

Registered number: 04063351

IESO DIGITAL HEALTH LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021



Ieso Digital Health Limited

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COMPANY INFORMATION

Directors

M Black
V Gulati
J Parfrey
A Richards
IP2IPO Services Limited
S Bruso

Registered Number

04063351

Registered Office

The Jeffreys Building
Cowley Road
Cambridge
Cambridgeshire
CB4 0DS

Independent Auditors

BDO LLP
55 Baker Street
London
W1U 7EU

GROUP STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

The directors are pleased to present their strategic report for the year ended 31 December 2021

Strategy, objectives and business model

The Group is a leading provider of online psychological therapy, specialising in delivering evidence based Cognitive Behavioural Therapy (CBT) for people dealing with common mental health conditions such as depression or anxiety via its technology platform.

Through the application of advanced computational methods and clinical data science techniques (including machine learning, deep learning and natural language processing) the Group develops proprietary digital therapy products to improve clinical outcomes, optimise and automate the patient journey and reduce the costs of care delivery.

Business Review

The 2021 year marked a time of important strategic transition for the Group. It became clear during the first half of the year that continued growth in provision of remote CBT within the NHS was becoming increasingly challenging due to the availability of suitably qualified therapists. The Group concluded that this is a systemic problem both in the UK and elsewhere which cannot be solved adequately in the short or long term by simply increasing the available pool of therapists.

The impact of the Covid pandemic on the Group was less marked than in 2020 with normal patterns of demand returning but some evidence of therapist preferring to work fewer hours in the longer term which further impacts the Group's capacity to treat patients.

This lack of supply of therapists combined with increasing demand for mental health services both in the UK and internationally has resulted in a mental healthcare crisis which requires new solutions.

The Group completed a strategic review of its plans, including a review of its digital therapeutic capability and geographic markets. The Group will maintain its established CBT business in the UK with an increasing focus on the development of digital therapeutics products for symptom mitigation and assessment and treatment of a variety of indications, including generalised anxiety disorder and major depressive disorders. The objective is that the use of digital products will complement human therapy and enable more patients to be treated despite the shortage of human therapists. The Group also plans to expand operations into the United States and other countries with such growth enabled by the commercialisation of digital products.

To support this plan, the Group secured additional financing in the year. Early in the year, the Group was successful in raising convertible loan funding from a group of investors whose advances were matched by the UK government's Future Fund. This loan of £8 million in the aggregate converted to equity later in the year when an additional £27m of new equity financing from Morningside Ventures, supported by the incumbent investors IP Group and Molten Ventures (formerly Draper Esprit).

The implementation of the new strategy commenced in late 2021 and is making good progress.

GROUP STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

During 2020 and 2021 the key performance indicators remained those applicable to the UK CBT business and were as follows:

	<u>2021</u>	<u>2020</u>
Turnover £000	9,674	9,514
Number of patients [1] treated	16,000	17,000
Number of hours of therapy delivered	114,000	126,000
Average Recovery Rate [2]	67%	65%
Average number of employees	129	102

[1] defined as someone receiving at least two treatment sessions from Ieso following assessment in the UK

[2] recovery rates are calculated based on an evaluation of standardised patient questionnaire results for patients from a specific region who are believed to be demographically similar over time such that a valid year-on-year comparison can be made.

The Group delivered £9.7 million of revenues in 2021 (2020: £9.5 million). The Covid-19 crisis had resulted in the NHS referring significant numbers of additional patients to Ieso during the second quarter of 2020, since Ieso was well established to provide remote care.

Like-for-like recovery rates in the benchmark population were 67% for 2021 (2020: 65%), highlighting the improvements to the service that the Group has been investing in.

Substantial investments continue to be made into the Cambridge-based teams who are developing proprietary highly differentiated digital therapy products, as the Group views these activities as essential to long-term prosperity of the Group. From late 2021, a programme of expansion of these teams was begun to accelerate the development of automated digital products, this programme includes the expansion of our clinical research, evidence generation, artificial intelligence, and software product development capabilities.

Research and Development

Improving clinical outcomes are an example of the impact that the Ieso approach to therapy is having on the delivery of mental healthcare. The Group aims to set new standards of care and it invests into building deep insights into clinical data that translate into quality-enhancing digital tools and methodologies.

Ieso continues to develop and deploy novel AI-led technologies to complement its clinical delivery platform. During 2021, the Group completed its first wholly digital product ("How Are Things") to be formally registered as a medical device with the Medicines and Healthcare Products Regulatory Agency. It is continuing to develop products during 2022, and beyond some of which may also be subject to formal medical device registration requirements in the UK, United States and elsewhere.

GROUP STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

Research and Development (continued)

The Group has established a dataset comprising de-identified information from patient therapy sessions over several years. The use of this dataset is governed by an ethics and privacy framework that allows us to carry out research into the mechanisms underlying effective CBT and to use the results in the development of digital therapy products. The value of this dataset is enhanced by additional information obtained from consented clinical studies. The Group continues to work with the research community to make these insights available through peer reviewed scientific publications. The Group continues to develop its privacy policies and processes to ensure that patient confidentiality is respected and that the use of data for research and development is carried out in a proper manner in compliance with applicable law and good practice. The Group regularly updates its privacy notice so that how it protects and processes data is transparent to its patients.

During the year, further development effort was undertaken to improve the underlying robustness of the core technology platform. This enabled the Group to implement new functionality in 2021 including the ability to offer video therapy and an improved patient experience.

Principal Risk and Uncertainties

The group's operations expose it to a variety of risks that include the effects of changes in price, credit, liquidity, interest rate and foreign exchange risk. Operationally the risks include the costs and availability of labour in a sought-after market, managing its technological developments whilst maintaining compliance and quality to the highest standard.

As the group pursues its growth plans, it manages the risk that the requirement to raise funds brings, being that it may not be available at the level or at the time required and mitigating action is taken to counteract the risk. These actions include cashflow management and cashflow forecasting funding along with phasing its R&D investment and planning to manage its expansion within its funding limits.

The group has in place a risk management programme that seeks to identify, assess, mitigate and control the risks that might have an impact on the group's objectives, its information security, its staff and the people with whom it interacts together with future performance and solvency. The Risk Management policy identifies the key aspects risk, the duties to be discharged, and the way risk systems are coordinated and managed and its implementation is central to the effective running of the business.

The Covid 19 pandemic has not had a material adverse impact on the Group.

Sector risk –Industry

The Group's main customers are, directly or indirectly, entities within the UK's National Health Service and, specifically, the Improving Access to Psychological Therapies programme. The Group's revenues are reliant upon continuing demand through this programme. Sector risks include continuing demand levels from the NHS, competition from internal NHS provision and private sector competitors and the availability of therapist and practitioners, who are not employees of the Group. The Group maintains good relationships with the relevant parts of the NHS to ensure that its services continue to meet its requirements.

GROUP STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

Principal risks and uncertainties (continued)

Future revenue growth will depend on acceptance of digital therapy tools in the market by patients, therapists and the NHS. It will also depend on revenues from US-based customers with the inherent risks involved in addressing a new market. The Group is investing in appropriate resource and diligence to seek to manage these risks.

Each of the Group's digital products is assessed in relation to regulatory requirements. Some of these products fall with the scope of medical device regulation in the UK and/or US. The Group has put in place processes and procedures to manage the development of medical devices and is certified to ISO 13485 (Quality Management for Medical Devices). Internal expertise and external professional advice are used to ensure compliance with regulations. Some products may need approval from relevant regulatory bodies before they can be sold, with the risk inherent when dealing with any regulatory process.

Foreign Exchange Risk

The Group has a US subsidiary which, during the year, was funded by means of consultancy income in US dollars from the UK members of the Group. This exposes the Group to limited foreign exchange risk due to the small size of the US subsidiary. The US subsidiary is expected to grow in future and will require additional funding exposing the Group to a higher level of US dollar foreign exchange risks.

There is minimal other foreign currency exposure. Appropriate hedging strategies will be considered as the exposure increases.

Liquidity Risk

Prudent liquidity risk management includes maintaining sufficient cash balances to ensure that the group can meet liabilities as they fall due. The Group carefully manages liquidity risk, regularly monitoring its levels of working capital to ensure that it can meet its debt repayments as they fall due and, as described above, raising additional equity and debt in a timely fashion.

Interest Rate Risk

The Group addresses risks associated with fluctuating interest rate risk by taking out borrowings under whose terms the likelihood of material changes in interest rates is believed to be low. Since these have been initiated at periods when interest rates are low, it has been assessed that the potential loss of benefit by not using a fully variable rate is minimal.

This report was approved by the board on 28 September 2022.



A Richards
Chairman
28 September 2022

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

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

Results and dividends

The Group loss for the year ended 31 December 2021 was £9.4 million (2020: loss of £5.6 million). The Directors do not recommend the payment of a dividend.

Directors

The directors who served during the year were:

V Gulati	
N Pitchford	
A Richards	
IP2IPO Services Limited	
J Parfrey	(Appointed 3 February 2021)
M Black	(Appointed 7 June 2021)
S Bruso	(Appointed 19 October 2021)

N Pitchford resigned after the year-end on 15 June 2022.

