

Gravity Sketch Limited

Annual Report and Financial Statements

Year Ended

31 December 2023

Company Number 09228527

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Gravity Sketch Limited

Company Information

Directors	T Hulme H W Nelis D M Paredes Fuentes O A Sosanya
Registered number	09228527
Registered office	Unit 5.01 Piano House 9 Brighton Terrace London SW9 8DJ
Independent auditor	Cooper Parry Group Limited 1 Finsbury Ave Broadgate London EC2M 2PF

Gravity Sketch Limited

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Gravity Sketch Limited

Group Strategic Report For the Year Ended 31 December 2023

Introduction

The directors present their Strategic Report for the year ended 31 December 2023.

Business review

The Group provides a virtual studio for designers to create, communicate, and share in 3D throughout the product design workflow.

The Group's key financial and other performance indicators during the year were as follows:

	2023 \$000s	2022 \$000s
Turnover	4,620	2,416
Loss before tax	10,286	7,986
Cash at bank and in hand	14,116	24,547
Net assets	13,014	23,173
Average number of employees	91	72

The Group's revenue has increased by 91% as a result of new businesses and growing our existing customer accounts through expanding software subscription revenue, offering service packages and going into broader industry vertical network.

Future developments

The directors are confident that the Group is in a good financial position, that the risks that have been identified are being well managed and that the management policies in place are appropriate. The directors will continue to review the state of the market and activities of competitors to ensure the product remains at the cutting edge of design tools. They believe that a continued focus on developing the product will result in strong revenue growth going forward, both from the existing customer base and new business.

Principal risks and uncertainties

The Group continues to monitor the major areas of risk and uncertainty that could affect the future success of the business. The principal risks are summarised as follows:

Liquidity and cash flow risk

This is the risk that inflows and outflows of cash and cash equivalents will not be sufficient to finance the day-to-day operations of the Group. The Group manages cash flow risk by careful negotiation of terms with customers and suppliers and maintains sufficient available funds to enable it to meet its liabilities as they fall due.

Credit risk

This is the risk that customers will cause a financial loss for the Group by failing to discharge an obligation. The Group has policies in place that aim at minimising such losses. Details of the Group's debtors are shown in note 14 to the financial statements. The Group has a diversified customer base of varying size, industry and risk which covers a large geographical area across numerous market segments and therefore this minimises the impact should an individual debtor default on its terms.

Currency risk

The Group has transactional currency exposures which arise from sales, purchases and intercompany transactions in currencies other than its functional currency. Potential exposures to foreign currency exchange rate movements are regularly monitored. In addition to natural hedges in the underlying transactions, the Group monitors its cash and currency flows regularly to reduce this risk.

Gravity Sketch Limited

Group Strategic Report (continued) For the Year Ended 31 December 2023

Principal risks and uncertainties (continued)

Economic risk

Wider economic challenges include high inflation and rising interest rates. The Group does not have any bank loans or financing facilities. The Group also continues to align its cost base to the level of its likely sales activities, and it will continue to monitor its costs regularly.

Price risk

Since the Group has no commodity based financial instruments, the directors do not believe that the Group has significant exposures arising from price risks.

Financial risk management

The Group's operations expose it to a variety of financial risks that include foreign exchange risk, credit risk and liquidity and cash flow risk. The following policies are in place to help mitigate these risks:

Foreign exchange risk

The Group is exposed to foreign exchange risk from commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the functional currency. The Group monitors movements in exchange rates, cash balances in foreign currencies and foreign currency funding requirements in order to mitigate exposure to foreign currency risk.

Credit risk

The Group's credit risk is attributable to its cash and cash equivalents, deposits with banks and financial institutions, and outstanding trade debtors. The Group seeks to minimise the exposure on cash deposits by using only major banks and financial institutions. The Group monitors trade debtor balances on an ongoing basis.

Liquidity and cash flow risk

The Group's liquidity and cash flow risk is managed by monitoring and maintaining a level of cash and cash equivalents that is deemed adequate by the Directors to finance the Group's operations. This includes ensuring sufficient cash is held in sight deposits to meet short term liquidity needs. Excess cash is held in a variety of short term deposit accounts.

This report was approved by the board on 27 September 2024 and signed on its behalf.

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O A Sosanya
Director

Gravity Sketch Limited

Directors' Report For the Year Ended 31 December 2023

The directors present their report and the financial statements for the year ended 31 December 2023.

