loans of £3,654,000 owed to its Parent Company which are repayable on demand, but which the directors of the Parent Company have confirmed will not be called.

At 30 September 2016, the Group held cash balances of £30,000. Since the year end the Group has renewed its draw-down facility over £1.25 million of convertible loan notes, originally entered into on 15 January 2016, and raised a further £4.5 million in funding, £3.8 million, net of costs, from the issue of Loan Notes to L1 Capital Global Opportunities Master Fund and £516,000 from the issue of shares

Principal accounting policies

on the exercise of options and warrants. The Group has not earned any revenue during the year ended 30 September 2016 or in the period subsequent to that date and the Group remains in a development phase. To this point the operations of the business have been financed from funds raised through the issue of new ordinary shares (including to suppliers in settlement of invoices for services rendered), together with funds raised from loan facilities.

The Group Directors have considered the cash requirements of the business for the next 12 months. As part of this process, they have prepared detailed cash flow projections which assume that no revenue is generated by the Group. These projections assume that all avoidable costs can be reduced. The forecasts show that the Parent Company will need to raise further funds from external sources to enable it to continue trading and continue with product development.

The Parent Company's AIM nominated adviser has resigned and a new Nominated Adviser has not been appointed. As a consequence, trading of the Parent Company's securities on AIM will be cancelled on 28 March 2017. This will restrict the ability of the Parent Company to raise new funds by way of issue of share capital as the Parent Company's shares will not be traded on a recognised market.

Although the projections used for this purpose assume no revenue is generated, the Group Directors believe that the Group will launch its first product during the forthcoming twelve months with associated revenue generation. Although revenue generation and the amount of such revenue is uncertain, any such revenues generated would reduce the amount of new finance necessary to support the Business. The Group Directors are continuing to explore alternative sources of finance and have prepared the financial statements on the going concern basis on the assumption that such sources of finance will be found to enable the development of the product to continue.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

Principal accounting policies

Foreign currencies

Foreign currency transactions are translated into sterling using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year-end exchange rates are recognised in profit or loss.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation is calculated so as to write off the cost of property, plant and equipment, less its estimated residual value, which is revised annually, over its useful economic life on a straight line basis as follows:

Equipment - 3 years

Research and development expenditure

Research expenditure is written off as incurred. Expenditure on a development project will be written off as incurred unless the following conditions are met:

a) it is for a new or substantially improved product or process;

b) it is technically feasible;

c) it is commercially feasible, and with a high probability that recovery of the costs will take place;

d) there is the availability of adequate technical, financial and other resources to complete the development and to use or sell the product; and

e) there is the intention to complete the product and use or sell it.

For a project meeting all of the above criteria, subsequent costs will be capitalised and amortised through administrative expenses from the date the product or process is available for use, on a straight line basis over the product's estimated useful life.

Operating leases

Payments made under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Principal accounting policies

Judgements and estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions
The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The director does not consider he has made any estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting year.

Development costs
In applying the Company's accounting policies, the director has made a key accounting judgement regarding whether to capitalise development costs. To this point, development costs have not been capitalised owing to the early stage of the business's development and the view that, at this stage, the director does not consider that all of the conditions have been met as set out in the accounting policy above. The director will continue to keep this treatment under review and when the development project is at the stage where these conditions are met, future development costs will be capitalised and amortised in line with the prescribed accounting policy.

Financial liabilities

The Company's financial liabilities include other financial liabilities and trade and other payables.

Financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. All financial liabilities are recognised initially at fair value, net of direct issue costs, and are subsequently recorded at amortised cost using the effective interest method with interest related charges recognised as an expense in the statement of comprehensive income.

Share capital

Share capital is determined using the nominal value of shares that have been issued.

Statement of Financial Position

		30 September 2016	30 September 2015
Assets	**Notes**	**£000**	£000
Fixed assets			
Property, plant and equipment	*5*	**-**	1
Current			
Trade and other receivables	*6*	**6**	134
Cash and cash equivalents		**-**	16
Total current assets		**6**	150
Total assets		**6**	151
Liabilities			
Current			
Trade and other payables	*7*	**3,882**	3,470
Total current liabilities and total liabilities		**3,882**	3,470
Equity			
Issued share capital	*8*	**-**	-
Retained earnings		**(3,876)**	(3,319)
Equity attributable to owners of the company		**(3,876)**	(3,319)
Total equity and total liabilities		**6**	151

The financial statements were approved by the board on 27 March 2017.

Massimo Venimiglia
Director
Company number: 07824765

Statement of Comprehensive income

	Year ended 30 September 2016 £000	Year ended 30 September 2015 £000
Other administrative expenses	**(569)**	(1,167)
Total administrative expenses	**(569)**	(1,167)
Loss from operations and loss before taxation	**(569)**	(1,167)
Taxation	**12**	125
Loss after taxation and loss attributable to the equity holders of the Company and total comprehensive income for the period	**(557)**	(1,042)

The company has no other comprehensive income.

Statement of Changes in Equity

	Share capital	Retained earnings	Total equity
	£000	£000	£000
Balance at 1 October 2014	-	(2,277)	(2,277)
Loss for the period	-	(1,042)	(1,042)
Balance at 30 September 2015	-	(3,319)	(3,319)
Loss for the period	-	(557)	(557)
Balance at 30 September 2016	-	(3,876)	(3,876)

Notes to the financial statements

1 Revenue and loss before taxation

The loss before taxation is stated after charging:

	Year ended 30 September 2016 £000	Year ended 30 September 2015 £000
Exchange differences	46	(4)
Operating lease rentals: land and buildings	15	43
Fees payable to the Company's auditor for the audit of the Company Financial Statements	-	17
Fees payable to the Company's auditor for other services	21	16

2 Particulars of employees and directors remuneration

The average number of staff employed by the Company, including directors, during the financial year was 2 (2015: 10).

