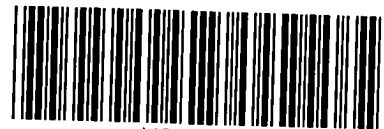


Company Registration No. 08070525 (England and Wales)

IMPROBABLE WORLDS LIMITED
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2021

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IMPROBABLE WORLDS LIMITED

COMPANY INFORMATION

Directors	H Narula C Dixon P Lipka J Robinson A Theysset
Secretary	M Shepherd
Company number	08070525
Registered office	10 Bishops Square London E1 6EG
Independent auditors	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH

IMPROBABLE WORLDS LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

The directors present the strategic report for the year ended 31 December 2021 for Improbable Worlds Limited (the "Company") and its subsidiaries (together the "Group").

Principal activities and business review

The principal activity of the Group has been the development and commercial exploitation of virtual world-building technology and services, creating the critical infrastructure to power the coming age of virtual worlds and the metaverse. Improbable partners with developers in video games, entertainment, and with defence and academic institutions to enable powerful, virtual worlds of unprecedented scale and utility.

In 2021, the focus of the company was to continue growing its operating businesses, notably through increasing commercial capability, continuing to invest in its core technology and building new content experiences in video gaming and defence core activities. In October, and as the market for web3 and metaverse activities started to open up, the company unveiled its next generation software, Morpheus.

2021 was indeed a turning point for Improbable's technological achievements, notably solving the barriers of density and presence traditionally met within games and real time experiences. The Morpheus technology enables enhanced social interaction and a sense of presence inside virtual spaces, with over 10,000+ real users interacting in the same place at the same time in a high fidelity but lag-free experience. This was publicly tested throughout the year as part of the promoted ScavLab and AleXa K-Pop events.

Revenue generated increased by 59% in the year and was primarily through the provision of co-development and technical services, projects demonstrating the capabilities of Improbable's technology, and proofs of concept to support potential longer term engagements and partnerships. To support the continued growth and development, Improbable continued to invest in product development and business capture while billable headcount also grew to support the services revenue generated. Overhead costs also increased as a result.

At the end of 2021, Improbable was well positioned to play a pivotal role in the next wave of creative experiences and massive live and interactive events, readily prepared to engage in the fast emerging metaverse and Web3 market, and well positioned to support the defence industry in building out its synthetic capability.

Principal risks and uncertainties

There are inherent risks faced by companies who are developing innovative technologies and are in the early stages of a company life cycle. The directors view the principal risk to be the ability of the Group to maintain or generate sufficient funds to continue developing and advancing Improbable's core technology and future products. The directors are cognizant the Group is not yet demonstrating self-sustaining profitability and have as a result engaged in, on one hand, de-risking its content business by divesting activities not contributing directly to the metaversal opportunities, strengthening its sustainable and growing services business, and securing further funding for the emerging metaverse activities.

Liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due. Funding rounds have mitigated this risk but the Group manages liquidity risk through detailed review of expenditures and forecasts.

Interest rate risk

The Group is exposed to interest rate risk through the investments and cash balances and this is mitigated through regular review with portfolio managers and providers to ensure the Company is maximizing its return on investments.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The Group assesses creditworthiness on a case-by-case basis as relationships with customers arise and evolve.

IMPROBABLE WORLDS LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

Key performance indicators

As the Group's operating businesses have matured, the key performance indicators of the business have transitioned from absolute levels of expenditure to customer and partner focused metrics. The Games business is working with over 60 studios, of which a large number are AAA. In the Defence business, this includes the analysis of pipeline opportunities, contract bookings, commercial traction and customer satisfaction. The Directors believe these are appropriate measures of performance to track and analyse the operating businesses and will continue to identify new measures as the business evolves.

Stakeholder engagement - Improbable's Section 172 statement

Our success depends on fostering successful relationships with stakeholders. We are conscious of our duty to promote our success with regard to our stakeholders under s172(1) of the Companies Act 2006.

Improbable's Customers

We work with partners across the Games and Defence industries to provide ground-breaking technology to virtual worlds and advanced multi-domain synthetic environments.

Our Games business provides better ways to make multiplayer games, and help multiplayer developers meet any challenge utilising turnkey solutions & ecosystem of products, services and expertise to make and run successful games. We strive to continually improve understanding of our customers' needs and are achieving this through our work with over 60 studios utilising services from Improbable.

Improbable's Defence business enables transformative synthetic environments, bringing multi-domain mission planning and collective training together across the strategic, operational and tactical levels. We work across NATO and with a wide range of industry partners to develop synthetic environments that will transform military training, planning and decision support.

Employees

We strive to hire highly skilled individuals who are collaborative, curious and support diverse viewpoints. We're deeply proud of our core values, which are intrinsic to the way we behave every day. We take them seriously because we want our culture to thrive. Our People team has coordinated programs in 2021 around hiring best practices, actively encouraging career growth through internal mobility, employee wellbeing, diversity, inclusion & belonging (DIB), learning & development, and remuneration & benefits. We actively seek out feedback from all employees through various mechanisms and use the data to guide management responses and proactively shape future programs that will strengthen our employee experience, engagement and retention. Transparency is central to our culture and opportunities are provided for open discussions at all levels, including with management and senior executives.

Diversity, Inclusion and Belonging (DIB) is integral to Improbable's culture. We are determined to foster an environment of psychological safety where people can do their best work and feel they belong. The approach runs through several areas, and most notably attraction & retention of talent, where practices are reviewed against evidenced-based approaches. Leadership & governance - a senior responsible is driving forward Improbable's DIB agenda and Quarterly DIB Business reviews. Data & reporting, with formal reporting on diversity data each quarter. We reached a 70% EEO disclosure rate and have plans for targeted actions for employees from underrepresented backgrounds. The greatest increase was noted in the upper middle pay quartile where female representation increased from 12% in 2020 to 20% in 2021, and an increase overall in female representation from 19.6% in 2020 to 21.3% in 2021. In terms of Training, in 2021, every new joiner at Improbable received guidance on the role of culture and inclusion, alongside wider DIB training for all employees around LGBTQ+, autism awareness and inclusion, and disrupting bias.

Investors

We greatly value strong relationships with our investors. We uphold our commitments with frequent dialogue and regularly scheduled meetings, covering a wide range of strategic, operational, financial and ethical topics. We value the output received from this communication and endeavour to incorporate this into business operations.

Partners

Improbable aims to partner with industry leaders able to improve the service we are able to offer to our customers. We foster strong partnerships to provide cost and efficiency benefits to developers, as well as increased reliability through having the right computing resources to meet the demands of unpredictable traffic, and the ability to automatically scale up infrastructure, which reduces risk.

IMPROBABLE WORLDS LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

Communities we do business with

With a global presence, we recognise the importance of respecting the communities we do business in. Realising new communities, societies and vocations through virtual and physical worlds is what drives our people and gives them purpose. We place great emphasis on fostering a presence that is at one with the surrounding environment - we have central office facilities serviced by public transport, we have implemented energy saving initiatives such as low-energy lighting and food wastage recycling, and we support schemes such as Cycle To Work.

Business conduct

We are committed to acting fairly and upholding the highest standards of business conduct. We maintain the standards required to be a partner to customers including government departments and militaries, as well as partners from private industry.

We approach our operations with the utmost integrity and ethical behaviour. Business decisions are balanced with risk and compliance with consideration given to the environment we operate in and the effect those decisions may have.

We are an equal opportunities employer, and have a clear and detailed anti-discrimination policy. We are determined to ensure that no applicant or employee receives less favourable treatment on the grounds of gender, age, disability, religion, belief, sexual orientation, marital status, or race, or is disadvantaged by conditions or requirements which cannot be shown to be justifiable.

We partner closely across our business to ensure there is a clear point of contact for our employees to confidentially report complaints to our People team. We also have an anonymous feedback tool which employees can use to raise concerns of any kind.

Statement of Energy and Carbon Reporting

Introduction and background

We understand our role in limiting climate change and are committed to complying with new government legislation implemented by The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 ("the 2018 regulations") on Streamlined Energy and Carbon Reporting (SECR).

In order to fulfil the requirements set by the Streamlined Energy and Carbon Reporting legislation, we will disclose energy and carbon information in our annual reports for the year ending 31 December 2021. The energy and carbon reporting report covers a 12-month period, January to December 2021 and includes:

- UK energy use (to include as a minimum energy classified within Scope 1 and Scope 2)
- Associated greenhouse gas emissions
- At least one intensity ratio
- Previous year's figures for energy use and GHG emissions
- Energy efficiency actions undertaken during the reporting period

Our methodology

The scope of the report accounts for 100% of the greenhouse gas (GHG) emissions from operations over which we have control and includes both our London (Headquarter) and Nottingham sites.

