

**MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)**

**CONSOLIDATED**

**REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**

**31 DECEMBER 2019**

**Company Number: 05628362**

**MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)**

**REPORT AND FINANCIAL ACTIVITIES**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)**

**COMPANY INFORMATION**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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<b>Directors</b>	Anthony Matchett Steven Hancock Simon Cole Ian Hanson (resigned: 1 <sup>st</sup> April 2020) Sebastian Theron (resigned: 15 <sup>th</sup> January 2019) Andy Botha Grant Dollens (appointed: 14 <sup>th</sup> April 2020)
<b>Secretary</b>	Reed Smith
<b>Registered Office</b>	55 Poland Street London England W1F 7NN
<b>Company number</b>	05628362
<b>Registrar and transfer office</b>	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen B63 3DA
<b>Auditors</b>	RMT Accountants & Business Advisors Limited Gosforth Park Avenue Newcastle upon Tyne NE12 8EG
<b>Nominated adviser</b>	Arden Partners plc 125 Old Broad Street London EC2N 1AR
<b>Broker</b>	Arden Partners plc 125 Old Broad Street London EC2N 1AR

## MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)

### CHAIRMAN'S STATEMENT

#### FOR THE YEAR ENDED 31 DECEMBER 2019

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It has now been more than 12 months since the broadcast of our inaugural live stream event featuring Liam Payne formerly of One Direction to 36 countries on both the MelodyVR platform and Facebook 360. The viewing metrics achieved for that event, particularly via Facebook's 360 social platform illustrated not only significant consumer appetite for our platform content but also mass engagement via a 2D screen. In July 2019, with a view to harnessing engagement and extending the reach of our music content library to the 1 billion plus smartphone devices around the world, we launched our own mobile application allowing users access to our platform content and the ability to experience truly immersive content from their own mobile device. Our launch coincided with our first partnership with Live Nation and the live stream to audiences across 45 countries of Wireless Festival, a ground-breaking VR first, which generated more than 250,000 individual views reaching more than 1,000,000 fans via Facebook live and 13,000,000 impressions over the company's digital media channels. Over the festival weekend, our newly launched app featured as one of the top 20 apps on the iOS App store as well as trending as the number 1 app on Google play marking a new phase in amplified awareness of our music service.

Our objective has been to build awareness and foster engagement at a pace far exceeding the adoption of dedicated VR devices. Our partnership with Good Morning America ("GMA") and the first ever live simultaneous TV and VR broadcast featuring Marshmello and Kane Brown from Central Park in New York reached viewing audiences in all 50 US states and stimulated tens of thousands of installs of our mobile app in the days leading up to the event.

Live coverage of the Good Morning America Nashville concerts reinforced our partnership with GMA and provided an opportunity to extend the reach of our content to new genres and extending reach and extend consumer awareness of VR and our MelodyVR platform content as a pre-cursor to monetisation.

In October 2019 we announced our partnership with Telefonica's O2 mobile network, in a move to showcase both the capabilities of 5G technology and the full extent of immersive content using a next generation network. Our on-going flagship partnership with O2 signalled the first step in our core objective of scaling our business via a subscription model and we continue to work on both replicating these alliances with new strategic partners and extending our existing relationships in new geographic territories.

Recognition by Apple in November as an "App of the day" and our nomination by Google as one of its "Best of 2019" celebrates the consumer appeal of our offering and provides a testament to our technological capabilities in delivering content direct to consumer.

The release of content from internationally celebrated artists including Panic! At the Disco, Luke Combs, Tyga, Lewis Capaldi and Kelly Clarkson during 2019, have ensured that our platform content reflects the necessary diversity to attract a broad and rich user base, and our exclusive sessions with L Devine, Hamzaa, Ashnikko and J C Stewart have truly showcased the depth of unique engagement that can be experienced via our platform as we push the boundaries of intimate and personal artist- fan engagement.

Operationally we recognise that our key strategic partners reside in the US and our new facility in Los Angeles will provide us with the necessary operational hub from which to extend our US presence. New warehouse and distribution facilities in the UK provide us with the necessary platform from which to further open the eyes of new users to the immersive world of MelodyVR via our own VR viewer which we intend to offer both as part of stand-alone initiatives and as part of a programme of support to our strategic partners.

As we continue to build awareness, we have been careful to contain our operational cost base. Overall staff numbers, including third party contractors, have reduced in number since the last year end, despite bolstering our management team with a number of seasoned industry professional who will oversee the next phase of our businesses development.

Our relationship with John Gore Organisation and the opportunity to extend our offering to a new theatre vertical remains a priority and during 2019 we were able to capture our first Broadway production in VR. We intend to further our exposure to theatre capture once we have progressed our navigation of the rights and distribution framework of this new and exciting opportunity. The partial exercise of the option by John Gore Organisation, and the extension of that option for a further two years demonstrates the valued and continuing support that we have from one of our key strategic partners. This in combination with the successful conclusion of a further equity raise in early 2020 provides us not only with the necessary validation of our strategic objectives but also the funding with which to deliver on our strategic ambitions.

## MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)

### CHAIRMAN'S STATEMENT (continued)

#### FOR THE YEAR ENDED 31 DECEMBER 2019

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##### Significant events in 2019

- In November and December 2019, MelodyVR is featured by Apple as “App of the Day” and by Google as a winner of “Best Apps in 2019”
- In October 2019, we launched our exclusive 5G partnership with Telefonica’s, O2 mobile network operator;
- In August 2019, we launched on the Oculus Quest and partnered with Good Morning America for the first ever live simultaneous TV and VR broadcast featuring Kane Brown and Marshmello;
- In July 2019, we launched our MelodyVR platform service in 4 new additional markets together with our first live festival broadcast of Wireless festival in combination with Live Nation;
- In June 2019, we announced the launch of our iOS and Android mobile application together with a strategic partnership with John Gore Organisation for the capture of theatrical content and a subscription of £5m by way of equity investment.

##### Review of business and 2019 financial results

Since the launch of our mobile app in July 2019 our principle focus has been to extend awareness of the MelodyVR platform and consequent engagement with its platform content. Since that time, we have generated more than 150,000 new installs of our app and seen average engagement time grow to more than 28 minutes in a single session.

The success of these initiatives provided a firm foundation for the strategic partnership with O2, which in combination with a global telecommunications provider for the first time saw MelodyVR monetise its platform content via subscription and this flagship partnership with O2 signals our intentions with regards to subscription monetisation of our platform content. O2’s 5G subscribers now have access to our content beyond the confines of their own homes and we anticipate that as the availability of 5G handsets increase, those embracing MelodyVR as part of their bundled offering will expand. The availability of unique live events and paid ticketed offerings will further broaden awareness and, as part of a bundled subscription, offer the music fan the ultimate in artist – fan connection

The Group reported revenues for the year totalling £0.2m (2018: £1.2m) resulting from content sales, partnership licencing deals and subscriber revenues from its partnership with O2 which launched in October 2019. The gross loss of £1.6m (2018 : £0.2m) has been calculated after the deduction of content creation costs as well as amounts due to all rights holders. These amounts include commissions and revenue share arrangements due to app stores, record labels, artists, publishers, songwriters and exclusive event / venue partners.

The operating loss before non-recurring and non-cash items for the year amounted to £13.8m (2018: loss £10.1m) and excludes £1.2m (2018 : £0.1m) of Research and Development tax credits associated with the development and launch of our mobile app and the subsequent step up in content capture and broadcast activity associated with events such as Wireless and the Good Morning America Series.

After non-recurring and non-cash items, net financing charges and taxation, the Group reported a loss of £15.0m (2018: loss £11.3m) resulting in a loss per share of 1.1p (2018: loss 0.9p).

The Group continues to capitalise the capture and production of music content on its balance sheet as intangible assets in addition to the capitalisation of specific development activities such as that of its mobile application. During the course of 2019, the Group capitalised £1.72m (2018 : £1.82m) of intangible assets on its balance sheet, consisting of £1.28m (2018: £0.67m) of R&D development spend and £0.44m (2018 : £1.15m) of content assets. These amounts will be amortised over their useful lives and amortisation charges of £0.41m (2018 : £0.15m) and £0.59m (2018 £0.18m) respectively were reflected during the year.

As at 31 December 2019 the Group had cash reserves of £6.8m (2019: £19.3m), subsequently bolstered by the equity raise of \$12.0m (before costs) and \$1m of option exercise subscription proceeds received after the year end.

