

Registration number: 06458458

**LOCATION SCIENCES GROUP PLC**  
**ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

# LOCATION SCIENCES GROUP PLC

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# LOCATION SCIENCES GROUP PLC

## COMPANY INFORMATION

<b>Directors</b>	B Chilcott K Harrison N Hogan D Rae M Slade D Williams
<b>Registered office</b>	20 Eastbourne Terrace Paddington London W2 6LG
<b>Company Secretary</b>	BPE Secretaries Limited BPE Solicitor LLP 1st Floor St James' House St James' Square Cheltenham GL50 3PR
<b>Auditors</b>	Hazlewoods LLP Windsor House Bayshill Road Cheltenham GL50 3AT
<b>Bankers</b>	Natwest 21 Gentleman's Walk Norwich NR2 1NA
<b>Nominated Advisor and Broker</b>	Shore Capital Cassini House 57 St James's Street London SW1A 1LD

# LOCATION SCIENCES GROUP PLC

## CHAIRMAN'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

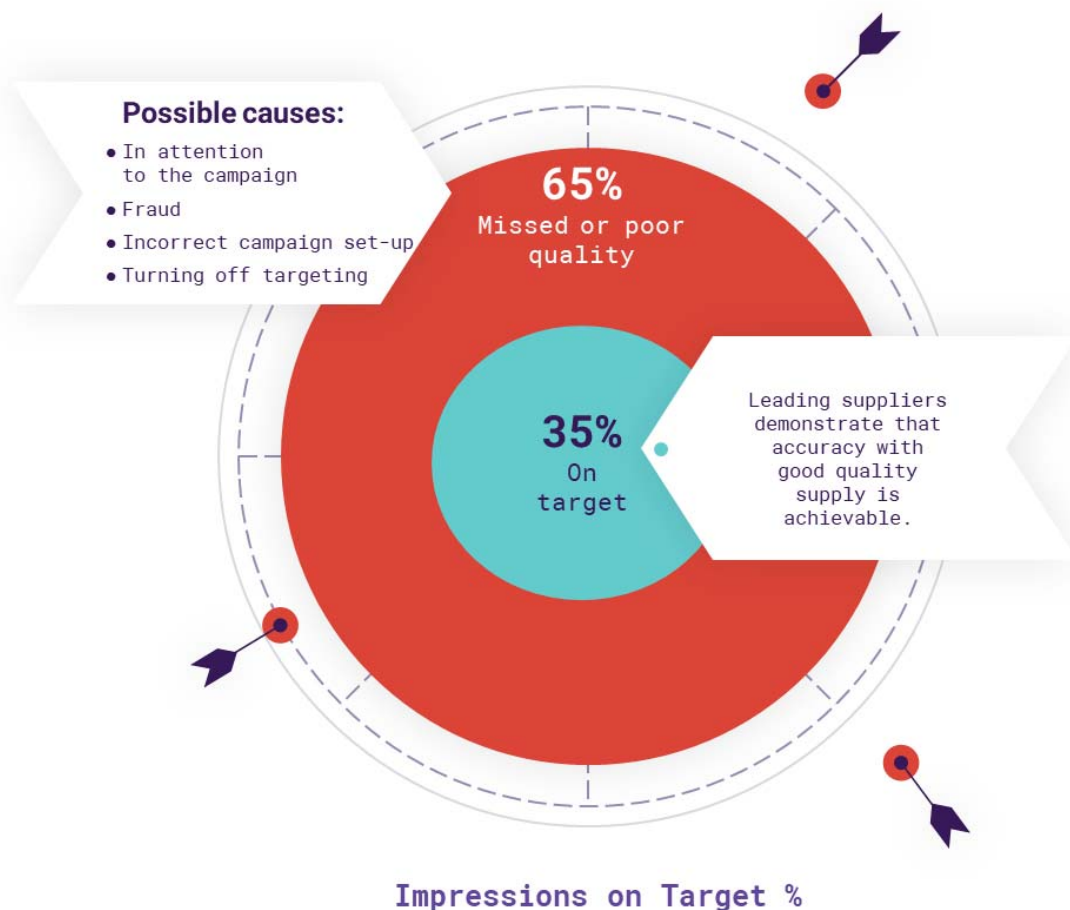
### 2019 - In Focus

Location Sciences Group PLC ("Location Sciences" or the "Company") laid solid foundations globally with its location verification product, Verify during the year. The progress made led to a number of key milestones being achieved in 2019, including:

- More than 100 brands using Verify
- More than 1 billion impressions verified
- Publication of our first whitepaper "The State of Location Advertising"

Location based advertising is a rapidly growing market, and as such, the advertising budget wasted due to fraud also increases. According to industry forecasts published by Statista, location targeted mobile advertising spending in the US alone is set to surpass US\$32 billion by the end of 2023.

A study by Xaxis found that 54.4% of participant media buyers' top priority was to increase efficiency, and 40.8% of participants said they were focused on the effective allocation of resources<sup>1</sup> and cutting digital ad-wastage is a key component to this. Verify is the solution media that buyers are looking for and as the issue of ad-fraud and transparency comes to the forefront of the market, there is the opportunity for Location Sciences to work with key media agencies, advertisers and suppliers.



1 <https://pubmatic.com/wp-content/2019-Global-Digital-Ad-Trends.pdf>

# LOCATION SCIENCES GROUP PLC

## CHAIRMAN'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

### A global solution

Following the successful launch of Verify in the UK in 2018, 2019 saw Location Sciences progress as first mover within the location advertising verification space globally. Verify launched in the US in January 2019 and has been making progress penetrating North America, the largest advertising market<sup>2</sup>. The Company launched Verify into the African market in February 2019 and Asia-Pacific ("APAC") in July 2019. APAC is one of the fastest growing advertising markets globally; in 2019 it grew 6.3% compared to North America's 5.1% growth<sup>3</sup>.

Verify's adoption in 2019 was slower than originally expected, nevertheless, the Company grew revenues by 60% to £1.2 million (2018: £0.751 million). This was achieved through the signing of new core customers, namely:

- Vicinity Media ("Vicinity"), Africa's first premium location-based ad-network. Following a 6-month period of paid for campaign verification with Vicinity's key advertisers, such as Nando's, Location Sciences secured a 12-month contract with Vicinity, whereby Verify is "always on" for Vicinity's clients. Key to securing such an important deal has been demonstrating the value of our product, not just to our client agencies, but their advertisers also. The Digital Marketing Manager at Nando's stated: "We're delighted to work with a partner that takes accuracy so seriously. All marketers and agencies should expect and demand this independent kitemark."
- The7Stars ("7stars"), the UK's largest independent media agency. A strong partnership, which has resulted in a nearly 90% increase in the accuracy of 7stars' campaigns with major advertiser Deliveroo. 7stars and Location Sciences are committed to bringing transparency to location ad-fraud and restore trust in the billion-dollar industry.
- Blis Media ("Blis"), the global leader in real world intelligence, with whom we secured an 18 month deal, marking them as the first global location intelligence company to embrace independent verification of data.
- In early 2020, the Company also signed a global partnership with X-Mode Social ("X-mode"), the foremost global location data provider, for the Company's insights business. An analysis of over two billion background location events found that, in the five weeks following the launch of iOS 13 at the end of September 2019, more than two-thirds (68%) of iOS 13 users opted out of sharing their background (always-on) location data. At a time where quality location data is reducing, this partnership makes X-mode the largest provider of GDPR compliant location data in the UK and grants us access to the largest pool of quality location data. This will assist in securing a broader and more global insights customer base. As such, Location Sciences has moved away from the raw data market and will concentrate resources on continuing to grow Verify.

### Expansion of the Leadership Team

With Verify expanding globally during 2019, the following were appointed as non-executive directors in May 2019 which broadened the skill set and experience of the Board:

Donnie Williams has served as Chief Digital Officer of Horizon Media since 2010. He is responsible for business development, operations, capability establishment and implementation, as well as marketing. He has been instrumental in expanding Horizon's digital capabilities, including its performance media services division, as well as its digital experiences practice, providing Horizon's clients with comprehensive solutions. He manages an expanding team of more than 300 digital experts with established capabilities in both New York and Los Angeles. Furthermore, Donnie has served in a number of advisory roles in the past and was also named an OMMA Online All-Star.

Niall Hogan has over 18 years' experience in nurturing digital and technology businesses in the UK, European and Asian markets. Most recently, Niall was a managing director at Integral Ad Science Southeast Asia. He joined IAS in 2013 to lead the UK and European team, which he grew from a single employee to more than 65. Since the beginning of 2017, he has been based in Singapore where he was responsible for IAS Southeast Asia and was focused on new business, employee recruitment and ongoing client engagement. Prior to IAS, Niall was the UK Sales Director at Tribal Fusion (now Exponential), where he helped establish the company as a key player in the UK network space.

2 <https://www.statista.com/statistics/273644/global-ad-spending-trend-by-region/>

3 <https://www.marketing-interactive.com/2020-predictions-put-next-years-ad-spend-at-us194b-as-digital-formats-drive-growth/>

# LOCATION SCIENCES GROUP PLC

## CHAIRMAN'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

### **Delivering on the global potential of Verify**

Despite the slower pace of market adoption than predicted in the US, Location Sciences demonstrated strong commercial traction and revenue growth during 2019. I am encouraged by the positive momentum and, in particular, the potential for Verify globally.

In 2020, Location Sciences will continue to invest in its team and Verify to help media agencies, suppliers and advertisers tackle fraud and the lack of transparency, as well as a focus on the privacy piece and the issue of quality this creates in the location advertising space, which is detailed in our second whitepaper released in January 2020.

Furthermore, the Company's 2020 goals include boosting corporate culture and our shareholder communications. With quarterly events planned for staff to encourage team bonding and frequent shareholder communications via specific events, company blog posts, shareholder and customer videos as well as maintaining a strong social media presence. I should like to thank the whole team for their commitment and achievement during a very busy year.

The Board is cautiously optimistic in our mission to become the leading global kite mark for location advertising, and delivering its core KPIs for 2020.



**Kelvin Harrison, Chairman**

Date: 16 March 2020

# LOCATION SCIENCES GROUP PLC

## CHIEF EXECUTIVE'S REVIEW FOR THE YEAR ENDED 31 DECEMBER 2019

2019 was the first full year commercialising Verify and, considering we were effectively a start-up technology business two years ago with a disruptive technology into a mature industry, I am proud of what we achieved. To have broken into the EU, North American, APAC and African location-based advertising markets, delivering £1.2 million in sales, demonstrates we have significantly progressed as a business and gives us a solid platform for growth in 2020.

Our mission is to become **“the leading global kite mark for location data insights in the media industry”** and we plan to achieve this with our global platform solution Verify, where we have first mover advantage into the location verification sector.

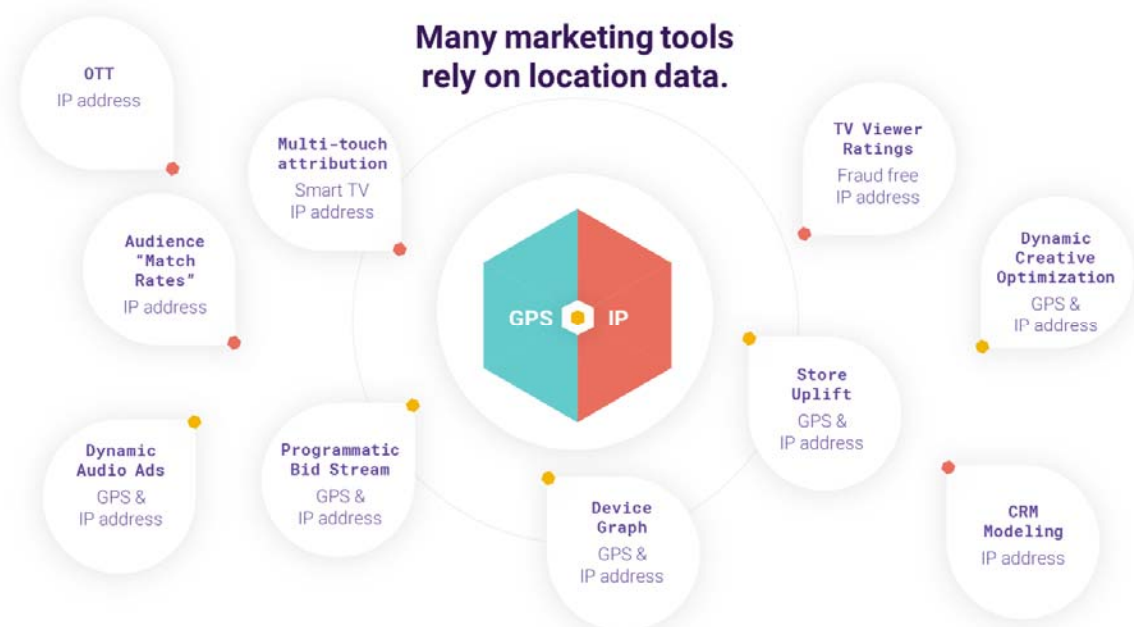
At the very core of what we do, is to deliver meaningful and valuable location data insights to improve advertising performance, specifically, we use our location expertise to:

1. Verify location-based advertising accuracy and the quality of signals used to deliver the ad-campaign;
2. Utilise our insights products (driven by our data science expertise in location data) to deliver location data planning and insights for advertising; and
3. Verify location-based audience segments.

### Why focus on location-based advertising?

Location data is a key ingredient to the marketing mix as it is proven to drive performance (increased sales) for a plethora of brands globally. The spend on mobile advertising alone in 2019 was estimated to have reached \$190 billion, larger than ad-spend on TV, and approximately 37% of this ad-spend was invested into location-based advertising. This equates to nearly \$70 billion invested by brands into location spend on mobiles in 2019 alone. With the roll-out of 5G, global advertising on mobiles is forecast to increase to a staggering \$255 billion by 2021, a 34% increase in 2 years, and the Directors expect this to have a similar impact on location-based advertising spend.

Location is not just used in mobile marketing, but all across the marketing mix - with the primary goal of increasing sales for its advertisers through better, tailored and more timely advertisements.



## LOCATION SCIENCES GROUP PLC

### CHIEF EXECUTIVE'S REVIEW FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors identified the opportunity to use the Company's location expertise in the advertising industry and launched Verify into the UK market in June 2018 and into the US in January 2019.

Verify is the world's first independent location verification product. This global cloud-based client dashboard is designed to tackle location ad-fraud and provide advertisers with true transparency on their location-based advertising campaigns. Ad-fraud was estimated to have cost advertisers \$19 billion in 2019 and is a growing issue which Verify has been developed to solve.

During 2019 it also became apparent that the location-based advertising industry also faces issues of accuracy, quality and privacy, all of which Verify can be used to resolve.