Principal activities

The Group is primarily engaged in the provision of online psychological therapy in the UK, specialising in delivering evidence based Cognitive Behavioural Therapy for people dealing with common mental health conditions such as depression or anxiety via its technology platform, and is also developing a range of digital products to be marketed within the UK, USA and elsewhere.

Business review and future developments

The business review and future developments are set out in the strategic report on page 4.

Financial instruments and risk management

The Group carefully manages liquidity risk, regularly monitoring its levels of working capital to ensure that it can meet its debt repayments as they fall due and raising additional equity and debt in a timely fashion. The Group has determined that its exposure to interest rate risk is immaterial. The Group has never suffered a bad debt loss and believes that its credit risk is low. Further information is given in Note 16 to the financial statements.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

Going Concern

During October and November 2021, the Group raised £27 million of equity to fund its operations which the directors believe is sufficient to fund the Company's operations until the second quarter of 2022.

The directors acknowledge that, as at the date of approval of these accounts, that due to (i) the Group's cash runway being less than 12 months, (ii) the Group's history of losses and (iii) the absence of confirmed additional funding, that a material uncertainty exists that may cast significant doubt on the group's and parent company's ability to continue as going concern. These financial statements do not include the adjustments that would result if the group or parent company were unable to continue as a going concern.

The Group's existing shareholders and potential third-party investors have expressed interest in participating in a fundraising and, furthermore, in providing bridge funding should this be needed. The directors have noted that its shareholders have the resources required to provide such bridge funding and the demonstrated ability to provide such funding quickly, as they have done on several occasions in the past. Accordingly, the Directors continue to adopt the going concern basis in the preparation of the group financial statements.

Indemnification

The Group has procured insurance to protect directors and officers from claims arising from negligent acts, errors or omissions occurring in relation to the execution of their duties.

Political Donations

The Group has not made any political donations.

Auditors

A resolution proposing BDO LLP be reappointed as auditors of the Company in accordance with section 489 of the Companies Act 2006 was approved by the board on 21 September 2022.

Disclosure of information to auditors

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

- so far as that director is aware, there is no relevant audit information of which the company and the group's auditors are unaware, and
- that 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 auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of Section 418 of the Companies Act 2006.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

Directors' responsibilities statement

The Directors are responsible for preparing the Strategic Report, the Report of the Directors 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 consolidated financial statements in accordance with applicable law and UK-adopted International Financial Reporting Standards (IFRSs) in conformity with the Companies Act 2006 and the Company financial statements in accordance with the United Kingdom Generally Accepted Accounting Practices ("UK GAAP").

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the Group 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 and the Group will continue in business;
- state whether applicable UK-adopted international accounting standards in conformity with the Companies Act 2006 have been followed subject to any material departures disclosed and explained in the financial statements.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

This report was approved by the board on 28 September 2022 and signed on its behalf.



A Richards
Chairman

28 September 2022

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF IESO DIGITAL HEALTH LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2021**

Opinion on the financial statements

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 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of IESO Digital Health Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2021 which comprise the consolidated income statement, the consolidated statement of total comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows, the company statement of financial position, the company statement of changes in equity 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 UK adopted international accounting standards and, as regards the Parent Company financial statements, applicable law and United Kingdom Generally Accepted Accounting Practice, including FRS 101 Reduced Disclosure Framework.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the 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.

Material uncertainty related to going concern

We draw attention to the going concern disclosure within the principal accounting policies in the financial statements, which indicates that the Group will require further funding to continue to trade through the 12-month period which is yet to be confirmed. As stated in the going concern disclosure within the principal accounting policies in the financial statements, these events or conditions, along with other matters as set forth in going concern disclosure within the principal accounting policies in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF IESO DIGITAL HEALTH LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2021

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

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

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

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

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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. ;or

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF IESO DIGITAL HEALTH LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2021

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.

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those relating to the reporting framework, the Companies Act 2006 and relevant tax compliance regulations.
- We assessed how the Company is complying with legal and regulatory frameworks by making enquiries of management and those responsible for legal and compliance procedures. We corroborated our enquiries through our review of board minutes and papers provided to the board.
- We communicated relevant legal and regulatory frameworks and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur, by meeting with management to understand where they considered there was a susceptibility to fraud.
- We challenged management's assessments, assumptions and evaluated data used as the basis for making estimates to assess whether judgements made in making accounting estimates are indicative of potential bias by management.
- With regards to the fraud risk within management override, our procedures included journal transaction testing, with a focus on large or unusual transactions based on our knowledge of the business. We performed an assessment on the appropriateness of key judgements and estimates which are subject to management's judgement and estimation, and could be subject to potential bias.
- With regards to the fraud risk within revenue recognition, our procedures included verifying to support that the services had been provided, testing the underlying IT database containing this information, as well as external invoice verification, a review of a sample of manual journals processed within this area and recalculation of related estimates.

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

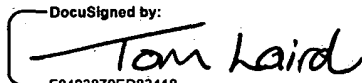
A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF IESO DIGITAL HEALTH LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2021**

report.

Use of our report

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:


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Tom Laird (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK

29 September 2022

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

Consolidated Income Statement for the year ended 31 December 2021

	Notes	2021 £000	2020 £000
Revenue	1	9,674	9,514
Cost of Sales		<u>(5,076)</u>	<u>(5,235)</u>
Gross profit		4,598	4,279
Other operating income	2	179	216
Research, development and administrative expenses		<u>(14,108)</u>	<u>(10,515)</u>
Operating loss	2	(9,331)	(6,020)
Finance expense	4	<u>(951)</u>	<u>(450)</u>
Loss before tax		(10,282)	(6,470)
Tax	5	<u>847</u>	<u>854</u>
Loss for the financial year		<u>(9,435)</u>	<u>(5,616)</u>
Attributable to:			
The Company's equity shareholders		<u>(9,435)</u>	<u>(5,616)</u>

Consolidated Statement of Comprehensive Income for the year ended 31 December

	Year to 31 December 2021 £000	Year to 31 December 2020 £000
Loss for the financial year	(9,435)	(5,616)
Foreign exchange gains/ (losses)	(5)	8
Total comprehensive loss for the financial year attributable to:		
The Company's equity shareholders	<u>(9,440)</u>	<u>(5,608)</u>

The notes on pages 19 to 50 form part of these financial statements.

Consolidated Statement of Financial Position as at 31 December 2021

	Notes	2021 £000	2020 £000
Assets			
Non-current assets			
Intangible assets	7	1,418	953
Property, plant and equipment	8	509	719
		<u>1,927</u>	<u>1,672</u>
Current assets			
Trade and other receivables	9	2,151	1,406
Current tax receivable	5	1,694	847
Cash and cash equivalents	10	25,329	1,075
		<u>29,174</u>	<u>3,328</u>
Current liabilities			
Trade and other payables	11	4,751	4,040
Lease liabilities	12	207	216
Borrowings	13	1,288	4,646
		<u>6,246</u>	<u>8,902</u>
Net current assets / (liabilities)		<u>22,928</u>	<u>(5,574)</u>
Non-current liabilities			
Lease liabilities	12	73	280
Borrowings	13	-	1,288
Provisions	14	78	76
		<u>151</u>	<u>1,644</u>
Net Assets / (Liabilities)		<u>24,704</u>	<u>(5,546)</u>
Equity			
Share capital	19	14	7
Share premium		70,259	31,080
Share based payment reserve	20	1,728	1,224
Retained losses		(47,290)	(37,855)
Translation reserve		(7)	(2)
Equity attributable to the owners of the Parent Company		<u>24,704</u>	<u>(5,546)</u>
Shareholders' funds / (deficit)		<u>24,704</u>	<u>(5,546)</u>

The notes on pages 19 to 50 form part of these financial statements.

The financial statements were approved by the Board of Directors on 28 September 2022 and were signed on its behalf by:



M Black
Chief Financial Officer

28 September 2022

Registered Number: 04063351

Consolidated Statement of Changes in Equity for the year ended 31 December

	Share Capital	Share Premium	Share Based Payment Reserve	Translation reserve	Retained Losses	Total
	£000	£000	£000	£000	£000	£000
At 1 January 2021	7	31,080	1,224	(2)	(37,855)	(5,546)
Comprehensive income for the year:						
Loss for the year	-	-	-	-	(9,435)	(9,435)
Foreign exchange loss	-	-	-	(5)	-	(5)
Transactions with owners:						
Shares issued during the year	7	39,306	-	-	-	39,313
Share issue costs	-	(127)	-	-	-	(127)
Share based payments	-	-	504	-	-	504
At 31 December 2021	14	70,259	1,728	(7)	(47,290)	24,704
Balance at 1 January 2020	6	31,100	918	(10)	(32,239)	(225)
Comprehensive income for the year:						
Loss for the year	-	-	-	-	(5,616)	(5,616)
Foreign exchange gain	-	-	-	8	-	8
Transactions with owners:						
Shares issued during the year	1	-	-	-	-	1
Share issue costs	-	(20)	-	-	-	(20)
Share based payments	-	-	306	-	-	306
At 31 December 2020	7	31,080	1,224	(2)	(37,855)	(5,546)

