

MQA Limited

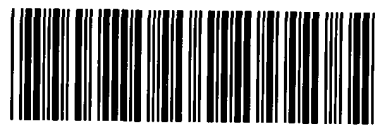
Report and Financial Statements

Year Ended

31 December 2017

Company Number 09123512

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MQA Limited

Company Information

Directors	S D Jagoe J R Stuart A E Rupert M J Jbara
Company secretary	Reed Smith Corporate Services Limited
Registered number	09123512
Registered office	The Broadgate Tower Third Floor 20 Primrose Street London United Kingdom EC2A 2RS
Independent auditor	BDO LLP 31 Chertsey Street Guildford Surrey GU1 4HD

MQA Limited

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MQA Limited

Group Strategic Report For the Year Ended 31 December 2017

Introduction

The directors present their Strategic Report together with the financial statements for the year ended 31 December 2017.

Business review

MQA Limited (MQAL or 'the Company') was established to exploit intellectual property (IP) developed by Bob Stuart of Meridian Audio, Peter Craven and Malcolm Law: a team that began collaborating 40 years ago and has a collective 100 years of experience in high-quality music recording, coding and playback.

The IP embodies a new approach to digital audio coding, based on recent advances in neuroscience and a new understanding of the importance of distortion in the time domain. The goal was to help to reverse the general decline in audio quality by providing tools and a codec that is very efficient (for example by enabling uncompromised sound quality to be streamed to mobile platforms) while enabling an ecosystem where convenience and quality are not in conflict. The IP will enable the bit stream that is approved in the studio to be delivered identically to a listener, and the format has been named "Master Quality Authenticated" (MQA). MQA has a further advantage that it is backwardly compatible with existing digital formats. Key players in the music industry have closely checked the development of MQA.

MQAL has executed format licenses and equity deeds with the 3 major music labels and the independent label trade organization, Merlin.

The IP is protected by a number of patents, granted and pending, and by know-how residing in the core team. MQAL is a start-up company and, in the year under review, has continued to build its teams in engineering, marketing, and content services.

The key commercial activities in 2017 included:

Music Retailers

- January launch of Tidal Masters – the HiFi tier of the Tidal music service featuring MQA Technology
- Deezer announced global agreement with MQA
- Groovers (Korea) announced streaming service in partnership with LG and highlighting MQA on mobile.

Hardware Manufacturers

- Several new license agreements completed
- Sony introduced MQA to their Walkman line of products
- LG launched first global MQA smartphone – LGV30

Expansion of the Take Me There Marketing Campaign with new original content featuring artists Jake Isaac and Smoke Season. The revenue model is driven by:

- Per Unit Royalties charged on MQA decoders and renderers in CE devices
- Royalties charged on MQA decoders and renderers in chips
- Rev Share or Value Share (cost savings share) with music retailers
- Digital asset management supply chain services
- Engineering consultancy with CE partners

At the date of this report, NDAs with over 150 companies, license agreements with over 40 companies have been signed, and over 100 MQA enabled products are already available for sale to the public.

Further information on MQA can be found on the Company's website, <http://www.mqa.co.uk>.

MQA Limited

Group Strategic Report (continued) For the Year Ended 31 December 2017

Principal risks and uncertainties

The principal risks in the business are:

- Our ability to achieve profitability within the time provided by available cash resources;
- Continued influence of the business strategies (and associated timeframes) of music labels that impacts the acceptance rate of MQA – specifically MQA's dependence on the completion of agreements between labels and music retailers in which they agree their licensing terms for high quality audio;
- Dependence on key personnel;
- Emergence of competitors.

Given the widespread acceptance by key opinion makers in the music industry and journalists, as well as the business model adopted by the first licensees, the board remains confident that MQA is well positioned to succeed.

Capital raise

In November, 2017, Board approved the start of a capital raise. The Board remains confident in the business model and management team, and recognizes that Revenues have lagged due to delays in label/service agreements being completed.

With major streaming services expressing specific interest in adopting MQA, and subsequently initiating detailed technical reviews, we remain confident that MQA content will become available across one of the larger, multi-territory services and will drive the hardware royalty revenues necessary to achieve profitability and sustained revenues.

Funding has now been agreed in the form of loan notes of c.£5m.