Electricity consumption at the London site is obtained from the meter readings provided by the Landlord and we are billed accordingly for our directly attributable usage. The space heating is provided from the Landlord's centralized plant room and associated gas usage is billed via the service charge. As we have no visibility of the energy consumption for the space heating within our premises this has been estimated.

The energy consumption was also estimated at the Nottingham site where it is paid as part of the service charge.

The energy estimations have been undertaken based on the CIBSE Guide F energy consumption benchmarks and Energy Consumption in the Office Guide 19 (ECON 19) which are well recognized industry benchmarks.

IMPROBABLE WORLDS LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

Our methodology (continued)

We have not estimated our metered electricity consumption or made assumptions for missing data as all data is supported by factual meter readings.

We have no car users and encourage all employees to use public transport and promote walking/cycling to the office. The report will cover scope 1 and 2 emissions only as scope 3 emissions are not material to our operations.

Carbon dioxide equivalent emissions detailed in the report were calculated using the government published conversion factor for 2021.

Our Strategy

We are actively looking to reduce company energy consumption and associated greenhouse gas emissions. The company is proactively minimising its environmental impact by striving to become more energy conscious by reducing carbon emissions and being committed to their energy efficiency actions.

The energy efficiency was a high priority for the company during the specification process of moving into the new London office in 2018. The office fit-out has been designed to maximise the energy savings by:

- Installation of energy efficient LED lighting fittings
- Passive Infrared occupancy sensors with the entire demise
- Purchasing the energy from 100% renewable sources
- Utilising power management features to power down all IT equipment after 15 minutes if not used
- Encouraging employees to take advantage of the Cycle to Work scheme

Energy Consumption & Greenhouse Gas Emissions

Table 1: Total energy consumption and associated greenhouse gas emissions from Scope 1 and Scope 2 for SECR Year 1 (January to December 2021) reporting period

Energy Type:	Scope:	Energy Use (kWh)	% Split kWh	Emissions (tCO ₂ e/yr.)	% Split (CO ₂ e)
Combustion of Gas	(Scope 1)	763,654	54.48%	139.6	50.75%
Transport	(Scope 1)	-	0.00%	-	0.00%
Electricity	(Scope 2)	637,998	45.52%	135.5	49.25%
Total	(Scope 1 & 2)	1,401,652	100%	275.1	100%

The UK Government Greenhouse Gas Conversion factors for company reporting 2021 have been used to convert energy consumption to carbon dioxide equivalent emissions. The conversion factors used are summarised below:

Table 2 – Energy and Carbon Conversion Factors

Activity	Fuel	Unit	Year	kg CO ₂ e per kWh
Electricity generated	Electricity: UK	kWh	2021	0.21233
Gaseous Fuels	Natural Gas	kWh	2021	0.18282

Intensity ratio

Intensity ratios compare emissions data with an appropriate business metric or financial indicator. This allows a comparison of energy efficiency performance over time and with other similar types of organisation.

IMPROBABLE WORLDS LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

Table 3: Intensity Ratio - Energy consumption and associated greenhouse gas emissions per £100,000 of annual turnover

Total Energy Consumption (kWh)	Total greenhouse gases emissions (tCO2e)	The annual group turnover (£)	Intensity Ratio (kWh / £100,000 turnover)	Intensity Ratio (tCO2e / £100,000 turnover)
1,401,652	275.1	30,121,331	4,653.35	0.91

Table 4: Intensity Ratio - Energy consumption and associated greenhouse gas emissions per total m2 of the occupied office area

Total Energy Consumption (kWh)	Total greenhouse gases emissions (tCO2e)	Total occupied office floor area (m2)	Intensity Ratio (kWh / m2)	Intensity Ratio (tCO2e / m2)
1,401,652	275.1	5,462	256.62	0.05

Energy trend

The energy performance trend will be reported for a period of 5 years. As this is the third year of reporting, the tables and graphs below show energy and GHG emissions for 2019, 2020 and 2021 only. The information will be used for compiling energy and GHG reduction targets and analysing our consumption and emissions efforts.

Table 5: Energy Use – 5-year trend

Energy Type:	Scope:	SECR Year 1 2019-20 (baseline year) (kWh)	SECR Year 2 2020-21 (kWh)	SECR Year 3 2021-22 (kWh)	SECR Year 4 2022-23 (kWh)	SECR Year 5 2023-24 (kWh)
Combustion of Gas	(Scope 1)	968,911	666,708	763,654	-	-
Transport	(Scope 1)	-	-	-	-	-
Electricity	(Scope 2)	1,549,583	589,606	637,998	-	-
Total	(Scope 1 & 2)	2,518,494	1,256,314	1,401,652	-	-

Table 6: GHG emissions – 5-year trend

Energy Type:	Scope:	SECR Year 1 2019-20 (tCO2e/yr.)	SECR Year 2 2020-21 (tCO2e/yr.)	SECR Year 3 2021-22 (tCO2e/yr.)	SECR Year 4 2022-23 (tCO2e/yr.)	SECR Year 5 2023-24 (tCO2e/yr.)
Combustion of Gas	(Scope 1)	178.1	122.6	139.6	-	-
Transport	(Scope 1)	-	-	-	-	-
Electricity	(Scope 2)	396.1	137.5	135.5	-	-
Total	(Scope 1 & 2)	574.2	260.1	275.1	-	-

Geopolitical events

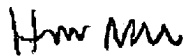
In February 2022, Russia commenced large-scale military action against Ukraine. In response, Western economies including the UK have moved to impose broad-based sanctions against Russia. Improbable's exposure to Ukraine and Russia is not material and we are closely monitoring our operating activities to ensure we continue to minimise impact on our business.

IMPROBABLE WORLDS LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

On behalf of the board



.....
H Narula

Director

Date: 12 May 2022

IMPROBABLE WORLDS LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2021.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

H Narula

C Dixon

P Lipka

D Nishar

(Resigned 29 October 2021)

J Robinson

(Appointed 15 April 2021)

A Theysset

(Appointed 29 October 2021)

Results and dividends

The results for the year are set out on page 14.

No ordinary or preference dividends were paid. The directors do not recommend payment of a final dividend.

Qualifying third party indemnity provisions

The company has made qualifying third party indemnity provisions for the benefit of its directors during the year. These provisions were in force during the financial year and remain so at the date of approval of the financial statements.

Research and development

The company carried out research and development in the year. All costs associated with research and development activities are charged to the statement of comprehensive income in the period in which they occur. Research and development of £39,551,171 (2020: £39,758,164) was undertaken in the year ended 31 December 2021.

Disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment within the group continues and that the appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee involvement

The group's policy is to consult and discuss with employees matters likely to affect employees' interests through site-specific and companywide meetings.

Information about matters of concern to employees is given through information bulletins and reports which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the group's performance.

There is a company option scheme that all employees take part in as a means of further encouraging the involvement of employees in the company's performance.

Subsequent events

On 18 February 2022, Improbable Worlds Ltd disposed of 100% of the share capital of Improbable Canada Inc. for cash consideration.

On 25 March 2022, Improbable closed a US\$151.5m funding round to establish and develop MSquared, a network of interoperable Web3 metaverses powered by its Morpheus technology.

IMPROBABLE WORLDS LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

Independent auditors

In accordance with the company's articles, a resolution proposing that PricewaterhouseCoopers LLP be reappointed as auditors of the group will be put at a General Meeting.

Strategic report

The group has chosen in accordance with Companies Act 2006, s. 414C(11) to set out in the Group's strategic report information required by Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, Sch. 7 to be contained in the directors' report. It has done so in respect of the review of the business, principal risks and uncertainties, financial risk management, future developments and key performance indicators.

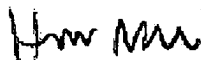
Statement of disclosure to auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company auditors are unaware. Additionally, each director has taken all the necessary steps that they ought to have taken as a director in order to make themselves aware of all relevant audit information and to establish that the company's auditors are aware of that information.

Engagement with others

Please see the S172 statement included within the strategic report statement for information summarising how the directors have had regard to the need to foster the company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the company during the financial year.