Consolidated Statement of Cash Flows for the year ended 31 December

	Notes	2021	2020
		£000	£000
Cash flow from operating activities			
Loss for the financial year		(9,435)	(5,616)
Taxation	5	(847)	(854)
Finance expense	13	951	450
Share-based payments	20	504	306
Depreciation	8	355	372
Amortisation of intangible assets	7	90	-
Modification of loan terms	13	-	16
Impairment of property, plant & equipment	8	52	-
Impairment of intangible assets	7	548	-
		<u>(7,782)</u>	<u>(5,326)</u>
Changes in working capital			
Decrease/(Increase) in trade and other receivables	9	(745)	1,053
Increase in trade and other payables	11	789	1,001
Tax received / (paid)		-	797
		<u>(7,738)</u>	<u>(2,475)</u>
Cash outflow from investing activities			
Purchase of intangible assets	7	(1,181)	(875)
Purchase of property, plant & equipment	8	(197)	(37)
Interest received		-	-
		<u>(1,378)</u>	<u>(912)</u>
Net cash (used in)/generated from investing activities			
Cash flow from financing activities			
Issue of shares	19	27,575	1
Costs of shares issued	19	(127)	(20)
New loans received (subsequently converted to equity during the current year)	13	8,452	3,250
Loans repaid	13	(2,265)	(827)
Lease payments	12	(262)	(262)
		<u>33,373</u>	<u>2,142</u>
Net cash generated by financing activities			
Net increase/(decrease) in cash and cash equivalents			
Cash and cash equivalents at beginning of financial year		24,257	(1,245)
Exchange (losses) / gains on cash and cash equivalents		1,075	2,316
		<u>(3)</u>	<u>4</u>
Cash and cash equivalents at end of financial year		<u>25,329</u>	<u>1,075</u>

Notes to the consolidated financial statements for the year ended 31 December 2021

Principal Accounting Policies

Company information

Ieso Digital Health Limited is a private company limited by shares incorporated in the United Kingdom and registered in England and Wales. The address of the registered office is given in the company information of these financial statements. The nature of the company's operations and principal activities are the provision of online psychological therapy, specialising in delivering evidence based Cognitive Behavioural Therapy for people dealing with common mental health conditions such as depression or anxiety via its technology platform.

Basis of preparation

The consolidated financial statements have been prepared in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006.

IFRS is subject to amendment and interpretation by the IASB and the IFRS Interpretations Committee, and there is an on-going process of review and endorsement by UK Endorsement Board. These accounting policies comply with each IFRS that is mandatory for accounting periods ending on 31 December 2021.

The principal accounting policies set out below have been consistently applied to all periods presented. The financial statements are presented in Sterling which is the functional currency of the company and rounded to the nearest £'000.

Basis of consolidation

The financial statements for the year ended 31 December 2021 incorporate the results of Ieso Digital Health Limited ("the Company") and its subsidiaries (together "the Group"). Control is achieved where the Company has power over the investee, exposure or rights to variable returns from its involvement with the investee, and the ability to use that power to affect the amount of returns to the Company.

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the income statement from the date on which control is obtained. They are deconsolidated from the date on which control ceases.

All intra-Group transactions, balances, income and expenses are eliminated in full on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the consolidated financial statements for the year ended 31 December 2021 (continued)

Principal Accounting Policies (continued)

Going Concern

During October and November 2021, the Group raised £27 million of equity to fund its operations which the directors believe is sufficient to fund the Company's operations until the second quarter of 2022.

The directors acknowledge that, as at the date of approval of these accounts, that due to (i) the Group's cash runway being less than 12 months, (ii) the Group's history of losses and (iii) the absence of confirmed additional funding, that a material uncertainty exists that may cast significant doubt on the group's and parent company's ability to continue as going concern. These financial statements do not include the adjustments that would result if the group or parent company were unable to continue as a going concern.

The Group's existing shareholders and potential third-party investors have expressed interest in participating in a fundraising and, furthermore, in providing bridge funding should this be needed. The directors have noted that its shareholders have the resources required to provide such bridge funding and the demonstrated ability to provide such funding quickly, as they have done on several occasions in the past. Accordingly, the Directors continue to adopt the going concern basis in the preparation of the group financial statements.

Revenue

Revenue arises from contracts to provide cognitive behaviour therapy services to patients. The performance obligations within each contract with an NHS Trust or other body are identified in order to distinguish between services provided at a point in time (for instance the initial setup of a patient) and services provided over time, such as the main course of therapy treatments.

When the consideration for a contract has been allocated to performance obligations, those relating to services at a point in time are recognised at that point and those relating to performance over time are recognised based on the estimated percentage of completion, which takes into account the length of a typical course of treatment.

Some elements of consideration are contingent upon outcomes at the end of treatment: these are treated as variable consideration. Where the potential revenue to be recognised can be estimated based on historic data, an expected value of the variable consideration is calculated and recognised, and then adjusted to the actual consideration received at the end of treatment. In some cases, the outcomes either cannot be reliably estimated due to lack of historic data or because the contingency cannot be influenced by the Group – revenue is only recognised when and if it is definitively earned.

If performance obligations are not all met during a contract period, most arrangements include an obligation for the Group to continue providing services after the initial period until all obligations have been satisfied: this has the consequence that refunds and cancellations are rare.

Billing for contracts is based on agreed timings and where necessary income is accrued or deferred based on the recognition principles outlined above, with a corresponding contract asset or liability recognised. For some contracts, billing is for blocks of patients so contract liabilities arise relating to payment received for work not yet performed; other contracts use activity-based billing meaning that contract assets accrue as work is performed and before invoicing.

Notes to the consolidated financial statements for the year ended 31 December 2021 (continued)

Principal Accounting Policies (continued)

Revenue (continued)

Where a patient's treatment is in progress at the reporting date, the revenue recognised relating to that patient is based on an estimate of their progress through a course of therapy, using an expectation of a typical number of sessions for a patient at that stage. If the estimate of variable consideration is later reduced then there is a truing up of the cumulative amount of revenue recognised, however this will not give rise to a reversal of amounts previously recognised as the price per patient is generally fixed after initial assessment, so the variability is in the number of sessions needed to complete the course rather than in the consideration per patient.

Intangible Assets

Research expenditure is written off against profits in the year in which it is incurred. Identifiable development expenditure is capitalised to the extent that the technical, commercial and financial feasibility can be demonstrated.

Intangible assets are amortised on a straight-line basis over their useful lives from the point when they are available for use. When the use of an intangible assets is permanently discontinued, any remaining value is impaired to zero and the gross asset value and accumulated amortisation are both written off.

Impairment of non-financial assets

At each reporting date, the Directors review the carrying amounts of the Group's tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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. If the recoverable amount of a cash-generating unit is less than its carrying amount, 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 based on the carrying amount of each asset in the unit.

An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior periods. A reversal of an impairment loss is recognised in the Income Statement immediately, except for impairment losses on goodwill, which are not reversed.

Notes to the consolidated financial statements for the year ended 31 December 2021 (continued)

Principal Accounting Policies (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost on acquisition less depreciation and any accumulated impairment losses. Depreciation is provided on a straight-line basis at rates calculated to write off the cost less the estimated residual value of each asset over its expected useful economic life. The residual value is the estimated amount that would currently be obtained from disposal of the asset if the asset were already of the age and in the condition expected at the end of its useful life. The 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.

Depreciation for each class of depreciable asset is provided on the following bases:

Short term Leasehold Property	-	5 years
Computer Equipment	-	3 years
Office Equipment	-	5 years
Right of use leased assets	-	Term of lease

The carrying value of property plant and equipment is assessed annually and any impairment is charged to the income statement.

Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable). In subsequent periods, all financing assets are recognised at amortised cost.

After initial recognition, financial assets are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and other receivables fall into this category of financial instruments.

Notes to the consolidated financial statements for the year ended 31 December 2021 (continued)

Principal Accounting Policies (continued)

Financial instruments (continued)

Impairment of Financial Assets

The Group applies an expected credit loss model. In assessing the carrying values of financial assets for impairment, the Group recognises expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets.

The Group has measured the loss allowance for its financial instrument over their lifetimes at nil. No expected credit losses (ECL) have increased significantly since initial recognition.

The Group has applied the practical expedient for trade receivables and contract assets in accrued income, using a provision matrix to assess the expected credit losses, which were assessed as nil. This reflects the nature of the customer base and the structure of many contracts with billing in advance.

Classification and measurement of financial liabilities

The Group's financial liabilities include trade and other payables, borrowings (loans and convertible loan notes) and embedded derivatives.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss ("FVTPL").

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and contingent consideration designated at FVTPL, which is carried subsequently at fair value with gains or losses recognised in profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

Embedded derivative financial instruments

For convertible loan notes issued prior to 1 January 2021, the embedded variable price conversion option was deemed to be a derivative related to the variable share price. This was considered to be a separable embedded derivative of a loan instrument. At the date of issue, the fair value of the embedded derivative was estimated using option pricing techniques.

Where the value initially attributed was not zero, this amount was recognised separately as a financial liability or financial asset and measured at fair value through the income statement. The residual amount of the loan is then recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

In January 2021, the terms of the convertible loan notes held by the Group were modified. The Group determined that the modification was substantial and that, therefore, the previous loan was deemed to have been extinguished and a modified loan instrument was recognised. Shortly after this modification, new convertible loan notes were created on terms substantially similar to the modified convertible loan notes. The Group determined that both the modified convertible loan notes and the new convertible loan note contained embedded derivative and then elected to value the entire loan notes at fair value, this being a permitted election under IFRS 9.