Financial key performance indicators

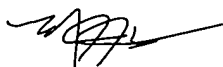
In the short term, the board will:

- Remain focused on cash burn rate and reserves
- Monitor development of hardware-based revenues
- Support program of getting MQA decoders and content into more music services

This report was approved by the board on

13/1/18

and signed on its behalf.



M J Jbara
Director

MQA Limited

Directors' Report For the Year Ended 31 December 2017

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

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Results and dividends

The loss for the year, after taxation, amounted to £7,108,397 (2016: loss of £8,585,847).

The directors do not recommend payment of a dividend (2016: £Nil).

Directors

The directors who served during the year were:

S D Jagoe
J R Stuart
A E Rupert
M J Jbara

Future developments

The Company's future developments are shown in the Strategic Report.

MQA Limited

Directors' Report (continued) For the Year Ended 31 December 2017

Disclosure of information to auditor

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

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

Post balance sheet events

There has been funding agreed post year end, as discussed in the Strategic Report and note 2.3.

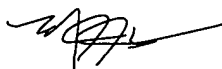
Auditor

The auditor, BDO LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on

13/1/18

and signed on its behalf.



M J Jbara
Director

MQA Limited

Independent Auditor's report to MQA Limited

Opinion

We have audited the financial statements of MQA Limited ("the Parent Company") and its subsidiary ("the Group") for the year ended 31 December 2017 which comprise the consolidated Statement of Comprehensive Income, the consolidated and company Balance Sheet, the consolidated and company Statement of Changes in Equity, the consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

MQA Limited

Independent Auditor's report to MQA Limited (continued)

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Directors' report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Director's report.

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

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

MQA Limited

Independent Auditor's report to MQA Limited (continued)

Responsibilities of directors

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

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

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

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

Use of our report

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

BDO LLP

Nick Poulter (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
Guildford
United Kingdom

Date: 14 SEPTEMBER 2018

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

MQA Limited

Consolidated Statement of Comprehensive Income For the Year Ended 31 December 2017

	Note	2017 £	As restated 2016 £
Turnover	4	148,959	29,957
Cost of sales		(18,710)	-
Gross profit		130,249	29,957
Administrative expenses		(7,245,545)	(8,668,870)
Operating loss	5	(7,115,296)	(8,638,913)
Interest receivable and similar income	9	6,899	41,816
Interest payable	10	-	11,250
Loss before taxation		(7,108,397)	(8,585,847)
Tax on loss	11	-	-
Loss for the financial year		(7,108,397)	(8,585,847)
Foreign currency translation		36,644	-
Other comprehensive income for the year		36,644	-
Total comprehensive income for the year		(7,071,753)	(8,585,847)


The notes on pages 15 to 27 form part of these financial statements.

MQA Limited
Registered number: 09123512

Consolidated Balance Sheet
As at 31 December 2017

	Note	2017 £	As restated 2016 £
Fixed assets			
Tangible assets	12	11,084	7,468
		<u>11,084</u>	<u>7,468</u>
Current assets			
Debtors: amounts falling due within one year	14	196,947	203,388
Cash and cash equivalents	15	3,750,035	8,508,258
		<u>3,946,982</u>	<u>8,711,646</u>
Creditors: amounts falling due within one year	16	(1,085,272)	(1,307,684)
Net current assets		<u>2,861,710</u>	<u>7,403,962</u>
Total assets less current liabilities		<u>2,872,794</u>	<u>7,411,430</u>
Net assets		<u><u>2,872,794</u></u>	<u><u>7,411,430</u></u>
Capital and reserves			
Called up share capital	18	14	13
Share premium account	19	21,753,250	19,220,134
Foreign currency translation reserve	19	36,644	-
Profit and loss account	19	(18,917,114)	(11,808,717)
		<u>2,872,794</u>	<u>7,411,430</u>

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

 13/1/18

M J Jbara
Director

The notes on pages 15 to 27 form part of these financial statements.


