

Group Strategic Report, Report of the Directors and
Audited Consolidated Financial Statements for the Year Ended 31 December 2021
for
Powtoon Limited

Contents of the Consolidated Financial Statements
for the Year Ended 31 December 2021

	Page
Company Information	1
Group Strategic Report	2
Report of the Directors	4
Report of the Independent Auditors	6
Consolidated Income Statement	10
Consolidated Other Comprehensive Income	11
Consolidated Balance Sheet	12
Company Balance Sheet	13
Consolidated Statement of Changes in Equity	14
Company Statement of Changes in Equity	15
Consolidated Cash Flow Statement	16
Notes to the Consolidated Cash Flow Statement	17
Notes to the Consolidated Financial Statements	18

Powtoon Limited

Company Information
for the Year Ended 31 December 2021

DIRECTORS:	D Nathan I Spitalnik
SECRETARY:	Ms D Beth
REGISTERED OFFICE:	28 Church Road Stanmore HA7 4XR
REGISTERED NUMBER:	07820729 (England and Wales)
SENIOR STATUTORY AUDITOR:	Gordon Levy
AUDITORS:	Gordon Levy Limited Suite 5, 4th floor 3 Universal Square Devonshire Street North Manchester M12 6JH

The directors present their strategic report of the company and the group for the year ended 31 December 2021.

FAIR REVIEW OF THE BUSINESS

Powtoon, Ltd. provides cloud-based, do-it-yourself animated presentation tools to business and education sectors.

Powtoon's greater vision is to bring a visual communication platform to enterprises to increase engagement, customer response, and results within everyday communications. Powtoon develops solutions across different layers of an organisation's business, whether c-suite, marketing, training, HR, IT, or customer support teams. The company was founded in 2012 in London, United Kingdom, with an R&D centre located in Tel Aviv, Israel. We earn revenue primarily through a SaaS business model, selling subscriptions to our cloud-based software on an annual or monthly basis. We employ a "freemium" pricing strategy, offering free membership and access to our video and presentation tools alongside paid subscription plans for advanced video capabilities.

The Powtoon for Business solution inherently includes security and availability features, as well as team management tools to manage licences, members, and hierarchy in an effort to enhance team sharing and collaboration. Users of the Powtoon for Business solution also have access to a dedicated customer support team to help ensure that incidents are resolved timely.

In 2021 we have seen our revenue growth rate decline on the Self Serve side. Many factors may contribute to declines in our growth rate, including high prior period growth and decreased demand associated with the reduction in social distancing efforts, increased competition.

On the Powtoon for Business side we experienced continuous growth in 2021. Our "land-and-expand" strategy has proven to be a continuous success whereby over time, customers expand the usage of Powtoon within their organisations.

Overall turnover of the group increased by 2% year over year as a result of the above.

KEY RISKS

1. Macro-economic environment

Rising costs may impact Powtoon's operation costs. Our cash flow may be insufficient to fund the capital investments we need to make to grow our business. We may need to raise funding through issuing new equity and may also raise additional funds through additional borrowings. To obtain such funding, we may need to collateralise assets and agree to certain financial covenants.

As central banks across the world simultaneously hike interest rates in response to inflation, the world may be edging toward a global recession in 2023 which might slow demand for our product offerings.

2. We may experience service interruptions.

Whilst we aim to provide 100% uptime in any given month there is a risk of not achieving this, due to technical errors (bugs), human error (by employees and contractors), interruptions experienced by key vendors (such as cloud-based service or payment providers), higher than anticipated traffic and/or cyberattacks. This could result in lost business, increased user and subscriber support tickets and increased subscriber churn (lost renewals).