#### **The State of Location Advertising**

In August 2019, Location Sciences published its first white paper on the state of location advertising. This report was based on the first 550 million ad-impressions verified by Location Sciences and the results were revealing for advertisers and media agencies, which included:

- 65% of location advertising budgets were wasted on poor-quality and mistargeted location data;
- 14% of impressions used GPS location signals when running location campaigns; and
- 36% of GPS enabled apps were found to display location fraud

The scale of the problems facing the location advertising industry were even larger than we had expected.

To put this into perspective, of the \$190 billion spent on mobile advertising in 2019, approximately \$70 billion was spent on location-based advertising products. That means, if our findings hold true for the whole industry, approximately \$45 billion (being 65% of spend) was potentially wasted by advertisers in 2019 - which dwarfs the entire ad-fraud problem.

The largest part of the issue is signal quality, something not understood by many, including the majority of the location-based advertising industry.

#### **The Importance of Signal Quality**

Location marketing requires accurate use of precise POI (Point of Interest) parameters. Accurate delivery of impressions within specific location requirements is measured by POI scores.

"Signal quality" is the confidence of the location being returned by the mobile device upon which advertisers use to decide where and when to serve their advertisements.

A high quality signal can give confidence in the location of the mobile device to within 5 metres (such as GPS), however, a poor quality signal (such as carrier IP) gives confidence to the location of the mobile device to within 1,000 kilometres, resulting in reduced reliability and affects the success or failure of the location advertising campaign.



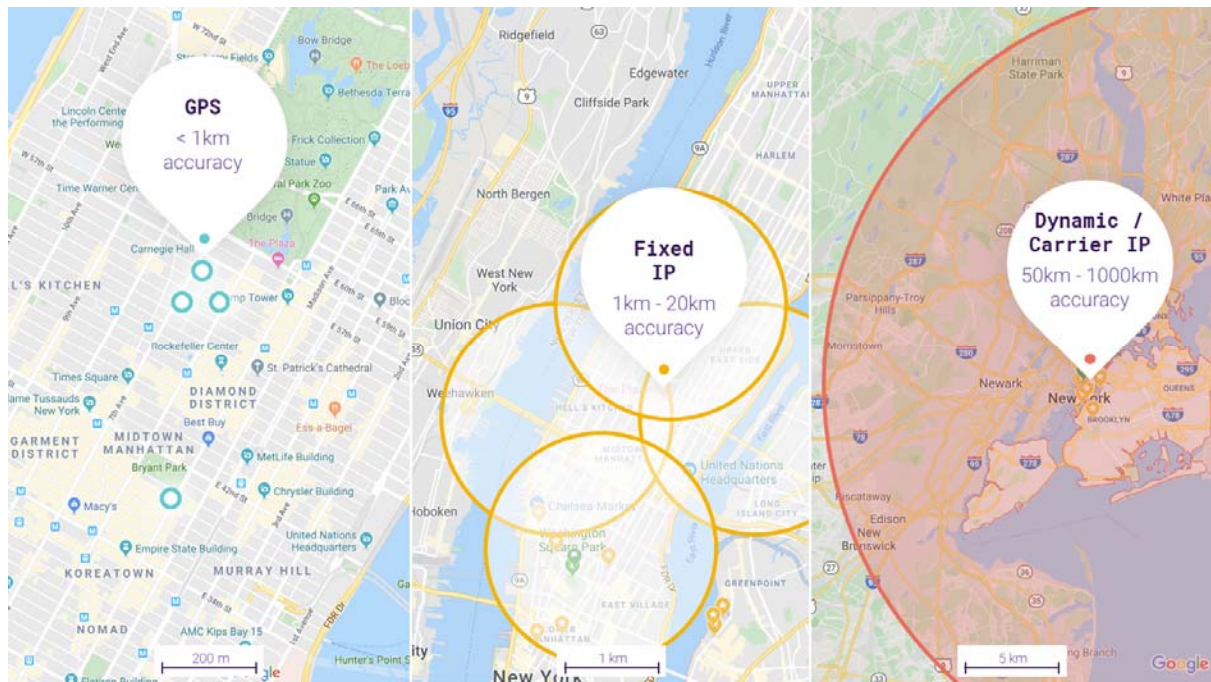
# LOCATION SCIENCES GROUP PLC

## CHIEF EXECUTIVE'S REVIEW FOR THE YEAR ENDED 31 DECEMBER 2019

### Understanding IP and GPS data

Location data can be divided into two categories and understanding how they differ is the first step for brands to identify potential quality issues. These two types of data are IP and GPS and campaign goals will determine which data is used.

The figure below graphically displays the differing ranges of possible locations from three main types of location signal, namely GPS, Fixed IP and Dynamic/Carrier IP. Importantly, all three location signals purport to be from the same location. However, as can be seen, the confidence given in that precise location varies considerably depending on the (quality) type of the location signal used.



With approximately \$70 billion spent on location advertising you would expect the industry to be following the guidance from the Media Ratings Council (MRC), which explicitly advises the following:

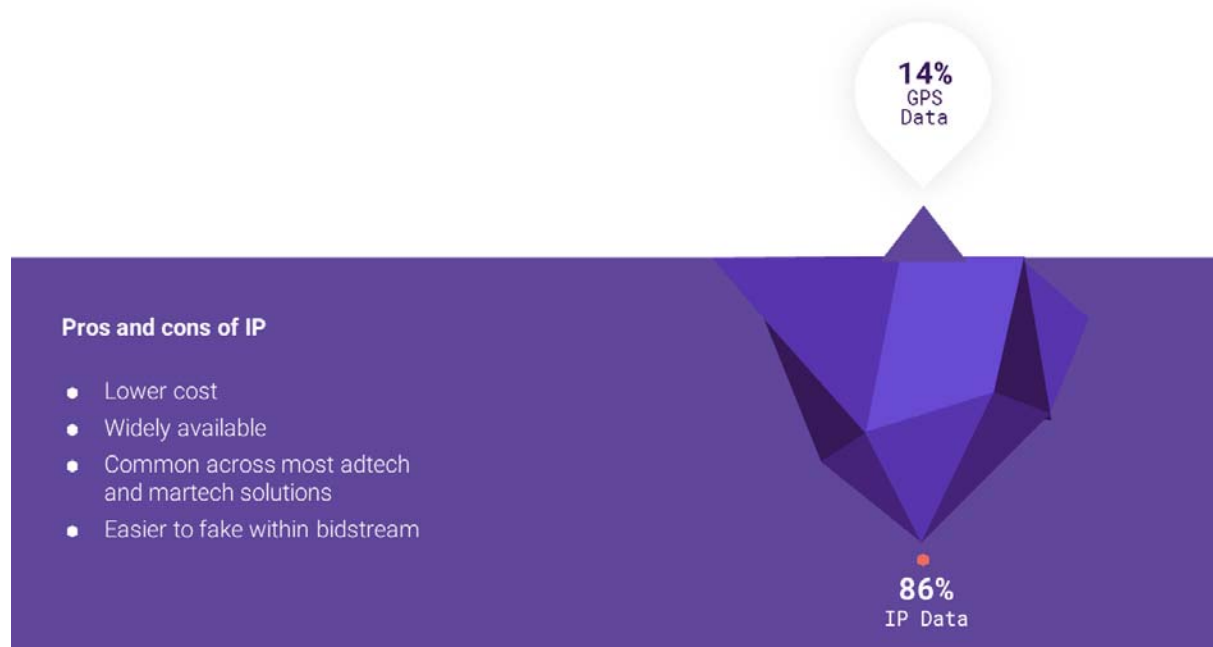
*“The use of mobile IP addresses is generally not accurate or precise for mobile location.”*  
- MRC Location-Based Advertising Measurement Guidelines.

However, despite the inaccuracies which can be caused by poor quality location signals, only 14% of the location signals verified by Location Sciences for our first white paper were high quality GPS signals.

## LOCATION SCIENCES GROUP PLC

### CHIEF EXECUTIVE'S REVIEW FOR THE YEAR ENDED 31 DECEMBER 2019

The location advertising landscape during 2019 as observed by Location Sciences is depicted below.



Although some IP signals are adequate for broad proximity advertising, GPS is MRC standard for proximity targeting and is the common value used by suppliers to sell location advertising.

This is a tremendous opportunity for Location Sciences, as Verify provides transparency on signal quality as well as the accuracy of ad-campaign delivery for our customers.

#### The Impact of Privacy on Location Advertising

GDPR and more recently CCPA have enhanced the rights of individuals and brought greater awareness of applications collecting location data. While a clear improvement for individuals rights and understanding of how their information is being used, there has been an adverse impact (especially since the roll out of iOS 13 in late 2019) on the availability of high-quality location signals for the advertising industry.

In our second white paper published in January 2020, titled 'The State of Privacy and Location Marketing', we published the results of our investigation. Our US Chief Business Officer, Jason Smith, summarised the results at the time of publication:

*"Operating system privacy updates are fantastic for consumers, but they have a significant impact on the quality and availability of location data used within marketing. We're seeing a noticeable decrease of already scarce high-quality GPS data as well as an increase in the use of poor-quality IP data. This is driving a significant shift in media delivery across planning, measurement, audience development, and attribution."*

# LOCATION SCIENCES GROUP PLC

## CHIEF EXECUTIVE'S REVIEW FOR THE YEAR ENDED 31 DECEMBER 2019

The key findings of the report are summarised in the figure below:



The Directors believe the decreasing availability of high quality location signals will increase the level of GPS ad-fraud by publishers and drive the need for greater transparency on location-based advertising campaigns.

### Challenges of being the First Mover

While the industry backdrop and market positioning of Verify are favourable, there are still challenges the business must overcome to secure its market position and grow to become a profitable business in the next few years.

As the first mover into location verification for the digital advertising industry the Company has the advantage of facing little competition, however, this also means there is minimal awareness of the problems which Verify solves in the market place.

The reality is that the Company will therefore, need to continue to invest in overall market awareness as well as direct business development both in the UK and the US. This is typical of the majority of early stage SaaS businesses. It is the Directors' job to ensure this investment delivers growth and thus value for shareholders.

To secure shareholder value, the Directors are focused on signing long term contracts with customers across the whole of the advertising supply chain, namely the advertisers themselves, media agencies and location suppliers. Contracts are for a minimum of 12 months and typically have a minimum monthly licence fee plus a variable rate, which is based on the volume of verified impressions per month. This business model means Location Sciences enters 2020 with approximately £1 million of visible revenues providing a good base for growth.

## LOCATION SCIENCES GROUP PLC

### CHIEF EXECUTIVE'S REVIEW FOR THE YEAR ENDED 31 DECEMBER 2019

#### Outlook

Moving forward, I believe the team we have in place has the right skills and experience to grow the business to profitability over the next few years. Naturally our challenge as a relatively early stage technology company is to grow market awareness of the need and benefits of Verify, which we aim to deliver on for our shareholders.

The size of the potential market represents a significant opportunity for Location Sciences. Although, to secure our market position, continued business development and market education is required, which in turn means the Company will require further funding to meet its current plans.

Our messaging to customers is simply, "we deliver performance" and that in-turn delivers our customers' ROI.

The need for Verify is also clear in my mind and is best summarised by the following three key points:

1. Location is hugely important for advertisers to increase sales;
2. Systemic issues surrounding accuracy, quality and privacy currently exist; and
3. Verify is the only global platform available which helps advertisers, media agencies and suppliers to solve these issues.

Considering the above, and given the progress made during 2019, our supportive shareholder base and the market opportunity, I am filled with confidence and anticipate moving the Company forward in 2020.



**Mark Slade, Chief Executive Officer**

Date: 16 March 2020

## LOCATION SCIENCES GROUP PLC

### CHIEF FINANCIAL OFFICER'S REVIEW FOR THE YEAR ENDED 31 DECEMBER 2019

#### Introduction

Our investment into the US significantly increased our business development costs while also allowing us to deliver a 60% increase in revenues. As announced during the year, the slower sales cycles experienced in the US led the Directors to adjust investment plans in the second half to align overheads with the actual pace of market adoption and allow cash reserves to be conserved.

The Board has plans to expand the Company's customer base and expand the Verify product range during 2020, which it expects will deliver further substantial growth.

#### Financial Performance

In 2019, revenue increased to £1,206,254 (2018: £751,853) with location data and insights delivering £710,700 (2018: £697,931) and Verify £495,554 (2018: £53,922), representing approximately a 60% increase in revenues year-on-year.

The Group received £25,280 of grant income in 2019 (2018: £157,927). There is no grant income expected in the foreseeable future.

Reflecting the investment made during the year, administrative costs for continuing operations rose by 44% to £3,104,023 (2018: £2,160,468).

There were no exceptional or non-recurring costs during the year, compared to one-off exceptional restructuring costs in 2018 of £99,801.

The business delivered a loss before exceptional items, amortisation and depreciation of £1,712,986 (2018: £1,178,576), an operating loss of £2,271,242 (2018: £1,732,762) and a loss after taxation of £2,116,812 (2018: £1,487,534).

Loss per share from continuing operations decreased from 0.98p in 2018 to 0.61p in 2019.

#### Fundraisings

The Group completed a small funding round in October 2019, raising gross funds of approximately £0.6 million. In addition, the Group has conditionally raised approximately £0.975 million (before expenses) through a placing on 6 March 2020.

The funds are being used to commercialise Verify and, in particular, to penetrate the US market, where, as set out above, a significant investment is being made in business development.

#### Costs Continually Monitored

Following the rationalisation programme in 2018, the Directors continued to monitor overheads in light of sales performance and made adjustments to the investment plan in the second half of 2019 to reflect the slower sales growth in the US.

Excluding amortisation and depreciation and non-recurring items, administrative costs rose to £2,545,767 (2018: £1,706,083).

As anticipated by the Board, the investment into our Verify product and US business development meant administrative costs increased during 2019. The expectation is for a similar level of investment in US business development and product in 2020.

The Board expects the investment in the US and in the Group's products to realise significant sales during the year, with meaningful cash flow generation and long-term contracts.

## LOCATION SCIENCES GROUP PLC

### CHIEF FINANCIAL OFFICER'S REVIEW FOR THE YEAR ENDED 31 DECEMBER 2019

#### Statement of Financial Position

In the second half of 2019, the Directors aligned overheads with the slower than expected market uptake being experienced in the US. This conserved the Group's cash resources which stood at £1,325,739 at the year end.

Following the year end, on 6 March 2020, the Company conditionally raised approximately £0.975 million (before expenses) through an equity placing which, if approved by shareholders, will bolster the Company's financial position.

As at 31 December 2019, the Group's net assets were £2,768,073 (2018: £4,187,730) of which £1,325,739 (2018: £2,615,455) were cash and cash equivalents.

Net current assets were £1,475,972 as at 31 December 2019, compared to net current assets of £2,839,916 as at 31 December 2018. The main impact on net current assets was the new funding secured by the Group.