Principal activity

The principal activity of the Company and Group is providing a virtual studio for designers to create, communicate, and share in 3D throughout the product design workflow.

Results and dividends

The loss for the year, after taxation, amounted to \$10,286,316 (2022 - \$7,681,720).

The directors do not recommend the payment of a dividend (2022 - \$Nil).

Directors

The directors who served during the year were:

T Hulme
H W Nelis
D M Paredes Fuentes
O A Sosanya

Going concern

The financial statements have been prepared on a going concern basis. The directors believe that the Company and Group's sales growth trajectory, its cash levels and its ability to control its operating costs put it in a good position to manage its business risks successfully. This, together with detailed forecasts prepared by the directors have demonstrated a reasonable expectation that the Company and Group has adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of these financial statements and they consider it is appropriate to apply the going concern basis of accounting in preparing the financial statements.

Research and development activities

The Group continues to utilise its technical expertise to remain at the forefront of innovative technology and deliver specialist products and services to maximise the performance and capabilities of its customers, the costs expensed in 2023 were \$4,492,884 (2022 - \$5,678,506).

Matters covered in the Group Strategic Report

Matters included within the Strategic Report which should otherwise be included within the Directors' Report are financial risk management objectives and policies; future developments; and information on exposure to price risk, credit risk, liquidity risk and cash flow risk.

Disclosure of information to auditor

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

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

Gravity Sketch Limited

Directors' Report (continued) For the Year Ended 31 December 2023

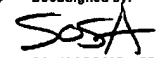
Post balance sheet events

There have been no significant events affecting the Group since the year end.

Auditor

The auditor, Cooper Parry Group Limited, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 27 September 2024 and signed on its behalf.

DocuSigned by:

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O A Sosanya
Director

Gravity Sketch Limited

Directors' Responsibilities Statement For the Year Ended 31 December 2023

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

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

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

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

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

Gravity Sketch Limited

Independent Auditor's Report to the Members of Gravity Sketch Limited

Opinion

We have audited the financial statements of Gravity Sketch Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2023, which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheet, the Consolidated and Company Statement of Changes in Equity, Consolidated Statement of Cash Flows, and the related notes, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2023 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council'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 or 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.

Gravity Sketch Limited

Independent Auditor's Report to the Members of Gravity Sketch Limited (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements, 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 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Group Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements;

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, 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.

Gravity Sketch Limited

Independent Auditor's Report to the Members of Gravity Sketch Limited (continued)

Responsibilities of directors (continued)

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 Group financial statements.

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

Our assessment focused on key laws and regulations the entity has to comply with and areas of the financial statements we assessed as being more susceptible to misstatement. These key laws and regulations included but were not limited to compliance with the Companies Act 2006, United Kingdom Generally Accepted Accounting Practice and relevant tax legislation. We are not responsible for preventing irregularities. Our approach to detect irregularity included, but was not limited to, the following:

- an understanding of the legal and regulatory framework applicable to the entity and how the entity is complying with that framework, including a review of legal and professional nominal codes and board minutes in the year and post year end;
- obtaining an understanding of the entity's policies and procedures and how the entity has complied with these, through discussions and sample testing of controls;
- an understanding of the entity's risk assessment process, including the risk of fraud;
- designing our audit procedures to respond to our risk assessment; and
- performing audit work over the risk of management override of controls, including testing of journal entries and other adjustments for appropriateness, evaluating the business rationale of significant transactions outside the normal course of business and reviewing accounting estimates for bias, such as the bad debt provision.

Whilst considering how our audit work addressed the detection of irregularities, we also consider the likelihood of detection based on our approach. Irregularities from fraud are inherently more difficult to detect than those arising from error.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

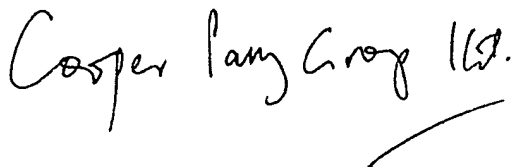
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

Gravity Sketch Limited

Independent Auditor's Report to the Members of Gravity Sketch Limited (continued)

Use of our report

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

A handwritten signature in black ink that reads "Steven Leith" followed by a horizontal line underneath.