Notes to the consolidated financial statements for the year ended 31 December 2021 (continued)

Principal Accounting Policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Leases

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, prepayments made on the lease at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset.

The depreciation starts at the commencement date of the lease.

Taxation

Current taxation for each taxable entity in the Group is based on the local taxable income at the local statutory tax rate enacted or substantively enacted at the reporting date and includes adjustments to tax payable or recoverable in respect of previous periods.

Notes to the consolidated financial statements for the year ended 31 December 2021 (continued)

Principal Accounting Policies (continued)

Deferred taxation

Deferred taxation is calculated using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred tax arises from the initial recognition of an asset or liability in a transaction other than a *business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss*, it is not accounted for. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realised, or the deferred tax liability is settled.

Deferred tax liabilities are provided in full.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the Income Statement, except where they relate to items that are charged or credited directly to equity in which case the related deferred tax is also charged or credited directly to equity.

Current tax assets and liabilities and deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Foreign currency

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the year-end date. All differences are taken to the Income Statement.

On consolidation, assets and liabilities of subsidiaries that have a functional currency different from the presentation currency (pound sterling), if any, are translated at the closing rate at the date of each statement of financial position presented. Income and expenses are translated at average exchange rates. All resulting exchange differences are recognised in other comprehensive income (loss) and in the currency translation reserve in equity.

Share-based payments

Where share-based payments (warrants and options) have been granted to employees, the fair value of the share-based payments is measured at the grant date and charged to the consolidated statement of comprehensive income over the vesting period. A valuation model is used to assess the fair value, taking into account the terms and conditions attached to the share-based payments. The fair value at *grant date is determined including the effect of market-based vesting conditions, to the extent such vesting conditions have a material impact*. It also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the Group keeping the scheme open or the employee maintaining any contributions required by the scheme). The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

Principal Accounting Policies (continued)

Equity

Equity comprises the following:

- “Share capital” represents amounts subscribed for shares at nominal value.
- “Share premium” represents amounts subscribed for share capital, net of issue costs, in excess of nominal value.
- “Share based payment reserve” represents the accumulated amounts credited to equity in respect of options to acquire ordinary shares in the Company.
- “Retained losses” represents the accumulated profits and losses attributable to equity shareholders.
- “Translation reserve” represents accumulated foreign exchange gains/losses arising on translation of the Group’s non-Sterling functional operations.

New and amended International Financial Reporting Standards adopted by the Group

The Group has adopted the following standards, amendments to standards and interpretations which are effective for the first time this year. The impact is shown below:

New/Revised International Financial Reporting Standards		Effective Date: Annual periods beginning on or after:	UKEB adopted	Impact on the Group
Various	Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2	1 January 2021	yes	No material impact

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

Principal Accounting Policies (continued)

International Financial Reporting Standards in issue but not yet effective

At the date of authorisation of the consolidated financial statements, the IASB and IFRS Interpretations Committee have issued standards, interpretations and amendments which have been adopted by the UK Endorsement Board and are applicable to the Group.

Whilst these standards and interpretations are not effective for, and have not been applied in the preparation of, these consolidated financial statements, the following could potentially have a material impact on the Group's financial statements going forward:

New/Revised International Financial Reporting Standards		Effective Date: Annual periods beginning on or after:	UKEB adopted
Various	Amendments to • IFRS 3 Business Combinations; • IAS 16 Property, Plant and Equipment; • IAS 37 Provisions, Contingent Liabilities and Contingent Assets • Annual Improvements 2018-2020	1 January 2022	No
IAS 12	Amendments to IAS 12: Deferred Tax relating to Assets and Liabilities arising from a Single Transaction	1 January 2023	No
IAS 1	Amendments to IAS 1: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current	1 January 2024	No

New / revised International Financial Reporting Standards which are not considered to potentially have a material impact on the Group's financial statements going forwards have been excluded from the above.

Management anticipates that all relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations and amendments not listed above are not expected to have a material impact on the Group's financial statements.

Notes to the consolidated financial statements for the year ended 31 December 2021 (continued)

Principal Accounting Policies (continued)

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with generally accepted accounting practice requires management to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period.

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

The following are the significant judgements used in applying the accounting policies of the Group that have the most significant effect on the financial statements:

Estimated useful lives, impairment considerations and amortisation of capital and intangible assets
Amortisation of capital and intangible assets is dependent upon estimates of useful lives based on management's judgment.

Impairment of long-lived assets is influenced by judgment in determining the indicators of impairment, and estimates used to measure impairment losses

The recoverable value of long-lived assets is determined using discounted future cash flow models, which incorporate assumptions regarding future events, specifically future cash flows, growth rates and discount rates.

Share-based compensation

The fair values of share-based compensation expenses are estimated using the Black-Scholes option pricing model and, where appropriate, Monte Carlo simulations, rely on a number of estimates, such as the expected life of the option, the volatility of the underlying share price, the risk free rate of return, and the estimated rate of forfeiture of options granted.

Revenue

The Group's contracts with customers set out base transaction prices for the delivery of therapy to each patient. In determining the amount of revenue to be recognised, the entire transaction price is recognised in relation to a patient that has completed therapy and a portion of the transaction price is accrued for those who are part way through treatment. Since the number of treatment sessions is not fixed, determining the proportion of the transaction price to recognise for such patients requires a judgement on the stage of completion of each patient based on historical experience of completion times based on the number of sessions a patient has already received. Patients typically complete treatment within two to three months. Under some contracts, in addition to the base transaction price, a contingent fee may become payable at the end of treatment if the patient is deemed to have achieved certain recovery criteria. Based on historical experience, the Group estimates the percentage of patients that will achieve these recovery criteria and includes an estimate of such contingent fees in its revenue accruals with an appropriate probability weighting.

Notes to the consolidated financial statements for the year ended 31 December 2021 (continued)

Principal Accounting Policies (continued)

Critical accounting judgements and key sources of estimation uncertainty (continued)

Leases

Calculating the initial amounts to be recognised for lease liabilities and the corresponding right of use assets requires determination of an appropriate incremental borrowing rate as there are no interest rates specified in the leases. This has been estimated at 11.5% for both periods based on the Group's current borrowings that are in use or available.

Internally developed intangible assets

As set out in the accounting policies note, development costs are capitalised when they meet the conditions in IAS 38, and begin to be amortised from when they are available for use. There is necessarily judgement involved in establishing the point at which a project can be deemed commercially viable as well as evaluating which costs are incremental to the project in question. The precise point of commencing amortisation will also be a matter of judgement.

Going concern

Judgements about the use of the going concern basis affect the valuation of certain assets and liabilities and their presentation as current or non-current.

Expected Credit Losses

The Group has never written off a bad debt and, given this history, does not currently make a provision for expected credit losses.

Government Grants

The Group receives grant support from the UK government to reimburse a portion qualifying research and development costs in relation to certain projects. Grant income is recognised in other operating income at the time that expenses are incurred provided that such expenditures was incurred in line with the relevant grant rules and grant offer letter.

Notes to the Consolidated Financial Statements (continued)

1. Revenue

Revenue has been earned exclusively for healthcare services from customers in the United Kingdom during both periods.

Under certain of the Group's customer contracts, the Group treats a fixed number of patients over a period of time for an agreed price per patient. The customer invoices a fixed amount each month and the Group treats patient until the agreed number has been treated. It is usual for the invoicing pattern not to exactly match the delivery of therapy and recognition of revenue. The Group defers or accrues revenue accordingly.

Under certain of the Group's contracts, the Group agrees a price to treat each patient but invoicing is triggered by patients entering and completing treatment. The Group defers or accrues revenue accordingly.

The Group accrues revenue at the end of each year in relation to therapy which has been delivered but not yet invoiced and defers revenue in relation to therapy which has been invoiced but not yet delivered.

	2021	2020
	£000	£000
Invoiced during the year	10,603	9,902
Revenue deferred from prior year recognized	802	696
Revenue deferred to following year	(1,810)	(802)
Revenue accruals from prior year released	(565)	(847)
Revenue accrued at year-end	644	565
	<u>9,674</u>	<u>9,514</u>

The revenue accrued at 31 December 2021 includes £26,000 (31 December 2020: £46,000) in relation to variable consideration which has been estimated based on a probability weighting.

Notes to the Consolidated Financial Statements (continued)

2. Operating loss

	2021	2020
	£000	£000
Operating loss is stated after charging/(crediting):		
Depreciation:		
- Owned assets	139	154
- Right of use leased assets	216	218
Amortisation of intangible assets	90	-
Foreign exchange differences	6	109
Share-based payments	504	306
Other operating (income):		
- Government grants receivable in relation to R & D projects	(158)	(189)
- R&D tax credits	(21)	(27)
Fees payable to the Company's auditors for the audit of the annual financial statements	53	80
Fees payable to the Company's auditors and its associates for other services to the Group:		
- Audit of the Group subsidiaries	26	39
	<u>26</u>	<u>39</u>

3. Directors and employees

The aggregate payroll costs of the employees, including both management and Executive Directors, were as follows:

Staff costs	2021	2020
	£000	£000
Wages and salaries	7,670	6,030
Share-based payments (note 20)	504	306
Social security	737	653
Pension costs	338	265
	<u>9,249</u>	<u>7,254</u>

Average monthly number of persons employed by the Group during the year was as follows:

	2021	2020
Board	2	2
R&D	49	35
Operations	55	43
Corporate	23	22
	<u>129</u>	<u>102</u>

Notes to the Consolidated Financial Statements (continued)

3. Directors and employees (continued)

Key management personnel are identified as the Executive Directors.