Group borrowings were £74,918 (representing finance lease agreements) as at 31 December 2019 (2018: £152). The increase in borrowings is due to the adoption of the new IFRS 16 reporting standard which has reclassified our office operating lease commitment as a current liability of the Company. Traditional bank borrowings remained at zero at year end.

The Group's financial position is a reflection of the funding received during the year and the Board's strategy.

#### Enhancing Shareholder Value

The Board's aim is to deliver increasing and sustainable shareholder value. As such, we have focused the resources of the Group into the areas which the Board believes will give the Group its greatest chance of success.



**David Rae, Chief Financial Officer**

Date: 16 March 2020

# LOCATION SCIENCES GROUP PLC

## STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors present their strategic report for the year ended 31 December 2019.

### Fair review of the business

The fair review of the business is set out in the Chief Executive Officer's and Chief Financial Officer's reviews, which describe in detail the financial results, placing and open offer, overhead run rate and future plans for Location Sciences.

The Board monitors progress on the overall Group strategy and the individual strategic elements by reference to KPIs. The primary measures are revenue, costs, EBITDA before exceptional items and working capital levels.

Reporting on the KPI targets set for 2019, the Board is pleased to inform shareholders that two of its three targets were exceeded, specifically:

1. The number of brands which had adopted Verify at the end of 2019 was 136, compared to the target set for 2019 of 50 new brands;
2. The number of Verified ad impressions at year end was over 1 billion, compared to the target of 1 billion for the year; and
3. The number of location advertising suppliers accredited by the Company during the year was one, versus a target of six for 2019.

While it was pleasing to see so many new brands utilising Verify and to verify more than 1 billion impressions in the year, the slower uptake from location advertising suppliers was a disappointment and something the Directors are addressing in 2020 through a refined and more focused sales strategy.

Moving forward the Board has updated its KPI targets for 2020 to the following:

1. An additional 100 brands to adopt Verify;
2. To Verify more than two billion ad impressions; and
3. To accredit a further three new location advertising suppliers.

The Group achieved 60% growth in like-for-like sales in 2019 compared to 2018. Going forward the Board believes that completion of these new KPI targets will deliver significant value to shareholders.

### Principal risks and uncertainties

The principal and commercial risks to the Group are as follows:

Description	The Group does not achieve sufficient commercial success before existing competitors or new entrants enter the market.
Impact	The current plans of the Group may not be realised, and the Group may have to re-evaluate its business plan.
Mitigation	The Board considers the know-how, existing products and customer relationships to be already in place. This creates a significant barrier to entry for new competitors, and for existing competitors to threaten the Group's market position.
Description	Location Sciences Group PLC continues to be in a cash consumption phase.
Impact	There is a risk that the Group may face working capital and cash flow challenges if the business plan is not delivered as expected. Going concern has been carefully considered and details are provided in the Corporate Governance Report below and in note 2 of the Group's financial statements.
Mitigation	Notwithstanding IFRS 16 application, the Group is debt free and raised £0.6 million in new funds during 2019, welcoming new institutional shareholders in the process. Notwithstanding the actions already taken, there are a number of options available to the Group, which include structuring sales contracts beneficially, and requiring payment up-front, as well as making cost reductions, if required. Historically, Location Sciences Group PLC has continued to meet obligations through debt and equity fund raises.

## LOCATION SCIENCES GROUP PLC

### STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

Description	Changes in regulation negatively impact the Group's market.
Impact	The Group may find the demand for their products reduced and / or the Group may be forced to change or stop selling one or more of its products.
Mitigation	The Board takes account of commentators and industrial bodies as to the direction of policy change. The Group has also diversified its product range, reducing any potential legislative impact on the business going forward. Currently, the Board sees the new Privacy regulations as an opportunity for Locations Sciences to grow, especially through its Verify product as awareness of publisher bad practice grows amongst media agencies and advertisers.

The Board meets regularly to review specific and general risks that face the Group. The Board strives to position the Group in a way that any risks can be minimised and met, should the need arise.

The Group's performance is dependent on its products and solutions keeping pace with market. This includes technological developments, frequent introduction of new services and products and evolving industry standards. Advances in technology may result in changing customer preferences for products and services and delivery formats. Any such change in preferences may be rapid.

The Group manages this risk by a commitment to research and development, combined with ongoing dialogue with key industry players and engagement with the regulatory landscape. This includes monitoring requirements and compliance for privacy regulations.

#### **Strategic risks**

In 2019 the Group responded to the global market opportunity and broadened its product offering. The global Verify platform has established a core customer base and has significant potential for further growth in 2020. The launch of additional Verify products such as Supply and Audience introduces new opportunities with an expanded customer base, namely brands, suppliers and media agencies.

This report, in conjunction with the Chief Executive Officer's Report form the Strategic Report for the purposes of s414A of the Companies Act 2006.

#### **Section 172 statement**

The Directors believe that they have effectively implemented their duties under section 172 of the Companies Act 2006 through adherence to the Quoted Companies Alliance Corporate Governance Code, as disclosed on pages 15 to 18 and as published on our website: [www.locationsciencesgroup.ai/investor-relations/board-governance](http://www.locationsciencesgroup.ai/investor-relations/board-governance). The Chairman's Report and Chief Executive's Review details the Group's future plans to achieve its long term strategy.

The Group are committed to maintaining an excellent reputation and strive for high standards, while maintaining an awareness of the environmental impact of the work that they do and strive to reduce their carbon footprint.

The Directors recognise the importance of the wider stakeholders in delivering their strategy and achieving sustainability within the business; in ensuring that all our stakeholders are considered as part of every decision process we believe we act fairly between all members of the company.



**David Rae, Chief Financial Officer**

Date: 16 March 2020



# LOCATION SCIENCES GROUP PLC

## CORPORATE GOVERNANCE

The application of the UK Corporate Governance Code (“Code”) and corporate governance during the period 1 January 2019 to 31 December 2019 (“Year”).

The Board recognises the importance of good corporate governance in order to protect and build upon the substantial investments made by our diverse shareholder base. We have chosen to apply the Quoted Companies Alliance Corporate Governance Code (the ‘QCA Code’), which was developed by the QCA in consultation with a number of significant institutional small company investors, as an alternative corporate governance code applicable to AIM companies. The underlying principle of the QCA Code is that “the purpose of good corporate governance is to ensure that the company is managed in an efficient, effective and entrepreneurial manner for the benefit of all shareholders over the longer term”. The Board anticipates that whilst the Company will continue to comply with the QCA Code, given the Group’s size and plans for the future, it will also endeavour to have regard to the provisions of the UK Corporate Governance Code as best practice guidance to the extent appropriate for a company of its size and nature.

An explanation of how these principles have been applied is set out both below and in the Directors’ remuneration, Audit Committee and internal control sections of this report.

Certain information required under the QCA code is included within the Strategic report and the Directors Remuneration Report.

<b>Name</b>	<b>Date Appointed</b>	<b>Role</b>	<b>Committees</b>
Kelvin Harrison	15/02/2017	Chairman	Remuneration, Nomination, Audit
Mark Slade	24/07/2017	CEO	-
Benjamin Chilcott	21/03/2018	Non-Executive Director	Remuneration, Nomination, Audit
David Rae	12/02/2018	CFO/COO	-
Niall Hogan	01/05/2019	Non-Executive Director	-
Donnie Williams	23/05/2019	Non-Executive Director	-

The Board is responsible to the shareholders for the proper management of the Group through setting the overall strategy of the business and to review the people, performance, policies and budgets of the Group. The Board typically meets bi-monthly and also meets for any other extraordinary matters as they may arise. Detailed information on matters to be discussed during the meetings are circulated in advance of the meeting to ensure non-executive directors can contribute in an educated manner.

### **Independence of Chairman and Chief Executive Officer**

The roles of the Chairman, Kelvin Harrison, and the Chief Executive Officer, Mark Slade, have a formal division. The Chairman is responsible for overseeing the Board and ensuring no individual or group takes control of the Board’s decision making and that all non-executive directors are fully briefed on matters and their responsibilities. The Chief Executive Officer has the responsibility of executing the strategy of the Board and running the day-to-day activities of the business.

### **Board Balance**

A minimum of fifty per cent. of the Board will always consist of non-executive directors including the Chairman. All non-executive directors are independent of the management team and are not involved in any other business or relationship, both as an executive or non-executive, which may impair their independent nature and judgement.

# LOCATION SCIENCES GROUP PLC

## CORPORATE GOVERNANCE (CONTINUED)

### **Nomination Committee**

The Group's nomination committee is responsible for reviewing and making proposals to the Board on the appointment of Directors and meets as necessary. The Group's nomination committee consists of Kelvin Harrison, who acts as Non-Executive Chairman of the committee, and Benjamin Chilcott.

### **Performance Evaluation and Re-election**

The Board has carried out a formal evaluation of its effectiveness and performance during the year, taking into account the Financial Reporting Council's Guidance on Board Effectiveness. Director appraisals will be performed during 2020 to ensure that their performance is, and continues to be, effective, that where appropriate they maintain their independence and that they are demonstrating continued commitment to the role. The Directors will be evaluated internally based on their responsibilities to the board. New Directors resign and stand for re-election at the Group's first AGM following their appointment. One-third of continuing Directors stand for re-election on an annual basis.

The Directors carry out continued professional development throughout the year where appropriate and each Director keeps up to date with market changes through the use of market articles and industry contacts.

### **Remuneration Committee**

The Group's remuneration committee is responsible for the specific remuneration and incentive packages for each of the company's executive directors, senior executives and managers. The Group's Remuneration Committee consists of Benjamin Chilcott and Kelvin Harrison, who acts as Non-Executive Chairman of the committee. Further details of the Committee's remit are contained in the Directors' Remuneration Report on pages 19 to 20.

### **Relations With Shareholders**

The Group encourages two-way communication with both its institutional and private investors and responds promptly to all queries received. The CEO and CFO communicate regularly with the Group's institutional shareholders and ensure that their views are communicated fully to the Board. The Board recognises the Group's AGM as an important opportunity to meet with the Group's private shareholders. The Directors are available to listen to the views of shareholders informally immediately following the AGM. The Directors have also organised various events throughout the year (presentations, seminars, webinars) for existing and potential shareholders to gain a greater understanding of the Group's strategy, products and market.

### **Annual General Meeting**

The Annual General Meeting of the Group provides shareholders with the opportunity to be updated on the Group's progress and to ask questions of the Board.

### **Financial Reporting and Internal Control**

The Company has established policies covering the key areas of internal financial control and the appropriate procedures, controls, authority levels and reporting requirements which must be applied throughout the Group.

The key procedures that have been established in respect of internal financial control are:

- An annual budget set by the Board
- Monthly management accounts with comparisons to budget
- Monthly forecast updates with comparisons to budget
- Monthly cashflow forecasts with comparisons to budget
- Dual bank signatories and separation of creation and approval of online bank payments
- Weekly meetings of the Executive Directors and Senior Management to review priorities and issues
- Restriction of user access to systems, including but not limited to Financial, HR and Technology.

The above controls have been established to support the growth of the business and to protect against future risks.

# LOCATION SCIENCES GROUP PLC

## CORPORATE GOVERNANCE (CONTINUED)

### Corporate Culture

It is the Board's view that the Group's corporate culture is consistent with its objectives, strategy and business model. The Board is aware that the culture set by the Board will greatly impact all aspects of the Group and the way that employees behave. The Board invites employees to provide feedback on their peers and management. Quarterly one-to-ones are held between managers to gather feedback and to review current performance against their objectives. Quarterly staff events are undertaken for management to feedback on the overall progress of the business and to assess the culture of the Group.

### Consolidated Accounts

The aforementioned Financial Reporting and Internal Controls apply to all subsidiaries. The accounts of all subsidiaries are combined with those of the Company to form consolidated accounts each month. The Chief Financial Officer is responsible for producing the consolidated accounts, including the elimination of intercompany transactions and balances.

### Audit Committee

The Group's audit committee is responsible for ensuring the financial performance of the Group is properly monitored and reported on, the effectiveness of accounting systems and financial reporting procedures. The Group's Audit Committee consists of Benjamin Chilcott and Kelvin Harrison, who acts as Non-Executive Chairman of the committee.

The Committee considers all proposals for non-audit services and ensures that these do not impact on the objectivity and independence of the auditor. The Audit Committee reviews, with the external auditor, the safeguards and procedures developed by the auditor to counter threats or perceived threats to their objectivity and independence. Non-audit services performed by the external auditor are assessed for threats to objectivity and independence on a case-by-case basis.

### Board and Committee Attendance

Name	Main Board	Audit Committee	Remuneration Committee	Nomination Committee
Kelvin Harrison	8/8	2/2	2/2	1/1
Mark Slade	8/8	-	-	-
David Rae	8/8	-	-	-
Benjamin Chilcott	7/8	2/2	2/2	1/1
Niall Hogan (Appointed 01 May 2019)	5/8	-	-	-
Donnie Williams (Appointed 23 May 2019)	5/8	-	-	-

## LOCATION SCIENCES GROUP PLC

### CORPORATE GOVERNANCE (CONTINUED)

#### Going concern

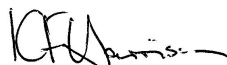
The directors have taken a view of the Group as a whole.

The Group progressed well during the year, with an increase of almost 60% in revenues compared to 2018. Additionally, Verify's growth was exceptional, the Group delivered more than nine times increase in revenues compared with 2018. However, the Group continued to operate with a trading loss during the year and the same is expected throughout 2020. The Group raised an additional £0.6 million in new investment during the year, which will be utilised for the growth of Verify and for working capital purposes. Excluding IFRS 16 liabilities, the Group also remains debt free.

Notwithstanding the positive progress made in 2019, there remains a sensitivity to the timing and forecast pipeline of sales. Consequently, near term cash resources will continue to be closely monitored and controlled due to the associated working capital requirements of the Group in delivering its growing order pipeline and winning new business. To deliver its growth plans, subject to shareholder approval, further capital has been raised post year end, as disclosed in the Directors' Report, and the Board may also consider raising additional capital in 2020.

Based on the current status, after making enquiries and considering the progress of the Group during 2019, the Directors have a reasonable expectation that the Group will be able to execute its plans in the medium term such that the Group will have adequate resources to continue in operational existence for the foreseeable future. This provides the Directors with assurance on the Group's ability to continue as a going concern, and therefore adopt the going concern basis of accounting in preparing the annual financial statements.

On behalf of the Board



**Kelvin Harrison, Chairman**

Date: 16 March 2020

# LOCATION SCIENCES GROUP PLC

## DIRECTORS' REMUNERATION REPORT

As a Company listed on AIM, Location Sciences Group PLC is not required to present a directors' remuneration report, however, a number of voluntary disclosures have been made. The Company has complied with the disclosure requirements set out in the AIM Rules for Companies.