Steven Leith (Senior Statutory Auditor)

For and on behalf of Cooper Parry Group Limited, Statutory Auditor
9 Appold Street
United Kingdom

Date: 27 September 2024

Gravity Sketch Limited

Consolidated Statement of Comprehensive Income For the Year Ended 31 December 2023

	Note	2023 \$	2022 \$
Turnover	4	4,620,256	2,416,371
Cost of sales		(239,911)	(86,646)
Gross profit		4,380,345	2,329,725
Administrative expenses		(15,281,414)	(11,659,660)
Other operating income	5	269,858	1,140,459
Operating loss	6	(10,631,211)	(8,189,476)
Interest receivable and similar income	10	345,051	203,424
Loss before taxation		(10,286,160)	(7,986,052)
Tax on loss	11	(156)	304,332
Loss for the financial year		(10,286,316)	(7,681,720)
Currency translation differences		(5,414)	(1,636)
Total comprehensive income for the year		(10,291,730)	(7,683,356)

All of the loss and total comprehensive income for the current and prior year is attributable to owners of the parent company.

All amounts relate to continuing operations.

The notes on pages 18 to 33 form part of these financial statements.

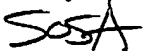
Gravity Sketch Limited

Registered number:09228527

**Consolidated Balance Sheet
As at 31 December 2023**

	Note	2023 \$	2022 \$
Fixed assets			
Tangible assets	12	-	1,905
		<u>-</u>	<u>1,905</u>
Current assets			
Debtors: amounts falling due within one year	14	1,793,543	648,762
Cash and cash equivalents	15	14,116,212	24,547,485
		<u>15,909,755</u>	<u>25,196,247</u>
Creditors: amounts falling due within one year	16	(2,895,967)	(2,024,862)
Net current assets		<u>13,013,788</u>	<u>23,171,385</u>
Total assets less current liabilities		<u>13,013,788</u>	<u>23,173,290</u>
Net assets		<u><u>13,013,788</u></u>	<u><u>23,173,290</u></u>
Capital and reserves			
Called up share capital	18	49	49
Share premium account	19	32,539,018	32,732,871
Foreign exchange reserve	19	147,482	152,896
Share based payment reserve	19	613,322	287,241
Profit and loss account	19	(20,286,083)	(9,999,767)
Total equity		<u><u>13,013,788</u></u>	<u><u>23,173,290</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 27 September 2024

DocuSigned by:

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O A Sosanya
 Director

The notes on pages 18 to 33 form part of these financial statements.

Gravity Sketch Limited

Registered number:09228527

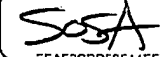
**Company Balance Sheet
As at 31 December 2023**

	Note	2023 \$	2022 \$
Fixed assets			
Tangible assets	12	-	1,905
Investments	13	50,154	32,289
		<u>50,154</u>	<u>34,194</u>
Current assets			
Debtors: amounts falling due within one year	14	6,303,781	2,132,077
Cash and cash equivalents	15	13,242,023	24,319,505
		<u>19,545,804</u>	<u>26,451,582</u>
Creditors: amounts falling due within one year	16	(1,993,984)	(1,568,242)
Net current assets		<u>17,551,820</u>	<u>24,883,340</u>
Total assets less current liabilities		<u>17,601,974</u>	<u>24,917,534</u>
Net assets		<u>17,601,974</u>	<u>24,917,534</u>
Capital and reserves			
Called up share capital	18	49	49
Share premium account	19	32,539,018	32,732,871
Foreign exchange reserve	19	149,734	149,734
Share based payment reserve	19	613,322	287,241
Profit and loss account	19	(15,700,149)	(8,252,361)
		<u>17,601,974</u>	<u>24,917,534</u>

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not yet presented its own Statement of Comprehensive Income in these financial statements. The loss for the Company for the year was \$7,447,788 (2022 - \$6,108,699).

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 27 September 2024

O A Sosanya
Director

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The notes on pages 18 to 33 form part of these financial statements.

Gravity Sketch Limited

Consolidated Statement of Changes in Equity For the Year Ended 31 December 2023

	Called up share capital	Share premium account	Foreign exchange reserve	Share based payment reserve	Profit and loss account	Total equity
	\$	\$	\$	\$	\$	\$
At 1 January 2023	49	32,732,871	152,896	287,241	(9,999,767)	23,173,290
Comprehensive loss for the year						
Loss for the year	-	-	-	-	(10,286,316)	(10,286,316)
Currency translation differences	-	-	(5,414)	-	-	(5,414)
Total comprehensive loss for the year	-	-	(5,414)	-	(10,286,316)	(10,291,730)
Contributions by and distributions to owners						
Shares issued during the year	-	9,938	-	-	-	9,938
Share based payment charge	-	-	-	326,081	-	326,081
Share issue costs	-	(203,791)	-	-	-	(203,791)
At 31 December 2023	49	32,539,018	147,482	613,322	(20,286,083)	13,013,788

The notes on pages 18 to 33 form part of these financial statements.