Payroll costs during the financial year were as follows:

	2016 £000	2015 £000
Pension contributions	-	(10)
Wages and salaries	65	242
Social security	8	27
	73	259

The directors' remuneration for the year was as follows:

	2016 £000	2015 £000
Remuneration (salary and fees)	(5)	24
Company contribution paid to money purchase schemes	-	(10)
	(5)	14

During the two years there were no directors who were receiving benefits and share incentives.

The Group has not made contributions to post-employment benefits, other long-term benefits or other termination benefits in respect of any of the Directors, nor were any benefits in kind paid.

Notes to the financial statements

3 Taxation

There is a tax credit recognised for enhanced UK research and development tax relief for the year of £12,000 (year ended 30 September 2015: £125,000).

Unrelieved tax losses in the UK of approximately £2,908,000 (2015: £2,398,000) remain available to offset against future taxable trading profits. The unprovided deferred tax asset at 30 September 2016 is £582,000 (2015: £480,000) which has not been provided on the grounds that it is uncertain when or taxable profits will be generated by the Company to utilise the losses.

The tax assessed for the year differs from the standard rate of corporation tax in the UK as follows:

	Year ended 30 September 2016 £000	Year ended 30 September 2015 £000
Loss for the period before taxation	(569)	(1,167)
	(569)	(1,167)
Tax rate	**20.0%**	21.0%
Expected tax credit	(114)	(245)
Difference between research and development tax credit received and losses surrendered	-	(41)
Deferred tax asset not recognised on unutilsed losses	102	161
Tax credit for the year	**(12)**	**(125)**

4 Related party transactions

Massimo Ventimiglia was paid £2,500 in director's fees during the year (2015: £Nil).

Pantelis Georgiou, a former director of Cloudtag Active Limited, agreed to waive his outstanding fees and £5,000 of accrued fees were credited to the profit and loss during the year ended 30 September 2016 (30 September 2015: £8,000 credited).

SB Corporate Finance Limited, a company of which A Ben-Haim, a former director of Cloudtag Active is a director and shareholder, charged the Company £11,163 in respect of the recharge of office rent and services (30 September 2015: £30,600).

Notes to the financial statements

5 Property, plant and equipment

	Computer Equipment £'000	Total £'000
Cost		
At 1 October 2015	3	3
Additions	2	2
Cost at 30 September 2016	**5**	**5**
Depreciation		
At 1 October 2015	2	2
Charge for the Year	3	3
At 31 September 2016	**5**	**5**
Net book value		
At 31 September 2016	**-**	**-**
At 30 September 2015	1	1

6 Trade and other receivables

	30 September 2016 £000	30 September 2015 £000
Corporation tax	-	125
Other debtors	4	9
Prepayments	2	-
	6	134

Notes to the financial statements

7 Trade and other payables: Amounts falling due within one year

	30 September 2016 £000	30 September 2015 £000
Trade payables	228	283
Amounts owed to parent company	3,654	3,071
Taxes and social security	-	14
Accruals and deferred income	-	102
	3,882	**3,470**

The amount owed to parent company above together with any other obligations and liabilities to Cloudtag Inc. have been secured by a fixed and floating charge over the assets of the Company dated 11 October 2012.

8 Share capital

Allotted, called up and fully paid:

	30 September 2016 £000	30 September 2015 £000
Allotted, issued and fully paid		
1 ordinary shares of £1 (30 September 2015: 1)	-	-

10 Contingent Assets and liabilities

The Company is currently involved in litigation with one of its suppliers, which is claiming €290,000 (£235,857) against the Company for services supplied. The directors have included €150,000 (£126,508) as a provision for this in the accounts which they consider to be prudent. There is therefore a contingent liability of €140,000 (£109,349). The supplier is also claiming 1% interest on the balance claimed which amounts to £73,000 at 30 September 2016.

At 30 September 2015 the total potential liability was €290,000 (£215,022), the provision €150,000 (£111,218), and the contingent liability €140,000 (£103,804).

The Company is rigorously defending this claim as it considers the services delivered were unsatisfactory.

Notes to the financial statements

11 Ultimate parent company

The company's ultimate parent undertaking is Cloudtag Inc., a Company incorporated in the Cayman Islands. This is the largest and smallest group of which the company is a member and for which group accounts are prepared. Copies of the group financial statements can be obtained from the registered office of Cloudtag Inc. which is Floor 2, Willow House, Cricket Square, P.O. Box 709, KY1-1107 Grand Cayman, Cayman Islands and from the Parent Company's website www.cloudtag.com.

Cloudtag Active Ltd's activities have been funded by loans from its parent company, Cloudtag Inc.

12 First Time Adoption of FRS 102

The company accounts have been prepared under FRS 102 for the year ended 30 September 2016. The year ended 30 September 2015 has also been presented under FRS 102 for comparative purposes. Management has evaluated the new accounting standard and determined there to be no significant differences applicable to the company between previous UK GAAP and FRS 102.

Accordingly, no transition adjustments have been made to the reported assets, liabilities and equity, or net loss of the company in either reported period.