### Remuneration Committee

The Remuneration Committee, consisting of the chairman Kelvin Harrison and Benjamin Chilcott, determines the Group's policy for executive remuneration and the individual remuneration packages for executive directors. In setting the Group's remuneration policy, the committee considers a number of factors including:

- salaries and benefits available to executive directors of comparable companies;
- the need to both attract and retain executives of appropriate calibre; and
- the continued commitment of executives to the Group's development through appropriate incentive schemes (including the award of share options).

### Remuneration of executive directors

Consistent with this policy, benefit packages awarded to executive directors comprise a mix of basic salary and performance-related remuneration that is designed as an incentive. The remuneration packages can comprise the following elements:

- base salary: the Remuneration Committee sets the base salaries to reflect responsibilities and the skills, knowledge and experience of the individual;
- bonus scheme: the executive directors are eligible to receive a bonus dependent on both individual and Group performance as determined by the Remuneration Committee;
- equity: share options; and
- various other add on benefits such as private medical insurance.

The executive directors are engaged under separate contracts which require a notice period of three or six months given at any time by the individual.

### Remuneration of non-executive directors

The fees and equity awarded to non-executive directors are determined by the Board. The non-executive directors do not receive any other forms of benefit such as private medical insurance.

### Year to 31 December 2019

Director	Salary and fees £	Bonus £	Pension £	Benefits £	Share based payments £	Total £
M Slade (Executive)	150,000	-	1,180	1,746	8,180	161,106
K Harrison (Non-executive)	45,000	-	657	-	304	45,961
S Gregory** (Non-executive)	-	-	-	-	-	-
D Rae (Executive)	84,000	52,404	1,180	3,900	10,241	151,725
B Chilcott (Non-executive)	24,000	-	492	-	-	24,492
N Hogan (Non-executive)	* 36,000	-	-	-	-	36,000
D Williams (Non-executive)	* 55,283	-	-	-	-	55,283
	<u>303,000</u>	<u>52,404</u>	<u>3,509</u>	<u>5,646</u>	<u>18,725</u>	<u>474,567</u>

\* Included within directors' remuneration for N Hogan and D Williams is remuneration of £36,000 and £31,604 respectively that was settled by issue of shares.

\*\* Resigned 31 January 2019.

## LOCATION SCIENCES GROUP PLC

### DIRECTORS' REMUNERATION REPORT (CONTINUED)

Year to 31 December 2018

Director	Salary and fees £	Bonus £	Pension £	Benefits £	Share based payments £	Total £
M Slade (Executive)	131,250	116,473	701	677	7,423	256,524
K Harrison (Non-executive)	30,833	-	264	-	276	31,373
S Gregory (Non-executive)	6,000	-	-	-	-	6,000
D Francis (Executive)	104,773	-	432	1,085	-	106,290
D Rae (Executive)	64,577	-	603	-	8,288	73,468
B Chilcott (Non-executive)	20,000	-	304	-	-	20,304
	<u>357,433</u>	<u>116,473</u>	<u>2,304</u>	<u>1,762</u>	<u>15,987</u>	<u>493,959</u>

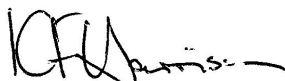
Full details of the Directors' options over Ordinary shares of 1p are detailed below:

Director	Grant Date	Exercise Price	At 31 December 2019 Number	At 31 December 2018 Number
M Slade (Executive)	29/11/2018	2.25p	15,555,556	15,555,556
D Rae (Executive)	29/11/2018	2.25p	7,333,333	7,333,333
K Harrison (Non-executive)	29/11/2018	2.25p	577,778	577,778

Notes: The options will vest in three equal tranches when certain share price targets have been reached, the share price targets are as follows:

- 4.8 pence per New Ordinary Share
- 7.3 pence per New Ordinary Share
- 9.7 pence per New Ordinary Share

On behalf of the Board



**Kelvin Harrison Chairman, Remuneration Committee**

Date: 16 March 2020

# LOCATION SCIENCES GROUP PLC

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors are pleased to present the annual report and audited financial statements of Location Sciences Group PLC for the year ended 31 December 2019.

### **Dividends**

The Directors do not recommend the payment of a dividend.

### **Board of Directors**

#### **Kelvin Harrison, Non-Executive Chairman**

Kelvin joined Location Sciences as Non-Executive Chairman in February 2017. He is a chartered engineer with extensive experience in executive and non-executive roles across the information technology, media and telecommunications sector. His involvement has spanned from start up, through VC and PE investment to IPOs on LSE and AIM and exits via trade sale. He was previously CEO of Vega Group Plc and Maxima Holdings Plc, which he founded and grew to more than £50M revenues, £9M PBT and 500 staff. He was also CEO of Symbionics Group, a pioneer in wireless technologies such as Bluetooth, and an NED with UBC Media Group Plc.

He has led high growth of revenues and profits in British and International businesses, with a recent focus on Software as a Service (DaaS). He was Chairman of NetDespatch which was recently purchased in a strategic acquisition by Royal Mail Group. He is also Chairman of Clixifx.

#### **Mark Slade, Chief Executive Officer**

Mark joined the Board on 24 July 2017 as an executive director. Mark is one of the advertising industry's leading lights with numerous senior relationships across the ad tech and media giants. He joined from Opera Mediaworks, where he was Managing Director, EMEA. Mark founded and sold his mobile advertising business 4th Screen to Opera, and then helped grow the business to over \$100m in revenues. Mark's expertise is in executing in a high growth ad tech sector as well as European acquisitions. Mark is also a founding member of the IAB mobile council.

#### **David Rae, Chief Financial Officer**

David joined the Board in February 2018. David has enhanced the Board's financial and strategic capabilities as well as bringing experience in delivering rapid growth for ambitious companies and international business experience within the technology and energy sectors.

David began his career in 1992 with EY's Entrepreneurial Services team in London, where he focused on fast growth companies. After leaving EY in 1999, David worked in corporate finance where he advised both public and private companies on fundraising and M&A activities. His experience includes SmartXpo, the AI and machine learning company, STC Energy Management, a leading energy software technology provider, as well as Pixel's, a successful digital marketing company recently acquired by Gravity4.

David is a Fellow of the Institute of Chartered Accountants in England and Wales and holds a first-class honours degree in Information Systems and Management Studies from the University of Leeds.

#### **Benjamin Chilcott, Non-Executive Director**

Benjamin was appointed as a non-executive director in March 2018.

Benjamin co-founded the management consultancy company, Concise Consultants Limited, which was acquired by iris Worldwide, the integrated marketing agency in 2008. Post-acquisition, the company became the strategy and consulting arm of iris Worldwide, with Benjamin taking up the role of CEO for iris Concise, as well as serving on the Board of Iris Worldwide. Benjamin is also non-executive Chairman of the electronic receipts company, yReceipts Limited.

## LOCATION SCIENCES GROUP PLC

### DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

#### **Niall Hogan, Non-Executive Director**

Niall was appointed as a non-executive director in May 2019.

Niall has over 18 years' experience in nurturing digital and technology businesses in the UK, European and Asian markets. Most recently, Niall was a managing director at Integral Ad Science Southeast Asia. He joined IAS in 2013 to lead the UK and European team, which he grew from a single employee to more than 65. Since the beginning of 2017, he has been based in Singapore where he was responsible for IAS Southeast Asia and was focused on new business, employee recruitment and ongoing client engagement. Prior to IAS, Niall was the UK Sales Director at Tribal Fusion (now Exponential), where he helped establish the company as a key player in the UK network space. Prior to Tribal Fusion, he held Digital Sales Director roles at Hearst Digital and EMAP Interactive (now Bauer Advertising).

#### **Donnie Williams, Non-Executive Director**

Donnie was appointed as a non-executive director in May 2019.

Donnie has worked at Horizon Media, Inc. for nearly 13 years and has served as Chief Digital Officer since 2010, responsible for business development, operations, capability establishment and implementation, as well as marketing. He has been instrumental in expanding Horizon's digital capabilities, including its performance media services division, as well as its digital experiences practice, providing Horizon clients with comprehensive solutions. He manages an expanding team of more than 300 digital experts with established capabilities in both the New York and Los Angeles offices.

Donnie has served in a number of advisory roles in the past and was also named an OMMA Online All-Star. Prior to Horizon, Donnie worked at Ignited USA and Carat Global. Donnie graduated from the University of Wisconsin in 2000.

#### **Research and development**

Location Sciences continued to invest substantially in research and development. £306,415 (2018: £393,440) of development expenditure has been capitalised as "Intangible Assets". The Group continued to invest in the development of its location intelligence products.

#### **Financial Risk Management**

The Group's financial instruments comprise cash and cash equivalents, trade receivables and payables and borrowings. The main risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk and foreign currency risk.

Interest rate and credit risk – the principal assets of the Group are its cash deposits. These are short-term liquid assets and as a result the exposure to interest rate income risk is not considered significant. The principal focus of the Directors has been to minimise any credit risk in relation to its cash deposits even at the expense of interest income received. Borrowings include financial instruments on fixed interest rate terms and a revolving credit facility at a variable rate. As a result, the exposure to interest rate expense risk is low and no active management of interest rate risk is undertaken by the Board.

Foreign currency risk – the main functional currency is sterling. Throughout 2019, the Company's transactions have primarily been denominated in sterling and the Group has had low exposure to foreign currency risk.

Liquidity risk – the Board's policy is to ensure that sufficient cash and cash equivalents are held on a short-term basis at all times in order to meet the Group's operational needs. The Group does actively raise funds through market placings and other loan facilities.

The Group has been operating at a trading loss due to its stage of development and seeks to ensure that its investments will deliver long term value to shareholders. Liquidity risk is actively managed through regular review of cash requirements of the business in conjunction with the strategic and operational plans for the Group.



# LOCATION SCIENCES GROUP PLC

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

### Substantial shareholdings

As at 24 January 2020 the Directors had been notified of the following holdings representing three per cent. or more of the issued share capital of the Company:

	Number of ordinary shares	Percentage of issued share capital
Barclays PLC	58,630,219	15.57
Canaccord Genuity Group Inc	53,333,344	14.16
Herald Investment Management Limited	24,946,922	6.62
Mr Gavin Breeze	12,540,004	3.33
Hargreaves Lansdown Asset Management	12,446,772	3.30

### Directors

The Directors, who held office during the year, were as follows:

B Chilcott

S Gregory (resigned 31 January 2019)

K Harrison

N Hogan (appointed 1 May 2019)

D Rae

M Slade

D Williams (appointed 23 May 2019)

The Company maintains director and officers' liability insurance.

### Statement of Directors' responsibilities

The Directors acknowledge their responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

# LOCATION SCIENCES GROUP PLC

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

### Directors' interests in shares

The directors held the following interests in Location Sciences Group PLC:

	At 31 December 2019	At 31 December 2019	At 31 December 2018	At 31 December 2018
	Ordinary shares of 1p each	Options over ordinary shares of 1p each	Ordinary shares of 1p each	Options over ordinary shares of 1p each
K Harrison	666,666	577,778	666,666	577,778
M Slade	6,204,444	15,555,555	6,204,444	15,555,555
D Francis	-	-	-	-
D Rae	1,166,667	7,333,333	1,166,667	7,333,333
B Chilcott	-	-	-	-
N Hogan	1,263,158	-	-	-
D Williams	943,397	-	-	-

The market price of the Company's shares at the end of the financial year was 1.33p.

### Important non adjusting events after the financial period

#### Trading update

On 15 January 2020 the Group announced a global data partnership with X-Mode, the foremost location data provider globally. X-Mode acquired the Group's data collection assets, allowing the Group to focus on Verify, while ensuring access to the largest pool of quality location data globally.

On 3 March 2020 the Group announced that it had entered into a global master service agreement with one of the largest global advertising holding companies and a framework agreement with Horizon Media Inc., the world's largest independent media agency, which represent another significant step towards increased market adoption of location verification software.

#### Share capital changes

On 20 January 2020 the Company issued 6,153,840 New Ordinary Shares of 1 penny each in order to settle a debt with one of its suppliers. The Shares rank pari passu with Company's existing shares.

On 6 March 2020 the Group announced the proposed placing of 111,430,000 New Ordinary Shares at the Issue Price of 0.875 pence per New Ordinary Share, raising approximately £975,000 before expenses, subject to shareholder approval. Admission is expected to take place on 27 March 2020. The funds raised are to be used to enable the Group to maintain its position in the UK location data and insights market and allow the growth of Verify, both in the UK and overseas, specifically for US business development, product development and general working capital purposes. Prior to the issue of the new shares the issued share capital of the Company will be reorganised such that it is sub-divided to create two classes of shares: New Ordinary Shares with a nominal value of 0.1 pence and New Deferred Shares with a nominal value of 0.9 pence. The proportion of the issued ordinary share capital of the Company held by each Shareholder immediately before and after the sub-division will remain unchanged. All entitlements under outstanding share options shall be recalculated accordingly as a result of the Sub-division. The New Deferred Shares will have the same rights at the Existing Deferred Shares' they carry no income or voting rights.

The new shares issued will have an anti-dilutive effect on the earnings per share.

## LOCATION SCIENCES GROUP PLC

### DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

#### **Disclosure of information to auditor**

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

- so far as that director is aware, there is no relevant audit information of which the Company's auditor is 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 auditor is aware of that information.

#### **Annual General Meeting**

Notice of the forthcoming Annual General Meeting of the Company together with resolutions relating to the Company's ordinary business will be given to the members separately.

#### **Reappointment of auditors**

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

Approved by the Board on 16 March 2020 and signed on its behalf by:



M Slade  
Director

## LOCATION SCIENCES GROUP PLC

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LOCATION SCIENCES GROUP PLC

#### Opinion

We have audited the financial statements of Location Sciences Group PLC (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2019, which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Statement of Financial Position, Consolidated Statement of Changes in Equity, Statement of Changes in Equity, Consolidated Statement of Cash Flows, Statement of Cash Flows, and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2019 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### Basis for opinion

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

#### Emphasis of matter

In forming our opinion on the financial statements we have considered the adequacy of the disclosures made in the financial statements concerning the Company's and Group's ability to continue as a going concern.

The ability to continue as a going concern relies upon the Group's ability to generate revenue from existing and new clients as projected and raise funds in the short-term. In common with other businesses there can be no certainty as to the timing or occurrence of future revenues and level of funds that the Group is able to raise. This represents a material uncertainty which may cast significant doubt about the Company's and Group's ability to continue as a going concern. The financial statements do not include the relevant adjustments that would result if the Company or Group was unable to continue as a going concern.