	2021	2020
	£000	£000
Remuneration of Directors		
Emoluments and fees for qualifying services	522	406
Social security	53	39
	<u>575</u>	<u>445</u>
	2021	2020
	£000	£000
Remuneration of highest paid Director		
Emoluments and fees for qualifying services	327	316
Social security	34	34
	<u>361</u>	<u>350</u>

No share options or warrants have been exercised by any of the directors, nor have any payments of pension contributions been made on behalf of directors in any of the periods presented.

4. Finance expense

	2021	2020
	£000	£000
Interest on convertible loan notes (note 13)	660	113
Interest on other loan (note 13)	71	4
Interest on bank loans (note 13)	172	263
Interest expense on lease liabilities (note 12)	48	70
	<u>951</u>	<u>450</u>

Notes to the Consolidated Financial Statements (continued)

5. Taxation

Tax charge for the year	2021 £000	2020 £000
Current Tax (R & D tax credit)	(847)	(854)
Deferred tax	-	-
	<u>(847)</u>	<u>(854)</u>

The Group surrenders losses in relation to expenditures on research and development pursuant to the UK government's research and development tax credit schemes in return for an annual cash payment.

Current tax receivable	2021 £000	2020 £000
Balance at 1 January	847	790
Tax credit recognised in relation to prior year	-	7
Tax credit recognised in relation to current year	847	(797)
Tax credit payment received	-	847
	<u>1,694</u>	<u>847</u>

The reasons for the difference between the actual tax credit for the year and the standard rate of corporation tax applied to losses for the year are as follows:

	2021 £000	2020 £000
Loss before tax	(10,282)	(6,470)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%)	(1,954)	(1,229)
Tax effects of:		
Expenses not deductible for tax purposes	198	33
Other permanent differences	-	(70)
Additional deduction for research and development expenditure	(628)	(627)
Surrender of tax losses for research and development tax credit refund	1,110	263
Remeasurement of deferred tax for changes in tax rates	(1,706)	(353)
Deferred tax not recognised	2,133	1,129
	<u>(847)</u>	<u>(854)</u>

Notes to the Consolidated Financial Statements (continued)**5. Taxation (continued)**

The Group has accumulated tax losses in the United Kingdom of approximately £29.4 million (2020: £22.2 million). No deferred tax asset was recognised in respect of these accumulated tax losses as there is insufficient evidence that the amount will be recovered in future years.

In addition, the Group's US subsidiary has accumulated federal tax losses in the United States of approximately £8.8 million (2020: £8.8 million). No deferred tax asset was recognised in respect of these accumulated tax losses as there is insufficient evidence that the amount will be recovered in future years.

6. Subsidiaries

Details of the Group's subsidiaries in 2021 are as follows:

Name	Registered office	Principal activities	Class of shares	% ownership held by the Group	
				2021	2020
Ieso Digital Health (UK) Limited	The Jeffreys Building Cowley Road Cambridge Cambridgeshire CB4 0DS	Online therapy	Ordinary	100	100
Ieso Digital Health Inc.	101 Federal Street Suite 1900 Boston, MA 02110	Product and Market Development	Ordinary	100	100

Notes to the Consolidated Financial Statements (continued)

7. Intangible assets

	Software
	£000
Cost	
At 1 January 2020	-
Additions	953
At 31 December 2020	<u>953</u>
Additions	1,103
Impairment	(548)
At 31 December 2021	<u>1,508</u>
Amortisation	
At 1 January 2020	-
Charge for the year	-
At 31 December 2020	<u>-</u>
Charge for the year	(90)
At 31 December 2021	<u>(90)</u>
Net book value	
At 31 December 2021	<u>1,418</u>
At 31 December 2020	<u>953</u>

Capitalised development costs relate to the development of new functionality for the online platform for the provision of therapy services. During 2021, this new functionality included the ability to offer video therapy and an improved patient experience, both of which completed their development phase during the year.

Development work on the first version of the Group's assessment tool was completed in 2021. The asset was assessed for impairment as at 31 December 2021 as per IAS 36. The fair value and value in use of the asset as a standalone product were determined to be nil. An impairment loss for the full amount of the carrying value was recognised in the year.

Amortisation is recognised within research, development and administrative expenses and charged from the point when intangible assets are ready for their intended use, which will be at the end of the development phase when the project is completed.

Notes to the Consolidated Financial Statements (continued)

8. Property, plant and equipment

	Short leasehold £000	Right of use assets £000	Office equipment £000	Computer Equipment £000	Total £000
Cost					
At 1 January 2020	132	1,125	206	300	1,763
Additions	-	-	-	37	37
Disposals	-	(104)	-	-	(104)
At 31 December 2020	132	1,021	206	337	1,696
Additions	-	-	-	197	197
Impairment	-	-	-	(58)	(58)
At 31 December 2021	132	1,021	206	476	1,835
Depreciation					
At 1 January 2020	48	398	77	188	711
Charge for the year	26	218	40	88	372
Disposals	-	(104)	-	-	(104)
Foreign exchange movement	-	(2)	-	-	(2)
At 31 December 2020	74	510	117	276	977
Charge for the year	27	216	42	70	355
Impairment	-	-	-	(6)	(6)
At 31 December 2021	101	726	159	340	1,326
Net book value					
At 31 December 2021	31	295	47	136	509
At 31 December 2020	58	511	89	61	719

Depreciation is recognised within research, development and administrative expenses and commences when the asset is available for use and in the location and condition as intended by management.

Notes to the Consolidated Financial Statements (continued)

9. Trade and other receivables

	2021	2020
Current:	£000	£000
Trade receivables	809	299
Other receivables	438	392
Accrued income	644	565
Prepayments	260	150
	<u>2,151</u>	<u>1,406</u>

No receivables are past due or impaired at any of the reporting dates presented. Trade receivables and contract assets in accrued income are assessed for impairment each reporting date, and a provision would be recognised if there were expected credit losses, applying the practical expedient of using a provision matrix based on past experience. The nature of the customer base, being mainly large NHS trusts, and the ongoing nature of the work, mean that experienced losses are of sufficiently low value to mean there are no expected credit losses relating to these assets.

10. Cash and cash equivalents

	2021	2020
	£000	£000
Cash at bank (GBP)	25,326	1,073
Cash at bank (USD)	3	2
	<u>25,329</u>	<u>1,075</u>

At 31 December 2021 and 2020 all significant cash and cash equivalents were deposited in the UK and Ireland with large international banks.

11. Trade and other payables

	2021	2020
	£000	£000
Trade payables	587	322
Other tax and social security	826	879
Deferred income	1,810	802
Accruals and other creditors	1,528	2,037
	<u>4,751</u>	<u>4,040</u>

Liquidity analysis is provided in note 17.

Notes to the Consolidated Financial Statements (continued)

12. Leases

Right of use assets

The Group used leasing arrangements relating to property, plant and equipment. As the Group has the right of use of the asset for the duration of the lease arrangement, a “right of use” asset is recognised within property, plant and equipment.

When a lease begins, a liability and right of use asset are recognised based on the present value of future lease payments.

	2021	2020
	£000	£000
Depreciation charge – right of use assets	(216)	(218)
Foreign exchange movement on right of use assets	-	2
Right of use assets - carrying amount at the beginning of the year:	<u>511</u>	<u>727</u>
Carrying amount at the end of the year:	<u>295</u>	<u>511</u>

Lease liabilities

	2021	2020
	£000	£000
Current	207	216
Non-current	<u>73</u>	<u>280</u>
	<u>280</u>	<u>496</u>

Notes to the Consolidated Financial Statements (continued)

13. Borrowings

Amounts payable on borrowings held by the Group falling due within one year and in more than one year are:

	2021	2020
	£000	£000
Amounts falling due within one year		
Loan notes	-	754
Convertible notes	-	2,629
Bank loans	1,288	1,263
	<u>1,288</u>	<u>4,646</u>
Amounts falling due after 1 year		
Bank loans	-	1,288
	<u>-</u>	<u>1,288</u>
Total	<u>1,288</u>	<u>5,934</u>

Summary of borrowing arrangements:

The group has borrowing arrangements from a number of sources.

Bank loan

In 2018 a loan of £4m was drawn down from Silicon Valley Bank. The initial terms of the loan were that it was repayable in 36 equal monthly repayments from 1 April 2019 and bore interest at the higher of 6% and the Bank of England base rate, plus a margin of 5%.

In 2020, an agreement was reached whereby some loan repayments were deferred and the repayments finished in September 2022.

The effective embedded interest rate floor is a derivative and, based on the expectations of interest rate changes, it was assessed as having zero fair value at inception and at subsequent reporting dates.

A warrant instrument was issued in conjunction with the loan. This was valued at £52,000 using the Black-Scholes valuation method with a volatility of 30% and discount rate of 0.89%.