Gravity Sketch Limited

Consolidated Statement of Changes in Equity For the Year Ended 31 December 2022

	Called up share capital	Share premium account	Foreign exchange reserve	Share based payment reserve	Profit and loss account	Total equity
	\$	\$	\$	\$	\$	\$
At 1 January 2022	37	5,567,423	154,532	-	(2,318,047)	3,403,945
Comprehensive loss for the year						
Loss for the year	-	-	-	-	(7,681,720)	(7,681,720)
Currency translation differences	-	-	(1,636)	-	-	(1,636)
Total comprehensive loss for the year	-	-	(1,636)	-	(7,681,720)	(7,683,356)
Contributions by and distributions to owners						
Shares issued during the year	12	27,165,448	-	-	-	27,165,460
Share based payment charge	-	-	-	287,241	-	287,241
At 31 December 2022	49	32,732,871	152,896	287,241	(9,999,767)	23,173,290

The notes on pages 18 to 33 form part of these financial statements.

Gravity Sketch Limited

Company Statement of Changes in Equity For the Year Ended 31 December 2023

	Called up share capital	Share premium account	Foreign exchange reserve	Share based payment reserve	Profit and loss account	Total equity
	\$	\$	\$	\$	\$	\$
At 1 January 2023	49	32,732,871	149,734	287,241	(8,252,361)	24,917,534
Comprehensive loss for the year						
Loss for the year	-	-	-	-	(7,447,788)	(7,447,788)
Total comprehensive loss for the year	-	-	-	-	(7,447,788)	(7,447,788)
Contributions by and distributions to owners						
Shares issued during the year	-	9,938	-	-	-	9,938
Share based payment charge	-	-	-	326,081	-	326,081
Share issue costs	-	(203,791)	-	-	-	(203,791)
At 31 December 2023	49	32,539,018	149,734	613,322	(15,700,149)	17,601,974

The notes on pages 18 to 33 form part of these financial statements.

Gravity Sketch Limited

Company Statement of Changes in Equity For the Year Ended 31 December 2022

	Called up share capital	Share premium account	Foreign exchange reserve	Share based payment reserve	Profit and loss account	Total equity
	\$	\$	\$	\$	\$	\$
At 1 January 2022	37	5,567,423	149,734	-	(2,143,662)	3,573,532
Comprehensive loss for the year						
Loss for the year	-	-	-	-	(6,108,699)	(6,108,699)
Total comprehensive loss for the year	-	-	-	-	(6,108,699)	(6,108,699)
Contributions by and distributions to owners						
Shares issued during the year	12	27,165,448	-	-	-	27,165,460
Share based payment charge	-	-	-	287,241	-	287,241
At 31 December 2022	49	32,732,871	149,734	287,241	(8,252,361)	24,917,534

The notes on pages 18 to 33 form part of these financial statements.

Gravity Sketch Limited

Consolidated Statement of Cash Flows For the Year Ended 31 December 2023

	2023 \$	2022 \$
Cash flows from operating activities		
Loss for the financial year	(10,286,316)	(7,681,720)
Adjustments for:		
Depreciation of tangible assets	1,905	4,455
Interest received	(345,051)	(203,424)
Share based payment expense	326,081	287,241
Taxation charge/(credit)	156	(304,332)
Increase in debtors	(1,144,781)	(136,310)
Increase in creditors	871,105	395,228
Corporation tax (paid)/received	(156)	304,332
Net cash generated from operating activities	<u>(10,577,057)</u>	<u>(7,334,530)</u>
Cash flows from investing activities		
Interest received	345,051	203,424
Net cash from investing activities	<u>345,051</u>	<u>203,424</u>
Cash flows from financing activities		
Issue of ordinary shares	9,938	27,165,460
Share issue costs paid	(203,791)	-
Net cash used in financing activities	<u>(193,853)</u>	<u>27,165,460</u>
Net (decrease)/increase in cash and cash equivalents	<u>(10,425,859)</u>	<u>20,034,354</u>
Cash and cash equivalents at beginning of year	24,547,485	4,514,767
Foreign exchange gains and losses	(5,414)	(1,636)
Cash and cash equivalents at the end of year	<u><u>14,116,212</u></u>	<u><u>24,547,485</u></u>
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	14,116,212	24,547,485
	<u><u>14,116,212</u></u>	<u><u>24,547,485</u></u>

The notes on pages 18 to 33 form part of these financial statements.