FUTURE DEVELOPMENTS STRATEGY GOING FORWARD

1. Self Serve B2C growth.

We focus on the following areas to drive our growth in the B2C segment:

- Grow our free user base: Our adoption is driven by a continuous cycle of subscribers collaborating on and sharing videos. Every time a free user uploads a video that someone else watches, that viewer experiences what can be created on our platform. As a result, our potential customer base expands each time our free users publish videos made with Powtoon. These actions attract viewers, who may then decide to register and eventually become paying Powtoon users.
- Convert free users into paying subscribers: We provide a high-quality free product with numerous features that have the potential to be used repeatedly, and we offer price- and feature-optimised tiering of our subscription plans to drive organic conversion of free users to subscribers over time.

2. Enterprise B2B growth

We focus on the following areas to drive our growth in the B2B segment:

- Expand the number of employees, teams and departments using our platform and increase contract value organisation-wide and provide ongoing support from a customer success manager to ensure customers are satisfied and renew and grow their contract with Powtoon.
- Launch new products and features aimed at increasing the usage of Powtoon to the organisation level.
- Attend trade shows and exhibitions to enhance brand awareness and drive new leads to our business platform.

ON BEHALF OF THE BOARD:

I Spitalnik - Director

28 December 2022

Report of the Directors
for the Year Ended 31 December 2021

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

DIVIDENDS

There were no dividends distributed in the year ended 31 December 2021 (2020: £700,000).

DIRECTORS

The directors shown below have held office during the whole of the period from 1 January 2021 to the date of this report.

D Nathan
I Spitalnik

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the group's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the group's auditors are aware of that information.

Powtoon Limited (Registered number: 07820729)

Report of the Directors
for the Year Ended 31 December 2021

AUDITORS

The auditors, Gordon Levy Limited, will be proposed for re-appointment at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD:

I Spitalnik - Director

28 December 2022

Opinion

We have audited the financial statements of Powtoon Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2021 which comprise the Consolidated Income Statement, Consolidated Other Comprehensive Income, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Cash Flow Statement and Notes to the Consolidated Cash Flow Statement, Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company affairs as at 31 December 2021 and of the group's profit 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 Auditors' 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.

Conclusions relating to going concern

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

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

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

Other information

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept 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 Statement of Directors' Responsibilities set out on page four, 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 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.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding of the group and parent company and its industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: employment regulation, health and safety regulation, anti-money laundering regulation.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- Inquiring of management and, where appropriate, those charged with governance, as to whether the company is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence, if any, with relevant licensing or regulatory authorities;
- Communicating identified laws and regulations to the engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- Considering the risk of acts by the company which were contrary to applicable laws and regulations, including fraud

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as tax legislation, pension legislation, the Companies Act 2006. In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, revenue recognition (which we pinpointed to the cut-off assertion), and significant one-off or unusual transactions.

Our audit procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing. There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud tests with management.

As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

Report of the Independent Auditors to the Members of
Powtoon Limited

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. This description forms part of our Report of the Auditors.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in a Report of the Auditors 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.

Gordon Levy (Senior Statutory Auditor)
for and on behalf of Gordon Levy Limited
Suite 5, 4th floor
3 Universal Square
Devonshire Street North
Manchester
M12 6JH

28 December 2022

Consolidated Income Statement
for the Year Ended 31 December 2021

		31.12.21	31.12.20
	Notes	£	as restated £
TURNOVER	3	12,209,991	11,928,557
Cost of sales		<u>2,852,949</u>	<u>1,992,828</u>
GROSS PROFIT		9,357,042	9,935,729
Administrative expenses		<u>9,332,121</u>	<u>9,374,528</u>
OPERATING PROFIT	5	24,921	561,201
Interest receivable and similar income		<u>726</u>	<u>17,001</u>
PROFIT BEFORE TAXATION		25,647	578,202
Tax on profit	6	<u>(858,774)</u>	<u>125,426</u>
PROFIT FOR THE FINANCIAL YEAR		<u>884,421</u>	<u>452,776</u>
Profit attributable to: Owners of the parent		<u>884,421</u>	<u>452,776</u>