MQA Limited
Registered number: 09123512

Company Balance Sheet
As at 31 December 2017

	Note	2017 £	As restated 2016 £
Fixed assets			
Tangible assets	12	11,084	7,468
Fixed asset investments	13	80	80
		<u>11,164</u>	<u>7,548</u>
Current assets			
Debtors: amounts falling due within one year	14	901,674	414,696
Cash and cash equivalents	15	3,684,440	8,433,406
		<u>4,586,114</u>	<u>8,848,102</u>
Creditors: amounts falling due within one year	16	(1,085,272)	(1,307,604)
Net current assets		<u>3,500,842</u>	<u>7,540,498</u>
Net assets		<u><u>3,512,006</u></u>	<u><u>7,548,046</u></u>
Capital and reserves			
Called up share capital	18	14	13
Share premium account	19	21,753,250	19,220,134
Profit and loss account	19	(18,241,258)	(11,672,101)
		<u><u>3,512,006</u></u>	<u><u>7,548,046</u></u>

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Statement of Comprehensive Income in these financial statements. The loss after tax of the parent Company for the year was £6,569,157 (2016 - loss £8,449,231).

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

 13/1/18
M J Jbara
Director

The notes on pages 15 to 27 form part of these financial statements.

MQA Limited

Consolidated Statement of Changes in Equity For the Year Ended 31 December 2017

	Called up share capital	Share premium account	Foreign currency translation reserve	Profit and loss account	Total equity
	£	£	£	£	£
At 1 January 2017	13	19,220,134	-	(11,808,717)	7,411,430
Comprehensive income for the year					
Loss for the year	-	-	-	(7,108,397)	(7,108,397)
Foreign exchange difference	-	-	36,644	-	36,644
Other comprehensive income for the year	-	-	36,644	-	36,644
Total comprehensive income for the year	-	-	36,644	(7,108,397)	(7,071,753)
Shares issued during the year	1	2,533,116	-	-	2,533,117
Total transactions with owners	1	2,533,116	-	-	2,533,117
At 31 December 2017	14	21,753,250	36,644	(18,917,114)	2,872,794

The notes on pages 15 to 27 form part of these financial statements.

MQA Limited

Consolidated Statement of Changes in Equity For the Year Ended 31 December 2016

	Called up share capital	Share premium account	Profit and loss account	Total equity
As restated	£	£	£	£
At 1 January 2016	9	14,249,997	(3,222,870)	11,027,136
Comprehensive income for the year				
Loss for the year	-	-	(8,585,847)	(8,585,847)
Total comprehensive income for the year	-	-	(8,585,847)	(8,585,847)
Shares issued during the year	4	4,970,137	-	4,970,141
Total transactions with owners	4	4,970,137	-	4,970,141
At 31 December 2016	13	19,220,134	(11,808,717)	7,411,430

The notes on pages 15 to 27 form part of these financial statements.

MQA Limited

Company Statement of Changes in Equity For the Year Ended 31 December 2017

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£	£	£	£
At 1 January 2017	13	19,220,134	(11,672,101)	7,548,046
Comprehensive income for the year				
Loss for the year	-	-	(6,569,157)	(6,569,157)
Total comprehensive loss for the year	-	-	(6,569,157)	(6,569,157)
Contributions by and distributions to owners				
Shares issued during the year	1	2,533,116	-	2,533,117
Total transactions with owners	1	2,533,116	-	2,533,117
At 31 December 2017	14	21,753,250	(18,241,258)	3,512,006

Company Statement of Changes in Equity For the Year Ended 31 December 2016

	Called up share capital	Share premium account	Profit and loss account	Total equity
As restated	£	£	£	£
At 1 January 2016	9	14,249,997	(3,222,870)	11,027,136
Comprehensive income for the year				
Loss for the year	-	-	(8,449,231)	(8,449,231)
Total comprehensive loss for the year	-	-	(8,449,231)	(8,449,231)
Contributions by and distributions to owners				
Shares issued during the year	4	4,970,137	-	4,970,141
Total transactions with owners	4	4,970,137	-	4,970,141
At 31 December 2016	13	19,220,134	(11,672,101)	7,548,046

The notes on pages 15 to 27 form part of these financial statements.