Gravity Sketch Limited

Notes to the Financial Statements For the Year Ended 31 December 2023

1. General information

Gravity Sketch Limited is a private company limited by shares and incorporated in England and Wales under the Companies Act. The address of the registered office is given on the Company Information page.

The nature of the Group's operations and its principal activities are set out in the Group Strategic Report.

2. Accounting policies

2.1 Basis of preparation of financial statements

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

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

The financial statements have been rounded to the nearest US Dollar (\$) except share capital.

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 following principal accounting policies have been applied:

2.2 Basis of consolidation

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

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

2.3 Parent company disclosure exemptions

In preparing the separate financial statements of the Parent Company, advantage has been taken of the following disclosure exemptions available in FRS 102:

- Only one reconciliation of the number of shares outstanding at the beginning and end of the period has been presented as the reconciliation for the Group and the Parent Company would be identical;
- No cash flow statement or net debt reconciliation has been presented for the Parent Company;
- Disclosures in respect of the Parent Company's income, expense, net gains and net losses on financial instruments measured at amortised cost have not been presented as equivalent disclosures have been provided in respect of the Group as a whole; and
- No disclosure has been given for the aggregate remuneration of the key management personnel of the Parent Company as their remuneration is included in the totals for the Group as a whole.

Gravity Sketch Limited

Notes to the Financial Statements For the Year Ended 31 December 2023

2. Accounting policies (continued)

2.4 Going concern

The financial statements have been prepared on a going concern basis. The directors believe that the Company and Group's sales growth trajectory, its cash levels and its ability to control its operating costs put it in a good position to manage its business risks successfully. This, together with detailed forecasts prepared by the directors have demonstrated a reasonable expectation that the Company and Group has adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of these financial statements and they consider it is appropriate to apply the going concern basis of accounting in preparing the financial statements.

2.5 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is USD, and is rounded to the nearest US Dollar (\$).

Transactions and balances

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

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

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Foreign exchange gains and losses are presented in the Consolidated Statement of Comprehensive Income within 'administrative expenses'.

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

2.6 Turnover

Turnover is recognised for software subscriptions over the subscription period. Subscription turnover is recognised on a straight-line basis over the term of the contract, beginning on the date the customer gains access to the software. Subscription fees are invoiced at the beginning of each subscription period, typically annually, and recognised as turnover when earned. If payments are received in advance, they are recognised as deferred income and amortised over the corresponding subscription period.

Turnover from any additional services, such as training or consulting, is recognised separately from subscription turnover when the service is provided. Turnover from these services is recognised over the service period.

Gravity Sketch Limited

Notes to the Financial Statements For the Year Ended 31 December 2023

2. Accounting policies (continued)

2.7 Grant income

Grants are accounted for under the accruals model. Grants of a revenue nature are recognised in "other income" on a systematic basis over the period in which the Group recognises the related costs for which the grant is intended to compensate.

2.8 Operating leases: the Group as lessee

Rentals paid under operating leases are charged to profit or loss on a straight-line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight-line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

2.9 Interest income

Interest income is recognised in profit or loss using the effective interest method.

2.10 Taxation

Tax is recognised in profit or loss except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company and the Group operate and generate income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the reporting date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where they relate to timing differences in respect of interests in subsidiaries, associates, branches and joint ventures and the Group can control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Gravity Sketch Limited

Notes to the Financial Statements For the Year Ended 31 December 2023

2. Accounting policies (continued)

2.11 Tangible fixed assets

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

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Computer equipment	- 18 months
--------------------	-------------

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

2.12 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

2.13 Cash and cash equivalents

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

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

2.14 Equity instruments

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

2.15 Financial instruments

The Group enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from and to related parties and investments in ordinary shares.

Gravity Sketch Limited

Notes to the Financial Statements For the Year Ended 31 December 2023

2. Accounting policies (continued)

2.15 Financial instruments (continued)

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

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

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

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

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.16 Share based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to profit or loss over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting 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 market vesting condition. The Group uses the Black-Scholes model to value their share options.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the the Company and Group keeping the scheme open or the employee maintaining any contributions required by the scheme).