Consolidated Other Comprehensive Income
for the Year Ended 31 December 2021

	31.12.21	31.12.20
Notes	£	as restated £
PROFIT FOR THE YEAR	884,421	452,776
OTHER COMPREHENSIVE INCOME		
Revaluation reserves	54,414	(32,133)
Other reserves	5,499	(8,413)
Income tax relating to components of other comprehensive income	-	-
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX	<u>59,913</u>	<u>(40,546)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>944,334</u>	<u>412,230</u>
Total comprehensive income attributable to: Owners of the parent	<u>944,334</u>	<u>412,230</u>

Consolidated Balance Sheet
31 December 2021

		31.12.21		31.12.20 as restated	
	Notes	£	£	£	£
FIXED ASSETS					
Intangible assets	11		6,072,832		5,981,850
Tangible assets	12		224,623		239,013
Investments	13		-		-
			<u>6,297,455</u>		<u>6,220,863</u>
CURRENT ASSETS					
Debtors	14	1,513,039		577,861	
Cash at bank and in hand		<u>3,275,600</u>		<u>3,368,911</u>	
		4,788,639		3,946,772	
CREDITORS					
Amounts falling due within one year	15	<u>8,236,240</u>		<u>8,269,607</u>	
NET CURRENT LIABILITIES			<u>(3,447,601)</u>		<u>(4,322,835)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>2,849,854</u>		<u>1,898,028</u>
CAPITAL AND RESERVES					
Called up share capital	17		1,130		1,126
Share premium	18		492,244		484,756
Revaluation reserve	18		22,281		(32,133)
Other reserves	18		30,304		24,805
Retained earnings	18		<u>2,303,895</u>		<u>1,419,474</u>
SHAREHOLDERS' FUNDS			<u>2,849,854</u>		<u>1,898,028</u>

The financial statements were approved by the Board of Directors and authorised for issue on 28 December 2022 and were signed on its behalf by:

I Spitalnik - Director

Company Balance Sheet
31 December 2021

		31.12.21		31.12.20 as restated	
	Notes	£	£	£	£
FIXED ASSETS					
Intangible assets	11		6,072,832		5,981,850
Tangible assets	12		3,140		2,697
Investments	13		765		25
			<u>6,076,737</u>		<u>5,984,572</u>
CURRENT ASSETS					
Debtors	14	1,498,227		431,625	
Cash at bank		<u>2,906,808</u>		<u>2,655,746</u>	
		4,405,035		3,087,371	
CREDITORS					
Amounts falling due within one year	15	<u>9,128,916</u>		<u>8,317,883</u>	
NET CURRENT LIABILITIES			<u>(4,723,881)</u>		<u>(5,230,512)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>1,352,856</u>		<u>754,060</u>
CAPITAL AND RESERVES					
Called up share capital	17		1,130		1,126
Share premium	18		492,244		468,537
Retained earnings	18		<u>859,482</u>		<u>284,397</u>
SHAREHOLDERS' FUNDS			<u>1,352,856</u>		<u>754,060</u>
Company's profit for the financial year			<u>575,085</u>		<u>111,404</u>

The financial statements were approved by the Board of Directors and authorised for issue on 28 December 2022 and were signed on its behalf by:

I Spitalnik - Director

Consolidated Statement of Changes in Equity
for the Year Ended 31 December 2021

	Called up share capital £	Retained earnings £	Share premium £
Balance at 1 January 2020	1,126	1,666,698	468,537
Changes in equity			
Issue of share capital	-	-	16,219
Dividends	-	(700,000)	-
Total comprehensive income	-	452,776	-
Balance at 31 December 2020	<u>1,126</u>	<u>1,419,474</u>	<u>484,756</u>
Changes in equity			
Issue of share capital	4	-	7,488
Total comprehensive income	-	884,421	-
Balance at 31 December 2021	<u>1,130</u>	<u>2,303,895</u>	<u>492,244</u>
	Revaluation reserve £	Other reserves £	Total equity £
Balance at 1 January 2020	-	33,218	2,169,579
Changes in equity			
Issue of share capital	-	-	16,219
Dividends	-	-	(700,000)
Total comprehensive income	(32,133)	(8,413)	412,230
Balance at 31 December 2020	<u>(32,133)</u>	<u>24,805</u>	<u>1,898,028</u>
Changes in equity			
Issue of share capital	-	-	7,492
Total comprehensive income	54,414	5,499	944,334
Balance at 31 December 2021	<u>22,281</u>	<u>30,304</u>	<u>2,849,854</u>