In March 2020 we raised a further \$12 million (£10.3m) before costs via the issuance of new shares to new US based investors. This raise will ensure that we have sufficient resources to continue to scale our business responsibly and positions us well in this time of global uncertainty caused as a result of the COVID-19 pandemic.

## **MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)**

### **CHAIRMAN'S STATEMENT (continued)**

#### **FOR THE YEAR ENDED 31 DECEMBER 2019**

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The outbreak of the COVID-19 pandemic has provided us with an unexpected circumstance to further showcase our VR capabilities and the heightened experiences we can offer to music fans around the world. In the absence of mass attended events, our purpose-built studio in LA provides us with a unique forum for artists to engage with their fans at a time bereft of traditional mass attended music performances. We recognise the opportunity to spotlight our offering and further extend our brand awareness with a rich new stream of live performances from a broad spectrum of artists and intend to use this time to build upon our library of content and ensure a constant and exciting series of new platform releases throughout the remainder of this year.

With support from all of the major labels, publishers and many high profile artists who have recognised this as one of the few credible opportunities that exist to engage with their fan base at this time of restriction, our intention is to replicate the concept not only in other key geographies but at new previously unexplored and unconventional venues which, in the absence of audience attendance would add further interest and depth to the experience.

These initiatives have not only provided us with the opportunity to extend reach and showcase our content platform at a time of restricted choice but have also pivoted the manner in which we capture content resulting in a streamlining of our operational capture costs. The transition to an operating model of performance capture and broadcast at a single location greatly reduces the logistical challenges and cost of multi venue capture and we expect to be able to report the impact of this with our half year results.

Whilst there have been many positives associated with the decision to pursue these new initiatives, the application of resource required to stage these events has inevitably delayed the trajectory for launching our consumer subscription service. Our commitment to growing awareness as a platform for subsequent monetisation of that engagement remains a priority, and in the near term, our Live Series will provide new openings for branding and partner advertising and the stage upon which to offer our first live ticketing "paid for" event. The content created over the course of the next few months of our Live Series will allow us to further extend the breadth and depth of our content library and allow for greater engagement at the time our subscription service is launched.

The launch of our live series in 2020, initially in Los Angeles will provide the first live performance hub to both enrich our platform content and provide potentially weekly live content broadcast to music fans around the world. The opportunity to deliver exclusive performances in real time to audiences around the world will afford new opportunities for product placement, session branding and other ad supported initiatives.

#### **Technology and development**

The Group will continue to build awareness and engagement with its content platform as a pre-cursor to launching its subscription service. Our efforts to enrich our content library to extend consumer appeal in addition to more frequent broadcasting of live events from both our own purpose-built studios and established event venues will provide the platform for monetisation of our user base and the opportunity to forge new partnerships and extend our reach to new user groups. In addition, we continue to pursue the opportunity that live theatre affords, and the development of our platform will incorporate access to this new creative vertical.

Product development expenses primarily comprise of costs incurred for development of equipment related to the capture and production of content together with resources expended on the Group's existing platform and service offerings.

Again, I would like to take this opportunity to extend my gratitude to our shareholders, customers and business partners for their support, effort and insights over the course of this last year – our continued progress would not have been attained without the efforts of the management team and the unwavering commitment of our staff.

Going forward, we will continue to pursue opportunities to keep us at the forefront of providing ever more immersive experiences and pursue our ambitions of creating long-term value for stakeholders, and I look forward to reporting on our progress over the course of the coming year.

**Anthony Matchett**  
**Executive Chairman**

# MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)

## GROUP STRATEGIC REPORT

### FOR THE YEAR ENDED 31 DECEMBER 2019

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The directors present their Strategic Report on the Group for the year ended 31 December 2019.

#### RESULTS

The Group made a loss after taxation of £14,968,784 (2018: loss £11,269,939).

#### PRINCIPAL ACTIVITIES

The Group's principal activity is specialising in the creation and curation of Virtual Reality content for distribution and consumption through its own platform.

On 11 May 2020, the Company resolved by Special Resolution to change its name to MelodyVR Group PLC, formerly EVR Holdings PLC.

#### REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The review of the business and future developments are set out in the Executive Chairman's Statement above.

#### KEY PERFORMANCE INDICATORS

The key performance indicators are set out below:

	<b>2019</b>	<b>2018</b>
Gross financial assets – cash and cash equivalents	£6,795,341	£19,327,949
Net asset value – basic per share	0.9p	1.7p
Closing share price	£0.051	£0.048
Market capitalisation	£73,116,672	£62,793,388

The Board currently considers the following operational key performance indicators in assessing the Group's performance against its objectives:

- The number of event promotion and venue partnership agreements in place and the number of content production opportunities these partnerships create;
- The number of VR experiences created;
- Extent and breadth of licence agreements in place; and
- Number and reputation of artists whose performances have been captured.

#### KEY RISKS AND UNCERTAINTIES

Virtual reality continues to be a new and emerging market, which makes the evaluation of future performance complex. Despite our position as the world's leading provider of immersive VR music experiences, given the infancy of the market and as such early stage consumer adoption, we continue to drive awareness as a platform for scale. We remain confident that in time, adoption of VR headset technology and engagement with VR immersive experiences either via dedicated VR devices or mobile portals will become commonplace.

In the longer term we will be dependent on both attracting and retaining users, in order to fully scale our business and successfully monetise our content.

## **MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)**

### **GROUP STRATEGIC REPORT (continued)**

#### **FOR THE YEAR ENDED 31 DECEMBER 2019**

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The Board have identified the risk associated with insufficient licencing of content released onto the MelodyVR application could result in litigation and potential financial loss. Securing licencing arrangements with major record labels as well as signing agreements with publishers and collection societies has reduced the risk associated with potential exploitation of unlicensed content. Management continue to engage with new as well as existing rightsholders to ensure that there are sufficient agreements in place to mitigate this risk further

We depend on key personnel to develop great products and services as well as to operate our business, and if we are unable to retain, attract and integrate qualified personnel our ability to successfully grow our business could be harmed.

#### **FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

Our operations are exposed to financing and financial risks which are managed under the control and supervision of the Board of Directors of the Company. To manage these risks efficiently, we have established guidelines in the form of a treasury policy that serves as a frame-work for the daily financial operations of the Group. The treasure policy stipulates the rules and limitations for the management of financial risks throughout the group.

Financial risk management is centralised within the group treasury which is responsible for the management of financial and financial risks. Group treasury manages and executes the financial management activities including monitoring the exposure of financial risk, cash management and maintaining a liquidity reserve and it provides certain financial services to the entities of the group. Group treasury operates within the limits and policies authorised by the Board of Directors.

Further details of the Group's financial risk management objectives and policies are set out in Note 24 to these financial statements.

#### **COVID-19 RISK**

The ongoing COVID-19 pandemic continues to generate a significant level of uncertainty in the global economy. The directors regularly assess the likely effects on Group operations in an attempt to mitigate the risk as far as practicable. As well as the additional opportunities that have arisen from the pandemic, as outlined in the Chairman's Statement, the Group has also been able to reduce administrative costs across the business, including a large reduction staff and travel costs. This has ensured Group cash flow has been positively managed and the impact on the Group's operations has been mitigated.

#### **GOING CONCERN**

As disclosed in Note 2, after making the necessary enquiries, the directors have a reasonable expectation that the Group has access to adequate resources to continue in operational existence for the foreseeable future.

**Anthony Matchett**  
**Executive Chairman**

30 June 2020

## MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)

### DIRECTORS' REPORT

#### FOR THE YEAR ENDED 31 DECEMBER 2019

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The directors present their annual report on the affairs of the Group, together with the financial statements for the year ended 31 December 2019.

The Company is a public company, incorporated in England and Wales and quoted on AIM.

#### PRINCIPAL ACTIVITIES

The Company's principal activities are detailed in the strategic report above.

#### RESULTS AND DIVIDENDS

The results for the year are set out in the Strategic Report on page 5. The directors do not propose to declare a dividend (2018: £Nil).