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

Where equity instruments are granted to persons other than employees, the fair value of the goods and services received are charged to profit or loss.

Gravity Sketch Limited

Notes to the Financial Statements For the Year Ended 31 December 2023

2. Accounting policies (continued)

2.17 Defined contribution pension plan

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

The contributions are recognised as an expense in profit or loss when they fall due. Amounts not paid are shown in other creditors as a liability. The assets of the plan are held separately from the Company and Group in independently administered funds.

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

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

In preparing these financial statements, the directors have had to make the following judgements:

- Determine whether there are indicators of impairment of the Company's trade and intercompany debtors. Factors taken into consideration in reaching such a decision include economic viability of the debtor and expected future financial performance of the other party to the debtor. No indicators of impairment have been found in the Company's trade and intercompany debtors.
- The estimated fair value of the Company's share options have been calculated using the Black-Scholes valuation technique. This method requires the application of judgement in assessing a number of key inputs, including expected dividends, expected share price volatility and the expected period to exercise. The directors make these judgements by reference to observable external sources, where applicable, or by a review of forecast and historical data.

The directors are of the opinion that there are no estimation uncertainties applied in the application of the accounting policies.

Gravity Sketch Limited

Notes to the Financial Statements For the Year Ended 31 December 2023

4. Turnover

An analysis of turnover by class of business is as follows:

	2023 \$	2022 \$
Software license revenue	4,094,268	2,363,026
Service revenue	525,988	53,345
	4,620,256	2,416,371

Analysis of turnover by country of destination:

	2023 \$	2022 \$
UK	60,615	1,241
Europe	675,426	662,637
US	3,780,767	1,641,292
Rest of the world	103,447	111,201
	4,620,255	2,416,371

5. Other operating income

Other operating income relates to grant income. An analysis of grant income by type is shown below:

	2023 \$	2022 \$
Grant income - revenue in nature	269,858	1,140,459
	269,858	1,140,459

6. Operating loss

The operating loss is stated after charging/(crediting):

	2023 \$	2022 \$
Depreciation of tangible fixed assets	1,905	4,455
Exchange differences	(1,049,458)	499,546
Operating lease expense	282,749	242,444
Share-based payment	336,406	287,241
Research and development charged as an expense	5,678,506	4,492,884
	5,678,506	4,492,884

The amount of exchange differences recognised in other comprehensive income arising during the year was \$5,414 (2022 - \$1,636).

Gravity Sketch Limited

Notes to the Financial Statements For the Year Ended 31 December 2023

7. Auditor's remuneration

During the year, the Group obtained the following services from the Company's auditor:

	2023	2022
	\$	\$
Fees payable to the Company's auditor for the audit of the consolidated and parent Company's financial statements	36,284	27,226

8. Employees

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

	Group 2023	Group 2022	Company 2023	Company 2022
	\$	\$	\$	\$
Wages and salaries	9,733,319	5,592,025	6,798,478	4,260,448
Social security costs	1,059,735	630,069	815,550	520,926
Employer pension contributions	383,288	273,429	372,302	262,172
	11,176,342	6,495,523	7,986,330	5,043,546

The average monthly number of employees, including the directors, during the year was as follows:

	Group 2023	Group 2022	Company 2023	Company 2022
	No.	No.	No.	No.
Sales, Marketing and Customer Success	45	31	21	18
Product and Engineering	32	31	31	30
General and Administrative	14	10	14	10
	91	72	66	58

Gravity Sketch Limited

Notes to the Financial Statements For the Year Ended 31 December 2023

9. Directors' remuneration

	2023	2022
	\$	\$
Directors' emoluments	270,745	279,729
Group contributions to defined contribution pension schemes	3,042	3,197
	273,787	282,926
	273,787	282,926

There were 2 directors in the Group's defined contribution pension scheme (2022 - 2)

The highest paid director received remuneration of \$153,712 (2022 - \$127,549).

The value of the Group's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to \$1,682 (2022 - \$1,598).

During the year no directors received or exercised shares under the long-term incentive schemes (2022 - Nil)

The directors are considered key management personnel of the Group.