#### Conclusions relating to going concern

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

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

## LOCATION SCIENCES GROUP PLC

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LOCATION SCIENCES GROUP PLC (CONTINUED)

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### Our application of materiality

We apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. For the purpose of determining whether the group financial statements are free from material misstatement, we define materiality as the magnitude of a misstatement or an omission from the financial statements or related disclosures that would make it probable that the judgement of a reasonable person, relying on the information would have been changed or influenced by the misstatement or omission. We also determine a level of performance materiality, which we used to determine the extent of testing needed, to reduce to an appropriately low level that the aggregate of uncorrected and undetected misstatements exceed materiality of the group financial statements as a whole.

We establish materiality for the financial statements as a whole to be £90,000, which is 3% of the value of the trading subsidiary's total assets. Key audit risks were identified as revenue recognition; internally developed intangible assets; and going concern.

#### An overview of the scope of our audit

Our audit approach was based on a thorough understanding of the Group's business and is risk based. In arriving at our opinions set out in this report, we highlight the following risks that in our judgment, had the greatest effect on the financial statements.

#### Audit risk

##### Recognition of revenue

Revenue consists of the value of services provided. Revenue recorded for services is recorded to the extent that the Group has performed its contractual obligations. We therefore identified revenue recognition as a risk that required particular audit attention.

#### How we responded to the risk

Our audit work included but was not restricted to:

- For revenue recognised in the year our audit work include, assessing whether the Group's accounting policy for revenue recognition was in accordance with IFRS 15 'Revenue';
- Sampling service sales in the year and comparing them to usage reports and stated performance dates;
- Performing cut-off testing of sales around the year end; and
- Analytical review of revenue recognised in the year including variance review.

## LOCATION SCIENCES GROUP PLC

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LOCATION SCIENCES GROUP PLC (CONTINUED)

#### Audit risk

##### Internally generated intangible assets

The Group has £306,415 of development costs in the year on the balance sheet. The Group capitalises development costs when the following criteria have been met: The product is technically viable, it is intended for sale, a market exists, expenditure can be measured reliably, and sufficient resources are available to allow completion of the project. When the Board is sufficiently confident that these criteria are met, the costs are capitalised. We therefore identified internally generated intangibles as a risk that required particular audit attention.

#### How we responded to the risk

Our audit work included, but was not restricted to:

- Agreeing intangible asset additions to supporting documentation including employee costs and time spent on projects;
- Assessing the nature of the costs being capitalised to ensure they met the required accounting criteria for capitalisation; and
- Discussions were held with management to ensure that all criteria for capitalisation had been met and supporting evidence was obtained to corroborate this.

#### Going concern

Trading performance of the Group has previously indicated the existence of material uncertainty, which may cast significant doubt about the Company and the Group's ability to continue as a going concern.

Our audit work included, but not limited to:

- considering new funds raised in the year;
- review of forecasts prepared by management to support the going concern assumption; and
- review of customer contracts to forecasts.

#### 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.

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

We have nothing to report in this regard.

#### Opinion on other matter prescribed by the Companies Act 2006

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

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

#### Matters on which we are required to report by exception

In the light of our knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

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

## LOCATION SCIENCES GROUP PLC

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LOCATION SCIENCES GROUP PLC (CONTINUED)

- 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.

#### **Responsibilities of directors**

As explained more fully in the Directors' Report set out on page 23, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

#### **Auditor's responsibilities for the audit of the financial statements**

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

#### **Use of this report**

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

Scott Lawrence (Senior Statutory Auditor)  
For and on behalf of Hazlewoods LLP, Statutory Auditor

Windsor House  
Bayshill Road  
Cheltenham  
GL50 3AT

16 March 2020

## LOCATION SCIENCES GROUP PLC

### CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £	2018 £
Revenue	4	1,206,254	751,853
Cost of sales		<u>(398,753)</u>	<u>(382,273)</u>
Gross profit		807,501	369,580
Administrative expenses		(2,545,767)	(1,706,083)
Other operating income	5	<u>25,280</u>	<u>157,927</u>
Operating loss before exceptional administrative expenses, amortisation and depreciation		(1,712,986)	(1,178,576)
Amortisation and depreciation		(558,256)	(454,385)
Administrative expenses - non-recurring item	7	<u>-</u>	<u>(99,801)</u>
Operating loss		(2,271,242)	(1,732,762)
Finance income	8	229	246
Finance costs	8	<u>(12,707)</u>	<u>-</u>
Loss before tax		(2,283,720)	(1,732,516)
Income tax receipt	12	<u>166,908</u>	<u>244,982</u>
Loss for the year attributable to owners of parent		<u><u>(2,116,812)</u></u>	<u><u>(1,487,534)</u></u>
<b>Earnings per share</b>			
Loss per share - basic and diluted		(0.61p)	(0.98p)

The above results were derived from continuing operations.



## LOCATION SCIENCES GROUP PLC

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £	2018 £
Loss for the year		(2,116,812)	(1,487,534)
<b>Other comprehensive income</b>			
Foreign currency translation loss		<u>(3,370)</u>	<u>-</u>
Total comprehensive income for the year attributable to owners of the parent		<u><u>(2,120,182)</u></u>	<u><u>(1,487,534)</u></u>

# LOCATION SCIENCES GROUP PLC

(REGISTRATION NUMBER: 06458458)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Note	2019 £	2018 £
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	14	1,185,237	1,332,915
Property, plant and equipment	15	<u>106,864</u>	<u>14,899</u>
		<u>1,292,101</u>	<u>1,347,814</u>
<b>Current assets</b>			
Trade and other receivables	17	407,321	359,264
Tax asset	12	166,909	235,723
Cash and cash equivalents	18	<u>1,325,739</u>	<u>2,615,455</u>
		<u>1,899,969</u>	<u>3,210,442</u>
<b>Current liabilities</b>			
Trade and other payables	19	(349,079)	(370,374)
Loans and borrowings	20	<u>(74,918)</u>	<u>(152)</u>
		<u>(423,997)</u>	<u>(370,526)</u>
Net current assets		<u>1,475,972</u>	<u>2,839,916</u>
Total assets less current liabilities		<u>2,768,073</u>	<u>4,187,730</u>
<b>Net assets</b>		<u>2,768,073</u>	<u>4,187,730</u>
<b>Equity</b>			
Share capital	23	14,008,033	13,713,498
Share premium		18,508,593	18,168,965
Merger relief reserve		11,605,556	11,605,556
Capital reserve		209,791	209,791
Reverse acquisition reserve		(9,225,108)	(9,225,108)
Retained earnings		<u>(32,338,792)</u>	<u>(30,284,972)</u>
Equity attributable to owners of the company		<u>2,768,073</u>	<u>4,187,730</u>

Approved by the Board on 16 March 2020 and signed on its behalf by:

M Slade  
Director

The notes on pages 38 to 66 form an integral part of these financial statements.

# LOCATION SCIENCES GROUP PLC

(REGISTRATION NUMBER: 06458458)

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Note	2019 £	2018 £
<b>Assets</b>			
<b>Non-current assets</b>			
Investments	16	<u>3,491,764</u>	<u>3,443,414</u>
<b>Current assets</b>			
Trade and other receivables	17	<u>386,284</u>	<u>31,932</u>
<b>Current liabilities</b>			
Trade and other payables	19	<u>(44,506)</u>	<u>(44,507)</u>
Net current liabilities		<u>341,778</u>	<u>(12,575)</u>
Total assets less current liabilities		<u>3,833,542</u>	<u>3,430,839</u>
<b>Net assets</b>		<u>3,833,542</u>	<u>3,430,839</u>
<b>Equity</b>			
Share capital	23	14,008,033	13,713,498
Share premium		18,508,593	18,168,965
Merger relief reserve		11,605,556	11,605,556
Retained earnings		<u>(40,288,640)</u>	<u>(40,057,180)</u>
Total equity		<u>3,833,542</u>	<u>3,430,839</u>

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements. The loss after tax for the parent Company for the year was £279,772 (2018: £3,652,917).

Approved by the Board on 16 March 2020 and signed on its behalf by:



M Slade  
Director

## LOCATION SCIENCES GROUP PLC

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital £	Share premium £	Merger relief reserve £	Capital reserve £	Equity reserve £	Reverse acquisition reserve £	Retained earnings £	Total £
At 1 January 2018	11,677,628	15,189,919	11,605,556	209,791	1,934,797	(9,225,108)	(28,840,852)	2,551,731
Loss for the year	-	-	-	-	-	-	(1,487,534)	(1,487,534)
Total comprehensive income	-	-	-	-	-	-	(1,487,534)	(1,487,534)
New share capital subscribed	2,035,870	2,979,046	-	-	(1,934,797)	-	-	3,080,119
Share-based payments	-	-	-	-	-	-	43,414	43,414
At 31 December 2018	<u>13,713,498</u>	<u>18,168,965</u>	<u>11,605,556</u>	<u>209,791</u>	<u>-</u>	<u>(9,225,108)</u>	<u>(30,284,972)</u>	<u>4,187,730</u>
	Share capital £	Share premium £	Merger relief reserve £	Capital reserve £	Equity reserve £	Other reserve £	Retained earnings £	Total £
At 1 January 2019	13,713,498	18,168,965	11,605,556	209,791	-	(9,225,108)	(30,284,972)	4,187,730
Loss for the year	-	-	-	-	-	-	(2,116,812)	(2,116,812)
Other comprehensive income	-	-	-	-	-	-	(3,370)	(3,370)
Total comprehensive income	-	-	-	-	-	-	(2,120,182)	(2,120,182)
New share capital subscribed	294,535	339,628	-	-	-	-	-	634,163
Share-based payments	-	-	-	-	-	-	48,036	48,036
Transition adjustment upon application of IFRS 16	-	-	-	-	-	-	18,326	18,326
At 31 December 2019	<u>14,008,033</u>	<u>18,508,593</u>	<u>11,605,556</u>	<u>209,791</u>	<u>-</u>	<u>(9,225,108)</u>	<u>(32,338,792)</u>	<u>2,768,073</u>

The notes on pages 38 to 66 form an integral part of these financial statements.

## LOCATION SCIENCES GROUP PLC

### STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital £	Share premium £	Merger relief reserve £	Equity reserve £	Retained earnings £	Total £
At 1 January 2018	11,677,628	15,189,919	11,605,556	1,934,797	(36,447,677)	3,960,223
Loss for the year	-	-	-	-	(3,652,917)	(3,652,917)
Total comprehensive income	-	-	-	-	(3,652,917)	(3,652,917)
New share capital subscribed	2,035,870	2,979,046	-	(1,934,797)	-	3,080,119
Equity element of convertible loan	-	-	-	-	43,414	43,414
At 31 December 2018	<u>13,713,498</u>	<u>18,168,965</u>	<u>11,605,556</u>	<u>-</u>	<u>(40,057,180)</u>	<u>3,430,839</u>

	Share capital £	Share premium £	Merger relief reserve £	Equity reserve £	Retained earnings £	Total £
At 1 January 2019	13,713,498	18,168,965	11,605,556	-	(40,057,180)	3,430,839
Loss for the year	-	-	-	-	(279,772)	(279,772)
Total comprehensive income	-	-	-	-	(279,772)	(279,772)
New share capital subscribed	294,535	339,628	-	-	-	634,163
Share based payment	-	-	-	-	48,312	48,312
At 31 December 2019	<u>14,008,033</u>	<u>18,508,593</u>	<u>11,605,556</u>	<u>-</u>	<u>(40,288,640)</u>	<u>3,833,542</u>

The notes on pages 38 to 66 form an integral part of these financial statements.

# LOCATION SCIENCES GROUP PLC

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £	2018 £
<b>Cash flows from operating activities</b>			
Loss for the year		(2,116,812)	(1,487,534)
Adjustments to cash flows from non-cash items			
Depreciation and amortisation		558,256	454,385
Foreign exchange (gain)/loss		(3,370)	7,739
Finance income	8	(229)	(246)
Finance costs	8	12,707	-
Share based payment transactions		48,036	43,414
Income tax expense		(166,908)	(244,982)
Shares issued other than for cash		67,604	-
		<u>(1,600,716)</u>	<u>(1,227,224)</u>
Working capital adjustments			
Increase in trade and other receivables		(48,057)	(133,615)
Decrease in trade and other payables		<u>(21,294)</u>	<u>(36,217)</u>
Cash generated from operations		(1,670,067)	(1,397,056)
Income taxes received	12	<u>235,722</u>	<u>202,372</u>
Net cash flow from operating activities		<u>(1,434,345)</u>	<u>(1,194,684)</u>
<b>Cash flows from investing activities</b>			
Interest received	8	229	246
Acquisitions of property plant and equipment	15	(8,371)	(12,421)
Acquisition of intangible assets	14	<u>(306,415)</u>	<u>(393,440)</u>
Net cash flows from investing activities		<u>(314,557)</u>	<u>(405,615)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of ordinary shares, net of issue costs		566,558	3,080,119
Payments to finance lease creditors		(152)	(4,604)
IFRS 16 liability repayment		<u>(107,220)</u>	<u>-</u>
Net cash flows from financing activities		<u>459,186</u>	<u>3,075,515</u>
Net (decrease)/increase in cash and cash equivalents		(1,289,716)	1,475,216
Cash and cash equivalents at 1 January		<u>2,615,455</u>	<u>1,140,239</u>
Cash and cash equivalents at 31 December		<u><u>1,325,739</u></u>	<u><u>2,615,455</u></u>
<b>Non-cash financing activities:</b>			
Share warrants exercised in year		-	1,934,797
Directors fees settled by share issues		67,604	-

For full details on non cash financing activities see note 23.

# LOCATION SCIENCES GROUP PLC

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 £	2018 £
<b>Cash flows from operating activities</b>		
Loss for the year	(279,772)	(3,652,917)
Adjustments to cash flows from non-cash items		
Finance income	-	(42)
Share issues other than for cash	<u>67,604</u>	<u>-</u>
	(212,168)	(3,652,959)
Working capital adjustments		
(Increase)/decrease in trade and other receivables	(354,352)	18,410
Decrease in trade and other payables	<u>(38)</u>	<u>(40,000)</u>
Net cash flow from operating activities	(566,558)	(3,674,549)
<b>Cash flows from investing activities</b>		
Interest received	-	42
<b>Cash flows from financing activities</b>		
Proceeds from issue of ordinary shares, net of issue costs	<u>566,558</u>	<u>3,080,119</u>
Net decrease in cash and cash equivalents	-	(594,388)
Cash and cash equivalents at 1 January	<u>-</u>	<u>594,388</u>
Cash and cash equivalents at 31 December	<u><u>-</u></u>	<u><u>-</u></u>

# LOCATION SCIENCES GROUP PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

### 1 General information

The company is a public company limited by share capital, incorporated and domiciled in England.

The address of its registered office is:  
20 Eastbourne Terrace  
Paddington  
London  
W2 6LG

The company's ordinary shares are traded on the Alternative Investment Market (AIM) of the London Stock Exchange.