Notes to the Consolidated Financial Statements (continued)

13. Borrowings (continued)

Convertible loan notes

Convertible loan notes were issued in 2020 with a fixed interest rate of 8% and eventual conversion price depending on the trigger for conversion. The original end date of the notes was set to be in 2020 and two extensions were negotiated so as at 31 December 2020 they had a maturity of December 2021.

The conversion feature in the loan notes was not classified as an equity feature because of the variable number of shares to be issued to satisfy the debt. Instead, it was treated as an embedded derivative and was assessed as having a fair value of zero both at inception and at 31 December 2020.

In January 2021, further convertible loan notes were issued and the terms of existing convertible loan notes held by the Group were modified. The Group determined that the modification was substantial and that, therefore, the previous loan was deemed to have been extinguished and a modified loan instrument was recognised. Shortly after this modification, new convertible loan notes were created on terms substantially similar to the existing and modified convertible loan notes. The Group determined that both the modified convertible loan notes and the new convertible loan notes contained embedded derivative and then elected to value the entire loan notes at fair value, this being a permitted election under IFRS 9.

The loan notes converted to equity in October 2021 (see note 19).

Short-term loan notes

Short term loan notes of £750,000 were issued in December 2020 with a repayment date of December 2021 and a 10% redemption premium if the loan is redeemed within one year. The loan was repaid in February 2021.

Reconciliation of liabilities arising from financing activities:

2021

	At 1 January 2021	Cash received	Conversion of Loan Notes	Interest accrued	Repaid in cash	At 31 December 2021
	£000	£000	£000	£000	£000	£000
Leases	496	-	-	46	(262)	280
Bank loan	2,551	-	-	174	(1,437)	1,288
Other loan	754	-	-	71	(825)	-
Convertible loan note	2,629	8,455	(11,741)	660	(3)	-
	6,430	8,455	(11,741)	951	(2,527)	1,568

Notes to the Consolidated Financial Statements (continued)

13. Borrowings (continued)

2020

	At 1 January 2020 £000	Cash received £000	Modification of Loan £000	Interest accrued £000	Repaid in cash £000	At 31 December 2020 £000
Leases	688	-	-	70	(262)	496
Bank loan	3,115	-	-	263	(827)	2,551
Other loan	-	750	-	4	-	754
Convertible loan note	-	2,500	16	113	-	2,629
	<u>3,803</u>	<u>3,250</u>	<u>16</u>	<u>450</u>	<u>(1,089)</u>	<u>6,430</u>

14. Provisions

Provisions at the reporting date related to the potential costs to rectify dilapidations of leased properties. The probable future cash outflow, appropriately discounted, was estimated at £78,000 (2020: £76,000) which is expected to crystallise in January 2023 upon lease expiration.

15. Financial instruments

Categories of financial instruments

The tables below set out the Group's accounting classification of each class of its financial assets and liabilities.

Financial assets	2021 £000	2020 £000
Other receivables (note 9)	438	392
Accrued income	644	565
Trade receivables (note 9)	809	299
Cash and cash equivalents (note 10)	<u>25,329</u>	<u>1,075</u>
	<u>27,220</u>	<u>2,331</u>

All of the above financial assets' carrying values are approximate to their fair values, as at 31 December 2021 and 2020.

Notes to the Consolidated Financial Statements (continued)

15. Financial instruments (continued)

Financial liabilities	Measured at amortised cost	
	2021 £000	2020 £000
Trade payables (note 11)	587	322
Lease liabilities (note 12)	280	496
Borrowings (note 13)	1,288	5,934
Accruals and other payables (note 11)	1,528	2,037
	<hr/>	<hr/>
	3,683	8,789

In the view of management, all of the above financial liabilities' carrying values approximate to their fair values as at 31 December 2021 and 2020.

Fair value measurements

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values (due to their nature and short times to maturity).

16. Financial instrument risk exposure and management

The Group's operations expose it to degrees of financial risk that include liquidity risk, credit risk, interest rate risk.

This note describes the Group's objectives, policies and process for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented in notes 9, 10, 11, 12, 13, 15, 17 and 18.

Liquidity risk

Liquidity risk is dealt with in note 17 of these financial statements.

Credit risk

The Group's credit risk is primarily attributable to its cash balances and trade and other receivables. The credit risk on liquid funds is limited because the third parties are large international banks.

The Group's total credit risk amounts to the total of trade and other receivables (see note 9) and cash and cash equivalents.

Notes to the Consolidated Financial Statements (continued)

16. Financial instrument risk exposure and management (continued)

Interest rate risk

The Group's exposure to interest rate risk relates to the interest received on the cash held on deposit, which is immaterial and the Group's borrowings (see note 13), the majority of which are at fixed interest rates and therefore the interest rate risk on borrowings is also considered to be immaterial.

Foreign exchange risk

The Group's transactions are primarily carried out in GBP and USD. Fund raising transactions and parent company operating transactions are carried out in GBP. Operational transactions are carried out predominantly in GBP, but also in USD. Exposure to foreign currency exchange rates arises for the Group's overseas purchases, which are predominantly denominated in USD. Sufficient cash balances are maintained in USD and transactional risk is considered manageable. The group does not consider it necessary to take any further action to mitigate foreign exchange risk due to the immateriality of that risk.

17. Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash balances to ensure the Group can meet liabilities as they fall due. In managing liquidity risk, the main objective of the Group is therefore to ensure that it has the ability to pay all of its liabilities as they fall due. The Group monitors its levels of working capital to ensure that it can meet its debt repayments as they fall due. The table below shows the undiscounted cash flows on the Group's financial liabilities as at 31 December 2021 and 2020 on the basis of their earliest possible contractual maturity.

	Total	Within 2	Within 2-6	Within 6-12	Within 1-2	Within 2-5
	£000	months	months	months	years	years
	£000	£000	£000	£000	£000	£000
At 31 December 2021						
Trade payables	587	587	-	-	-	-
Lease liabilities	305	4	129	95	77	-
Borrowings	1,345	232	456	657	-	-
Accruals	1,528	1,440	88	-	-	-
	3,765	2,263	673	752	77	-
	Total	Within 2	Within 2-6	Within 6-12	Within 1-2	Within 2-5
	£000	months	months	months	years	years
	£000	£000	£000	£000	£000	£000
At 31 December 2020						
Trade payables	322	322	-	-	-	-
Other payables	51	-	51	-	-	-
Lease liabilities	567	4	129	129	228	77
Borrowings	6,427	245	1,308	3,529	1,345	-
Accruals	1,986	1,867	119	-	-	-
	9,353	2,438	1,607	3,658	1,573	77

Notes to the Consolidated Financial Statements (continued)

18. Capital management

The Group's capital management objectives are:

- To ensure the Group's ability to continue as a going concern; and
- To provide long-term returns to shareholders

The Group defines and monitors capital on the basis of the carrying amount of equity plus borrowings less cash and cash equivalents as presented on the face of the statement of financial position and as follows:

	2021	2020
	£000	£000
Equity	24,704	(5,546)
Cash and cash equivalents	(25,329)	(1,075)
Borrowings	1,288	5,934
	<u>663</u>	<u>(687)</u>

The Board of Directors monitors the level of capital as compared to the Group's commitments and adjusts the level of capital as is determined to be necessary by issuing new shares or raising new debt. The Group is not subject to any externally imposed capital requirements.

These policies have not changed in the year. The Directors believe that they have been able to meet their objectives in managing the capital of the Group.

Notes to the Consolidated Financial Statements (continued)

19. Share capital

Number	2021 Opening	2021 Issued	2021 Cancelled	2021 Closing
Allotted, called up and fully paid – par values £0.01				
Ordinary shares	151,381	3,978	-	155,359
A Ordinary shares	136,008	922	-	136,930
B Ordinary shares	8,658	-	-	8,658
A1 Preferred shares	408,682	13,328	-	422,010
A2 Preferred shares	19,461	-	-	19,461
B1 Preferred shares	-	629,362	-	629,362
B2 Preferred shares	-	50,828	-	50,828
Deferred shares	34,590	-	(34,590)	-
	<u>758,780</u>	<u>698,418</u>	<u>(34,590)</u>	<u>1,422,608</u>

Amount	2021 £000	2020 £000
Allotted, called up and fully paid – par values £0.01		
Ordinary shares	2	2
A Ordinary shares	1	1
B Ordinary shares	-	-
A1 Preferred shares	4	4
A2 Preferred shares	-	-
B1 Preferred shares	6	-
B2 Preferred shares	1	-
Deferred shares	-	-
	<u>14</u>	<u>7</u>

During the year:

- 650 ordinary shares were issued upon exercise of share options held by former consultants to the Group at an exercise price of £6.19 per share.
- A further 3,328 ordinary shares were issued upon exercise of share options held by former employees of the Group at an exercise price of £0.01 per share
- 922 A ordinary shares and 13,328 A1 preferred shares were issued to existing shareholders upon operation of anti-dilution provisions (as set out in the articles) in conjunction with the issue of B1 preferred shares at a subscription price of £42.1943 per share, that price being lower than the price at which shares had previously been issued; no consideration was payable for these shares whose nominal value was debited from the share premium account
- 278,269 B1 preferred shares were issued upon conversion of loans at a subscription price of £42.1943 per share
- 351,093 B1 preferred and 50,828 B2 preferred shares were issued for cash at a subscription price of £68.5904 per share

Notes to the Consolidated Financial Statements (continued)

19. Share capital (continued)

Each share is entitled to one vote in any circumstances and has full dividend rights.