MQA Limited

Consolidated Statement of Cash Flows For the Year Ended 31 December 2017

	2017 £	As restated 2016 £
Cash flows from operating activities		
Loss for the financial year	(7,108,397)	(8,585,847)
Adjustments for:		
Depreciation of tangible assets	3,031	325
Interest paid	-	(11,250)
Interest received	(6,899)	(41,816)
Decrease in debtors	6,441	30,897
(Decrease)/increase in creditors	(222,412)	195,505
Shares issued in exchange for services	2,533,117	4,917,618
Net cash utilised in operating activities	(4,795,119)	(3,494,568)
Cash flows from investing activities		
Purchase of tangible fixed assets	(6,647)	(7,793)
Interest received	6,899	41,816
Net cash from investing activities	252	34,023
Cash flows from financing activities		
Share issue	-	52,523
Interest paid	-	11,250
Net cash generated from financing activities	-	63,773
Net decrease in cash and cash equivalents	(4,794,867)	(3,396,772)
Cash and cash equivalents at beginning of year	8,508,258	11,905,030
Foreign exchange gains	36,644	-
Cash and cash equivalents at the end of year	3,750,035	8,508,258
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	3,750,035	8,508,258
	3,750,035	8,508,258

The notes on pages 15 to 27 form part of these financial statements.

MQA Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

1. General information

MQA Limited is a company incorporated in England and Wales under the Companies Act 2006. It is a company limited by shares. The address of the registered office is given on the company information page and the nature of the company's operations and principal activities are given in the directors' report and strategic report.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

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

The following principal accounting policies have been applied:

2.2 Basis of consolidation

The consolidated financial statements present the results of the Group and its own subsidiary ("the Group") as if they form a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

2.3 Going concern

The Group and the Company incurred a loss in the year of £7,108,397 and £6,569,157 respectively. Notwithstanding this, the directors believe the Group and Company remain a going concern as a result of net current assets at the year end of £2,861,710 and cash of £3,750,035. In addition to this, £2,533,117 of the loss in the current year (2016: £4,917,618) relates to shares issues in exchange for services, and does not represent a cash outflow to the Company, nor a recurring event. Further fundraising has been agreed post year end in the form of a loan note of c. £5m, repayable in 5 years. The directors have prepared comprehensive forecasts that cover the foreseeable future and are satisfied that the additional funds raised are sufficient for the Company to meet its liabilities as they fall due. Accordingly, the directors have concluded the financial statements should be prepared on a going concern basis.

MQA Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

2. Accounting policies (continued)

2.4 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Group will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

2.5 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, as shown below.

Depreciation is provided on the following basis:

Computer equipment	- 25% straight line
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The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Consolidated Statement of Comprehensive Income.

2.6 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

2.7 Debtors

Short term debtors are measured at transaction price, less any impairment.

MQA Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

2. Accounting policies (continued)

2.8 Cash and cash equivalents

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

In the Consolidated Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

2.9 Financial instruments

The Group only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Consolidated Statement of Comprehensive Income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the Group would receive for the asset if it were to be sold at the balance sheet date.

Financial assets and liabilities are offset and the net amount reported in the Consolidated Balance Sheet when there is an 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.

2.10 Creditors

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

MQA Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

2. Accounting policies (continued)

2.11 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

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

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Statement of Comprehensive Income except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Consolidated Statement of Comprehensive Income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Consolidated Statement of Comprehensive Income within 'other operating income'.

On consolidation, the results of overseas operations are translated into Sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income.

2.12 Finance costs

Finance costs are charged to the Consolidated Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.13 Operating leases: Lessee

Rentals paid under operating leases are charged to the Consolidated Statement of Comprehensive Income on a straight line basis over the lease term.

MQA Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

2. Accounting policies (continued)

2.14 Pensions

Defined contribution pension plan

The Group operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payments obligations.

The contributions are recognised as an expense in the Consolidated Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Group in independently administered funds.

2.15 Holiday pay accrual

A liability is recognised to the extent of any unused holiday pay entitlement which is accrued at the Balance Sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the Balance Sheet date.

2.16 Interest income

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

2.17 Borrowing costs

All borrowing costs are recognised in the Consolidated Statement of Comprehensive Income in the year in which they are incurred.

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

In preparing these financial statements, the directors have made the following judgements:

- Determine whether leases entered into by the Group either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- Assessing the going concern status of the Company and Group (see note 2.3).
- Determine the fair value of share premium on shares issued in exchange for services.

4. Turnover

All turnover arose within the United Kingdom.