On behalf of the board



.....
H Narula
Director

Date: 12 May 2022

IMPROBABLE WORLDS LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2021

The directors are responsible for preparing the Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under company law, 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 group and company and of the profit or loss of the group for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

IMPROBABLE WORLDS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMPROBABLE WORLDS LIMITED

Opinion

In our opinion, Improbable Worlds Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2021 and of the group's loss and the group's cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Financial Statements (the "Annual Report"), which comprise: the consolidated and company statements of financial position as at 31 December 2021; the consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) 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 remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

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

IMPROBABLE WORLDS LIMITED
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMPROBABLE WORLDS LIMITED

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

IMPROBABLE WORLDS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMPROBABLE WORLDS LIMITED

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.

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.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to tax legislation, employment law and pension regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Companies Act 2006.. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate journals to misstate revenue and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management including consideration of any known or suspected instances of non-compliance with laws and regulations and fraud;
- Challenging assumptions made by management in determining their judgements and accounting estimates, including valuation of share based payments, valuation of intangibles in Zeuz GmbH acquisition and the onerous contract provision;
- Identifying and testing unusual journals posted to revenue and cash, and journals containing unusual words; and
- Reviewing the financial statement disclosures and agreeing to underlying supporting documentation

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, 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 or intentional misrepresentations, or through collusion.

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

IMPROBABLE WORLDS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMPROBABLE WORLDS LIMITED

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Brian Henderson (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

12 May 2022

IMPROBABLE WORLDS LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 £	2020 £
Turnover	3	30,121,331	18,969,212
Cost of sales		(22,682,900)	(15,311,454)
Gross profit		<u>7,438,431</u>	<u>3,657,758</u>
Administrative expenses excluding non-recurring items		(124,015,157)	(91,538,238)
Remuneration expenses relating to acquisitions		(14,208,338)	(27,823,150)
Depreciation, amortisation and impairment		(32,064,843)	(9,646,869)
Restructuring costs		(2,589,709)	-
Administrative expenses		<u>(172,878,047)</u>	<u>(129,008,257)</u>
Other operating income		16,497,611	-
Operating loss	4	<u>(148,942,005)</u>	<u>(125,350,499)</u>
Interest receivable and similar income	9	35,070	528,831
Interest payable and similar expenses	10	(1,059,533)	(5,369,426)
Other gains	11	52,124	1,155,986
Loss before taxation		<u>(149,914,344)</u>	<u>(129,035,108)</u>
Tax on loss	12	1,250,425	9,613,247
Loss for the financial year		<u>(148,663,919)</u>	<u>(119,421,861)</u>
Other comprehensive (expenses)/income			
Currency translation differences		(425,853)	1,911,326
Total comprehensive income for the year		<u><u>(149,089,772)</u></u>	<u><u>(117,510,535)</u></u>

Loss for the financial year is all attributable to the owners of the parent company.

Total comprehensive income for the year is all attributable to the owners of the parent company.

IMPROBABLE WORLDS LIMITED**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****AS AT 31 DECEMBER 2021**


	Notes	2021 £	£	2020 £	£
Fixed assets					
Goodwill	13	-		20,155,761	
Negative goodwill	13	(1,547,991)		(1,747,732)	
Net goodwill		(1,547,991)		18,408,029	
Other intangible assets	13	6,076,148		15,397,006	
Total intangible assets		4,528,157		33,805,035	
Tangible assets	14	8,204,824		7,151,599	
Investments	15	17,307		17,307	
		12,750,288		40,973,941	
Current assets					
Debtors	17	24,918,065	36,165,922		
Investments	18	-	108,189,773		
Cash at bank and in hand		56,451,193	64,468,940		
		81,369,258	208,824,635		
Creditors: amounts falling due within one year	19	(16,535,133)	(29,820,694)		
Net current assets		64,834,125		179,003,941	
Total assets less current liabilities		77,584,413		219,977,882	
Provisions for liabilities	21	(9,528,206)		(14,440,669)	
Net assets		68,056,207		205,537,213	
Capital and reserves					
Called up share capital	24	3,151		3,146	
Share premium account	25	479,838,293		479,825,810	
Share based payment reserve	25	28,224,027		18,030,081	
Share consideration held on trust	25	(97,518)		(1,499,850)	
Profit and loss account	25	(439,911,746)		(290,821,974)	
Total equity		68,056,207		205,537,213	

IMPROBABLE WORLDS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 31 DECEMBER 2021

The financial statements on pages 14 to 51 were approved by the board of directors and authorised for issue on ~~12 May 2022~~ and are signed on its behalf by:



.....
H Narula
Director

IMPROBABLE WORLDS LIMITED**COMPANY STATEMENT OF FINANCIAL POSITION****AS AT 31 DECEMBER 2021**

	Notes	2021 £	£	2020 £	£
Fixed assets					
Intangible assets	13		36,095		-
Tangible assets	14		5,066,432		4,583,897
Investments	15		12,594,337		48,250,372
			<u>17,696,864</u>		<u>52,834,269</u>
Current assets					
Debtors	17	71,374,933		83,717,103	
Investments	18	-		108,189,773	
Cash at bank and in hand		48,271,015		56,907,539	
			<u>119,645,948</u>		<u>248,814,415</u>
Creditors: amounts falling due within one year	19	(13,883,500)		(26,737,122)	
Net current assets			<u>105,762,448</u>		<u>222,077,293</u>
Total assets less current liabilities			<u>123,459,312</u>		<u>274,911,562</u>
Provisions for liabilities	21		(7,551,856)		(11,014,062)
Net assets			<u><u>115,907,456</u></u>		<u><u>263,897,500</u></u>
Capital and reserves					
Called up share capital	24		3,151		3,146
Share premium account	25		479,838,293		479,825,810
Share based payment reserve	25		28,207,419		18,013,105
Share consideration held on trust	25		(97,518)		(1,499,850)
Profit and loss account	25		(392,043,889)		(232,444,711)
Total equity			<u><u>115,907,456</u></u>		<u><u>263,897,500</u></u>

As permitted by s408 Companies Act 2006, the company has not presented its own profit and loss account and related notes as it prepares group financial statements. The company's loss for the year was £159,377,792 (2020: £77,009,972 loss).

The financial statements on pages 14 to 51 were approved by the board of directors and authorised for issue on 12 May 2022 and are signed on its behalf by:



H Narula
Director

IMPROBABLE WORLDS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	Called up share capital £	Share premium account £	Share based payment reserve £	Share consideration held on trust £	Profit and loss account £	Total £
Balance at 1 January 2020		3,131	478,032,287	-	(6,557,519)	(163,124,679)	308,353,220
Year ended 31 December 2020:							
Loss for the year		-	-	-	-	(119,421,861)	(119,421,861)
Other comprehensive income net of taxation:							
Currency translation differences		-	-	-	-	1,911,326	1,911,326
Total comprehensive income for the year		-	-	-	-	(117,510,535)	(117,510,535)
Issue of share capital	24	15	1,793,523	-	-	-	1,793,538
Transfer of share based payment reserve from profit and loss reserves		-	-	10,186,760	-	(10,186,760)	-
Charge to equity for equity settled share-based payments	8	-	-	6,750,354	-	-	6,750,354
Share consideration held on trust		-	-	-	(734,991)	-	(734,991)
Share consideration recognised as remuneration		-	-	-	5,792,660	-	5,792,660
Acquisition costs on share based payments		-	-	1,092,967	-	-	1,092,967
Balance at 31 December 2020		3,146	479,825,810	18,030,081	(1,499,850)	(290,821,974)	205,537,213

IMPROBABLE WORLDS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	Called up share capital £	Share premium account £	Share based payment reserve £	Share consideration held on trust £	Profit and loss account £	Total £
Year ended 31 December 2021:							
Loss for the year		-	-	-	-	(148,663,919)	(148,663,919)
Other comprehensive income net of taxation:							
Currency translation differences		-	-	-	-	(425,853)	(425,853)
Total comprehensive income for the year		-	-	-	-	(149,089,772)	(149,089,772)
Issue of share capital	24	5	12,483	-	-	-	12,488
Charge to equity for equity settled share-based payments	8	-	-	10,193,946	-	-	10,193,946
Share consideration recognised as remuneration		-	-	-	1,402,332	-	1,402,332
Balance at 31 December 2021		3,151	479,838,293	28,224,027	(97,518)	(439,911,746)	68,056,207