#### DIRECTORS

The directors of the Company during the year together with their interests in the equity of the Company at year end are set out below:

	Number of ordinary shares		Number of share options and warrants	
	2019	2018	2019	2018
Simon Cole	-	-	4,615,090	4,615,090
Anthony Matchett	168,482,796	168,482,796	11,537,725	11,537,725
Steven Hancock	130,884,136	130,884,136	11,537,725	11,684,783
Ian Hanson (resigned: 1 April 2020)	-	-	4,615,090	4,615,090
Sebastian Theron (resigned: 15 January 2019)	N/A	294,118	N/A	4,664,109
Andy Botha	-	-	4,615,090	4,615,090

#### SUBSTANTIAL INTERESTS

The Company is aware that at 15 May 2020, the following held in excess of 3% of the issued ordinary share capital of the Company:

	Number of Ordinary shares	Percentage of Issued share capital
Davis Capital Partners LLC	183,607,310	10.68%
Anthony Matchett	155,149,463	9.02%
J Gore (Bahamas) Limited	120,108,152	6.98%
Steven Hancock	117,550,803	6.84%
G Dollens	79,809,485	4.64%
Oppenheimer Global Opportunities Fund	68,750,000	4.00%
Schroder UK Dynamic Absolute Return Fund	62,205,008	3.62%

## **MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)**

### **DIRECTORS' REPORT (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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#### **CORPORATE GOVERNANCE**

As an AIM quoted company, the Group does not have to comply with the UK Corporate Governance Code published by the Financial Reporting Council in July 2018. The Quoted Companies Alliance has published a corporate governance code for small and mid-sized quoted companies, which includes a standard of minimum best practice for AIM companies, and recommendations for reporting corporate governance matters (QCA Code). The Board embraces the principles of good corporate governance and intends to comply with the QCA Code insofar as it is considered appropriate taking into account the Company's size, stage of development and resources.

During this year, the Board strengthened its corporate governance with the appointment of Simon Cole as Senior Non-Executive Director and Andy Botha as Non Executive Director. This ensures the recommended balance between Executive and Non-Executive Directors and, in the case of Andy Botha who also Chairs the Company's Audit Committee, brings significant financial experience and expertise to the Board.

#### **BOARD OF DIRECTORS**

The Group supports the concept of an effective board leading and controlling the Group. The Board is responsible for approving the Group's policy and strategy. All directors have access to advice from the Company's legal advisors and other independent professionals at the Group's expense. Training is available for new directors and other directors as necessary.

#### **Board Committees**

The terms of reference of the board committees are reviewed regularly and available on the Company's website, [www.melodyvr.group](http://www.melodyvr.group)

#### **Remuneration Committee**

During the period under review the Remuneration Committee comprised Simon Cole (committee chairman) and Ian Hanson. It is responsible for reviewing the performance of the senior executives and for determining their levels of remuneration. The committee makes recommendations to the Board, within agreed terms of reference, regarding the levels of remuneration and benefits including participation in the Company's share plan.

#### **Audit Committee**

The Audit Committee meets at least twice a year to consider the annual and interim financial statements and the audit plan. Andy Botha replaced Ian Hanson as committee chairman in January 2019, and the other member of the committee is Simon Cole. The Audit Committee is responsible for ensuring that appropriate financial reporting procedures are properly maintained and reported upon, reviewing accounting policies and for meeting the auditors and reviewing their reports relating to the accounts and internal control systems.

#### **Internal control and financial risk management**

The Board acknowledges its responsibility for maintaining appropriate internal controls systems and procedures to safeguard the Company's assets, employees and the business of the Company and its subsidiaries (the Group). The Directors have recognised the changing requirements of the Group as it develops and extends its operating activities. The Board has established and operates a policy of continuous review and development of appropriate financial, operational, compliance and risk management controls, which cover expenditure approval, authorisation and treasury management, together with operating procedures consistent with the accounting policies of the Group.

The internal control system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide reasonable but not absolute assurance against material misstatement or loss. The Board has approved the Group's current operating and capital budget and performance against budget is monitored and reported to the Board on a monthly basis.

The Directors confirm that the effectiveness of the internal control system during the year has been reviewed by the Board. Steps are underway to reinforce as needed all processes and systems as the Group continues to scale. The Board does not consider it necessary to establish an internal audit function considering the current size and stage of development of the Group.

## **MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)**

### **DIRECTORS' REPORT (continued)**

#### **FOR THE YEAR ENDED 31 DECEMBER 2019**

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#### **POST BALANCE SHEET EVENTS**

On 23 March 2020, the Company raised gross proceeds of \$12m via the placing of 275,410,966 ordinary shares at a price of 3.75 pence per share.

On 1 April 2020, Ian Hanson resigned as a director of the Company.

On 14 April 2020, Grant Dollens was appointed to the Board as Non-executive Director.

On 11 May 2020, the Company resolved by Special Resolution to change its name to MelodyVR Group PLC.

Other than the above, the Directors were not aware of any other material events since the reporting date.

#### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. In addition, the directors are responsible the maintenance and integrity of the corporate and financial information included in the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors, as listed, are also responsible for preparing the strategic report, directors' report and financial statements for the Group and parent company in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and the London Stock Exchange's AIM Rules for Companies.

Under company law the directors must not approve the financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Group and parent company for that period.

In preparing the financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8 (Accounting Policies, changes in Accounting Estimates and Errors) and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance;
- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- make an assessment of Group's and parent company's ability to continue as a going concern.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from other jurisdictions.

**MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)**

**DIRECTORS' REPORT (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**DISCLOSURE OF INFORMATION TO AUDITORS**

Each of the persons at the time when this Directors' Report is approved have confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company and the Groups auditors are unaware, and
- the director has taken all 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 Groups auditors are aware of that information.

**AUDITORS**

RMT Accountants and Business Advisors Ltd were appointed as auditors to the Group and Company and in accordance with section 489 of the Companies Act 2006, a resolution proposing that they be re-appointed will be put at a General Meeting.

ON BEHALF OF THE BOARD

**Anthony Matchett**  
**Executive Chairman**

30 June 2020

## INDEPENDENT AUDITORS' REPORT

### TO THE MEMBERS OF MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)

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#### **Opinion**

We have audited the financial statements of MelodyVR Group plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2019 which comprise the Consolidated statement of comprehensive income, Group and Company statements of financial position, Group and Company statements of changes in equity, Group and Company statements of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2019 and of the Group's and the parent company's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; 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 company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to SME listed entities, 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.

#### **The impact of uncertainties due to the United Kingdom exiting the European Union on our audit**

Brexit is one of the most significant economic events for the UK in recent history, and at the date of this report its effects are subject to unprecedented levels of uncertainty, with the full range of possible consequences unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the parent company's and Group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

#### **Conclusions relating to going concern**

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

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

## INDEPENDENT AUDITORS' REPORT

### TO THE MEMBERS OF MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)

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#### **Key audit matters**

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

#### ***Revenue recognition***

Under International Standard on Auditing (UK) 240 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements', there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. Group revenue is recognised over the period to which the income relates, which exposes the Group to the risk of incomplete and incorrect cut-off of revenue recognised in the period.

#### ***How the matter was addressed in the audit***

To address the risk of improper revenue recognition, our audit work included, but was not restricted to:

- performed substantive testing to determine whether the accounting policy had been correctly applied, taking into account the timing of goods or services being provided to the customer, with individual revenue streams tested separately;
- reviewed a sample of sales transactions around the year end to ensure cut-off was correct and sales had been recognised in the correct period;
- considered the appropriateness and application of the Group's accounting policy for revenue recognition; and
- considered the disclosures in the financial statements regarding revenue.

#### ***Key observations***

The results of our testing were satisfactory and no significant issues were identified from our work over revenue recognition.

#### ***Management override***

In preparing the financial statements management are required to make judgements, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form a basis for making the judgements about the carrying value of assets and liabilities that are not available from other sources.

#### ***How the matter was addressed in the audit***

During the course of our audit we performed the following procedures to address the risk of management override:

- assessed the appropriateness of accounting policy choices made by management and the basis of key judgements, estimates and assumptions;
- reviewed manual journal entries posted within the period for indicators of management bias, transactions outside the normal course of business or indicators of fraudulent activity; and
- considered the value, nature and cause of misstatements identified during the course of the audit to identify indicators of bias.

#### ***Key observations***

The results of our testing were satisfactory and we consider the disclosure surrounding accounting policy choices and key accounting judgements to be appropriate.

## INDEPENDENT AUDITORS' REPORT

### TO THE MEMBERS OF MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)

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#### ***Going concern***

The directors have assessed that the parent company and Group continues to be a going concern and the financial statements have been prepared on this basis. Our preliminary assessment suggested that this going concern assumption was appropriate. However, given the ongoing losses of the Group, and the potential impact of the COVID-19 pandemic on the business and wider economy, going concern was considered to be a significant risk.