10. Interest receivable and similar income

	2023	2022
	\$	\$
Bank interest receivable	345,051	203,424
	345,051	203,424
	345,051	203,424

11. Taxation

	2023	2022
	\$	\$
Corporation tax		
Research and development claim in respect of prior year	-	(304,332)
Foreign tax		
Foreign tax	156	-
	156	(304,332)
Total current tax	156	(304,332)

Gravity Sketch Limited

Notes to the Financial Statements For the Year Ended 31 December 2023

11. Taxation (continued)

Factors affecting tax credit for the year

The tax assessed for the year is lower than (2022 - higher than) the standard rate of corporation tax in the UK of 23.52% (2022 - 19%). The differences are explained below:

	2023 \$	2022 \$
Loss on ordinary activities before tax	<u>(10,286,160)</u>	<u>(7,986,052)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.52% (2022 - 19%)	<u>(2,419,305)</u>	<u>(1,517,350)</u>
Effects of:		
Research and development claim in respect of prior year	-	(304,332)
Expenses not deductible for tax purposes	107,161	79,349
Income not taxable for tax purposes	-	(159,963)
Movement in deferred tax not recognised	2,521,546	1,640,473
Differences in tax rates	34,701	(42,509)
Fixed asset differences	(139)	-
Other permanent differences	(129,996)	-
Remeasurement of deferred tax for changes in tax rates	(113,812)	-
Total tax charge for the year	<u><u>156</u></u>	<u><u>(304,332)</u></u>

Factors that may affect future tax charges/credits

The corporation tax rate increased from 19% to 25% with effect from 1 April 2023. The deferred taxation balances have been measured using 25%, which is the enacted rate applicable in the reporting periods when the timing differences reverse.

The Group has carried forward tax losses of \$14,515,655 (2022 - \$6,802,472) which has given rise to a deferred tax asset of \$3,628,914 (2022 - \$2,324,922), which has not been recognised due to uncertainty as to imminent future recoverability.

Gravity Sketch Limited

Notes to the Financial Statements For the Year Ended 31 December 2023

12. Tangible fixed assets

Group and Company

	Computer equipment \$
Cost	
At 1 January 2023	55,693
At 31 December 2023	55,693
Depreciation	
At 1 January 2023	53,788
Charge for the year	1,905
At 31 December 2023	55,693
Net book value	
At 31 December 2023	-
At 31 December 2022	1,905

Gravity Sketch Limited

Notes to the Financial Statements For the Year Ended 31 December 2023

13. Fixed asset investments

Company

	Investments in subsidiary companies \$
Cost	
At 1 January 2023	32,289
Additions	17,865
At 31 December 2023	<u>50,154</u>

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Registered office	Class of shares	Holding
Gravity Sketch GmbH	Prielmayerstrasse 3, 80335 München, Germany	Ordinary	100%
Gravity Sketch Inc.	228 East 45th Street, Suite 9E, New York, NY 10017, USA	Ordinary	100%

14. Debtors

	Group 2023 \$	Group 2022 \$	Company 2023 \$	Company 2022 \$
Trade debtors	1,235,543	215,846	1,137,192	215,846
Amounts owed by group undertakings	-	-	4,563,524	1,490,747
Other debtors	258,726	291,353	314,566	283,921
Prepayments and accrued income	299,274	141,563	288,499	141,563
	<u>1,793,543</u>	<u>648,762</u>	<u>6,303,781</u>	<u>2,132,077</u>

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

Gravity Sketch Limited

Notes to the Financial Statements For the Year Ended 31 December 2023

15. Cash and cash equivalents

	Group 2023 \$	Group 2022 \$	Company 2023 \$	Company 2022 \$
Cash at bank and in hand	14,116,212	24,547,485	13,242,023	24,319,505

16. Creditors: Amounts falling due within one year

	Group 2023 \$	Group 2022 \$	Company 2023 \$	Company 2022 \$
Trade creditors	38,538	36,147	38,538	683
Other taxation and social security	131,613	174,631	121,508	174,631
Other creditors	254,624	78,168	249,133	71,641
Accruals and deferred income	2,471,192	1,735,916	1,584,805	1,321,287
	2,895,967	2,024,862	1,993,984	1,568,242

17. Financial instruments

Information regarding the Group's exposure to and management of credit risk, liquidity risk, market risk, cash flow interest rate risk, and foreign exchange risk is included in the Strategic Report.