### Principal activity

Location Sciences has two distinct products. Firstly, its UK Data and Insights platform, which gives customers access to its data lake of over 36 billion location data points. This helps customers in a variety of ways, for example, competitor and footfall analysis, attribution services for advertisers, and even the ability to enhance the sustainability of transport systems. Secondly, Location Sciences has developed a global platform called Verify, which brings transparency to the location based mobile advertising market. Verify allows marketeers to authenticate where their adverts have been viewed and uses proprietary technology to detect location ad-fraud, which would otherwise go unnoticed.

### 2 Accounting policies

#### Statement of compliance

The group financial statements have been prepared in accordance with International Financial Reporting Standards and its interpretations adopted by the EU ("adopted IFRS's").

#### Summary of significant accounting policies and key accounting estimates

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

#### Going concern

The directors have taken a view of the Group as a whole.

The Group progressed well during the year, with an increase of almost 60% in revenues compared to 2018. Additionally, Verify's growth was exceptional, the Group delivered more than nine times increase in revenues compared with 2018. However, the Group continued to operate with a trading loss during the year and the same is expected throughout 2020. The Group raised an additional £0.6 million in new investment during the year, which will be utilised for the growth of Verify and for working capital purposes. Excluding IFRS 16 liabilities, the Group also remains debt free.

Notwithstanding the positive progress made in 2019, there remains a sensitivity to the timing and forecast pipeline of sales. Consequently, near term cash resources will continue to be closely monitored and controlled due to the associated working capital requirements of the Group in delivering its growing order pipeline and winning new business. To deliver its growth plans, subject to shareholder approval, further capital has been raised post year end, as disclosed in the Directors' Report, and the Board may also consider raising additional capital in 2020.

Based on the current status, after making enquiries and considering the progress of the Group during 2019, the Directors have a reasonable expectation that the Group will be able to execute its plans in the medium term such that the Group will have adequate resources to continue in operational existence for the foreseeable future. This provides the Directors with assurance on the Group's ability to continue as a going concern, and therefore adopt the going concern basis of accounting in preparing the annual financial statements.



# LOCATION SCIENCES GROUP PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

### 2 Accounting policies (continued)

#### Basis of consolidation

The group financial statements consolidate the financial statements of the company and its subsidiary undertakings drawn up to 31 December 2019.

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

The results of subsidiaries acquired or disposed of during the year are included in the income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the group.

The purchase method of accounting is used to account for business combinations that result in the acquisition of subsidiaries by the group. The cost of a business combination is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the business combination. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Any excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised is recorded as goodwill.

Inter-company transactions, balances and unrealised gains on transactions between the company and its subsidiaries, which are related parties, are eliminated in full.

Intra-group losses are also eliminated but may indicate an impairment that requires recognition in the consolidated financial statements.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group. Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling shareholder's share of changes in equity since the date of the combination. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Other than IFRS 16, no new standards have had a material impact on the Group.

#### Changes in accounting policy

For the purpose of the preparation of these consolidated financial statements, the Group has applied all standards and interpretations that are effective for accounting periods beginning on or after 1 January 2019.

#### Initial application of IFRS 16 'Leases'

The Company has adopted IFRS 16 in the financial statements for the first time for the year ended 31 December 2019. IFRS 16 has been applied under the modified retrospective approach and as such there has been no restatement of the prior year figures. IFRS 16 replaces all existing lease requirements under IAS 17. Under IFRS 16 there is no longer any distinction between an operating and a finance lease, all leases now result in the recognition of a financial liability and a 'Right-of-Use' asset for the lessee.

#### New standards, interpretations and amendments not yet effective

No new standards, amendments or interpretations to existing standards that have been published and that are mandatory for the Group's accounting periods beginning on or after 1 January 2020, or later periods, have been adopted early.

None of the standards, interpretations and amendments which are effective for periods beginning after 1 January 2020, and which have not been adopted early, are expected to have a material effect on the financial statements.

## LOCATION SCIENCES GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

#### 2 Accounting policies (continued)

##### Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker for the use in strategic decision making and monitoring of performance. The Group considers the chief operating decision maker to be the Executive Board.

##### Revenue recognition

Revenue represents the invoice value of services and software licences provided to external customers in the period, stated exclusive of value added tax.

Consideration received from customers in respect of services is only recorded as revenue to the extent that the Group has performed its contractual obligations in respect of that consideration. Management assess the performance of the Group's contractual obligations against project milestones and work performed to date.

Revenue from software licences sold in conjunction with services is invoiced separately from those services and recognised over the period of the license.

Revenue from software licences for the use of the technology platform is recognised over the period of the license.

Revenue from software development is recognised to the extent that the Group has obtained the right to consideration through its performance.

The IFRS 15 Practical expedient has been applied whereby the promised amount of consideration has not been amended for the effects of a significant financing component as at the contract inception there are no contracts where the period between transfers of promised goods or services and customer payment is expected to exceed one year.

Under the Group's standard contract terms, customers have a right of return within 30 days. At the point of sale, a refund liability and a corresponding adjustment to revenue is recognised for those products expected to be returned. It is considered highly probable that a significant reversal in the revenue recognised will not occur given the consistent low level of returns over previous years.

##### Grants

Grants received on capital expenditure are initially recognised within accrued income on the Group's Statement of Financial position and are subsequently recognised in the Income Statement on a systematic basis over the useful life of the related capital expenditure.

Grants for revenue expenditure are presented as part of the Income Statement in the periods in which the expenditure is recognised.

# LOCATION SCIENCES GROUP PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

### 2 Accounting policies (continued)

#### Foreign currency transactions and balances

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in sterling, which is the Parent's presentational 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 balance sheet date.

The results and financial position of all Group entities that have a functional currency different from the presentational currency of the Group are translated into sterling follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;
- Income and expenses for each income statement are translated at the average exchange rate for the month where these approximate the exchange rate at the date of the transaction; and
- All resulting exchange differences are recognised within other comprehensive income and taken to the foreign exchange reserve.

#### Tax

The tax expense for the period comprises current tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

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

Deferred tax is provided for using the liability method on temporary differences at the balance sheet date between tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised in full for all temporary differences other than those relating to goodwill on investments in subsidiaries. Deferred tax assets are recognised for all deductible temporary differences carried forward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is assessed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised, or the liability settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

The tax currently receivable is based on the taxable loss for the period and relates to R&D tax credits. Taxable loss differs from net loss as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. This is calculated using rates and laws enacted or substantively enacted at the reporting date

#### Financial instruments

The Group recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire. The Group's accounting policies in respect of financial instruments transactions are explained below:

# LOCATION SCIENCES GROUP PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

### 2 Accounting policies (continued)

#### Financial assets

The Group classifies all of its financial assets as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary assets. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterpart or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the Income Statement. On confirmation that the trade receivable will not be collected, the gross carrying value of the asset is written off against the associated provision.

#### Financial liabilities

The Group classifies all of its financial liabilities as liabilities at amortised cost. Liabilities are classified as current liabilities when the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

#### Intangible assets

##### Goodwill

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is not subject to amortisation but is tested for impairment annually. Goodwill is held in the currency of the acquired entity and revalued to the closing rate at each reporting period date.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Goodwill is allocated to those cash-generating units that are expected to benefit from the synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows. The recoverable amount is tested annually or when events or changes in circumstances indicate that it may be impaired. The recoverable amount is higher of the fair value less costs and the value in use in the Group. An impairment loss is recognised to the extent that the carrying value exceeds the recoverable amount. In determining a value in use, 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 cash generating unit that have not already been included in the estimate of future cash flows.

# LOCATION SCIENCES GROUP PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

### 2 Accounting policies (continued)

#### Internally developed software

Intangible assets are predominantly internally generated software development costs for Location Sciences' technologies. Development costs are capitalised when certain criteria are met. The product must be technically feasible, sale is intended, a market exists, expenditure can be measured reliably, and sufficient resources are available to complete the project. The extent of capitalisation is limited to the amount, which taken together with further related costs, will be recovered from the future economic benefits related to the asset. When the Board is sufficiently confident that all of the criteria for capitalisation are met, development costs are amortised over the expected useful life, currently 5 years, from the date the asset is available for use. Development costs that have been capitalised, but where amortisation has not yet commenced are reviewed annually for impairment. If no intangible asset can be recognised based on the above then development costs are recognised within administrative expenses in the Consolidated Income Statement.

#### Other intangibles

Acquired trademarks and intellectual property rights are recognised as an asset at cost, or deemed cost, less accumulated amortisation and any recognised impairment loss.

#### Amortisation

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

<b>Asset class</b>	<b>Amortisation method and rate</b>
Development costs	20% straight line
Trademarks and intellectual property rights	10% straight line

Amortisation is recognised within administrative expenses and disclosed separately on the Consolidated Income Statement.

#### Property, plant and equipment

Property, plant and equipment is stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

#### Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

<b>Asset class</b>	<b>Depreciation method and rate</b>
Computer equipment	33.33% straight line
Office equipment	33.33% straight line
Right of Use assets	Straight line over lease term

Depreciation is recognised within administrative expenses and disclosed separately on the Consolidated Income Statement

#### Impairment of non-financial assets

At each Statement of Financial Position date, the Group performs an impairment review in respect of goodwill and any intangible assets not yet ready for use and reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered any impairment. If any such indication exists, the recoverable amount of the asset (being the higher of fair value less costs to sell and value in use) is estimated in order to determine the extent of any impairment. Any impairment loss is recognised as an expense in the Consolidated Income Statement in the period in which it was identified.

# LOCATION SCIENCES GROUP PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

### 2 Accounting policies (continued)

#### Investments

Investments are carried at cost, less any impairment in value.

The Company grants options over its equity investments to the employees of its subsidiaries. The carrying value of the investment in this subsidiary is increased by an amount equal to the value of the share-based payment charge attributable to the option holder in the subsidiary.

Dividends on equity securities are recognised in income when receivable.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value, and have a maturity of less than 3 months from the date of acquisition. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash in hand and bank deposits.

#### Trade receivables

Trade receivables are amounts due from customers for licences sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables.

#### Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

#### Leases

Prior to 1 January 2019: Leases in which a significant portion of the risks and rewards are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the Profit and Loss Account on a straight line basis over the period of the lease.

Assets held under finance leases are recognised as assets of the Group at the fair value at the inception of the lease or if lower, at the present value of the minimum lease payments. The related liability to the lessor is included in the Balance Sheet as a finance lease obligation. Lease payments are apportioned between interest expenses and capital redemption of the liability. Interest is recognised immediately in the Consolidated Income Statement, unless attributable to qualifying assets, in which case they are capitalised to the cost of those assets.

Post 1 January 2019: Assets held under leases are recognised as assets of the Group at the fair value at the inception of the lease or if lower, at the present value of the minimum lease payments. The related liability to the lessor is included in the Balance Sheet as a finance lease obligation. Lease payments are apportioned between interest expenses and capital redemption of the liability. Interest is recognised immediately in the Consolidated Income Statement, unless attributable to qualifying assets, in which case they are capitalised to the cost of those assets.

Exemptions are applied for short life leases and low value assets, with payments made under operating leases charged to the Consolidated Income Statement on a straight line basis over the period of the lease.

## LOCATION SCIENCES GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

#### 2 Accounting policies (continued)

##### Equity

Equity comprises:

Share capital - the nominal value of ordinary shares is classified as equity.

Share premium - represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.

Merger relief reserve - the difference between cost or fair value and the nominal value of shares issued on the exchange of shares with Location Sciences AI Limited and on acquisition of subsidiaries where shares are issued as part of the consideration.

Translation reserve - the foreign exchange difference arising on consolidation.

Capital reserve - represents a capital contribution to the Company.

Equity reserve - represents the fair value of warrants over shares issued to Barclays in return for debt waiver in 2017. During 2018 the equity reserve has been transferred to share premium upon exercise of the warrants.

Reverse acquisition reserve - the balance of the amount recognised as issued equity instruments arising on restatement of Location Sciences AI Limited to reflect the parent equity structure, further to the reverse acquisition basis of accounting adopted in 2013 on the share exchange by Location Sciences Group Plc for 100% of the shares of Location Sciences AI Limited.

Retained earnings - includes all current and prior period retained profits/(losses).

##### Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

##### Defined contribution pension obligation

A defined contribution plan is a pension plan under which fixed contributions are paid into a separate entity and has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans contributions are paid publicly or privately administered pension insurance plans on a mandatory or contractual basis. The contributions are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as an asset.

##### Share based payments

The Group operates an equity-settled, share-based compensation plan. Equity-settled share-based payments are measured at fair value at date of grant. The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of the Black Scholes or a binomial options valuation model as appropriate depending on the terms of the options.

# LOCATION SCIENCES GROUP PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

### 3 Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial information in conformity with IFRS requires the directors to make critical accounting estimates and judgements that affect the application of policies and reported amounts of assets and liabilities, income and expenses. An assessment of the impact of these estimates and judgements on the financial statements is set out below.

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. Actual results could differ from these estimates and any subsequent changes are accounted for with an effect on income at the time such updated information is available.

#### **Fair values for employee share schemes**

The establishment of fair values in respect of employee services received in exchange for share options require the exercise of judgement and estimation in respect of the life of the option, the expected dividend yield and, in particular, the volatility of the underlying shares. A calculated value for the latter may not accurately reflect the future share price movements given the Group's stage of development.

#### **Assessing whether development costs meet the criteria for capitalisation**

The point at which development costs meet the criteria for capitalisation is critically dependent on management's judgement of the point at which technical feasibility is demonstrable. Commercial success of the development projects remains uncertain at the time of recognition and therefore impairment reviews are undertaken based on current estimates of future revenue streams. This assessment has resulted in the impairment of £nil (2018: £nil) of development costs, previously capitalised for which the underlying projects are no longer being pursued.

#### **Classification and valuation of financial instruments**

The Group previously issued financial instruments including conversion features and warrants. The valuation of these financial instruments, including Level 3 fair values where there are no observable market inputs, are performed in consultation with third party valuation specialists, with the overall aim of maximising the use of market based information.

#### **Impairment of goodwill and other intangible assets**

There are a number of assumptions management have considered in performing impairment reviews of goodwill and intangible assets, as determining whether such assets are impaired requires an estimation of the value in use of the cash generating units to which goodwill and other intangible assets have been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value. An impairment of goodwill of £nil has been recognised in the year.

#### **Assessing whether revenue meets the criteria for recognition**

Contracts can include both the sale of licences and provision of services including integration and development. Revenue is recognised based on the analysis of individual contracts and the point at which significant risks and reward of ownership transfer is dependent on the contractual terms. In respect of a licence, this would usually be on delivery of the software. Software development and other consulting services generally recognised on the basis of work done but where issues of client acceptance are identified, then revenue is deferred until issues are resolved.



# LOCATION SCIENCES GROUP PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

### 4 Segmental analysis

Operating segments are based on internal reports about components of the Group, which are regularly reviewed and used by the Board for strategic decision making, to allocate resources across segments and to assess performance by segment.