#### *How the matter was addressed in the audit*

During the course of our audit we performed the following procedures to address the risk of going concern:

- assessed budgets and cash flow forecasts produced to ensure that they support the going concern assumption that the Group will be in a position to continue trading for at least the next twelve months;
- reviewed how the Group has been affected by the COVID-19 pandemic and how the risks are being mitigated by management;
- considered post year end performance in relation to budgets and forecasts to assess their reasonableness; and
- considered the disclosures in the financial statements regarding going concern.

#### *Key observations*

The results of our testing were satisfactory and we consider the adoption of the going concern assumption to be appropriate as noted above.

#### ***Potential impairment of intercompany receivables – parent company only***

During the audit we have identified the risk of potential impairment in the intercompany receivables balance held on the parent company balance sheet. We consider the recoverability of these intercompany balances to be a key audit consideration for the parent company.

#### *How the matter was addressed in the audit*

During the course of our audit we performed the following procedures to address the risk of potential impairment:

- assessed long term forecasts produced to ensure that they support the assumption that the intercompany balances will be recoverable without the need for impairment.

#### *Key observations*

The results of our testing were satisfactory and we consider the parent company intercompany receivables to be recoverable and free from impairment at the reporting date.

#### ***Valuation of intangible assets***

Given there are significant accounting estimates involved in the capitalisation of development costs in respect of the MelodyVR app and of music content captured, and the amortisation rates used, this exposes the Group to the risk of material misstatements in the valuation of intangible assets. As such, the valuation of capitalised development costs were highlighted as a significant risk.

#### *How the matter was addressed in the audit*

To address the risk of capitalised cost misstatement, our audit work included, but was not restricted to:

- reviewing a sample of costs capitalised in the year, and the justifications behind each asset;
- reviewing the estimated useful economic life of costs capitalised and the policy of amortisation; and
- considering the appropriateness and application of the Group's accounting policy for the capitalisation of development costs, ensuring it is in line with IAS 38.

#### *Key observations*

The results of our testing were satisfactory and we consider the valuation of intangible assets in the financial statements to be reasonable and free from material error.

## INDEPENDENT AUDITORS' REPORT

### TO THE MEMBERS OF MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)

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#### *Valuation of options and warrants*

Given there are significant accounting estimates involved in the valuation of the options and warrants, this exposes the Group to the risk of material misstatement. There is also a further risk that warrants are not adequately disclosed in the financial statements. As such, the options and warrants valuation were highlighted as a significant risk.

#### *How the matter was addressed in the audit*

To address the risk of potential misstatement, our audit work included, but was not restricted to:

- assessing the key assumptions and judgements used in the valuation for reasonableness;
- verifying key base information used in the valuation to supporting documentation; and
- reviewing a disclosure checklist to ensure disclosures in the financial statements are adequate.

#### *Key observations*

The results of our testing were satisfactory and we consider the valuation of options and warrants to be reasonable, and the disclosures in the financial statements to be adequate.

#### **IFRS 16 transition**

Given the new accounting standard, *IFRS 16 - Leases*, taking effect from 1 January 2019 it is likely to have a material impact on the Group financial statements. Given the estimates involved, this exposes the Group to the risk of material misstatement in the transitional adjustments. As such, IFRS 16 transition was highlighted as a significant risk.

#### *How the matter was addressed in the audit*

To address the risk of potential misstatement on transition, our audit work included, but was not restricted to:

- reviewed the accounting policy application in the accounts to ensure policy and any transitional adjustments had been correctly applied;
- reviewed transition calculations to ensure values used appeared reasonable, including assumptions and estimates used such as discount rate; and
- reviewed disclosures in the accounts regarding the transition to ensure adequate.

#### *Key observations*

The results of our testing were satisfactory and we consider the application of IFRS 16 in the financial statements to be adequate.

#### **Our application of materiality**

In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements. We used the concept of materiality to both focus our testing and to evaluate the impact of misstatements identified.

Based on our professional judgement we determined materiality for the Group financial statements as a whole to be £325,600, based on specific benchmarks. Performance materiality of £162,800 was applied for testing which is 50% of Group materiality.

We agreed with the Audit Committee to report to it all identified errors considered to be above a trivial level, being 5% of Group materiality at £16,300, in addition to other identified misstatements that warranted reporting on qualitative grounds.

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

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the parent company, the accounting processes and controls and the industry in which they operate.

Based on that understanding our audit was focused on the key risks as described above.

## **INDEPENDENT AUDITORS' REPORT**

### **TO THE MEMBERS OF MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)**

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#### **Other information**

The Directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 the other information, we are required to report that fact. We have nothing to report in this regard.

#### **Opinions on other matters prescribed by the Companies Act 2006**

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

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

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

In light of the knowledge and understanding of the Group, the parent company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the 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 Statement of Directors' Responsibilities on page 9, 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.

## **INDEPENDENT AUDITORS' REPORT**

### **TO THE MEMBERS OF MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)**

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

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

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

#### **Use of our report**

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

Stephen Slater (Senior Statutory Auditor)  
for and on behalf of RMT Accountants & Business Advisors Ltd  
Statutory Auditors  
Newcastle upon Tyne  
30 June 2020

**MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

	Note	2019 £	2018 £
Continuing operations:			
Revenue	4	194,971	1,180,623
Cost of sales		(1,832,042)	(1,427,674)
<b>GROSS LOSS</b>		<u>(1,637,071)</u>	<u>(247,051)</u>
Administrative expenses		(14,227,561)	(11,260,086)
<b>OPERATING LOSS</b>		(15,864,632)	(11,507,137)
<b>Operating loss before non-recurring and non-cash items</b>			
Depreciation		(624,862)	(388,833)
Amortisation		(1,001,809)	(329,073)
Share based payments		(443,476)	(646,793)
<b>OPERATING LOSS</b>		<u>(15,864,632)</u>	<u>(11,507,137)</u>
Finance income		106,891	42,929
Finance costs		(14,229)	-
Foreign exchange gain/(loss)		(381,101)	73,253
<b>LOSS FOR THE YEAR BEFORE TAXATION</b>		(16,153,071)	(11,390,955)
Taxation	9	1,184,287	121,016
<b>NET LOSS AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<u>(14,968,784)</u>	<u>(11,269,939)</u>
Attributable to:			
Owners of the parent company		(14,968,784)	(11,270,952)
Non – controlling interest		-	1,013
<b>LOSS PER SHARE – from continuing operations – basic and diluted</b>	10	<u>(1.1)p</u>	<u>(0.9)p</u>

The loss for the Company for the year totalled £247,700 (2018: £716,816).

The accompanying accounting policies and notes are an integral part of these financial statements.

**MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)****CONSOLIDATED STATEMENT OF FINANCIAL POSITION****AT 31 DECEMBER 2019**

	<b>Note</b>	<b>2019 £</b>	<b>2018 £</b>
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	11	813,728	933,992
Right-of-use assets	12	515,706	-
Financial assets	15	235,446	-
Goodwill	13	603,476	603,476
Other intangible assets	13	2,043,574	1,492,071
<b>TOTAL NON-CURRENT ASSETS</b>		<b>4,211,930</b>	<b>3,029,539</b>
<b>CURRENT ASSETS</b>			
Inventories	16	371,877	-
Trade and other receivables	17	3,382,819	1,601,896
Cash and cash equivalents	18	6,795,341	19,327,948
<b>TOTAL CURRENT ASSETS</b>		<b>10,550,037</b>	<b>20,929,844</b>
<b>TOTAL ASSETS</b>		<b>14,761,967</b>	<b>23,959,383</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	19	(1,143,311)	(1,933,437)
Lease liabilities	20	(156,964)	-
		(1,300,275)	(1,933,437)
<b>NON-CURRENT LIABILITIES</b>			
Lease liabilities	20	(323,443)	-
<b>NET ASSETS</b>		<b>13,138,249</b>	<b>22,025,946</b>
<b>EQUITY</b>			
Share capital	22	14,944,850	13,690,204
Share premium reserve		40,531,229	36,258,164
Retained Earnings		(35,242,590)	(20,273,806)
Share option reserve	23	2,417,741	1,974,265
Merger relief reserve		486,611	486,611
Non-controlling interests		(44,990)	(44,990)
Currency Translation Reserve		47,941	(61,959)
Reverse takeover reserve		(10,002,543)	(10,002,543)
<b>TOTAL EQUITY</b>		<b>13,138,249</b>	<b>22,025,946</b>

These financial statements were approved by the Board of Directors on 30 June 2020 and were signed on its behalf by:

**Anthony Matchett**  
**Director**

Company number: 05628362

The accompanying accounting policies and notes are an integral part of these financial statements.

**MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

	Share capital	Share premium	Merger Relief Reserve	Share Option Reserve	Retained Losses	Reverse Takeover Reserve	Non-Controlling Interest	Currency Translation Reserve	Total Equity
	£	£	£	£	£	£	£	£	£
Balance at 1 January 2018	12,184,391	18,308,854	486,611	1,327,472	(9,002,854)	(10,002,543)	(46,003)	10,194	13,266,122
Share issue	1,250,000	17,798,293	-	-	-	-	-	-	19,048,293
Grant of share options/warrants	255,813	151,017	-	646,793	-	-	-	-	1,053,623
Loss for the year and total comprehensive loss for the year	-	-	-	-	(11,270,952)	-	-	-	(11,270,952)
Non-controlling interest	-	-	-	-	-	-	1,013	-	1,013
Currency transaction reserve	-	-	-	-	-	-	-	(72,153)	(72,153)
Balance at 31 December 2018	13,690,204	36,258,164	486,611	1,974,265	(20,273,806)	(10,002,543)	(44,990)	(61,959)	22,025,946
Share issue	1,111,111	3,477,603	-	-	-	-	-	-	4,588,714
Grant of share options/warrants	143,535	795,462	-	443,476	-	-	-	-	1,382,473
Loss for the year and total comprehensive loss for the year	-	-	-	-	(14,968,784)	-	-	-	(14,968,784)
Non-controlling interest	-	-	-	-	-	-	-	-	-
Currency transaction reserve	-	-	-	-	-	-	-	109,900	109,900
Balance at 31 December 2019	14,944,850	40,531,229	486,611	2,417,741	(35,242,590)	(10,002,543)	(44,990)	47,941	13,138,249

The accompanying accounting policies and notes are an integral part of these financial statements.

**MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

	Notes	2019 £	2018 £
<b>Operating activities</b>			
Loss from continuing operations before tax		(16,153,071)	(11,390,955)
<i>Adjustments for:</i>			
Depreciation of tangible assets		610,128	388,833
Depreciation of right-of-use assets		14,734	-
Amortisation of intangible assets		1,001,809	329,073
Loss on disposal of intangible assets		169,596	-
Share based payment expense		443,476	646,793
Increase in inventories		(371,877)	-
Increase in trade and other receivables		(596,636)	(1,115,147)
(Decrease)/increase in trade and other payables		(790,126)	1,118,317
		<u>(15,671,967)</u>	<u>(10,023,086)</u>
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>			
<b>Investing activities</b>			
Purchase of property, plant and equipment		(489,864)	(682,040)
Investment in intangible assets		(1,722,908)	(1,821,144)
Purchase of financial assets		(235,446)	-
		<u>(2,448,218)</u>	<u>(2,503,184)</u>
<b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>			
<b>Financing activities</b>			
Proceeds from issue of ordinary share capital		4,588,714	19,048,293
Proceeds from the exercise of warrants		938,997	406,831
		<u>5,527,711</u>	<u>19,455,124</u>
<b>NET CASH GENERATED FROM FINANCING ACTIVITIES</b>			
(Decrease)/increase in cash and cash equivalents		(12,592,474)	6,928,854
Effect of changes in foreign exchange rates		59,867	(10,726)
Cash and cash equivalents brought forward		19,327,948	12,409,820
		<u>19,327,948</u>	<u>12,409,820</u>
<b>CASH AND CASH EQUIVALENTS CARRIED FORWARD</b>	18	<u><u>6,795,341</u></u>	<u><u>19,327,948</u></u>

**MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)**

**STATEMENT OF FINANCIAL POSITION - COMPANY**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

	Note	2019 £	2018 £
<b>NON-CURRENT ASSETS</b>			
Investments	14	5,352,731	5,352,731
<b>TOTAL NON-CURRENT ASSETS</b>		<u>5,352,731</u>	<u>5,352,731</u>
<b>CURRENT ASSETS</b>			
Trade and other receivables	17	44,106,776	20,787,552
Cash and cash equivalents	18	20,565	18,013,110
<b>TOTAL CURRENT ASSETS</b>		<u>44,127,341</u>	<u>38,800,662</u>
<b>TOTAL ASSETS</b>		<u><u>49,480,072</u></u>	<u><u>44,153,393</u></u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	19	(172,907)	(569,715)
<b>NET ASSETS</b>		<u><u>49,307,165</u></u>	<u><u>43,583,678</u></u>
<b>EQUITY</b>			
Share capital	22	14,944,850	13,690,204
Share premium account		41,017,840	36,744,775
Share option reserve	23	2,528,503	2,085,027
Retained earnings		(9,184,028)	(8,936,328)
<b>TOTAL EQUITY</b>		<u><u>49,307,165</u></u>	<u><u>43,583,678</u></u>

These financial statements were approved by the Board of Directors on 30 June 2020 and were signed on its behalf by:

**Anthony Matchett**  
**Director**

Company number: 05628362

The accompanying accounting policies and notes are an integral part of these financial statements.

**MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)****STATEMENT OF CHANGES IN EQUITY - COMPANY****FOR THE YEAR ENDED 31 DECEMBER 2019**

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	<b>Share capital £</b>	<b>Share premium £</b>	<b>Share Option Reserve £</b>	<b>Retained Losses £</b>	<b>Total Equity £</b>
Balance at 1 January 2018	12,184,391	18,795,464	1,438,234	(8,219,512)	24,198,577
Share issue	1,250,000	17,798,293	-	-	19,048,293
Grant of share options/warrants	255,813	151,018	646,793	-	1,053,624
Loss for the year and total comprehensive loss for the year	-	-	-	(716,816)	(716,816)
Balance at 31 December 2018	13,690,204	36,744,775	2,085,027	(8,936,328)	43,583,678
Share issue	1,111,111	3,477,603	-	-	4,588,714
Grant of share options/warrants	143,535	795,462	443,476	-	1,382,473
Loss for the year and total comprehensive loss for the year	-	-	-	(247,700)	(247,700)
Balance at 31 December 2019	14,944,850	41,017,840	2,528,503	(9,184,028)	49,307,165

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MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)

STATEMENT OF CASH FLOWS - COMPANY

FOR THE YEAR ENDED 31 DECEMBER 2019

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	Notes	2019 £	2018 £
<b>Operating activities</b>			
Loss from continuing operations		(247,700)	(716,816)
<i>Adjustments for:</i>			
Share based payment expense		443,476	646,793
Increase in trade and other receivables		(23,319,224)	(13,264,041)
(Decrease)/increase in trade and other payables		(396,808)	180,913
		<u>                    </u>	<u>                    </u>
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>		<b>(23,520,256)</b>	<b>(13,153,151)</b>
		<u>                    </u>	<u>                    </u>
<b>Financing activities</b>			
Proceeds from issue of ordinary share capital		4,588,714	19,048,293
Proceeds from the exercise of warrants		938,997	406,831
		<u>                    </u>	<u>                    </u>
<b>NET CASH GENERATED FROM FINANCING ACTIVITIES</b>		<b>5,527,711</b>	<b>19,455,124</b>
		<u>                    </u>	<u>                    </u>
(Decrease)/increase in cash and cash equivalents		(17,992,545)	6,301,973
Cash and cash equivalents brought forward		18,013,110	11,711,137
		<u>                    </u>	<u>                    </u>
<b>CASH AND CASH EQUIVALENTS CARRIED FORWARD</b>	18	<b>20,565</b>	<b>18,013,110</b>
		<u>                    </u>	<u>                    </u>

# MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 1. GENERAL INFORMATION

The Group's principal activities are described in the Directors' Report.

MelodyVR Group PLC is a public company incorporated in England and Wales and quoted on AIM. Its registered address is 55 Poland Street, London, England, W1F 7NN.

#### 2. ACCOUNTING POLICIES

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements have been prepared using the measurement bases specified by IFRSs for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

The financial statements are presented in pounds sterling (£) which is the functional currency of the Group.

An overview of standards, amendments and interpretations to IFRSs issued but not yet effective, and which have not been adopted early by the Group are presented below under 'Statement of Compliance'.