Company Statement of Changes in Equity
for the Year Ended 31 December 2021

	Called up share capital £	Retained earnings £	Share premium £	Total equity £
Balance at 1 January 2020	1,126	872,993	468,537	1,342,656
Changes in equity				
Dividends	-	(700,000)	-	(700,000)
Total comprehensive income	-	111,404	-	111,404
Balance at 31 December 2020	<u>1,126</u>	<u>284,397</u>	<u>468,537</u>	<u>754,060</u>
Changes in equity				
Issue of share capital	4	-	23,707	23,711
Total comprehensive income	-	575,085	-	575,085
Balance at 31 December 2021	<u>1,130</u>	<u>859,482</u>	<u>492,244</u>	<u>1,352,856</u>

Consolidated Cash Flow Statement
for the Year Ended 31 December 2021

		31.12.21	31.12.20
	Notes	£	as restated £
Cash flows from operating activities			
Cash generated from operations	1	2,066,404	4,192,216
Tax paid		<u>167,672</u>	<u>144,016</u>
Net cash from operating activities		<u>2,234,076</u>	<u>4,336,232</u>
Cash flows from investing activities			
Purchase of intangible fixed assets		(2,327,131)	(2,501,504)
Purchase of tangible fixed assets		(64,468)	(3,108)
Currency adjustment		55,994	(27,915)
Interest received		726	17,001
Net cash from investing activities		<u>(2,334,879)</u>	<u>(2,515,526)</u>
Cash flows from financing activities			
Share issue		<u>7,492</u>	-
Net cash from financing activities		<u>7,492</u>	-
(Decrease)/increase in cash and cash equivalents		<u>(93,311)</u>	<u>1,820,706</u>
Cash and cash equivalents at beginning of year	2	3,368,911	1,548,205
Cash and cash equivalents at end of year	2	<u>3,275,600</u>	<u>3,368,911</u>

Notes to the Consolidated Cash Flow Statement
for the Year Ended 31 December 2021

1. **RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS**

	31.12.21	as	31.12.20
	£		restated £
Profit before taxation	25,647		578,202
Depreciation charges	2,315,009		1,926,851
Share options	3,913		3,589
Finance income	(726)		(17,001)
	<u>2,343,843</u>		<u>2,491,641</u>
Increase in trade and other debtors	(186,003)		(87,404)
(Decrease)/increase in trade and other creditors	(91,436)		1,787,979
Cash generated from operations	<u>2,066,404</u>		<u>4,192,216</u>

2. **CASH AND CASH EQUIVALENTS**

The amounts disclosed on the Cash Flow Statement in respect of cash and cash equivalents are in respect of these Balance Sheet amounts:

Year ended 31 December 2021

	31.12.21	1.1.21
	£	£
Cash and cash equivalents	<u>3,275,600</u>	<u>3,368,911</u>

Year ended 31 December 2020

	31.12.20	1.1.20
	as restated £	£
Cash and cash equivalents	<u>3,368,911</u>	<u>1,548,205</u>

3. **ANALYSIS OF CHANGES IN NET FUNDS**

	At 1.1.21	Cash flow	At 31.12.21
	£	£	£
Net cash			
Cash at bank and in hand	<u>3,368,911</u>	<u>(93,311)</u>	<u>3,275,600</u>
	<u>3,368,911</u>	<u>(93,311)</u>	<u>3,275,600</u>
Total	<u>3,368,911</u>	<u>(93,311)</u>	<u>3,275,600</u>

1. STATUTORY INFORMATION

Powtoon Limited is a private company, limited by shares, registered in England and Wales. The company's registered number and registered office address can be found on the General Information page.