IMPROBABLE WORLDS LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	Called up share capital £	Share premium account £	Share based payment reserve £	Share consideration held on trust £	Profit and loss account £	Total £
Balance at 1 January 2020		3,131	478,032,287	-	(6,557,519)	(145,276,649)	326,201,250
Year ended 31 December 2020:							
Loss for the year		-	-	-	-	(77,009,972)	(77,009,972)
Other comprehensive income net of taxation:							
Currency translation differences		-	-	-	-	11,693	11,693
Total comprehensive income for the year		-	-	-	-	(76,998,279)	(76,998,279)
Issue of share capital	24	15	1,793,523	-	-	-	1,793,538
Transfer to share based payment reserve from profit and loss reserves		-	-	10,169,783	-	(10,169,783)	-
Charge to equity for equity settled share-based payments	8	-	-	6,750,355	-	-	6,750,355
Share consideration held on trust	24	-	-	-	(734,991)	-	(734,991)
Share consideration recognised as remuneration		-	-	-	5,792,660	-	5,792,660
Acquisition costs on share based payments		-	-	1,092,967	-	-	1,092,967
Balance at 31 December 2020		3,146	479,825,810	18,013,105	(1,499,850)	(232,444,711)	263,897,500

IMPROBABLE WORLDS LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	Called up share capital £	Share premium account £	Share based payment reserve £	Share consideration held on trust £	Profit and loss account £	Total £
Year ended 31 December 2021:							
Loss for the year		-	-	-	-	(159,377,792)	(159,377,792)
Other comprehensive income net of taxation:							
Currency translation differences		-	-	-	-	(221,386)	(221,386)
Total comprehensive income for the year		-	-	-	-	(159,599,178)	(159,599,178)
Issue of share capital	24	5	12,483	-	-	-	12,488
Charge to equity for equity settled share-based payments	8	-	-	10,194,314	-	-	10,194,314
Share consideration recognised as remuneration		-	-	-	1,402,332	-	1,402,332
Balance at 31 December 2021		3,151	479,838,293	28,207,419	(97,518)	(392,043,889)	115,907,456

IMPROBABLE WORLDS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 £	£	2020 £	£
Cash flows from operating activities					
Cash absorbed by operations	26	(12,953,854)		(39,783,949)	
Income taxes refunded		10,255,322		1,918,227	
Net cash outflow from operating activities		(2,698,532)		(37,865,722)	
Investing activities					
Purchase of business net of cash acquired		-	(7,803,845)		
Purchase of intangible assets		(77,175)	(122,910)		
Proceeds on disposal of intangibles		356,269	-		
Purchase of tangible fixed assets		(4,246,403)	(3,057,868)		
Proceeds on disposal of tangible fixed assets		118,277	-		
Interest received		35,070	528,831		
Net cash used in investing activities		(3,813,962)		(10,455,792)	
Financing activities					
Proceeds from issue of shares		12,488	-		
Net cash generated from/(used in) financing activities		12,488		-	
Net decrease in cash and cash equivalents		(6,500,006)		(48,321,514)	
Cash and cash equivalents at beginning of year		64,468,940		115,790,166	
Effect of foreign exchange rates		(1,517,741)		(2,999,712)	
Cash and cash equivalents at end of year		56,451,193		64,468,940	

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1 Accounting policies

Company information

Improbable Worlds Limited ("the company") is a private company limited by shares, and is registered, domiciled and incorporated in the United Kingdom. The registered office and principal place of business is 10 Bishops Square, London, E1 6EG.

The "group" consists of Improbable Worlds Limited and its subsidiaries.

The company's and the group's principal activities and nature of its operations are disclosed in the Strategic Report.

Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historical cost convention, modified to include certain investments and financial instruments at fair value. The principal accounting policies adopted are set out below.

Reduced Disclosure Framework

The company is a qualifying entity for the purposes of FRS 102, being a member of a group where the parent of that group prepares publicly available consolidated financial statements, including this company, which are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss of the group. The company has therefore taken advantage of exemptions from the following disclosure requirements for parent company information presented within the consolidated financial statements:

- Section 7 'Statement of Cash Flows' – Presentation of a statement of cash flow and related notes and disclosures;
- Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instrument Issues' – Carrying amounts, interest income/expense and net gains/losses for financial instruments not measured at fair value, amount of any impairment loss, risks arising from financial instruments, and transferred financial assets not derecognised, loan defaults or breaches, and descriptions of hedging relationships;
- Section 26 'Share-based Payment' – Share-based payment expense charged to profit or loss, reconciliation of opening and closing number and weighted average exercise price of share options, how the fair value of options granted was measured, measurement and carrying amount of liabilities for cash-settled share-based payments, explanation of modifications to arrangements;
- Section 33 'Related Party Disclosures' – Compensation for key management personnel.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

1 Accounting policies (Continued)

Basis of consolidation

The consolidated financial statements incorporate those of Improbable Worlds Limited and its subsidiaries (i.e. entities that the group controls through its power to govern the financial and operating policies so as to obtain economic benefits). Subsidiaries acquired during the year are consolidated using the acquisition method. Their results are incorporated from the date that control passes.

All financial statements are made up to 31 December 2021. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the group.

All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Going concern

The group made a loss of £149,914,344 (period ended 31 December 2020: £129,035,108) and had net current assets of £64,834,125 (period ended 31 December 2020: £179,003,941). Subsequent to year end, the group has closed a £114.6m (US\$151.5m) funding round to establish and develop MSquared, a network of interoperable Web3 metaverses powered by its Morpheus technology.

The COVID-19 pandemic has continued to impact economics around the world. However, we do not have any current concerns about Improbable being able to deliver its services. We believe that the technology-focused nature of our business will allow our services to be delivered without interruption in the current circumstances. We will continue to monitor the situation and take appropriate measures where necessary to ensure the safety of our workers, partners and customers.

The Directors have reviewed the cash flow forecast prepared incorporating the events subsequent to year end and are comfortable with the assumptions underpinning the forecast. Based on the cash flow forecasts performed and funding available to the group and company, the directors have a reasonable expectation that the group and company has adequate resources to continue in operational existence for the foreseeable future. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

Turnover

Turnover is generated from the supply of services to customers including developers in the video games and entertainment industries, as well as defence and academic institutions. Specifically, the group provided co-development and technical services, projects demonstrating the capabilities of Improbable's technology, and proofs of concept to support potential longer term engagements and partnerships.

Turnover is stated net of VAT and trade discounts and is recognised when the significant risks and rewards are considered to have been transferred to the buyer.

Turnover from the supply of services represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the fair value of the consideration received or receivable. Where a contract has only been partially completed at the balance sheet date, turnover represents the fair value of the service provided to date based on the stage of completion of the contract activity at the balance sheet date. Where payments are received from customers in advance of services provided, the amounts are recorded as deferred income and included as part of creditors due within one year.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

1 Accounting policies (Continued)

The "percentage of completion method" is used to determine the appropriate amount to recognise in a given period. The stage of completion is measured by the proportion of contract costs incurred for work performed to date compared to the estimated total contract costs. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. These costs are presented as prepayments or other assets depending on their nature, and provided it is probable they will be recovered.

Other operating income

Other operating income relates to a gains recognised on research and development (R&D) tax relief and deferred revenue. R&D tax credits are claimed on qualifying expenses contributing to projects which make an advancement in science and technology. A gain was also recognised on deferred revenue upon the termination of a contractual agreement between the company and a third party developer by mutual consent. The deferred revenue related to payments made in advance for development credits.

Research and development

All research expenditure and development expenditure is written off in the statement of comprehensive income in the year in which it is incurred.

Intangible fixed assets - goodwill

Goodwill represents the excess of the cost of acquisition of a business over the fair value of net assets acquired. It is initially recognised as an asset at cost and is subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is considered to have a finite useful life and is amortised on a systematic basis over its expected life.

Goodwill - Midwinter Entertainment, Inc
Goodwill - zeuz GmbH

25% straight line
10% straight line

The negative goodwill arising on The Multiplayer Group Limited acquisition is recognised over the period that the underlying assets of the subsidiary are realised.

For the purposes of impairment testing, goodwill is allocated to the cash-generating units expected to benefit from the acquisition. Cash-generating units to which goodwill has been allocated are tested for impairment at least annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

When the fair value of the consideration for an acquired undertaking is less than the fair value of the separable net assets, the difference is treated as negative goodwill which, up to the value of the non-monetary assets acquired, is recognised in the profit and loss account in the period in which those non-monetary assets are realised.

Any negative goodwill in excess of the fair value of the non-monetary assets acquired is recognised in profit or loss in the periods expected to be benefited.

Intangible fixed assets other than goodwill

Intangible assets acquired on business combinations are recognised separately from goodwill at the acquisition date where it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the fair value of the asset can be measured reliably; the intangible asset arises from contractual or other legal rights; and the intangible asset is separable from the entity.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

1 Accounting policies (Continued)

Amortisation will be recognised so as to write off the cost of over their useful lives.