During 2018, the Group maintained a holding company structure with one operating subsidiary. For financial reporting, Location Sciences segments the Group based on its two distinct products. Firstly, its UK Data and Insights platform, which gives customers access to its data lake of over 36 billion location data points. This helps customers in a variety of ways, for example, competitor and footfall analysis, attribution services for advertisers, and even the ability to enhance the sustainability of transport systems. Secondly, Location Sciences has developed a global platform called Verify, which brings transparency to the location based mobile advertising market. Verify allows marketeers to authenticate where their adverts have been viewed and uses proprietary technology to detect location ad-fraud, which would otherwise go unnoticed.

During 2019, the Group incorporated a new subsidiary. This is reported within the Verify segmental reporting.

It should be noted that a segmental analysis of the Balance Sheet is not part of routine management reporting and consequently no segmental analysis of assets is shown here.

The analysis of the Group's revenue from contracts with customers for the year is as follows:

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Verify	495,554	53,922
Location Data and Insights	710,700	697,931
	<u>1,206,254</u>	<u>751,853</u>

An analysis of the Group's revenue by geographical segment is as follows:

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
UK	718,743	481,530
Europe	108,121	20,166
ROW	379,390	250,157
	<u>1,206,254</u>	<u>751,853</u>

All non-current assets of the Group are held in the UK.

During the year there was revenue from individual customers that represented more than 10% of revenue as follows:

	<b>2019</b>
	<b>£</b>
Verify - customer 1	165,220

Average payments terms are set out in Note 17. There are no significant financing components, nor variable consideration elements in customers' contracts.

## LOCATION SCIENCES GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

#### 4 Segmental analysis (continued)

An analysis of EBITDA is as follows:

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Location Data and Insights	(1,009,199)	(1,186,464)
Verify	<u>(703,787)</u>	<u>(91,666)</u>
Total EBITDA	<u><u>(1,712,986)</u></u>	<u><u>(1,278,130)</u></u>

An analysis of loss before tax is as follows:

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Location Data and Insights	(1,345,445)	(1,608,262)
Verify	<u>(938,275)</u>	<u>(124,254)</u>
Total loss before tax	<u><u>(2,283,720)</u></u>	<u><u>(1,732,516)</u></u>

#### 5 Other operating income

The analysis of the Group's other operating income for the year is as follows:

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Government grants	<u><u>25,280</u></u>	<u><u>157,927</u></u>

## LOCATION SCIENCES GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

#### 6 Loss before taxation

Arrived at after charging/(crediting)

	2019 £	2018 £
Depreciation expense *	104,163	13,959
Amortisation expense	454,093	440,426
Research and development expenditure	85,172	313,375
Share based payments	48,036	43,414
Net foreign exchange losses	20,517	7,739
Auditors remuneration		
- Company audit	15,000	15,000
- Subsidiary audit	15,000	10,000
Non-audit services:		
- Tax compliance services	7,000	7,500
- Transaction related long form reports	7,500	11,000
	<u>7,500</u>	<u>11,000</u>

\* Depreciation includes the charge arising on right-of-use assets arising upon initial application of IFRS 16 totalling £93,879 (2018 : £nil).

#### 7 Exceptional items

	2019 £	2018 £
Irrecoverable VAT	-	10,467
Restructuring costs	-	89,334
	<u>-</u>	<u>99,801</u>

#### 8 Finance income and costs

	2019 £	2018 £
<b>Finance income</b>		
Interest income on bank deposits	229	246
<b>Finance costs</b>		
Interest on IFRS 16 lease liabilities	(12,707)	-
Net finance (costs)/income	<u>(12,478)</u>	<u>246</u>

## LOCATION SCIENCES GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

#### 9 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Wages and salaries	1,097,403	1,162,981
Social security costs	129,946	132,378
Pension costs, defined contribution scheme	15,532	16,119
Share-based payment expenses	48,036	43,414
	<u>1,290,917</u>	<u>1,354,892</u>

The average number of persons employed by the group (including directors) during the year, analysed by category was as follows:

	<b>2019</b>	<b>2018</b>
	<b>No.</b>	<b>No.</b>
Finance and operations	3	2
Research and development	9	8
Commercial and client services	5	2
Non-executive directors	4	2
	<u>21</u>	<u>14</u>

#### 10 Key management compensation and directors remuneration

Details of aggregate key management emoluments for the year are as follows:

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Salaries and other short-term employee benefits	452,333	448,043
Pension costs	3,509	2,303
Expense of share-based payments	18,987	15,987
Redundancy payment	-	27,625
	<u>474,829</u>	<u>493,958</u>

The directors are of the opinion that the key management of the Group comprises the executive and the non-executive directors of Location Sciences Group Plc. These persons have authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

Directors' remuneration is disclosed in the Directors' Remuneration Report on pages 19 to 20.

Directors' remuneration includes salaries settled by issue of shares, as disclosed in note 23.

## LOCATION SCIENCES GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

#### 11 Auditors' remuneration

	2019 £	2018 £
Audit of the Company's financial statements	15,000	15,000
Audit of the subsidiaries financial statements	15,000	10,000
	<u>30,000</u>	<u>25,000</u>
All other non-audit services	<u>14,500</u>	<u>18,500</u>

#### 12 Income tax

Tax charged/(credited) in the income statement

	2019 £	2018 £
<b>Current taxation</b>		
UK R&D tax credit	(166,908)	(235,723)
UK R&D tax credit adjustment to prior periods	-	(9,259)
	<u>(166,908)</u>	<u>(244,982)</u>

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2018 - higher than the standard rate of corporation tax in the UK) of 19% (2018 - 19%).

The differences are reconciled below:

	2019 £	2018 £
Loss before tax	<u>(2,283,720)</u>	<u>(1,732,516)</u>
Corporation tax at standard rate	(433,907)	(329,178)
Decrease in current tax from adjustment for prior periods	-	(9,259)
Effect of expenses not deductible	74,688	41,039
Unrecognised deferred tax asset	183,828	209,940
Surrender of tax losses for R&D tax credit	51,800	73,155
Other differences	80,300	(56,096)
Additional deduction for research development expenditure	<u>(123,617)</u>	<u>(174,583)</u>
Total tax credit	<u>(166,908)</u>	<u>(244,982)</u>

Subject to the UK tax authority's agreement, the Group has UK tax losses of approximately £19,680,000 (2018: £18,750,000) available to carry forward and offset against future taxable profits arising from the same trade. The Group has a potential deferred tax asset of £3,340,000 (2018: £3,190,000) which will not be recognised until it is regarded as more likely than not that there will be sufficient taxable profits from which the tax losses can be deducted. In addition, no deferred tax asset is recognised in respect of future tax deductions on exercise of share options.

## LOCATION SCIENCES GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

#### 13 Loss per share

The calculation of loss per share is based on the loss of £2,116,812 (2018: £1,487,534) and on the number of shares in issue, being the weighted average number of equity shares in issue during the period of 348,073,166 1p ordinary shares (2018: 151,100,816 0.01p ordinary shares). A separate adjusted loss per share calculation has been prepared related to the loss before exceptional items.

Note prior year loss per share is reported assuming the share consolidation that took place during the year to facilitate comparability.

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Loss for the financial year	(2,116,812)	(1,487,534)
Add back:		
Exceptional items	<u>-</u>	<u>99,801</u>
Adjusted loss	<u>(2,116,812)</u>	<u>(1,387,733)</u>

#### Earnings per share

Loss per share - basic and diluted	(0.61p)	(0.98p)
Adjusted loss per share - basic and diluted	(0.61p)	(0.98p)

#### Dilutive instruments

Instruments that could potentially dilute basic loss per share in the future but are not included in the calculation of diluted loss per share because they are anti-dilutive, relate to shares issued post year end, deferred shares and share options. See notes 23 and 24 for further details of the share options and note 28 for details of post balance sheet date share issues.

## LOCATION SCIENCES GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

#### 14 Intangible assets

##### Group

	Trademarks £	Internally generated software development costs £	Intellectual property rights £	Total £
<b>Cost or valuation</b>				
At 1 January 2018	5,102	2,236,830	6,001	2,247,933
Additions	-	393,440	-	393,440
Disposals	<u>(5,102)</u>	<u>(137,524)</u>	<u>(6,001)</u>	<u>(148,627)</u>
At 31 December 2018	-	<u>2,492,746</u>	-	<u>2,492,746</u>
At 1 January 2019	-	2,492,746	-	2,492,746
Additions	-	<u>306,415</u>	-	<u>306,415</u>
At 31 December 2019	-	<u>2,799,161</u>	-	<u>2,799,161</u>
<b>Amortisation</b>				
At 1 January 2018	2,987	860,794	4,250	868,031
Amortisation charge	2,115	436,561	1,751	440,427
Amortisation eliminated on disposals	<u>(5,102)</u>	<u>(137,524)</u>	<u>(6,001)</u>	<u>(148,627)</u>
At 31 December 2018	-	<u>1,159,831</u>	-	<u>1,159,831</u>
At 1 January 2019	-	1,159,831	-	1,159,831
Amortisation charge	-	<u>454,093</u>	-	<u>454,093</u>
At 31 December 2019	-	<u>1,613,924</u>	-	<u>1,613,924</u>
<b>Carrying amount</b>				
At 31 December 2019	-	<u>1,185,237</u>	-	<u>1,185,237</u>
At 31 December 2018	-	<u>1,332,915</u>	-	<u>1,332,915</u>
At 1 January 2018	<u>2,115</u>	<u>1,376,036</u>	<u>1,751</u>	<u>1,379,902</u>

## LOCATION SCIENCES GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

#### 14 Intangible assets (continued)

Internal development represents the cost incurred in developing the Group's DaaS platform and software development, split between the two distinct products UK Data and Insights and Verify, with net book value of £831,125 (2018: £1,146,550) and £354,112 (2018: £186,365) respectively. These internal costs have been capitalised in accordance with the Group's accounting policies where all the conditions for capitalisation have been met.

The Verify and Location Data and Insights intangible assets have on average a remaining amortisation period of 4 and 2 years respectively.

Impairment of research and development is considered within the conditions of capitalisation. Amortisation charges are included in administrative expenses, disclosed separately on the Consolidated Income Statement.

Other intangible assets represent amounts paid to third parties for acquiring trademarks and intellectual property rights.



## LOCATION SCIENCES GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

#### 15 Property, plant and equipment

##### Group

	Computer Equipment £	Office Equipment £	IFRS 16 Right of Use Assets £	Total £
<b>Cost or valuation</b>				
At 1 January 2018	178,989	79,516	-	258,505
Additions	12,421	-	-	12,421
Disposals	(157,734)	(79,516)	-	(237,250)
At 31 December 2018	<u>33,676</u>	<u>-</u>	<u>-</u>	<u>33,676</u>
At 1 January 2019	33,676	-	-	33,676
Additions	5,878	2,493	-	8,371
Acquired through business combinations	-	-	187,757	187,757
At 31 December 2019	<u>39,554</u>	<u>2,493</u>	<u>187,757</u>	<u>229,804</u>
<b>Depreciation</b>				
At 1 January 2018	164,210	77,858	-	242,068
Charge for year	12,301	1,658	-	13,959
Eliminated on disposal	(157,734)	(79,516)	-	(237,250)
At 31 December 2018	<u>18,777</u>	<u>-</u>	<u>-</u>	<u>18,777</u>
At 1 January 2019	18,777	-	-	18,777
Charge for the year	9,730	554	93,879	104,163
At 31 December 2019	<u>28,507</u>	<u>554</u>	<u>93,879</u>	<u>122,940</u>
<b>Carrying amount</b>				
At 31 December 2019	<u>11,047</u>	<u>1,939</u>	<u>93,878</u>	<u>106,864</u>
At 31 December 2018	<u>14,899</u>	<u>-</u>	<u>-</u>	<u>14,899</u>
At 1 January 2018	<u>14,779</u>	<u>1,658</u>	<u>-</u>	<u>16,437</u>

#### Assets held under finance leases and hire purchase contracts

The net carrying amount of property, plant and equipment includes the following amounts in respect of assets held under finance leases and hire purchase contracts:

2019 £	2018 £
<u>-</u>	<u>1,265</u>

## LOCATION SCIENCES GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

#### 16 Investments

##### Company

	2019 £	2018 £
Investments in subsidiaries	<u>3,491,764</u>	<u>3,443,414</u>

	2019 £	2018 £
Investment in subsidiaries	2,414,081	2,414,043
Capital contribution arising from IFRS 2 share based payments charge	<u>1,077,683</u>	<u>1,029,371</u>
	<u>3,491,764</u>	<u>3,443,414</u>

	Subsidiaries £
<b>Cost or valuation</b>	
At 1 January 2018	3,400,000
Revaluation	<u>43,414</u>
At 31 December 2018	<u>3,443,414</u>
At 1 January 2019	3,443,414
Additions	38
Revaluation	<u>48,312</u>
At 31 December 2019	<u>3,491,764</u>
<b>Carrying amount</b>	
At 31 December 2019	<u>3,491,764</u>
At 31 December 2018	<u>3,443,414</u>
At 1 January 2018	<u>3,400,000</u>

## LOCATION SCIENCES GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

#### 16 Investments (continued)

Details of the Group subsidiaries held as direct investments of the Company as at 31 December 2019 are as follows:

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest and voting rights held	
			2019	2018
Location Sciences AI Limited	Location Data and Insights and Verify	Same registered office address as group	100%	100%
Location Sciences Inc	Location Data and Insights and Verify within the US marketplace	1209 Orange Street, Wilmington, New Castle, Delaware, 19801 USA	100%	0%

#### 17 Trade and other receivables

	Group		Company	
	2019 £	2018 £	2019 £	2018 £
Trade receivables	356,911	138,511	-	-
Receivables from related parties	-	-	386,284	-
Accrued income	-	124,702	-	-
Prepayments	20,939	45,125	-	-
Other receivables	29,471	50,926	-	31,932
	<u>407,321</u>	<u>359,264</u>	<u>386,284</u>	<u>31,932</u>

Trade receivables comprise amounts due from customers for services provided. All amounts are short term. The net carrying amount of trade receivables is considered a reasonable approximation of fair value. Average credit terms were 60 days (2018: 30) and average debtor days outstanding were 140 (2018: 69).

All of the Group's trade and other receivables have been reviewed for impairment. An impairment provision of £105,891 (2018: £5,340) has been recognised in the year.

The Group's exposure to credit and market risks, including impairments and allowances for credit losses, relating to trade and other receivables is disclosed in the financial risk management and impairment note.

Trade receivables above include amounts (detailed below) that are past due at the end of the reporting period and which an allowance for doubtful debts has not been recognised as the amounts are still considered recoverable and there hasn't been a significant change in credit quality.