2. ACCOUNTING POLICIES

Basis of preparing the financial statements

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

Significant judgements and estimates

Basis of consolidation. The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2021. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

Significant judgements and estimates. The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported. These estimates and judgements are continually reviewed and are based on experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

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

- Determine whether there are indicators of impairment of the group's intangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.
- Determine the expected useful life of each class of tangible asset. This has been determined using both judgement and in comparison to similar assets held by other companies operating in the same or similar industries. Depreciation policies are reviewed annually to ensure their accuracy.
- Determine the fair value of the employee share options issued. This has been estimated using the Black Scholes model. The fair value of the options is re-calculated yearly to make sure that the share based payments cost included in administrative expenses is a reliable estimate.

The were no other key sources of estimation and uncertainty.

2. ACCOUNTING POLICIES - continued

Turnover

The turnover and profit before taxation are attributable to the one principal activity of the group.

Turnover is the amount derived from the provision of services and stated after trade discounts, other sales taxes and net of VAT. Revenue is recognised on a straight line basis based on the service provision period.

Intangible assets

Intangible assets are initially measured at cost. After initial recognition, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

Development costs are being amortised evenly over their estimated useful life of 6 years.

Computer software is being amortised at 33.33% straight line on cost.

Tangible fixed assets

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Long leasehold	- 10% straight line
Fixtures and fittings	- 33% straight line
Computer equipment	- 33% straight line

Financial instruments

Classification. All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a finance transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

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

Recognition and measurement. Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

(a) The contractual return to the holder is (i) a fixed amount; (ii) a positive fixed rate or a positive variable rate; or (iii) a combination of a positive or a negative fixed rate and a positive variable rate.

(b) The contract may provide for repayments of the principal or the return to the holder (but not both) to be linked to a single relevant observable index of general price inflation of the currency in which the debt instrument is denominated, provided such links are not leveraged.

2. ACCOUNTING POLICIES - continued

(c) The contract may provide for a determinable variation of the return to the holder during the life of the instrument, provided that (i) the new rate satisfies condition (a) and the variation is not contingent on future events other than (1) a change of a contractual variable rate; (2) to protect the holder against credit deterioration of the issuer; (3) changes in levies applied by a central bank or arising from changes in relevant taxation or law; or (ii) the new rate is a market rate of interest and satisfies condition (a).

(d) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.

(e) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in levies applied by a central bank or arising from changes in relevant taxation or law.

(f) Contractual provisions may permit the extension of the term of the debt instrument, provided that the return to the holder and any other contractual provisions applicable during the extended term satisfy the conditions of paragraphs (a) to (c).

Debt instruments that are classified as payable or receivable within one year on initial recognition and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment. With the exception of some hedging instruments, other debt instruments not meeting these conditions are measured at fair value through profit or loss.

Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Taxation

Taxation for the year comprises current and deferred tax. Tax is recognised in the Consolidated Income Statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

Current or deferred taxation assets and liabilities are not discounted.

Current tax is recognised at the amount of tax payable using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements. Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference.

2. ACCOUNTING POLICIES - continued

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Foreign currencies

The financial statements are presented in GBP as that is the functional currency of the entities.

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

On consolidation, the assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these translations are taken directly to a separate component of equity.

Going concern

The accounts are prepared on a going concern basis, which assumes that the group will continue operations for the foreseeable future. The group's ability to meet future working capital requirement and therefore continue as a going concern is dependent on it being able to maintain its cash flow. Given that the group is profit making and that projections prepared by the directors demonstrate future revenue growth the business is well placed to operate within its existing cash resources.

Additionally, the group has been successful in raising investment in order to continue operating. The company is therefore in a strong position to continue trading for the foreseeable future.

Pensions

The company operates a defined contribution pension scheme. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in other creditors in the balance sheet. The assets of the scheme are held separately from those of the company in an independently administered fund.

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2021

2. **ACCOUNTING POLICIES - continued**

Share-based transactions

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the Profit and Loss Account over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each Statement of Financial Position date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest.

Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a marking vesting condition. The fair value of the award also takes into account non-vesting conditions. There are either factors beyond the control of the party (such as the company keeping the scheme open or the employee maintaining any contributions required by the scheme).

Where the terms and conditions of the options are modified before they vest, the increase in the fair value of the options, measured immediately before and after modification, is also charged to the Profit and Loss Account over the remaining vesting period.

3. **TURNOVER**

The turnover and profit before taxation are attributable to the one principal activity of the group.

The company has not broken down turnover by geographical location as the directors consider it prejudicial to the interests of the company.

4. **EMPLOYEES AND DIRECTORS**

	31.12.21	31.12.20
	as	restated
	£	£
Wages and salaries	733,077	630,980
Social security costs	<u>64,036</u>	<u>40,420</u>
	<u>797,113</u>	<u>671,400</u>

The average number of employees during the year was as follows:

	31.12.21	31.12.20
	as	restated
Powtoon UK	6	4
Powtoon Israel	<u>62</u>	<u>65</u>
	<u>68</u>	<u>69</u>

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2021

4. EMPLOYEES AND DIRECTORS - continued

The average number of employees by undertakings that were proportionately consolidated during the year was 22 (2020 - 23) .

	31.12.21	as	31.12.20
	£		£
Directors' remuneration	<u>101,450</u>		<u>100,433</u>

5. OPERATING PROFIT

The operating profit is stated after charging:

	31.12.21	as	31.12.20
	£		£
Depreciation - owned assets	78,858		78,556
Development costs amortisation	2,223,796		1,835,941
Computer software amortisation	12,353		12,355
Foreign exchange differences	96,624		494,524
Operating lease payments in respect of land and buildings	<u>393,244</u>		<u>396,303</u>

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2021

6. **TAXATION**

Analysis of the tax charge/(credit)

The UK tax charge/(credit) on the profit for the year was as follows:

	31.12.21	31.12.20
	£	£
Current tax:		
UK Corporation tax	(1,031,402)	3,225
US corporation tax	-	-
Israel Corporation tax	<u>172,627</u>	<u>122,201</u>
UK tax on profit	<u>(858,744)</u>	<u>125,426</u>

Reconciliation of UK tax charge/(credit) included in profit and loss:

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The difference is explained below:

	31.12.21	31.12.20
	£	£
UK profit/ (loss) before tax	(456,319)	114,630
Standard corporation tax calculation in the UK at 19% (2020 19%)	<u>-</u>	<u>21,780</u>
Effects of:		
Expenses not deductible for tax purposes	-	136
Capital allowances in excess of depreciation	-	(590)
Utilisation of tax losses	-	(125,767)
Adjustment to tax charge in respect to previous periods	-	107,666
R&D claim	<u>(1,031,402)</u>	<u>-</u>
UK tax charge/(credit)	<u>(1,031,402)</u>	<u>3,225</u>

Powtoon Limited are carrying forward losses of £4,466,857 (2020: £4,010,539). The deferred tax asset related to those losses at the current tax rate is £848,703 (2020: £762,002) but it is not recognised in the accounts because the company is not expected to use the carried forward losses in the near future.

7. **INDIVIDUAL INCOME STATEMENT**

As permitted by Section 408 of the Companies Act 2006, the Income Statement of the parent company is not presented as part of these financial statements.

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2021

8. **DIVIDENDS**

	31.12.2021 £	31.12.2020 £
Dividend distribution for the year	<u>-</u>	<u>700,000</u>

9. **PRIOR YEAR ADJUSTMENT**

The restatement of the 2020 figures relates to £3.7m of Research & development expenses that had originally been classified as cost of sales, but have been reclassified to administration expenditure to more accurately reflect the nature of those expenses.

10. **AUDITORS' REMUNERATION**

The fee for for the audit of the financial statements was £8,000 (2020: £8,000).