Software - Midwinter Entertainment, Inc	25% straight line when the game is commercially released
Software - Zeuz GmbH	11% straight line
Other intangibles	33.3% straight line
Order book	50% straight line
Customer relationships	10% straight line for the Multiplayer Group Limited & 9% straight line for zeuz GmbH
Brand	20% straight line for the Multiplayer Group Limited & 11% straight line for zeuz GmbH

Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost, net of depreciation and any impairment losses.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives on the following bases:

Leasehold land and buildings	over life of lease
Fixtures and fittings	15% straight line
Computer equipment	25% straight line

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

Fixed asset investments

In the separate financial statements of the company, interests in subsidiaries are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

A subsidiary is an entity controlled by the group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

Other unlisted investments are stated at cost less provision for any impairment.

Impairment of fixed assets

At each reporting period end date, the group reviews the carrying amounts of its intangible and tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

1 Accounting policies (Continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Cash and cash equivalents

Cash and cash equivalents are basic financial instruments and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts.

Financial instruments

The group has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised when the group becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include trade and other debtors and amounts owed by group undertakings, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method.

Other financial assets

Other financial assets, including trade investments and certain other debtors, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end 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. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

1 Accounting policies (Continued)

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the group transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Classification of financial liabilities

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 group after deducting all of its liabilities.

Basic financial liabilities

Basic financial liabilities, including trade and other creditors, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Derecognition of financial liabilities

Financial liabilities are derecognised when, and only when, the group's contractual obligations are discharged, cancelled, or they expire.

Equity instruments

Equity instruments issued by the group are recorded at the fair value of proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the group.

Taxation

The tax expense represents the sum of the current tax expense and deferred tax expense. Current tax assets are recognised when tax paid exceeds the tax payable.

Current and deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited to other comprehensive income or equity, when the tax follows the transaction or event it relates to and is also charged or credited to other comprehensive income, or equity.

Current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities are offset, if and only if, there is a legally enforceable right to set off the amounts and the entity intends either to settle on the net basis or to realise the asset and settle the liability simultaneously.

Current tax is based on taxable profit for the year. Current tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted by the reporting date.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

1 Accounting policies (Continued)

Deferred tax

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax liabilities are recognised in respect of all timing differences that exist at the reporting date. Timing differences are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in different periods from their recognition in the financial statements. Deferred tax assets are recognised only to the extent that it is probable that they will be recovered by the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is recognised on income and expenses from subsidiaries that will be assessed to or allow for tax in a future period except where the group is able to control the reversal of the timing difference and it is probable that the timing difference will not reverse in the foreseeable future.

Deferred tax is recognised on differences between the value of assets (other than goodwill) and liabilities recognised in a business combination and the amounts that can be deducted or assessed for tax. The deferred tax recognised is adjusted against goodwill.

Provisions

Provisions are recognised when the group has a legal or constructive present obligation as a result of a past event, it is probable that the group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value. When a provision is measured at present value the unwinding of the discount is recognised as a finance cost in profit or loss in the period it arises.

Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

Retirement benefits

For defined contribution schemes the amount charged to profit or loss is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments.

Leases

Rentals payable under operating leases, including any lease incentives received, are charged to profit or loss on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

1 Accounting policies (Continued)

Foreign exchange

Transactions in currencies other than the functional currency (foreign currency) are initially recorded at the exchange rate prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies are translated at the rate ruling at the date of the transaction, or, if the asset or liability is measured at fair value, the rate when that fair value was determined.

All translation differences are taken to profit or loss, except to the extent that they relate to gains or losses on non-monetary items recognised in other comprehensive income, when the related translation gain or loss is also recognised in other comprehensive income.

The assets and liabilities of foreign subsidiaries are translated into sterling using exchange rates at the reporting date. The components of shareholders' equity are stated at historical value. Average exchange rates for the period are used to translate income and expense items of foreign operations. However, if exchange rates fluctuate significantly, the exchange rates at the dates of the transactions are used. All resulting exchange differences are recognised in other comprehensive income.

Share based payments

The company issues equity-settled share options to certain employees, advisors and directors within the group. Equity-settled share-based payment transactions are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The company grants options throughout the year and determines the fair value by engaging an independent third party expert on an ad hoc basis to maintain an up to date fair value for options granted. The equity-settled share-based payment expense is recognised in line with the vesting profiles of the options granted, adjusted for the group's estimate of the number of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

The expense in relation to options over the parent company's shares granted to employees of a subsidiary is recognised by the company as a capital contribution, and presented as an increase in the company's investment in that subsidiary.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

2 Judgements and key sources of estimation uncertainty

In the application of the group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Critical judgements

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Other debtors

Management has assessed the recoverability of other debtors in respect of funding provided to third parties to finance projects. This assessment has included consideration of the success of the projects.

Fair values on acquisition of Midwinter Entertainment, Inc, The Multiplayer Group Ltd and zeuz GmbH

The fair value of tangible and intangible assets acquired in the acquisitions of Midwinter Entertainment, Inc, The Multiplayer Group Ltd and zeuz GmbH involved use of valuation techniques and the estimation of future cash flows to be generated over a number of years. The estimation of fair values requires the combination of the assumptions including revenue growth, customer growth and royalty rates. In addition, the use of discount rates requires judgement.

The group classifies expenses relating to deferred compensation payments for the retention of former owners of subsidiaries acquired that have a material impact on the group's financial results as 'remuneration expenses relating to acquisitions'. These are disclosed separately to provide further understanding of the financial performance of the group.

Key sources of estimation uncertainty

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows.

Provisions

For some provisions raised, the group relies on management's best estimates of future cash outflows.

Share based payments

The charge recognised in relation to share-based payments made under the Group's unapproved option scheme is recognised based upon the grant date fair value of share options. The grant date fair value of is estimated using an option pricing model which requires the use of assumptions, including the expected share price volatility, the risk free rate of return, and the estimated life of each award.

Impairment of intangible assets and goodwill

Annually, the group considers whether intangible assets and/or goodwill are impaired. Where an indication of impairment is identified, then the recoverable amount is estimated. The recoverable amount is the greater of its value in use and fair value less costs to sell. This requires the estimation of future cash flows and also a selection of discount rates in order to calculate the net present value of those cash flows.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

3 Turnover and other revenue

An analysis of the group's turnover is as follows:

	2021 £	2020 £
Turnover analysed by class of business		
Sales of services	30,121,331	18,969,212

	2021 £	2020 £
Turnover analysed by geographical market		
United Kingdom	13,290,892	10,850,333
United States of America	12,410,044	5,767,809
Rest of World	4,420,395	2,351,070
	30,121,331	18,969,212

4 Operating loss

	2021 £	2020 £
Operating loss for the year is stated after charging:		
Exchange losses	15,942	257,854
Research and development costs	39,551,171	39,758,164
Remuneration expenses relating to acquisitions	14,208,338	27,823,150
Depreciation of owned tangible fixed assets	3,071,394	2,170,126
Loss on disposal of tangible fixed assets	92,320	-
Amortisation of intangible assets	7,979,226	7,476,743
Impairment of intangible assets	21,014,223	-
Share-based payments	10,193,946	6,750,354
Operating lease charges	4,656,133	4,820,504

The amortisation of intangible assets is included within administration expenses.

5 Auditors' remuneration

	2021 £	2020 £
Fees payable to the company's auditor and associates:		
For audit services		
Audit of the financial statements of the group and company	175,000	189,000
For other services		
All other non-audit services	74,781	20,727

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

6 Employees

The average monthly number of persons (including directors) employed during the year was:

	Group 2021 Number	2020 Number	Company 2021 Number	2020 Number
Sales and product	246	185	107	83
Software engineering	458	276	241	172
Operations	145	178	97	97
Total	849	639	445	352

Their aggregate remuneration comprised:

	Group 2021 £	2020 £	Company 2021 £	2020 £
Wages and salaries	88,284,147	62,375,659	50,879,942	36,780,966
Social security costs	8,674,964	5,472,352	5,405,110	3,606,045
Pension costs	1,262,242	977,802	777,343	605,419
	98,221,353	68,825,813	57,062,395	40,992,430

In addition to the wages and salaries disclosed above, deferred consideration on cash and shares of £9,180,499 (2020: £17,225,552) and earn out payments of £5,027,839 (2020: £8,107,513) which arose on the acquisition of the subsidiaries, treated as remuneration.