##### **Basis of Consolidation**

Where the Group has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

##### **Business Combinations**

The Consolidated Financial Statements comprise the period for the 12 months to 31 December 2019. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Consolidated within these financial statements are results from subsidiaries: MelodyVR Ltd (100% ownership), MelodyVR Inc (100% ownership), MelodyVR Holdings Ltd (100% ownership) and Immersive Construction Ltd (51% ownership).

##### **Going Concern**

The Financial Statements have been prepared on the going concern basis. The Directors have prepared cash flow forecasts through to June 2021, covering the 12 month period beyond the signing date of these financial statements. This includes taking into account the potential impact of COVID-19 to ensure that cashflow is positively managed and the impact to the Group's operations is mitigated. As there are sufficient existing resources to operate for the foreseeable future the Board has concluded that the going concern assumption is appropriate in preparing these financial statements.

# MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 DECEMBER 2019

## 2. ACCOUNTING POLICIES (continued)

### Statement of compliance

#### a) New standards, interpretations and amendments effective from 1 January 2019

New standards impacting the Group that will be adopted in the annual financial statements for the year ended 31 December 2019, and which have given rise to changes in the Group's accounting policies are:

- IFRS 16 "Leases"

IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, together with options to exclude leases where the lease term is 12 months or less, or where the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17, with the distinction between operating leases and finance leases being retained. The Group does not have significant leasing activities acting as a lessor.

The Group adopted IFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on the date of initial application (1 January 2019), without restatement of comparative figures. The Group elected to apply the practical expedient to not reassess whether a contract is, or contains, a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. The definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases. However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low value assets based on the value of the underlying asset when new or for short-term leases with a lease term of 12 months or less.

The impact of IFRS 16 on the financial statements is shown below and reflects the full changes from IAS 17 to IFRS16.

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – EXTRACT

	Pre- adjustments £	IFRS 16 £	31 December 2019 £
<b>NON-CURRENT ASSETS</b>			
Right-of-use assets	-	515,706	515,706
Financial assets	271,476	(36,030)	235,446
	<hr/>	<hr/>	<hr/>
<b>LIABILITIES</b>			
Lease liabilities (current and non-current)	-	(480,407)	(480,407)
	<hr/>	<hr/>	<hr/>
<b>EQUITY</b>			
Retained earnings	(35,241,859)	(731)	(35,242,590)
	<hr/>	<hr/>	<hr/>

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

The Group currently adopts all relevant accounting standards that have been endorsed by the EU. There are various standards that are expected to be endorsed in 2020. The Group believes these standards will have no material impact on the financial statements.

**2. ACCOUNTING POLICIES (continued)**

**Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received in the ordinary course of the Group's activities, excluding discounts, rebates, value added tax and other sales taxes.

(a) Content sales

Content revenue is recognised in the period the content is purchased from the MelodyVR platform either directly or via third party resellers. Revenue from content sales are recognised gross of costs paid to third party licence and rights holders in line with contracts, with the corresponding cost recognised as cost of sales.

(b) Content licence revenue

Revenue from licence contracts for the use of artist/label content is recognised over the period to which the contract relates.

(c) Interest income

Interest income is recognised using the effective interest method.

**Share based payments**

All share based payments are accounted for in accordance with IFRS 2 – Share-based payments. The Company issues equity-settled share based payments in the form of options and warrants to certain directors, employees and corporate partners. Equity settled share based payments are measured at fair value at the date of grant. The fair value determined at the grant date of equity-settled share based payments is expensed on a straight line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

Fair value is estimated using the Black-Scholes valuation model. The expected life used in the model has been adjusted, on the basis of management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations. At each balance sheet date, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to retained earnings.

**Taxation**

Current taxation is the taxation currently payable on taxable profit for the year.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Temporary differences include those associated with shares in subsidiaries and joint ventures and are only not recognised if the Group controls the reversal of the difference and it is not expected for the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the statement of financial position date. Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statements, except where they relate to items that are charged or credited to equity in which case the related deferred tax is also charged or credited directly to equity.

No deferred tax asset has been recognised in respect of tax losses carried forward as the Directors cannot be certain that future profits against which the losses can be relieved will be sufficient for this asset to be realised.

## 2. ACCOUNTING POLICIES (continued)

### Trade and other receivables

Trade and other receivables are recorded at the time of their initial recognition at fair value and subsequently at amortised cost less any impairment in value that may be necessary. An impairment in value in the case of trade and other receivables is recognised if there are objective indications that the amount of the debt due cannot be collected in full. The impairment in value is recognised in the income statement.

### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair value of assets given, liabilities assumed and equity instruments issued.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the statement of comprehensive income.

Impairment tests on goodwill are undertaken annually at 31 December as it is not amortised.

### Intangible assets - Development and content creation costs

The Group recognises both internal development costs as well as VR content creation costs as intangible assets only when the following criteria are met: the technical feasibility of completing the intangible asset exists, there is an intent to complete and an ability to use or sell the intangible asset, the intangible asset will generate probable future economic benefits, there are adequate resources available to complete the development and to use or sell the intangible asset, and there is the ability to reliably measure the expenditure attributable to the intangible asset during its development.

Intangible assets with finite lives are amortised on a straight-line basis over their estimated useful lives and are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset are reviewed at least annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation of intangible assets is recognised in the consolidated statement of comprehensive income/costs in the expense category consistent with the function of the intangible assets.

Amortisation rates applicable to development costs is 33% straight line.

Amortisation rates applicable to content assets released during the period is as follows:

- Year 1: 80%
- Year 2: 15%
- Year 3: 5%

Content assets in production are not amortised as these assets are still in development and not in the condition necessary to be capable of operating in the manner intended by management. At the point the asset is in operational condition it is reclassified to Content Assets – released and is amortised in line with the above amortisation policy.

**2. ACCOUNTING POLICIES (continued)**

**Property, plant and equipment**

Property, plant and equipment are stated at cost less depreciation. Depreciation is calculated to write down the cost of all tangible fixed assets by equal monthly instalments over their estimated useful lives at the following rates-

Audio-visual production - 33% straight line

Computer Equipment - 33% straight line

Office Equipment - 25% straight line

Leasehold Improvements -33% straight line

**Impairment of tangible and intangible assets**

At each reporting end date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

**Investments**

Investments in subsidiaries are held at cost less impairment. At each balance sheet date, the Company reviews the carrying amount of the investment to determine whether there is any indication that the investment has suffered an impairment loss. Any impairment loss is recognised as an expense immediately.

**Financial liabilities**

The Group's financial liabilities comprise trade payables and lease liabilities. Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instruments.

**Trade payables**

Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

**Equity instruments**

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

**Leases**

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

The full accounting policy for leases is shown above in the section titled "Statement of compliance".

**Employee benefits**

The Group operates a defined contribution pension scheme for employees. The contributions are charged to the income statement as they are incurred. The Group has no further payment obligations once the contributions have been paid.

# MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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## 2. ACCOUNTING POLICIES (continued)

### Foreign currency translation

#### a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of the Company is the British Pound ("Sterling"). The consolidated financial statements are presented in Sterling, which is the Group's presentation currency. Given the Company's listing on the Alternative Investment Market of the London Stock Exchange, the Directors consider that it is appropriate to present the financial statements in Sterling.

#### b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

#### c) Group companies

When the results and financial position of a Group entity (none of which has the currency of a hyperinflationary economy) that has a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets, liabilities and equity for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised as other comprehensive income.

### Reserves

Full details of movements in reserves are set out in the consolidated statement of changes in equity on page 16.

The following describes the nature and purpose of each reserve within owners' equity.

Reserve	Description and Purpose
Merger relief reserve	Relates to share premium arising on issue of shares relating to reverse acquisition takeover
Reverse takeover reserve	Relates to amounts arising on reverse acquisition takeover
Currency Translation Reserve	Relates to differences in the consolidation of foreign subsidiaries and associates where the functional currency differs from the group presentation currency.
Share option reserve	Value of warrants and options issued
Non-controlling interest	Relates to percentage of Immersive Construction not owned by MelodyVR Group PLC

**3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. These estimates and assumptions are based upon management's knowledge and experience of the amounts, events or actions. Actual results may differ from such estimates. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

***Recognition of development costs***

Self-developed intangible assets are recognised where the Group can estimate that it is probable that future economic benefits will flow to the entity. See the intangible asset accounting policy in Note 2.

***Determining residual values and useful economic lives of intangible fixed assets and property, plant & equipment***

The Group depreciates property, plant & equipment and amortises intangible fixed assets over their estimated useful lives. The estimation of the useful lives of assets is based on historic performance as well as expectations about future use and therefore requires estimates and assumptions to be applied by management.