11. **INTANGIBLE FIXED ASSETS**

Group

	Development costs £	Computer software £	Totals £
COST			
At 1 January 2021	11,015,647	37,061	11,052,708
Additions	2,327,131	-	2,327,131
At 31 December 2021	<u>13,342,778</u>	<u>37,061</u>	<u>13,379,839</u>
AMORTISATION			
At 1 January 2021	5,046,150	24,708	5,070,858
Amortisation for year	2,223,796	12,353	2,236,149
At 31 December 2021	<u>7,269,946</u>	<u>37,061</u>	<u>7,307,007</u>
NET BOOK VALUE			
At 31 December 2021	<u>6,072,832</u>	<u>-</u>	<u>6,072,832</u>
At 31 December 2020	<u>5,969,497</u>	<u>12,353</u>	<u>5,981,850</u>

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2021

11. INTANGIBLE FIXED ASSETS - continued

Company

	Development costs £	Computer software £	Totals £
COST			
At 1 January 2021	11,015,647	37,061	11,052,708
Additions	2,327,131	-	2,327,131
At 31 December 2021	<u>13,342,778</u>	<u>37,061</u>	<u>13,379,839</u>
AMORTISATION			
At 1 January 2021	5,046,150	24,708	5,070,858
Amortisation for year	2,223,796	12,353	2,236,149
At 31 December 2021	<u>7,269,946</u>	<u>37,061</u>	<u>7,307,007</u>
NET BOOK VALUE			
At 31 December 2021	<u>6,072,832</u>	<u>-</u>	<u>6,072,832</u>
At 31 December 2020	<u>5,969,497</u>	<u>12,353</u>	<u>5,981,850</u>

12. TANGIBLE FIXED ASSETS

Group

	Long leasehold £	Fixtures and fittings £	Computer equipment £	Totals £
COST				
At 1 January 2021	90,538	192,613	242,329	525,480
Additions	-	7,844	56,624	64,468
At 31 December 2021	<u>90,538</u>	<u>200,457</u>	<u>298,953</u>	<u>589,948</u>
DEPRECIATION				
At 1 January 2021	26,898	50,388	209,181	286,467
Charge for year	9,330	14,151	55,377	78,858
At 31 December 2021	<u>36,228</u>	<u>64,539</u>	<u>264,558</u>	<u>365,325</u>
NET BOOK VALUE				
At 31 December 2021	<u>54,310</u>	<u>135,918</u>	<u>34,395</u>	<u>224,623</u>
At 31 December 2020	<u>63,640</u>	<u>142,225</u>	<u>33,148</u>	<u>239,013</u>

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2021

12. **TANGIBLE FIXED ASSETS - continued**

Company

	Fixtures and fittings £
COST	
At 1 January 2021	13,203
Additions	664
At 31 December 2021	<u>13,867</u>
DEPRECIATION	
At 1 January 2021	10,506
Charge for year	221
At 31 December 2021	<u>10,727</u>
NET BOOK VALUE	
At 31 December 2021	<u>3,140</u>
At 31 December 2020	<u>2,697</u>

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2021

13. **FIXED ASSET INVESTMENTS**

Company

	Share in group undertakings £
COST	
At 1 January 2021	25
Additions	740
At 31 December 2021	<u>765</u>
NET BOOK VALUE	
At 31 December 2021	<u>765</u>
At 31 December 2020	<u>25</u>

The company's investments at the Balance sheet date in the share capital of companies include the following:

Subsidiaries

Powtoon Ltd

Registered office: 30 Haarba'a Street, Tel Aviv 6473926, Israel

Nature of business: Developer of animated online software

	%	Holding:	31.12.2021	31.12.2020
Class of shares:			£	£
Ordinary		100		
Aggregate capital and reserves			1,474,508	1,125,248
Profit for the year			<u>309,441</u>	<u>346,373</u>

Powtoon Inc

Registered office: 201 Spear Street, STE 1100, San Francisco, CA 94105, USA

Nature of business: Retailer of animated online software

	%	Holding:	31.12.2021	31.12.2020
Class of shares:			£	£
Ordinary		100		
Aggregate capital and reserves			20,594	22,738
Loss for the year			<u>(2,774)</u>	<u>(1,714)</u>