The group also incurred share based payment expenses in the year in relation to remuneration of employees of £10,193,946 (2020: £7,843,322).

7 Directors' remuneration

	2021 £	2020 £
Remuneration for qualifying services	681,848	350,977
Company pension contributions to defined contribution schemes	2,743	1,641
	684,591	352,618

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

7 Directors' remuneration (Continued)

Remuneration disclosed above includes the following amounts paid to the highest paid director:

	2021 £	2020 £
Remuneration for qualifying services	354,240	350,859
Company pension contributions to defined contribution schemes	1,420	1,641

The highest paid director did not exercise share options in 2021 (2020: no share options exercised).

The number of directors to whom retirement benefits are accruing under defined contribution scheme was 2 (2020: 1).

8 Share-based payment transactions

The company issues equity settled share options to certain employees, advisors and directors within the group. Equity-settled share-based payment transactions are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The company grants options throughout the year and determines the fair value by engaging an independent third party expert on an ad hoc basis to maintain an up to date fair value for options granted. The equity-settled share-based payment expense is recognised in line with the vesting profiles of the options granted, adjusted for the group's estimate of the number of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

The company operates 3 share option schemes, the EMI scheme, Advisor scheme and Unapproved Scheme. The EMI scheme and Advisor scheme are issued on substantially similar terms and disclosures are aggregated accordingly. Where options are issued to employees, the vesting of the options is subject to continued employment within the group.

The EMI and Advisor schemes operate with a vesting profile extending up to 4 years from the date of grant. The options are granted with an exercise price equalling the nominal value of the shares and expire ten years after the date of grant. The EMI and Advisor schemes are closed to new participants. Management considered the most appropriate method of valuation for these schemes at the point of grant was a maintainable earnings method. This basis of valuation is consistent with the market valuations agreed with HMRC on the actual market value of options at the point of grant.

The Unapproved scheme operates with a vesting profile over a period of 4 years, with 25% of the options vesting on the first anniversary of the grant date and the remaining vesting equally on a monthly basis up to the 4th anniversary of the grant date. The exercise price of the options are varied based on the tax residence of the option holder and expire ten years after the date of grant. Management consider the most appropriate method of valuation for the Unapproved scheme to be an option pricing model and the company engage an independent third party valuer to perform valuations on an ad hoc basis to ensure the assessment of fair value remains appropriate. The option pricing model adopts the Black-Scholes option pricing methodology and is selected as it accounts for the liquidation preferences of the company's preference shareholders.

The expense in relation to options over the parent company's shares granted to employees of a subsidiary is recognised by the company as a capital contribution and presented as an increase in the company's investment in that subsidiary with a corresponding credit to equity.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

8 Share-based payment transactions (Continued)

Group	Number of share options		Weighted average exercise price	
EMI Scheme & Investor/Advisor Scheme	2021 Number	2020 Number	2021 £	2020 £
Outstanding at 1 January 2021	2,006,447	2,246,006	-	-
Forfeited	(500)	(2,750)	-	-
Exercised	(48,567)	(236,809)	-	-
	<u>1,957,380</u>	<u>2,006,447</u>	<u>-</u>	<u>-</u>
Outstanding at 31 December 2021	1,957,380	2,006,447	-	-
	<u>1,954,877</u>	<u>2,004,314</u>	<u>-</u>	<u>-</u>
Exercisable at 31 December 2021	1,954,877	2,004,314	-	-
	<u>1,954,877</u>	<u>2,004,314</u>	<u>-</u>	<u>-</u>

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

8 Share-based payment transactions (Continued)

Group	Number of share options		Weighted average exercise price	
Unapproved Option Scheme	2021 Number	2020 Number	2021 £	2020 £
Outstanding at 1 January 2021	2,651,796	1,841,036	5.09	5.72
Granted	809,616	983,936	4.53	4.46
Forfeited	(258,848)	(169,181)	3.46	7.11
Exercised	(3,061)	(3,600)	1.60	-
Expired	(665)	(395)	12.32	0.01
Outstanding at 31 December 2021	3,198,838	2,651,796	4.42	5.09
Exercisable at 31 December 2021	1,944,097	1,278,502	4.42	3.48
	Group 2021 £	2020 £	Company 2021 £	2020 £
Expenses recognised in the year				
Arising from equity settled share based payment transactions	10,193,946	7,843,322	7,801,820	5,428,706

9 Interest receivable and similar income

	2021 £	2020 £
Interest on other loan receivable	-	31,506
Other interest income on short term investments	35,070	497,325
Total interest receivable and similar income	35,070	528,831

10 Interest payable and similar expenses

	2021 £	2020 £
Other finance costs:		
Foreign exchange losses	1,059,533	5,369,426

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

11 Other gains and losses

	2021 £	2020 £
Fair value gains on financial instruments		
Change in value of financial assets held at fair value through profit or loss	52,124	1,155,986

12 Tax on loss

	2021 £	2020 £
Current tax		
UK corporation tax on profits for the current period	-	(4,648,665)
Adjustments in respect of prior periods	320,049	(5,250,078)
Total UK current tax	320,049	(9,898,743)
Foreign current tax on profits for the current period	311,624	603,317
Total current tax	631,673	(9,295,426)
Deferred tax		
Origination and reversal of timing differences	(1,900,270)	(363,210)
Changes in tax rates	18,750	168,211
Other adjustments	(578)	(122,822)
Total deferred tax	(1,882,098)	(317,821)
Total tax credit	(1,250,425)	(9,613,247)

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

12 Tax on loss (Continued)

	2021 £	2020 £
Loss before taxation	(149,914,344)	(129,035,108)
Expected tax credit based on the standard rate of corporation tax in the UK of 19.00% (2020: 19.00%)	(28,483,725)	(24,516,671)
Tax effect of expenses that are not deductible in determining taxable profit	8,044,258	7,336,788
Tax effect of income not taxable in determining taxable profit	(5,723)	-
Change in unrecognised deferred tax assets	31,534,124	17,090,516
Adjustments in respect of prior years	320,049	(5,250,078)
Effect of change in corporation tax rate	(345,163)	(50,374)
Research and development tax credit	(60,810)	(1,938,195)
Other permanent differences	(276,945)	(606,358)
Deferred tax adjustments in respect of prior years	(578)	(122,822)
Fixed asset differences	(120,086)	(47,377)
Foreign tax credits	325,603	603,317
Remeasurement of deferred tax for change in tax rate	(12,181,429)	(2,111,993)
Taxation credit	(1,250,425)	(9,613,247)

The group has estimated losses and deductions of £211,680,682 (2020: £156,466,712) available for carry forward against future trading profits. Deferred tax assets in relation to losses and other deductions at the end of the year of £40,219,330 (2020: £29,809,856) have not been provided for due to uncertainty over the timing of the use of the losses.

A change to the main UK corporation tax rate, announced in the Budget on 3 March 2021, was substantively enacted on 24 May 2021. The rate applicable from 1 April 2023 is 25%.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

13 Intangible fixed assets

Group	Goodwill	Negative goodwill	Software	Other intangibles	Order book	Customer relationships	Brand	Total
	£	£	£	£	£	£	£	£
Cost								
At 1 January 2021	27,503,711	(1,997,408)	7,055,837	95,838	1,427,000	8,686,613	463,474	43,235,065
Additions - separately acquired	-	-	-	77,175	-	-	-	77,175
Disposals	-	-	(356,269)	-	-	-	-	(356,269)
Exchange adjustments	(174,642)	-	(36,696)	1,277	-	14,528	(16,615)	(212,148)
At 31 December 2021	27,329,069	(1,997,408)	6,662,872	174,290	1,427,000	8,701,141	446,859	42,743,823
Accumulated amortisation and impairment								
At 1 January 2021	7,347,950	(249,676)	319,394	22,245	891,875	1,017,259	80,983	9,430,030
Amortisation charged/credited for the year	5,611,401	(199,741)	1,083,354	31,868	535,125	846,683	70,536	7,979,226
Impairment losses	14,544,360	-	5,178,488	-	-	1,119,125	172,250	21,014,223
Exchange adjustments	(174,642)	-	(18,405)	759	-	(13,214)	(2,311)	(207,813)
At 31 December 2021	27,329,069	(449,417)	6,562,831	54,872	1,427,000	2,969,853	321,458	38,215,666
Carrying amount								
At 31 December 2021	-	(1,547,991)	100,041	119,418	-	5,731,288	125,401	4,528,157
At 31 December 2020	20,155,761	(1,747,732)	6,736,443	73,593	535,125	7,669,354	382,491	33,805,035

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

13 Intangible fixed assets (Continued)

Company

	Other intangibles £
Cost	
Additions	36,095
At 31 December 2021	36,095
Carrying amount	
At 31 December 2021	36,095
At 31 December 2020	-

More information on impairment movements in the year is given in note .