MQA Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

5. Operating loss

The operating loss is stated after charging:

	2017 £	2016 £
Depreciation of tangible fixed assets	3,031	325
Exchange differences	56,687	2,553
Defined contribution pension cost	65,760	52,214
	<u>65,760</u>	<u>52,214</u>

6. Auditor's remuneration

	2017 £	2016 £
Fees payable to the Group's auditor for the audit of the Group's annual financial statements	13,300	12,700
	<u>13,300</u>	<u>12,700</u>
Fees payable to the Group's auditor in respect of:		
Other services	4,500	4,500
	<u>4,500</u>	<u>4,500</u>

7. Employees

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

	2017 £	2016 £
Wages and salaries	1,739,723	1,622,236
Social security costs	155,154	112,171
Cost of defined contribution scheme	65,760	52,214
	<u>1,960,637</u>	<u>1,786,621</u>

The average monthly number of employees, including the directors, during the year was 18 (2016: 14). All employees fall into the administration category.

MQA Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

8. Directors' remuneration

	2017 £	2016 £
Directors' emoluments	661,249	482,440
Company contributions to defined contribution pension schemes	3,430	8,253
	<u>664,679</u>	<u>490,693</u>

During the year retirement benefits were accruing to 1 director (2016 - 1) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £245,440 (2016 - £216,518).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £3,430 (2016 - £8,253).

9. Interest receivable

	2017 £	2016 £
Other interest receivable	<u>6,899</u>	<u>41,816</u>

10. Interest payable and similar charges

	2017 £	2016 £
Other loan interest payable	<u>-</u>	<u>(11,250)</u>

The credit of £11,250 in the prior year relates to the release of a previous year accrual which is no longer payable.

MQA Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

11. Taxation

	2017 £	2016 £
Total current tax	-	-

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2016 - lower than) the standard rate of corporation tax in the UK of 19.25% (2016 - 20%). The differences are explained below:

	2017 £	2016 £
Loss on ordinary activities before tax	(7,108,397)	(8,585,847)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016 - 20%)	(1,368,366)	(1,717,169)
Effects of:		
Expenses not deductible for tax purposes	5,924	6,340
Capital allowances for year in excess of depreciation	-	201,250
Adjust opening deferred tax to average rate of 20%	-	(64,358)
Deferred tax not recognised	2,308,914	590,414
Prior year adjustment to losses	(946,472)	983,523
Total tax result for the year	-	-

Factors that may affect future tax charges

There is an unrecognised deferred tax asset at the year end of £3,207,585 (2016: £2,032,948) in respect of taxable losses in MQA Limited and MQA Inc. of £18,704,416 (2016: £11,792,689). The Directors have not recognised this on the basis there is insufficient certainty as to whether future revenue will exceed costs to generate sufficient, taxable profits to warrant the recognition of this asset.

MQA Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

12. Tangible fixed assets

Group and Company

	Computer equipment £
Cost	
At 1 January 2017	7,793
Additions	6,647
At 31 December 2017	<u>14,440</u>
Depreciation	
At 1 January 2017	325
Charge for the year	3,031
At 31 December 2017	<u>3,356</u>
Net book value	
At 31 December 2017	<u>11,084</u>
At 31 December 2016	<u>7,468</u>

MQA Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

13. Fixed asset investments

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Class of shares	Holding	Principal activity
MQA Inc.	Ordinary	100 %	This company incurs costs in respect of US employees of the group

The registered office of MQA Inc. is Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, USA.

The aggregate of the share capital and reserves as at 31 December 2017 and of the profit or loss for the year ended on that date for the subsidiary undertakings were as follows:

	Aggregate of share capital and reserves £	Loss £
MQA Inc.	(650,131)	(539,240)
Company		

	Investments in subsidiary companies £
Cost	
At 1 January 2017 and 31 December 2017	80

14. Debtors

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Trade debtors	36,628	6,165	36,628	6,165
Amounts owed by group undertakings	-	-	704,727	211,308
Other debtors	113,060	148,772	113,060	148,772
Prepayments and accrued income	47,259	48,451	47,259	48,451
	196,947	203,388	901,674	414,696

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

The impairment loss recognised in the year in respect of bad and doubtful debts was £Nil (2016: £Nil).