On a return of assets on liquidation or capital reduction the assets of the company available for distribution after payment of its liabilities shall be applied in the following way:

- first in paying to the holders of Deferred shares a total of £1.00 for the entire class;
- second in paying the holders of the equity shares (in aggregate) X plus £100, where X is equal to the aggregate original price paid for all of the A Preferred shares in issue together with accrued dividends, to be distributed 0.001% pro rata to the holders of equity shares and the balance to the holders of the B Preferred shares (pro rata to the amounts paid up)
- third in paying the holders of the equity shares (in aggregate) X plus £100, where X is equal to the aggregate original price paid for all of the A Preferred shares in issue together with accrued dividends, to be distributed 0.001% pro rata to the holders of equity shares and the balance to the holders of the A Preferred shares (pro rata to the amounts paid up)
- fourth in paying the holders of the equity shares (in aggregate) Y plus £100, where Y is equal to the aggregate subscription price paid for all of the A Ordinary shares together with accrued dividends, to be distributed 0.001% pro rata to the holders of equity shares and the balance to the holders of the A Ordinary shares (pro rata to the amounts paid);
- finally in paying the balance (if any) to the holders of equity shares, to be distributed 0.001% pro rata to the holders of A Ordinary shares and the balance pro rata to the holders of the A Preferred shares, B Preferred shares, B Ordinary shares and Ordinary shares.

Unless a majority of the larger shareholders decide otherwise, upon a sale (or other disposal) of the entire issued share capital of the Company, the members who sell their shares will be entitled to share in the proceeds of the Sale in the manner and order of priority as follows:

- first, in paying to the holders of the Deferred Shares, if any, a total of £1.00 for the entire class;
- second, in paying to the holders of the B Preferred Shares the original subscription price per B Preferred Share plus any accrued dividends
- third, in paying to the holders of the A Preferred Shares the original subscription price per A Preferred Share plus any accrued dividends
- fourth, in paying to the holders of the A Ordinary Shares and B Ordinary shares:
 - to the holders of the A Ordinary Shares their original subscription price plus any accrued; and
 - to the holders of the B Ordinary Shares the greater of the original subscription price plus any accrued dividends or an amount per share equal to the amount that would have been payable had those B Ordinary Share been converted to Ordinary shares immediately prior to the sale
- finally, in paying the balance (if any) to the holders of the A Preferred shares and the Ordinary shares in proportion to the number shares held.

In the event of a listing on a stock exchange at an Ordinary share price in excess of £205.77, then a capital restructuring will take place such that all shares will convert to Ordinary shares with additional shares issued to give effect such that the relative value of the shares in each class of share is that same as would have been achieved upon a sale of the entire issued share capital of the Group at the listing price.

Notes to the Consolidated Financial Statements (continued)

20. Share based payments

As at 31 December 2021, the Group maintained an Enterprise Management Incentive (“EMI”) scheme approved share option plan for employee remuneration, an unapproved share option scheme and a restricted share purchase scheme. The programmes will be settled in equity. The programmes are part of the remuneration package of the Group’s employees. Participants in these programmes have to be employed or engaged by the company until the end of the agreed vesting period.

	2021 £000	2020 £000
Share option expense recognised	493	191
Restricted share expense recognised	11	115
	504	306

Share Options Outstanding at 31st December 2021

<u>Year</u>	<u>Type</u>	<u># Grants</u>	<u># Options</u>	<u>Exercise Price</u>	<u>Vesting Period</u>
2013	Unapproved	1	400	£4.95	On Issue
2016	EMI	11	2,927	£0.01	3 Years
2017	EMI	4	6,932	£0.01	3 Years
2018	EMI	3	5,850	£0.01	3 Years
2019	EMI	24	11,249	£0.01	4 Years
2020	EMI	36	18,774	£0.01	4 Years
2021	EMI	106	48,112	£0.01	4 Years
Outstanding at 31st December 2021			94,244		

Employees may exercise options upon an exit event such as a trade sale of the Group or an Initial Public Offering (“IPO”). In the event of a trade sale, or similar, all unvested options will vest and all options may be exercised immediately prior to the sale. Vested option may be exercised immediately prior to an IPO but unvested options would be forfeit unless their validity is continued at the discretion of the board. Upon cessation of employment, vested options may be exercised provided that the employee is a “good leaver”. However, for options issued prior to 2019, the ability to exercise vested options is subject to board discretion.

Notes to the Consolidated Financial Statements (continued)

20. Share based payments (continued)

Share options and weighted average exercise prices are as follows for the reporting periods presented:

Weighted average exercise price	<u>Price</u>	<u>Number</u>	<u>Price</u>	<u>Number</u>
	<u>2021</u>	<u>2021</u>	<u>2020</u>	<u>2020</u>
At 1 January	£0.13	51,981	£0.17	38,192
Granted during the year	£0.01	50,645	£0.01	21,825
Forfeited during the year	£0.01	(6,776)	£0.01	(3,459)
Exercised during the year	£2.51	(1,606)	£0.01	(4,577)
Outstanding at the end of the year	£0.03	94,244	£0.13	51,981

Share options are only exercisable when an employee leaves employment or upon an exit event, therefore, the number of options exercisable at each year-end was zero.

Share options are valued using a Black-Scholes option pricing model with the following assumptions:

	<u>Options issued 2021</u>	<u>Options issued 2020</u>
Weighted average share price	£16.24	£34.13
Exercise price	£0.01	£0.01
Weighted average life (days)	3,845	3,655
Expected volatility	76%	32%
Risk-free interest rate	0.78%	0.26%

The underlying expected volatility was determined by reference to companies that are considered similar in nature over a period of time, and the risk-free factor was calculated using UK Government bonds for the given option period.

Notes to the Consolidated Financial Statements (continued)

Share-based payments (continued)

Restricted Shares held by employees at 31st December 2021

<u>Year</u>	<u>Type</u>	<u># Grants</u>	<u># Shares</u>	<u>Hurdle Price</u>	<u>Reverse Vesting Period</u>
2019	Restricted	1	2,000	£53.34	3 Years
2019	Restricted	1	5,000	£53.34	6 Months
2019	Restricted	2	1,075	£53.34	4 Years
2020	Restricted	2	7,874	£53.34	6 Months
2021	Restricted	4	2,359	£53.34	4 Years

Outstanding at 31st December 2021 **18,308**

Restricted shares are issued ordinary shares which are subject to forfeiture based on contractual reverse vesting provisions. Upon cessation of employment, shares that have not achieved the reverse vesting milestones are subject to either forfeiture or conversion to deferred shares which have negligible economic value. During the reverse vesting period, restricted shares cannot be sold other than upon an exit event. All restricted share outstanding at 31 December 2021 are subject to a hurdle price of £53.34 per share. If there is an IPO at a price of less than £53.34 per share all restricted shares are forfeit, otherwise once shares have passed the reverse vesting milestones, they may be sold. If there is a trade sale or similar at a price in excess of the hurdle price, then all restricted share may be sold regardless of reverse vesting status, otherwise all restricted shares will be forfeit.

Restricted Shares	<u>Number</u>	<u>Number</u>
	<u>2021</u>	<u>2020</u>
At 1 January	15,949	15,041
Issued during the year	2,359	7,874
Forfeited during the year		
Retained upon cessation of employment	-	(6,966)
Outstanding at the end of the year	18,308	15,949

The value of restricted shares to their recipients is economically similar to the value of share options assuming that any share price hurdle is met. They were valued using a Black-Scholes option pricing model for equivalent share options, with a Monte Carlo simulation used to adjust the value in order to incorporate the impact the share price hurdle. The following assumptions were used:

	<u>Issued</u>	<u>Issued</u>
	<u>2021</u>	<u>2020</u>
Weighted average share price	£17.88	£28.03
Subscription price	£0.01	£0.01
Weighted average life (days)	1881	3655
Expected volatility	22%	31%
Risk-free interest rate	0.13%	0.52%

Notes to the Consolidated Financial Statements (continued)

21. Related party transactions

Remuneration of Directors is set out in note 3.

During the year the Group incurred shareholder monitoring fees £37,346 (2020: £34,000).

During the year, the Group paid consultancy fees to companies associated with directors of £12,000 (2020: £22,200).

22. Financial commitments

The Group had open purchase orders and non-cancellable service contract and licensing obligations of £495,000 (2020: £225,000) in the aggregate at 31st December 2021. Under an Investment Agreement entered into in October 2021, for so long as three shareholders appoint directors to the board the company incurs shareholder monitoring fees of £51,000 per year.

23. Events after the reporting date

During the period January to September 2022 options holders exercised 1,620 options over ordinary shares.

24. Controlling Party

Ieso Digital Health Limited is under the control of its shareholders, however, no single shareholder exercises individual control.