14 Tangible fixed assets

Group	Leasehold land and buildings £	Fixtures and fittings £	Computer equipment £	Total £
Cost				
At 1 January 2021	5,297,050	599,677	6,281,631	12,178,358
Additions	350,934	90,686	3,804,783	4,246,403
Disposals	(1,624)	-	(244,395)	(246,019)
Exchange adjustments	43,147	337	35,184	78,668
At 31 December 2021	5,689,507	690,700	9,877,203	16,257,410
Accumulated depreciation and impairment				
At 1 January 2021	1,977,648	259,848	2,789,263	5,026,759
Depreciation charged in the year	1,059,699	100,545	1,911,150	3,071,394
Eliminated in respect of disposals	(384)	-	(35,038)	(35,422)
Exchange adjustments	(30,272)	(509)	20,636	(10,145)
At 31 December 2021	3,006,691	359,884	4,686,011	8,052,586
Carrying amount				
At 31 December 2021	2,682,816	330,816	5,191,192	8,204,824
At 31 December 2020	3,319,402	339,829	3,492,368	7,151,599

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

14 Tangible fixed assets (Continued)

Company	Leasehold land and buildings £	Fixtures and fittings £	Computer equipment £	Total £
Cost				
At 1 January 2021	3,523,919	424,924	4,533,439	8,482,282
Additions	112,542	-	2,342,177	2,454,719
At 31 December 2021	3,636,461	424,924	6,875,616	10,937,001
Accumulated depreciation and impairment				
At 1 January 2021	1,504,674	221,243	2,172,468	3,898,385
Depreciation charged in the year	505,494	63,739	1,402,951	1,972,184
At 31 December 2021	2,010,168	284,982	3,575,419	5,870,569
Carrying amount				
At 31 December 2021	1,626,293	139,942	3,300,197	5,066,432
At 31 December 2020	2,019,245	203,681	2,360,971	4,583,897

15 Fixed asset investments

	Notes	Group 2021 £	2020 £	Company 2021 £	2020 £
Investments in subsidiaries	16	-	-	12,577,030	48,233,065
Unlisted investments		17,307	17,307	17,307	17,307
		17,307	17,307	12,594,337	48,250,372

The unlisted investments are held at fair value and there has been no movement in the fair value of the investments.

Movements in fixed asset investments

Group	Investments other than loans £
Cost or valuation	
At 1 January 2021 and 31 December 2021	17,307
Carrying amount	
At 31 December 2021	17,307
At 31 December 2020	17,307

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

15 Fixed asset investments (Continued)

Movements in fixed asset investments Company

	Shares in group undertakings	Other investments other than loans	Total
	£	£	£
Cost or valuation			
At 1 January 2021	48,233,065	17,307	48,250,372
Capital contribution	2,392,494	-	2,392,494
Foreign exchange revaluation	23,801	-	23,801
Disposals	(397,810)	-	(397,810)
At 31 December 2021	50,251,550	17,307	50,268,857
Impairment			
At 1 January 2021	-	-	-
Impairment losses	37,674,520	-	37,674,520
At 31 December 2021	37,674,520	-	37,674,520
Carrying amount			
At 31 December 2021	12,577,030	17,307	12,594,337
At 31 December 2020	48,233,065	17,307	48,250,372

Shares in group undertakings include £2,392,494 (2020: £2,397,641) of capital contributions relating to share options granted to employees of subsidiary undertakings.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

16 Subsidiaries

Details of the company's subsidiaries at 31 December 2021 are as follows:

Name of undertaking	Registered office key	Nature of business	Class of shares held	% Held	
				Direct	Indirect
Guangzhou Improbable Information Technology Company Ltd	1	Operating subsidiary	Ordinary	100.00	-
Improbable Canada Inc	2	Operating subsidiary	Ordinary	100.00	-
Improbable Inc	3	Operating subsidiary	Common stock	100.00	-
Improbable LLC	4	Operating subsidiary	Common stock	-	100.00
Improbable SG PTE Ltd	5	Operating subsidiary	Ordinary	100.00	-
Improbable Worlds Nominees Limited	6	Dormant	Ordinary	100.00	-
Improbable Hong Kong Limited	7	Operating subsidiary	Ordinary	100.00	-
Improbable (Shanghai) Information Technology Co. Ltd	7	Operating subsidiary	Ordinary	-	100.00
Midwinter Entertainment, Inc	8	Operating subsidiary	Ordinary	100.00	-
The Multiplayer Group Ltd	9	Operating subsidiary	Ordinary	100.00	-
The Multiplayer Group (Spain), S.L.	10	Operating subsidiary	Ordinary	-	100.00
The Multiplayer Group (Canada) Inc	11	Operating subsidiary	Ordinary	-	100.00
Improbable Canada Limited	11	Operating subsidiary	Ordinary	100.00	-
zeuz GmbH	12	Operating subsidiary	Ordinary	100.00	-

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

16 Subsidiaries (Continued)

Registered Office addresses:

- 1 Office 5429, Level 54, Guangzhou International Finance Centre, 5 Zhujiang West Road, Guangzhou 510623, China
- 2 3489 Allan Drive Southwest, Edmonton AB, T6W 3G9, Canada
- 3 Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle County, Delaware 19801
- 4 Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle County, Delaware 19801
- 5 51B Circular Road, Singapore, 049406
- 6 10 Bishops Square, London, E1 6EG
- 7 Room 2070 F 20, HKRI Center Tower 1, 288 Shimen 1st Road, Jing'an District, Shanghai 200041 PRC
- 8 1001 4th Ave STE 3200, Seattle, WA 98154
- 9 10 Bishops Square, London, E1 6EG
- 10 Num. 9 Calle Colegiata, 28012 Madrid
- 11 2500-10220 103, AVE NW, Edmonton, Alberta, Canada, T5J0K4
- 12 Linprunstr. 16, 80335 Munich

Improbable Canada Limited was incorporated on 22 November 2021.

Improbable Worlds Nominees Limited is a dormant subsidiary and is therefore exempt from preparing individual financial statements and filing individual financial statements with the registrar by virtue of s394A and s448A of Companies Act 2006.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

17 Debtors

	Group 2021 £	2020 £	Company 2021 £	2020 £
Amounts falling due within one year:				
Trade debtors	3,077,364	5,600,742	1,252,673	4,166,273
Corporation tax recoverable	2,712,818	9,960,931	2,568,057	9,898,743
Amounts owed by group undertakings	-	-	50,082,628	48,312,428
Other debtors	5,721,539	3,305,384	5,333,717	5,040,357
Prepayments	9,216,852	11,305,737	8,411,594	10,863,890
Accrued income	360,552	1,860,220	182,373	1,860,220
	<u>21,089,125</u>	<u>32,033,014</u>	<u>67,831,042</u>	<u>80,141,911</u>
Amounts falling due after more than one year:				
Other debtors	<u>3,828,940</u>	<u>4,132,908</u>	<u>3,543,891</u>	<u>3,575,192</u>
Total debtors	<u>24,918,065</u>	<u>36,165,922</u>	<u>71,374,933</u>	<u>83,717,103</u>

Included in other debtors due after one year is an amount of £357,309 (2020: £334,132), with an interest rate of 6% due for repayment by 2027.

Amounts owed by group undertakings are unsecured, have no fixed date of repayment, are repayable on demand and incur quarterly interest charges at a rate ranging between 2.50% and 7.50% determined by market rates for the jurisdiction of each operating subsidiary.

18 Current asset investments

	Group 2021 £	2020 £	Company 2021 £	2020 £
Unlisted investments	<u>-</u>	<u>108,189,773</u>	<u>-</u>	<u>108,189,773</u>

Investments of £Nil (2020: £106,366,880) were made into a managed portfolio of treasury notes and bonds during the year.