MQA Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

15. Cash and cash equivalents

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Cash at bank and in hand	<u>3,750,035</u>	<u>8,508,258</u>	<u>3,684,440</u>	<u>8,433,406</u>

16. Creditors: Amounts falling due within one year

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Other loans	750,000	750,000	750,000	750,000
Trade creditors	47,117	341,699	47,117	341,619
Other taxation and social security	50,127	44,123	50,127	44,123
Other creditors	33,956	24,130	33,956	24,130
Accruals and deferred income	204,072	147,732	204,072	147,732
	<u>1,085,272</u>	<u>1,307,684</u>	<u>1,085,272</u>	<u>1,307,604</u>

17. Financial instruments

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Financial assets				
Financial assets measured at amortised cost	<u>3,911,408</u>	<u>8,663,195</u>	<u>4,549,487</u>	<u>8,779,075</u>
Financial liabilities				
Financial liabilities measured at amortised cost	<u>1,035,145</u>	<u>1,263,561</u>	<u>1,035,145</u>	<u>1,263,481</u>

Financial assets measured at amortised cost comprise trade and other debtors, accrued income and cash and cash equivalents. The company figures also include amounts due from group undertakings.

Financial liabilities measured at amortised cost comprise trade and other creditors, accruals and borrowings.

MQA Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

18. Share capital

	2017 £	As restated 2016 £
Shares classified as equity		
Allotted, called up and fully paid		
12,227 (2016 - 11,158) Ordinary shares of £0.001 each	12	11
1 (2016 - 1) A Ordinary share of £0.001	-	-
1,910 (2016 - 1,910) B Ordinary shares of £0.001 each	2	2
	<u>14</u>	<u>13</u>

On 13 January 2017, the company issued and allotted an additional 1,069 Ordinary £0.001 shares in exchange for services. These shares were valued at £2,533,115 in total.

The Ordinary and Ordinary A shares both have the right to a dividend, subject to shareholder agreement. The directors can declare different dividend on both share classes.

The Ordinary B shares have right to a dividend only after 1 January 2021. After such time, the dividend will be equal to the Ordinary share dividend.

The Ordinary and Ordinary A shares both carry on vote; the Ordinary B shares do not carry any votes.

19. Reserves

The Group and the Company have the following reserves:

Share premium account

The share premium reserve relates to amounts paid or services provided for share capital in excess of nominal value.

Profit and loss account

The profit and loss account represents cumulative profits and losses net of dividends paid and other adjustments.

In addition, the Group has the following reserve:

Foreign currency translation reserve

The foreign currency translation reserve relates to the differences arising on consolidation as the subsidiary company, MQA Inc., figures are in USD.

20. Prior year adjustment

The Directors have reassessed the value and related accounting treatment for shares that were issued in the prior year for consideration other than cash. This has been recognised as a prior year adjustment. As a result of this adjustment, administrative expenses have increased by £4,917,615, share capital increased by £1 and share premium increased by £4,917,614.

MQA Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

21. Pension commitments

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £65,760 (2016: £52,214). Contributions totalling £9,665 (2016: £4,575) were payable to the fund at reporting date.

22. Commitments under operating leases

At 31 December 2017 the Group and the Company had future minimum lease payments under non-cancellable operating leases as follows:

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Not later than 1 year	152,500	177,500	152,500	177,500
Later than 1 year and not later than 5 years	143,750	258,750	143,750	258,750
	<u>296,250</u>	<u>436,250</u>	<u>296,250</u>	<u>436,250</u>

23. Related party transactions

The Company holds a loan from Muse Holdings SARL, a parent company. The loan amount of £750,000 (2016: £750,000) is outstanding at the year end.

During the year Meridian Audio Limited, a company of which J R Stuart is a director, paid £Nil (2016: £262,336) in expenses on behalf of MQA Limited, these invoices have been recharged to MQA Limited. At the year end a balance of £Nil (2016: £7,386) remained outstanding. In addition, Meridian Audio Limited raised invoices for central recharges totalling £264,996 (2016: £304,581). At the year end a balance of £Nil (2016: £26,625) was outstanding.

24. Controlling party

In the opinion of the directors, Reinet Investments S.C.A. is the ultimate controlling party.