## LOCATION SCIENCES GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

#### 17 Trade and other receivables (continued)

##### Age of trade receivables that are past due but not impaired

	Group	
	2019	2018
	£	£
31 to 60 days	71,416	6,771
61 to 90 days	39,790	61,358
91 to 120 days	48,458	(141)
3 to 6 months	71,593	11,760
	<u>231,257</u>	<u>79,748</u>

#### 18 Cash and cash equivalents

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Cash at bank	<u>1,325,739</u>	<u>2,615,455</u>	<u>-</u>	<u>-</u>

#### 19 Trade and other payables

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Trade payables	120,220	91,543	-	-
Accrued expenses	137,142	106,569	18,999	19,000
Social security and other taxes	52,219	125,061	-	-
Other payables	39,498	47,201	25,507	25,507
	<u>349,079</u>	<u>370,374</u>	<u>44,506</u>	<u>44,507</u>

The directors consider that the carrying amount of trade and other payables approximated their fair value.

Trade payables are paid between 30 and 60 days of receipt of the invoice.

The Group's exposure to market and liquidity risks, including maturity analysis, related to trade and other payables is disclosed in the financial risk management and impairment note.

## LOCATION SCIENCES GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

#### 20 Loans and borrowings

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
<b>Current loans and borrowings</b>				
Finance lease liabilities	-	152	-	-
IFRS 16 liabilities	74,918	-	-	-
	<u>74,918</u>	<u>152</u>	<u>-</u>	<u>-</u>

The Group's exposure to market and liquidity risk; including maturity analysis, in respect of loans and borrowings is disclosed in the financial risk management and impairment note.

Finance lease agreements are secured on the assets concerned. Interest rates are fixed for the term of the agreements which are payable by equal fixed monthly amounts where applicable.

Further information regarding IFRS 16 lease liabilities is provided in note 21.

#### 21 Obligations under leases

##### Group

##### Operating leases

As at 31 December 2018, under IAS 17, the total future value of minimum operating lease payments was as follows:

	<b>2018</b>
	<b>£</b>
Within one year	107,220
In two to five years	<u>80,415</u>
	<u>187,635</u>

The amount of non-cancellable operating lease payments recognised as an expense during 2018 was £79,702.

## LOCATION SCIENCES GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

#### 21 Obligations under leases (continued)

##### IFRS 16

For the year ended 31 December 2019, the following amounts have been recognised under IFRS 16 in relation to property leases:

	<b>2019</b>
	<b>£</b>
Additions to 'right-of-use' assets	187,757
Depreciation charged on 'right-of-use' asset recognised	93,879
Interest expense recognised on lease liability	12,707
Expense incurred in relation to 'short-term' leases	11,200
Obligation at the year end in relation to 'short-term' leases	8,000
Total cash outflow in year in relation to leases	118,420

#### 22 Financial risk management and impairment of financial assets

##### Treasury risk management

The Group manages a variety of market risks, including the effect of changes in foreign exchange rates, liquidity and counterparty risks.

##### Credit risk

The Group's principal financial assets are bank balances, cash, trade and other receivables.

The credit risk on liquid funds is limited because the counterparties are UK banks or "Blue Chip" companies with high credit ratings assigned by international credit rating agencies.

As a result, investment returns and credit risk to the Group in this regard are not material to the financial statements.

The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets at the reporting date. No collateral is held in respect of these amounts which are expected to be received in full. In order to manage credit risk, credit limits are reviewed on a regular basis in conjunction with debt ageing and collection history.

##### Currency risks

The Group's operations are primarily located in the United Kingdom, with an increasing investment into the United States. The Group's transactions during 2019 were predominantly denominated in sterling, with consequently little exposure to foreign currency risks. Due to the limited risks to the Group, forward exchange contracts are not considered necessary and are not used. At the year end, the Group operated both sterling and dollar bank accounts. Going forward the Directors will continue to monitor the currency risk and the potential impact of increasing trade and investment into the United States.

The translation risk on the Group's foreign exchange payables and receivables is considered to be immaterial due to their short-term nature.

## LOCATION SCIENCES GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

#### 22 Financial risk management and impairment of financial assets (continued)

##### Liquidity risk

The Group has sufficient capital resources to meet its external current liabilities as they fall due in 2020.

Operational cash flow represents on going trading revenue and costs, administrative costs and research and development activities. The Group manages its liquidity requirements by the use of both short-term and long-term cash flow forecasts. The Group's policy is to ensure facilities are available as required or to issue equity share capital to ensure cash resources available are in accordance with long-term cash flow forecasts. The Group currently has no overdrawn committed facilities as at 31 December 2019.

The Group actively manages its working capital to ensure it has sufficient funds for operations and planned research and development activities.

The Group's main financial liabilities include trade payables and operational costs. All amounts for trade and other payables are due for payment in accordance with agreed settlement terms with suppliers or statutory deadlines. All such payment terms are within six months.

Liabilities in relation to leases, recognised under IFRS 16, are all due within one year.

##### Capital management

The Group's activities are of a type and at a stage of development where the most suitable capital structure is that of one primarily financed by equity. The directors will reassess the future capital structure when projects under development are sufficiently advanced.

The Group's financial strategy is to utilise its resources and current trading revenue streams to commercialise its products and grow revenues. The Group keeps investors informed of its progress with its projects through regular announcements and raises additional equity finance at appropriate times.

The Group manages capital on the basis of the carrying amount of equity, and debt with regard to maintaining sufficient liquidity to enable the Group to continue to trade and invest in commercialisation. As at the year end the equity to overall financing ratio, excluding IFRS 16 adjustments, is 1 (2018:1).

##### Categories of financial instruments

All of the Group's financial assets are classified as loans and receivables; see note 17. The directors consider that the carrying amount of trade and other receivables approximates their fair value.

All of the Group's financial liabilities are classified as liabilities at amortised cost: see note 19. The directors consider that the carrying amount of trade and other payables approximates their fair value. The contractual maturity of financial liabilities is set out in note 19.

The accounting policies applied are set out in note 2.

## LOCATION SCIENCES GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

#### 23 Share capital

##### Allotted, called up and fully paid shares

	2019		2018	
	No.	£	No.	£
Ordinary shares of £0.01 each	370,497,894	3,704,979	341,044,439	3,410,444
Deferred shares of £0.01 each	<u>1,040,712,398</u>	<u>10,303,054</u>	<u>1,040,712,398</u>	<u>10,303,054</u>
	<u>1,411,210,292</u>	<u>14,008,033</u>	<u>1,381,756,837</u>	<u>13,713,498</u>

##### Reconciliation of shares

	<b>Number of shares</b>
Total number of shares at 1 January 2019	<u>1,381,756,837</u>
8 May 2019 share issue	1,263,158
23 May 2019 share issue	943,397
4 October 2019 share issue	<u>27,246,900</u>
At 31 December 2019	<u>1,411,210,292</u>

##### New shares allotted

- On 8th May 1,263,158 new shares were allotted with a nominal value of £12,632. These shares were issued to non-executive director N.Hogan in replacement of his 12 month remuneration of £36,000.
- On 23rd May 943,397 new shares were allotted with a nominal value of £9,434. These shares were issued to non-executive director D.Williams in replacement of his 12 month remuneration of £31,604.
- On 4th October 27,246,900 shares were allotted pursuant to a placing to certain shareholders, with a nominal value of £272,469 for aggregate consideration of £613,055.

##### Share rights

Ordinary shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

Deferred shares have attached to them no voting, dividend or capital distribution (including on winding up) rights; they do not confer any rights of redemption.

##### Share Warrants

Mike Staten (formerly held by Darwin Capital Limited) holds 5,583,522 share warrants at the year end with an exercise price of 16.92 pence per share. These warrants are exercisable at 16.92 pence per share. For comparison the closing share price on 9 March 2020 was 0.875 pence per share. The fair value of the warrants is not material for adjustment.



# LOCATION SCIENCES GROUP PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

### 24 Share-based payments

The share option scheme was originally adopted by the company on 29 September 2011. It was established to attract and retain the best available personnel for positions of responsibility, to provide additional incentive to employees, officers or consultants of the company and to promote the success of the company's business. Further to the acquisition of the business by Location Sciences Group plc (formerly Proxama plc), the options were granted over shares in the parent entity. The share option scheme was and continues to be administered by the directors.

All outstanding options as at 1 January 2018 and outstanding options issued in March 2018 and May 2018 were surrendered and replaced by options issued in November 2018. Further in 2019 part of the outstanding share options issued in November 2018 were surrendered and replaced by options issued in July 2019. Share options surrendered are accounted for as modified options under IFRS 2. The incremental value of the modified share options is not material.

Share options issued in November 2018, February 2019, May 2019 and October 2019 are to be settled by way of issues of Ordinary Shares. The options have no vesting period, but cannot be exercised until target share prices are achieved and have a maximum term of 10 years.

Further, Location Sciences Group plc consolidated its shares during the year whereby every 100 existing ordinary shares of 0.01 pence was consolidated into one new ordinary share of 1 pence each. As a result the number of shares subject to any option held under share options decreased to one hundredth. This consolidation is reflected in the comparative information below to facilitate comparability.

The target share prices are as follows:

Target A: £0.048  
Target B: £0.073  
Target C: £0.097

The movements in the number of share options during the year were as follows:

	<b>2019</b>	<b>2018</b>
	<b>Number</b>	<b>Number</b>
Outstanding, start of period	34,222,222	15,664,210
Granted during the period	6,700,818	39,177,222
Forfeited during the period	(7,333,333)	(3,081,372)
Surrendered during the period	(3,816,429)	(17,537,838)
Outstanding, end of period	<u>29,773,278</u>	<u>34,222,222</u>

None of the options outstanding at the end of the period are yet exercisable as the target share prices have not yet been achieved.

## LOCATION SCIENCES GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

#### 24 Share-based payments (continued)

The movements in the weighted average exercise price of share options during the year were as follows:

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Outstanding, start of period	2.25	0.40
Granted during the period	2.37	2.25
Forfeited during the period	2.25	2.15
Surrendered during the period	2.25	2.80
Outstanding, end of period	<u>2.28</u>	<u>2.25</u>

The weighted average contractual life of options outstanding at the year end is 3 years (2018: 3 years). The weighted average share price as at the date of grant is 2.41p (2018: 2.35p).

#### Fair value of options granted

The fair value of the equity instruments granted was determined using the Black Scholes Model. This model was selected as it is an industry standard model. The exercise price of all the options in issue is 2.25p per ordinary share. The performance condition includes three target share prices, as set out above. The inputs into the model for options granted in 2019 were as follows:

	<b>2019</b>	<b>2018</b>
Weighted average share price during the period	2.41	2.35p
Exercise price of option	2.25	2.25p
Expected volatility	0.53	53%
Risk-free interest rate	0.02	2%
Probability of achieving criteria	<u>0.50</u>	<u>50%</u>

The expected volatility was determined with reference to historic volatility. The expected life used in the model has been adjusted, based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural consideration and is estimated at 3 years.

The share-remuneration expense for the year recognised in the Profit and Loss is £48,036 (2018: £43,414). Expenses are allocated to Location Sciences AI Limited, the company that receives the employee services.

#### 25 Pension and other schemes

The Group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Group to the scheme and amounted to £9,935 (2018: £16,119). Contributions totalling £3,390 (2018: £1,835) were payable to the scheme at the end of 2019 and are included in creditors.

#### 26 Commitments

No capital expenditure was committed to as at 31 December 2019 (2018: £Nil).

## LOCATION SCIENCES GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

#### 27 Related party transactions

During the year sales of £Nil (2018: £15,000) were made to Concise Consultants Limited, a company of which B Chilcott is a director. As at 31 December 2019, the balance owed by Concise Consultants Limited was £Nil (2018: £Nil).

During the year purchases of £15,000 (2018: £Nil) were made to Alderslade Limited, a company of which K Harrison is a director. As at 31 December 2019, the balance owed to Alderslade Limited was £1,500 (2018: £Nil).

Key management personnel are considered to be the directors of the company and key management compensation is disclosed in note 10 to the financial statements and in the Directors' Remuneration Report on pages 19 to 20 of the financial statements.

#### 28 Non adjusting events after the financial period

##### Trading update

On 15 January 2020 the Group announced a global data partnership with X-Mode, the foremost location data provider globally. X-Mode acquired the Group's data collection assets, allowing the Group to focus on Verify, while ensuring access to the largest pool of quality location data globally.

On 3 March 2020 the Group announced that it had entered into a global master service agreement with one of the largest global advertising holding companies and a framework agreement with Horizon Media Inc., the world's largest independent media agency, which represent another significant step towards increased market adoption of location verification software.

##### Share capital changes

On 20 January 2020 the Company issued 6,153,840 New Ordinary Shares of 1 penny each in order to settle a debt with one of its suppliers. The Shares rank *pari passu* with Company's existing shares.

On 6 March 2020 the Group announced the proposed placing of 111,430,000 New Ordinary Shares at the Issue Price of 0.875 pence per New Ordinary Share, raising approximately £975,000 before expenses, subject to shareholder approval. Admission is expected to take place on 27 March 2020. The funds raised are to be used to enable the Group to maintain its position in the UK location data and insights market and allow the growth of Verify, both in the UK and overseas, specifically for US business development, product development and general working capital purposes. Prior to the issue of the new shares the issued share capital of the Company will be reorganised such that it is sub-divided to create two classes of shares: New Ordinary Shares with a nominal value of 0.1 pence and New Deferred Shares with a nominal value of 0.9 pence. The proportion of the issued ordinary share capital of the Company held by each Shareholder immediately before and after the sub-division will remain unchanged. All entitlements under outstanding share options shall be recalculated accordingly as a result of the Sub-division. The New Deferred Shares will have the same rights at the Existing Deferred Shares' they carry no income or voting rights.

The new shares issued will have an anti-dilutive effect on the earnings per share.

## LOCATION SCIENCES GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

#### 29 Transition to IFRS 16

##### Group

The financial statements for the year ended 31 December 2019 are prepared applying IFRS 16 'Leases', using the modified retrospective approach and as such there has been no restatement of prior year figures. The following table details the initial impact of applying IFRS 16 as at the transition date of 1 January 2019:

	<b>1 January 2019</b>
	<b>£</b>
Finance lease obligations at 31 December 2018	152
Operating lease obligations as at 31 December 2018	187,635
Relief option for short-term leases	<u>(19,600)</u>
Gross lease liabilities at 1 January 2019	168,187
Discounting	<u>(18,326)</u>
Lease liabilities at 1 January 2018	149,861
Present value of finance lease liabilities at 31 December 2018	<u>(152)</u>
Additional lease liabilities as a result of the initial application of IFRS 16 as at 1 January 2019	<u><u>149,709</u></u>

The lease liabilities were discounted at the borrowing rate as at 1 January 2019, which was determined to be 7.5%.