As at 31 December 2020, the market value of the investments was £Nil (2020: £108,189,773), and a fair value gain of £52,124 (2020: £1,155,986) has been recognised in the statement of comprehensive income.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

19 Creditors: amounts falling due within one year

	Group 2021 £	2020 £	Company 2021 £	2020 £
Trade creditors	3,247,593	3,769,675	2,440,186	2,572,095
Other taxation and social security	2,178,001	1,537,506	1,744,109	1,189,476
Deferred income	197,298	11,991,654	-	11,991,654
Other creditors	607,721	214,213	351,114	52,564
Accruals	10,304,520	12,307,646	9,348,091	10,931,333
	<u>16,535,133</u>	<u>29,820,694</u>	<u>13,883,500</u>	<u>26,737,122</u>

20 Financial instruments

	Group 2021 £	2020 £
Carrying amount of financial assets held at fair value		
Equity instruments measured at cost less impairment	17,307	17,307
Instruments measured at fair value through profit or loss	-	108,189,773
	<u>17,307</u>	<u>108,189,773</u>

The unlisted investments of £17,307 (2020: £17,307) are held at fair value and there has been no movement in the fair value of the investments.

21 Provisions for liabilities

	Notes	Group 2021 £	2020 £	Company 2021 £	2020 £
Onerous lease provision		1,476,292	191,666	1,044,451	191,666
Onerous contract provision		6,507,405	9,639,520	6,507,405	9,639,520
Provisions relating to acquisition of subsidiary		-	1,182,876	-	1,182,876
		<u>7,983,697</u>	<u>11,014,062</u>	<u>7,551,856</u>	<u>11,014,062</u>
Deferred tax liabilities	22	1,544,509	3,426,607	-	-
		<u>9,528,206</u>	<u>14,440,669</u>	<u>7,551,856</u>	<u>11,014,062</u>

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

21 Provisions for liabilities (Continued)

Movements on provisions apart from deferred tax liabilities:

Group	Onerous lease provision £	Onerous contract provision £	Provisions relating to acquisition of subsidiary £	Total £
At 1 January 2021	191,666	9,639,520	1,182,876	11,014,062
Additional provisions in the year	1,479,286	-	-	1,479,286
Reversal of provision	(191,666)	(3,269,271)	(1,182,876)	(4,643,813)
Exchange difference	(2,994)	137,156	-	134,162
At 31 December 2021	1,476,292	6,507,405	-	7,983,697

Company	Onerous lease provision £	Onerous contract provision £	Provisions relating to acquisition of subsidiary £	Total £
At 1 January 2021	191,666	9,639,520	1,182,876	11,014,062
Additional provisions in the year	1,044,451	-	-	1,044,451
Reversal of provision	(191,666)	(3,269,271)	(1,182,876)	(4,643,813)
Exchange difference	-	137,156	-	137,156
At 31 December 2021	1,044,451	6,507,405	-	7,551,856

The onerous lease provision primarily relates to a lease on premises previously occupied by the Group. Under the terms of the agreement, Improbable Worlds Limited is required to pay a fee in order to exit the lease arrangement. The provision above is expected to unwind within the next 12 months.

A provision of £6,507,406 (December 2020: £9,639,520) was recognised in relation to a contract Improbable Worlds Limited entered into in July 2020. The contract required a minimum spend over a 3 year period and if there is a shortfall at the end of each year, Improbable Worlds Limited would be invoiced for the difference between the minimum commitment and the usage fees paid during the year. As the contract is for services used in the business and the additional spend is deemed to be onerous the provision represents the Company's liability in respect of this true up payment forecast. In October 2021 the contract was renegotiated to amend the terms to require a minimum spend over a 5 year period. As a result, a reversal of £3,269,271 has been recognised during the year. The amount provided represents management's best estimate of the future cash outflows.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

22 Deferred taxation

The major deferred tax liabilities and assets recognised by the group and company are:

	Liabilities 2021 £	Liabilities 2020 £
Group		
Accelerated capital allowances	262,458	59,953
Fair value of intangible assets	1,282,051	3,366,654
	<u>1,544,509</u>	<u>3,426,607</u>

The company has no deferred tax assets or liabilities.

	Group 2021 £	Company 2021 £
Movements in the year:		
Liability at 1 January 2021	3,426,607	-
Credit to profit or loss	(1,900,848)	-
Effect of change in tax rate - profit or loss	18,750	-
	<u>1,544,509</u>	<u>-</u>
Liability at 31 December 2021	<u>1,544,509</u>	<u>-</u>

23 Retirement benefit schemes

	2021 £	2020 £
Defined contribution schemes		
Charge to profit or loss in respect of defined contribution schemes	<u>1,262,242</u>	<u>977,802</u>

A defined contribution pension scheme is operated for all qualifying employees. The assets of the scheme are held separately from those of the group in an independently administered fund.

At the reporting date there was a pension creditor of £358,884 (2020: £260,659) included in other creditors.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

24 Called up share capital

	Group and company	
	2021	2020
	£	£
Ordinary share capital		
Issued and fully paid		
8,827,790 (2020: 8,827,790) A Ordinary shares of £0.0001 each	883	883
921,166 (2020: 869,538) B Ordinary shares of £0.0001 each	92	87
	<u>975</u>	<u>970</u>
Preference share capital		
Issued and fully paid		
5,443,650 (2020: 5,443,650) A Preference shares of £0.0001 each	544	544
16,320,520 (2020: 16,320,520) B Preference shares of £0.0001 each	1,632	1,632
	<u>2,176</u>	<u>2,176</u>

The share capital of the company is divided into A Ordinary Shares, B Ordinary Shares, A1 Preference Shares, A2 Preference Shares, A3 Preference Shares, A4 Preference Shares, A5 Preference Shares, B1 Preference Shares, B2 Preference Shares and B3 Preference Shares. All classes of preference share have the same basic rights to votes, income, and capital, the only difference being the order of preference to income and capital. They have no mandatory right to dividends and are non-redeemable.

Income rights and capital rights to each share class are disclosed in the Company's Articles of Association.

During the financial year the company issued 51,628 B ordinary shares with a nominal value of £0.0001 for a consideration of £12,488.

25 Reserves

Share premium account

Consideration received for shares issued above their nominal value net of transaction costs.

Profit and loss account

Cumulative profit and loss net of distributions to owners and other adjustments.

Share consideration

Share consideration held on trust.

Share based payment reserve

The cumulative share-based payment expense.

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

26 Cash absorbed by group operations

	2021 £	2020 £
Loss for the year after tax	(148,663,919)	(119,421,861)
Adjustments for:		
Taxation credited	(1,250,425)	(9,613,247)
R&D expenditure credit	(3,275,719)	-
Finance costs	1,059,533	5,369,426
Investment income	(35,070)	(528,831)
Loss on disposal of tangible fixed assets	92,320	-
Amortisation and impairment of intangible assets	28,993,449	7,476,743
Depreciation and impairment of tangible fixed assets	3,071,394	2,170,126
Other gains	(52,124)	(1,155,986)
Equity settled share based payment expense	10,193,946	7,843,322
Decrease in provisions	(3,030,365)	(1,155,467)
Share consideration recognised as remuneration	1,402,332	5,792,660
Movements in working capital:		
Decrease in current asset investments	108,189,773	47,611,513
Decrease in debtors	3,636,582	2,656,833
(Decrease)/increase in creditors	(1,491,205)	8,066,209
(Decrease)/increase in deferred income	(11,794,356)	5,104,611
Cash absorbed by operations	(12,953,854)	(39,783,949)

27 Analysis of changes in net funds - group

	1 January 2021 £	Cash flows £	31 December 2021 £
Cash at bank and in hand	64,468,940	(8,017,747)	56,451,193

IMPROBABLE WORLDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

28 Operating lease commitments

Lessee

At the reporting end date the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Group 2021 £	2020 £	Company 2021 £	2020 £
Within one year	3,827,363	3,354,069	3,097,670	1,940,049
Between one and five years	12,794,266	14,418,891	11,611,020	12,400,366
In over five years	260,193	2,351,364	-	2,308,624
	<u>16,881,822</u>	<u>20,124,324</u>	<u>14,708,690</u>	<u>16,649,039</u>

29 Events after the reporting date

On 18 February 2022, Improbable Worlds Ltd disposed of 100% of the share capital of Improbable Canada Inc. for cash consideration.

On 25 March 2022, Improbable closed a US\$151.5m funding round to establish and develop MSquared, a network of interoperable Web3 metaverses powered by its Morpheus technology.

30 Related party transactions

Remuneration of key management personnel

The remuneration of key management personnel of the group, is as follows.

	2021 £	2020 £
Aggregate compensation	<u>5,172,512</u>	<u>4,134,548</u>

31 Controlling party

As at the year end, the group was under the control of Herman Narula, a director and shareholder on account of the rights conveyed by his sole ownership of the A Ordinary Shares of the company.