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2021

14. **DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	Group		Company	
	31.12.21	31.12.20 as restated	31.12.21	31.12.20 as restated
	£	£	£	£
Trade debtors	313,175	137,709	313,175	137,709
Other debtors	28,970	104,844	26,749	-
Tax	1,031,406	285,267	1,031,406	285,267
VAT	-	26,578	-	-
Prepayments and accrued income	139,488	23,463	126,897	8,649
	<u>1,513,039</u>	<u>577,861</u>	<u>1,498,227</u>	<u>431,625</u>

15. **CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	Group		Company	
	31.12.21	31.12.20 as restated	31.12.21	31.12.20 as restated
	£	£	£	£
Trade creditors	423,422	322,133	366,536	236,433
Amounts owed to group undertakings	-	-	1,801,546	980,178
Tax	174,585	119,548	-	3,225
Social security and other taxes	158,235	126,453	15,102	8,657
Severance pay fund	95,255	86,629	-	-
VAT	28,817	-	75,329	49,548
Other creditors	260,914	977,969	-	745,931
Accruals and deferred income	7,095,012	6,636,875	6,870,403	6,293,911
	<u>8,236,240</u>	<u>8,269,607</u>	<u>9,128,916</u>	<u>8,317,883</u>

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2021

16. **LEASING AGREEMENTS**

Minimum lease payments fall due as follows:

Group

	Non-cancellable operating leases	
	31.12.21	31.12.20 as restated
	£	£
Within one year	419,407	398,133
Between one and five years	<u>104,852</u>	<u>497,666</u>
	<u>524,259</u>	<u>895,799</u>

17. **CALLED UP SHARE CAPITAL**

Allotted, issued and fully paid:

Number:	Class:	Nominal value:	31.12.21	31.12.20 as restated
			£	£
81,990	Ordinary shares	0.01	820	816
31,000	Preference shares	0.01	<u>310</u>	<u>310</u>
			<u>1,130</u>	<u>1,126</u>

18. **RESERVES**

Group

	Retained earnings £	Share premium £	Revaluation reserve £	Other reserves £	Totals £
At 1 January 2021	1,419,474	484,756	(32,133)	24,805	1,896,902
Profit for the year	884,421				884,421
Movement in year	-	7,488	54,414	5,499	67,401
At 31 December 2021	<u>2,303,895</u>	<u>492,244</u>	<u>22,281</u>	<u>30,304</u>	<u>2,848,724</u>

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2021

18. **RESERVES - continued**

Company

	Retained earnings £	Share premium £	Totals £
At 1 January 2021	284,397	468,537	752,934
Profit for the year	575,085		575,085
Movement in year	-	23,707	23,707
At 31 December 2021	<u>859,482</u>	<u>492,244</u>	<u>1,351,726</u>

19. **RELATED PARTY DISCLOSURES**

	31.12.2021 £	31.12.2020 as restated £
Payments made to related party: Greenwave Global Ltd	<u>205,601</u>	<u>305,976</u>

Relationship to company: the director of Greenwave Global Ltd is a first degree relative of a director of Powtoon Ltd.

20. **SHARE-BASED PAYMENT TRANSACTIONS**

The fair value of the share options were measured using the Black Scholes model based on the following assumptions: dividend yield of 0%, expected volatility of 90%, risk free interest rate of 1.54%-3.02% and expected life of 6.25 years.

The following table summarises stock option activity for the year ended 31 December 2021:

	Number of Options	Weighted Avg. exercise price USD
Outstanding as at 1 January 2021	3,920	15
Granted during the year	730	15
Exercised during the year	(668)	15
Cancelled during the year	(434)	15
Outstanding as at 31 Dec 2021	3,460	15

This document was delivered using electronic communications and authenticated in accordance with the registrar's rules relating to electronic form, authentication and manner of delivery under section 1072 of the Companies Act 2006.