Gravity Sketch Limited

Notes to the Financial Statements For the Year Ended 31 December 2023

18. Share capital

	2023	2022
	\$	\$
Allotted, called up and fully paid		
1,816,752 (2022 - 1,816,752) Ordinary shares of £0.00001 each	23	23
178,018 (2022 - 116,106) Ordinary A shares of £0.00001 each	1	1
750,400 (2022 - 750,400) Seed shares of £0.00001 each	10	10
850,171 (2022 - 850,171) Series A-1 shares of £0.00001 each	12	12
5,682 (2022 - 5,682) Series A-2 shares of £0.00001 each	-	-
238,048 (2022 - 238,048) Series A-3 shares of £0.00001 each	3	3
	49	49
	49	49

The Group's sterling denominated share capital has been translated into the functional currency using the spot exchange rate at the dates of the transaction.

The Ordinary shares have voting, dividend and distribution rights, and are not redeemable.

The Ordinary A shares have dividend and distribution rights and are not redeemable. The shares have no voting rights.

The Seed shares have voting, dividend and distribution rights.

The Series A-1, A-2 and A-3 shares all have voting, dividend and preferential right to capital distribution, and are not redeemable.

On 21 March 2023, the Company issued 59,004 Ordinary A shares at a nominal value of £0.00001 per share at par.

On 18 April 2023, the Company issued 296 Ordinary A shares at a nominal value of £0.00001 per share at par, and 303 Ordinary A shares at a nominal value of £0.00001 per share with a premium of \$14 per share.

On 7 June 2023, the Company issued 132 Ordinary A shares at a nominal value of £0.00001 per share with a premium of \$14 per share.

On 8 October 2023, the Company issued 261 Ordinary A shares at a nominal value of £0.00001 per share at par.

On 21 November 2023, the Company issued 1,645 Ordinary A shares at a nominal value of £0.00001 per share at par.

On 18 December 2023, the Company issued 271 Ordinary A shares at a nominal value of £0.00001 per share with a premium of \$14 per share.

In the prior year 1,093,901 shares were issued. These share issues incurred share issue costs of \$203,791. These were not correctly offset against the share premium account in the prior year and therefore have been offset in the current year instead.

Gravity Sketch Limited

Notes to the Financial Statements For the Year Ended 31 December 2023

19. Reserves

The Group's reserves are as follows:

Share premium account

The share premium account includes the premium on issue of equity shares, net of any issue costs.

Foreign exchange reserve

The foreign currency translation reserve relates to differences arising on consolidation as the subsidiary companies are in different functional currencies in addition to differences on translation of foreign currency balances on the transition of the presentational and functional currency to USD in the year ended 31 December 2022.

Share based payment reserve

The share based payment reserve represents the fair value of the equity instruments granted.

Profit and loss account

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

20. Share based payments

As at 31 December 2023, there were 395,440 (2022 - 334,416) share options issued under the Enterprise Management Incentive Share Option Plan which was adopted by the Group on 22 August 2018. The options have been granted with various time-based vesting conditions specific to each individual employee.

As at 31 December 2023, 358,525 (2022 - 294,632) share options had vested and are exercisable.

	Weighted average exercise price (pence) 2023 \$	Number 2023	Weighted average exercise price (pence) 2022 \$	Number 2022
Outstanding at the beginning of the year	0.00001	334,416	0.00001	364,354
Granted during the year	4.12000	158,813	0.00001	599,815
Cancelled during the year	0.00001	(35,877)	0.00001	(629,753)
Exercised during the year	0.16000	(61,912)	-	-
Outstanding at the year end	0.78000	395,440	0.00001	334,416

The Group recognised total expenses of \$326,081 (2022 - \$287,241) related to equity settled share based payment transactions in the year. The fair value of the share options have been estimated using the Black-Scholes model as it a recognised valuation method for non-complex share options.

Gravity Sketch Limited

Notes to the Financial Statements For the Year Ended 31 December 2023

21. Analysis of Group net debt

	At 1 January 2023 \$	Cash flows \$	Other non- cash changes \$	At 31 December 2023 \$
Cash at bank and in hand	24,547,485	(10,425,859)	(5,414)	14,116,212
	24,547,485	(10,425,859)	(5,414)	14,116,212

22. Commitments under operating leases

At 31 December 2023 the Group and the Company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	Group and Company 2023 \$	Group and Company 2022 \$
Not later than 1 year	255,897	-
Later than 1 year and not later than 5 years	255,897	-
	511,794	-

23. Related party transactions

The Company and Group have taken advantage of the exemption available under Section 33.1A not to disclose transactions with other wholly owned members of the Group.

24. Controlling party

The directors consider there to be no ultimate controlling party. The consolidated results of the Group and Company are not included in the financial statements of any other entity.