Company Statement of Financial Position as at 31 December 2021

	Notes	At 31 December 2021 £000	At 31 December 2020 £000
Assets			
Non-current assets			
Intangible assets	1	1,418	953
Property, plant and equipment	2	508	715
		<u>1,926</u>	<u>1,668</u>
Current assets			
Trade and other receivables	3	586	468
Current tax receivable		1,694	847
Cash and cash equivalents	4	23,951	771
		<u>26,231</u>	<u>2,086</u>
Current liabilities			
Trade and other payables	5	1,663	2,110
Lease liabilities	6	207	216
Borrowings	7	1,288	4,646
		<u>3,158</u>	<u>6,972</u>
Net current assets / (liabilities)		<u>23,073</u>	<u>(4,886)</u>
Non-current liabilities			
Lease liabilities	6	73	280
Borrowings	7	-	1,288
Provisions		78	76
		<u>151</u>	<u>1,644</u>
Net assets / (liabilities)		<u>24,848</u>	<u>(4,862)</u>
Equity			
Share capital	8	14	7
Share premium		70,259	31,080
Share based payment reserve	9	1,728	1,224
Retained losses		(47,153)	(37,173)
Shareholders' funds / (deficit)		<u>24,848</u>	<u>(4,862)</u>

The notes on pages 53 to 58 form part of these financial statements.

The financial statements were approved by the Board of Directors on 28 September 2022 and were signed on its behalf by:



M Black
Chief Financial Officer

28 September 2022

Registered Number: 04063351

Company Statement of Changes in Equity

	Share Capital	Share Premium	Share Based Payment Reserve	Retained Losses	Total
	£000	£000	£000	£000	£000
At 1 January 2021	7	31,080	1,224	(37,173)	(4,862)
Comprehensive income for the year					
Loss for the year	-	-	-	(9,980)	(9,980)
Shares issued during the year	7	39,306	-	-	39,313
Share issue costs	-	(127)	-	-	(127)
Share based payments	-	-	504	-	504
Total transactions with owners	7	39,179	504	-	39,690
At December 2021	14	70,259	1,728	(47,153)	24,848
At 1 January 2020	6	31,100	918	(33,632)	(1,608)
Comprehensive income for the year					
Loss for the year	-	-	-	(3,541)	(3,541)
Shares issued during the year	1	-	-	-	1
Share issue costs	-	(20)	-	-	(20)
Share based payments	-	-	306	-	306
Total transactions with owners	-	(20)	306	-	286
At December 2020	7	31,080	1,224	(37,173)	(4,862)

Notes to the Company financial statements

Principal Accounting Policies

Company information

Ieso Digital Health Limited is a private company limited by shares incorporated in the United Kingdom and registered in England and Wales. The address of the registered office is given in the company information of these financial statements. The nature of the company's operations and principal activities are in the provision of online psychological therapy, specialising in delivering evidence based Cognitive Behavioural Therapy for people dealing with common mental health conditions such as depression or anxiety via its technology platform.

Basis of preparation

The annual financial statements of Ieso Digital Health Limited (the Parent Company financial statements) have been prepared in accordance with Financial Reporting Standard 100 Application of Financial Reporting Requirements ("FRS 100") and Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

Disclosure exemptions adopted

In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore, these financial statements do not include:

- certain disclosures regarding the company's capital;
- a statement of cash flows;
- the effect of future accounting standards not yet adopted;
- the disclosure of the remuneration of key management personnel; and
- disclosure of related party transactions with the Company's wholly owned subsidiaries.

In addition, and in accordance with FRS 101 further disclosure exemptions have been adopted because equivalent disclosures are included in the Company's Consolidated Financial Statements. These financial statements do not include certain disclosures in respect of:

- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- Share-based payments

As permitted by section 408 of Companies Act 2006, a separate Income Statement for the Company has not been included in these financial statements. The Company's loss for the year ended 31 December 2021 was £10.0 million (2020: £3.5 million).

The Company applies the Group's principal accounting policies, as described in the Group accounts above, consistently to all periods presented. The financial statements are presented in Sterling which is the functional currency of the company and rounded to the nearest £000.

Notes to the Company financial statements (continued)

1. Intangible assets

	Software £000
Cost	
At 1 January 2020	-
Additions	953
At 31 December 2020	<u>953</u>
Additions	1,103
Impairment	(548)
At 31 December 2021	<u>1,508</u>
Amortisation	
At 1 January 2020	-
At 31 December 2020	-
Charge for the year	(90)
At 31 December 2021	<u>(90)</u>
Net book value	
At 31 December 2021	<u>1,418</u>
At 31 December 2020	<u>953</u>

Amortisation is recognised within research, development and administrative expenses and charged from the point when intangible assets are ready for their intended use.

See note 7 in the consolidated accounts above for commentary on the impairment in the year.

Notes to the Company financial statements (continued)

2. Property, plant and equipment

	Short Term Leasehold Property £000	Right of use assets £000	Office Equipment £000	Computer Equipment £000	Total £000
Cost					
At 1 January 2020	132	1,021	206	261	1,620
Additions	-	-	-	37	37
At 31 December 2020	132	1,021	206	298	1,657
Additions	-	-	-	197	197
Impairment	-	-	-	(58)	(58)
At 31 December 2021	132	1,021	206	437	1,796
Depreciation					
At 1 January 2020	48	294	77	160	579
Charge for the year	26	126	40	81	363
At 31 December 2020	74	510	117	241	942
Charge for the year	27	216	42	67	352
Impairment	-	-	-	(6)	(6)
At 31 December 2021	101	726	159	302	1,288
Net book value					
At 31 December 2021	31	295	47	135	508
At 31 December 2020	58	511	89	57	715

3. Trade and other receivables

	2021 £000	2020 £000
Other receivables	393	358
Prepayments and accrued income	193	110
	586	468

4. Cash and cash equivalents

	2021 £000	2020 £000
Cash and bank balances	23,951	771

Notes to the Company financial statements (continued)

5. Trade and other payables

	2021 £000	2020 £000
Current		
Trade payables	482	299
Other tax and social security	217	453
Other payables	-	36
Inter-company loans	57	-
Accruals	907	1,322
	<u>1,663</u>	<u>2,110</u>

6. Leases

Right of use assets

The Company used leasing arrangements relating to property, plant and equipment.

When a lease begins, a liability and right of use asset are recognised based on the present value of future lease payments.

	2021 £000	2020 £000
Additions to right-of-use assets	-	-
Disposals from right-of-use assets	-	-
Depreciation charge – right of use assets	(216)	(216)
Carrying amount at the beginning of the year:	<u>511</u>	<u>727</u>
Carrying amount at the end of the year:	<u>295</u>	<u>511</u>

Lease liabilities

	2021 £000	2020 £000
Current	207	216
Non-current	73	280
	<u>280</u>	<u>496</u>

Notes to the Company financial statements (continued)

7. Borrowings

	2021	2020
	£000	£000
Amounts falling due within one year		
Loan notes	-	754
Convertible loan	-	2,629
Bank loans	1,288	1,263
	<u>1,288</u>	<u>4,646</u>
Amounts falling due after one year		
Bank loans	-	1,288
	<u>-</u>	<u>1,288</u>
Total	<u>1,288</u>	<u>5,934</u>

See note 13 in the consolidated accounts above for commentary on borrowing arrangements.

8. Share capital

	2021	2021	2021	2021
Number	Opening	Issued	Cancelled	Closing
Allotted, called up and fully paid – par values £0.01				
Ordinary shares	151,381	3,978	-	155,359
A Ordinary shares	136,008	922	-	136,930
B Ordinary shares	8,658	-	-	8,658
A1 Preferred shares	408,682	13,328	-	422,010
A2 Preferred shares	19,461	-	-	19,461
B1 Preferred shares	-	629,362	-	629,362
B2 Preferred shares	-	50,828	-	50,828
Deferred shares	34,590	-	(34,590)	-
	<u>758,780</u>	<u>698,418</u>	<u>(34,590)</u>	<u>1,422,608</u>

Notes to the Company financial statements (continued)

7. Share capital (continued)

During the year:

- 650 ordinary shares were issued upon exercise of share options held by former consultants to the Group at an exercise price of £6.19 per share.
- A further 3,328 ordinary shares were issued upon exercise of share options held by former employees of the Group at an exercise price of £0.01 per share
- 922 A ordinary shares and 13,328 A1 preferred shares were issued to existing shareholders upon operation of anti-dilution provisions (as set out in the articles) in conjunction with the issue of B1 preferred shares at a subscription price of £42.1943 per share, that price being lower than the price at which shares had previously been issued; no consideration was payable for these shares whose nominal value was debited from the share premium account
- 278,269 B1 preferred shares were issued upon conversion of loans at a subscription price of £42.1943 per share
- 351,093 B1 preferred and 50,828 B2 preferred shares were issued for cash at a subscription price of £68.5904 per share

Amount	2021	2020
	£000	£000
Allotted, called up and fully paid – par values £0.01		
Ordinary shares	2	2
A Ordinary shares	1	1
B Ordinary shares	-	-
A1 Preferred shares [1]	4	4
A2 Preferred shares	-	-
B1 Preferred shares	6	-
B2 Preferred shares	1	-
Deferred shares	-	-
	<hr/>	<hr/>
	14	7
	<hr/>	<hr/>

8. Share based payments

Share based payments issued by the Company are detailed in note 20 to the Group financial statements.