Judgement is applied by management when determining the residual values of property, plant & equipment and intangible fixed assets. When determining the residual value management aim to assess the amount that the Group would currently obtain for the disposal of the asset, if it were already of the condition expected at the end of its useful economic life.

The carrying amount of group intangible fixed assets at the reporting date was £2,044k (2018: £1,492k) and the carrying amount of group property, plant & equipment at the reporting date was £814k (2018: £934k).

***Share-based payments***

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

# MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### 4. SEGMENTAL INFORMATION

The Group has adopted the requirements of IFRS 8 “Operating segments”. The standard requires operating segments to be identified on the basis of internal financial information about components of the Group that are regularly reviewed by the Chief Operating Decision Maker (‘CODM’) to allocate resources to the segments and to assess their performance. The CODM has been identified as the Board of Directors. The Board considers the business from a product/services perspective. The Directors consider that the Group only has one reportable operating segment.

During the year the Group generated revenue from the following revenue streams:

	<b>Group</b>	
	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Content sales	36,711	18,951
Content licensing	158,259	1,161,672
	<u>194,971</u>	<u>1,180,623</u>

During the year the Group generated revenue in the following geographical regions:

	<b>Group</b>	
	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
UK	167,614	6,398
Rest of Europe	2,452	980,934
United States	22,849	193,291
Rest of World	2,056	-
	<u>194,971</u>	<u>1,180,623</u>

#### 5. LOSS FROM OPERATIONS

This has been arrived at after charging:

	<b>Group</b>	
	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Depreciation of property, plant and equipment	610,128	388,833
Depreciation of right-of-use assets	14,734	-
Amortisation on internally generated intangible assets	1,001,809	329,073
Loss on disposal of intangible assets	169,596	-
	<u>1,696,267</u>	<u>717,906</u>

## MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 6. LOSS ATTRIBUTABLE TO MELODYVR GROUP PLC

As permitted by section 408 Companies Act 2006, no separate income statement is presented in respect of the parent company.

#### SUBSIDIARY UNDERTAKINGS

The following were the subsidiary undertakings of the Company:

<b>Name</b>	<b>Class of shares</b>	<b>Holding</b>	<b>Principal activity</b>
MelodyVR Ltd	Ordinary	100%	Virtual reality content creation
Immersive Construction Ltd	Ordinary	51%	Research and development
MelodyVR Inc	Ordinary	100%	Virtual reality content creation
MelodyVR Holdings Ltd	Ordinary	100%	Dormant entity

The registered offices of MelodyVR Limited is 55 Poland Street, London, England, W1F 7NN. The registered offices of, MelodyVR Holdings Ltd and Immersive Construction Ltd are The Lighthouse, 370 Gray's Inn Road, London, England, WC1X 8BB, and the registered offices of MelodyVR Inc is 8954 St Ives Drive, Los Angeles, CA, United States, 90069.

#### 7. AUDITOR'S REMUNERATION

	<b>Group</b>	
	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
During the year the Group obtained the following service from the Group's auditors:		
Fees payable to the Group's auditors for the audit of the Group's annual accounts	26,000	25,500
Fees payable to the Group's auditors for other services:		
Tax services	4,000	5,925
Other services	-	5,550
	<u>30,000</u>	<u>36,975</u>

**MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

**8. DIRECTORS' AND EMPLOYEE REMUNERATION**

	<b>Group</b>	
	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
The amount paid to directors and employees, is as follows:		
Wages and salaries	5,157,779	4,669,734
Social security costs	631,586	553,006
Pension costs	114,874	73,975
Share based payment costs	443,476	507,446
	<u>6,347,715</u>	<u>5,804,161</u>

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

	<b>2019</b>		<b>2018</b>	
	<b>Group</b>	<b>Company</b>	<b>Group</b>	<b>Company</b>
	<b>No.</b>	<b>No.</b>	<b>No.</b>	<b>No.</b>
Directors	5	5	5	5
Senior Management	-	-	1	-
Staff	73	-	48	-
	<u>78</u>	<u>5</u>	<u>54</u>	<u>5</u>

Details for directors' remuneration is as follows:

<b>Director</b>	<b>Current salary</b>	<b>Total 2019</b>	<b>Total 2018</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Anthony Matchett	275,000	372,545	442,500
Steven Hancock	220,000	270,910	305,667
Sebastian Theron (resigned: 15 January 2019)	-	10,154	277,000
Simon Cole	120,000	96,667	35,416
Ian Hanson (resigned: 1 April 2020)	-	40,000	31,250
Andy Botha	40,000	40,000	1,613
Sean Nicolson (resigned: 7 February 2018)	-	-	2,564
		<u>830,276</u>	<u>1,096,010</u>

The remuneration committee approved the salary increases and bonuses for executive directors during the year. Non-executive fees were also increased in line with market rates.

The Group has no key management other than the Directors.

**MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

**9. TAXATION**

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
<b>Current tax</b>		
UK corporation tax	(1,184,287)	(121,016)
	<u>                    </u>	<u>                    </u>
<b>Deferred tax</b>		
Origination and reversing of timing differences	-	-
	<u>                    </u>	<u>                    </u>
Tax on profit on ordinary activities	-	-
	<u>                    </u>	<u>                    </u>

The tax on the Group's loss before tax differs from the theoretical amount that would arise using the weighted average rate applicable as follows:

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
<b>Factors affecting the tax charge</b>		
Loss before tax	(16,153,071)	(11,390,955)
	<u>                    </u>	<u>                    </u>
Loss before tax multiplied by rate of corporation tax in the UK of 19% (2018: 19%)	(3,069,083)	(2,164,281)
Effects of:		
Fixed asset differences	241,921	4,570
Expenses not deductible for tax purposes	116,593	222,141
Income not taxable for tax purposes	-	(7,353)
Group income	-	(290,008)
R&D tax credit	(1,184,287)	(121,016)
Adjust closing deferred tax to average rate	-	394,638
Adjust opening deferred tax to average rate	-	(169,800)
Deferred tax not recognised	2,710,569	2,010,093
	<u>                    </u>	<u>                    </u>
<b>Total tax credit</b>	<u>(1,184,287)</u>	<u>(121,016)</u>

No deferred tax asset has been recognised as the Directors cannot be certain that future profits will be sufficient for this asset to be realised. As at 31 December 2019 the Group has tax losses carried forward of approximately £7,815,544 (2018: £5,104,975).



MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

11. PROPERTY, PLANT AND EQUIPMENT

Group	Audio-visual Production Equipment	Office Equipment	Computer Equipment	Leasehold Improvements	Total
Cost	£	£	£	£	£
At 1 January 2018	283,954	27,127	472,659	57,315	841,055
Additions	198,506	57,035	411,885	16,970	684,396
At 31 December 2018	482,460	84,162	884,544	74,285	1,525,451
At 1 January 2019	482,460	84,162	884,544	74,285	1,525,451
Additions	248,764	12,876	228,224	-	489,864
<b>At 31 December 2019</b>	<b>731,224</b>	<b>97,038</b>	<b>1,112,768</b>	<b>74,285</b>	<b>2,015,315</b>
<b>Accumulated Depreciation</b>					
At 1 January 2018	71,351	3,444	124,153	3,678	202,626
Charge for the period	109,299	15,676	239,805	24,053	388,833
At 31 December 2018	180,650	19,120	363,958	27,731	591,459
At 1 January 2019	180,650	19,120	363,958	27,731	591,459
Charge for the period	213,182	22,962	327,430	46,554	610,128
<b>At 31 December 2019</b>	<b>393,832</b>	<b>42,082</b>	<b>691,388</b>	<b>78,425</b>	<b>1,186,578</b>
<b>Net Book Value</b>					
<b>At 31 December 2019</b>	<b>337,392</b>	<b>54,956</b>	<b>421,380</b>	<b>-</b>	<b>813,728</b>
At 31 December 2018	301,810	65,042	520,586	46,554	933,992
At 1 January 2018	212,603	23,683	348,506	53,637	638,429

The parent entity does not have any items of property, plant and equipment.

MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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**12. RIGHT-OF-USE ASSETS**

**Group**

	<b>Land and buildings £</b>	<b>Total £</b>
<b>Cost</b>		
At 31 December 2018	-	-
At 1 January 2019	-	-
Initial recognition of IFRS 16	530,440	530,440
<b>At 31 December 2019</b>	<b>530,440</b>	<b>530,440</b>
<b>Accumulated Depreciation</b>		
At 31 December 2018	-	-
At 1 January 2019	-	-
Charge for the period	14,734	14,734
<b>At 31 December 2019</b>	<b>14,734</b>	<b>14,734</b>
<b>Net Book Value</b>		
<b>At 31 December 2019</b>	<b>515,706</b>	<b>515,706</b>
At 31 December 2018	-	-

The parent entity does not have any right-of-use assets.

MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

13. INTANGIBLE FIXED ASSETS

Group	Goodwill	Development costs	Content assets - in production	Content assets - released	Total
Cost	£	£	£	£	£
At 1 January 2018	603,476	-	-	-	603,476
Additions	-	667,819	646,344	506,981	1,821,144
At 31 December 2018	603,476	667,819	646,344	506,981	2,424,620
At 1 January 2019	603,476	667,819	646,344	506,981	2,424,620
Additions	-	1,282,545	101,999	338,364	1,722,908
Disposals	-	(69,871)	(126,766)	-	(196,637)
Transfers	-	-	(306,701)	306,701	-
<b>At 31 December 2019</b>	<b>603,476</b>	<b>1,880,493</b>	<b>314,876</b>	<b>1,152,046</b>	<b>3,950,891</b>
<b>Accumulated Depreciation</b>					
At 1 January 2018	-	-	-	-	-
Charge for the period	-	149,279	-	179,794	329,073
At 31 December 2018	-	149,279	-	179,794	329,073
At 1 January 2019	-	149,279	-	179,794	329,073
Charge for the period	-	413,294	-	588,515	1,001,809
Eliminated on disposal	-	(27,041)	-	-	(27,041)
<b>At 31 December 2019</b>	<b>-</b>	<b>535,532</b>	<b>-</b>	<b>768,309</b>	<b>1,303,841</b>
<b>Net Book Value</b>					
<b>At 31 December 2019</b>	<b>603,476</b>	<b>1,344,961</b>	<b>314,876</b>	<b>383,737</b>	<b>2,647,050</b>
At 31 December 2018	603,476	518,540	646,344	327,187	2,095,547
At 1 January 2018	603,476	-	-	-	603,476

Goodwill has been calculated as the fair value of the MelodyVR Group PLC ordinary shares pre reverse takeover less the net asset value of the Company at the time of take over. During the year the recognition criteria for intangibles assets as per IAS38 were satisfied for assets internally generated by the Company's subsidiary entity, MelodyVR Ltd and have therefore been capitalised and are presented above in line with the accounting policy in Note 2.

The parent entity does not have any items of intangible fixed assets.

**MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)****NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2019****14. INVESTMENTS**

	<b>Company £</b>
<b>Cost</b>	
At 1 January 2018 and 31 December 2018	5,352,731
At 31 December 2019	<u>5,352,731</u>
<b>Impairment</b>	
At 1 January 2018 and 31 December 2018	-
Charge for the year	-
At 31 December 2019	<u>-</u>
<b>Net Book Value</b>	
At 31 December 2019	<u>5,352,731</u>
At 1 January 2018 and 31 December 2018	<u>5,352,731</u>

The fair value of the investment has been calculated by taking the 486,611,833 shares issued by the Company at 1.1p per share to acquire MelodyVR Limited.

**15. FINANCIAL ASSETS**

	<b>2019</b>		<b>2018</b>	
	<b>Group £</b>	<b>Company £</b>	<b>Group £</b>	<b>Company £</b>
Security deposits	235,446	-	-	-
	<u>235,446</u>	<u>-</u>	<u>-</u>	<u>-</u>

The security deposits relates to the right-of-use asset as per Note 12 and is measured at amortised cost

**16. INVENTORIES**

	<b>2019</b>		<b>2018</b>	
	<b>Group £</b>	<b>Company £</b>	<b>Group £</b>	<b>Company £</b>
Raw materials and consumables	371,877	-	-	-
	<u>371,877</u>	<u>-</u>	<u>-</u>	<u>-</u>

In accordance with IAS 2 the Group regularly reviews its inventory to ensure it is carried at the lower of cost or net realisable value.

**MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)****NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2019****17. TRADE AND OTHER RECEIVABLES**

	2019		2018	
	Group £	Company £	Group £	Company £
Trade receivables	526,693	-	746,165	-
Prepayments	654,366	7,267	226,927	-
Other debtors	2,201,760	792,451	628,804	-
Intercompany receivable	-	43,307,058	-	20,787,552
	<u>3,382,819</u>	<u>44,106,776</u>	<u>1,601,896</u>	<u>20,787,552</u>

The fair value of trade and other receivables is considered by the directors not to be materially different to carrying amounts.

**18. CASH AND CASH EQUIVALENTS**

	2019		2018	
	Group £	Company £	Group £	Company £
Cash and cash equivalents	6,795,341	20,565	19,327,948	18,013,110
	<u>6,795,341</u>	<u>20,565</u>	<u>19,327,948</u>	<u>18,013,110</u>

The Directors consider that the carrying amount of cash and cash equivalent represents their fair value.

**19. TRADE AND OTHER PAYABLES**

	2019		2018	
	Group £	Company £	Group £	Company £
Trade payables	594,759	40,927	659,130	38,741
Other creditors	548,552	39,281	1,274,307	489,662
Intercompany payables	-	92,699	-	41,312
	<u>1,143,311</u>	<u>172,907</u>	<u>1,933,437</u>	<u>569,715</u>

# MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### 20. LEASE LIABILITIES

The Group implemented IFRS 16 “Leases” as of 1 January 2019 (see Note 2). Whilst the Group implemented the accounting standard using the cumulative retrospective approach which does not require comparatives to be restated the below fully details the effect of IFRS 16 on the Group’s lease debt.

A summary of the lease debt maturity is shown below:

<b>Group</b>	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Less than 1 year	156,964	-
Between 2 and 5 years	323,443	-
	<u>480,407</u>	<u>-</u>

The carrying value of assets held under lease within right-of-use assets is £515,706 (2018: £nil due to IFRS 16 not being applied until 1 January 19) as per Note 12. The balance relates to a property lease held within the subsidiary MelodyVR Inc. This lease currently runs through to 30 November 2022.

#### 21. COMMITMENTS

Neither the Group nor the Company had any capital commitments at the end of the financial year, for which no provision has been made. In addition to the lease liabilities which are recorded on the Group’s balance sheet as per Note 19, there are also various short term and low value leases which are accounted for as operating leases. Total future lease payments under non-cancellable operating leases are as follows:

<b>Group</b>	<b>2019</b>		<b>2018</b>	
	<b>Land and buildings</b>	<b>Other</b>	<b>Land and buildings</b>	<b>Other</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Operating leases payable:				
Less than 1 year	81,700	-	330,048	-
Between 2 and 5 years	-	-	30,000	-
	<u>81,700</u>	<u>-</u>	<u>360,048</u>	<u>-</u>

**MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

**22. ISSUED SHARE CAPITAL**

	<b>2019</b>		<b>2018</b>	
	<b>Number of Shares No.</b>	<b>Nominal Value £</b>	<b>Number of Shares No.</b>	<b>Nominal Value £</b>
<b>Issued and fully paid</b>				
Ordinary shares of 1p each	1,433,660,237	14,336,601	1,308,195,592	13,081,955
Deferred shares of 0.24p each	150,520,616	361,249	150,520,616	361,249
Deferred shares of 0.95p each	26,000,000	247,000	26,000,000	247,000
	<u>1,610,180,853</u>	<u>14,944,850</u>	<u>1,484,716,208</u>	<u>13,690,204</u>

<b>Movement</b>	<b>Number of Shares No.</b>	<b>Nominal Value £</b>	<b>Share premium £</b>
<b>Issued and fully paid during the year</b>			
Issue of new ordinary shares at 1.1p each	478,908	4,789	479
Issue of new ordinary shares at 1.85p each	8,877,585	88,776	75,459
Issue of new ordinary shares at 4.5p each	111,111,111	1,111,111	3,888,889
Issue of new ordinary shares at 15.4p each	4,997,041	49,970	719,524
Share issue costs	-	-	(411,286)
	<u>125,464,645</u>	<u>1,254,646</u>	<u>4,273,065</u>

The deferred shares do not confer upon the holders right to any dividends or the right to attend or vote at general meetings of the Company.

## MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### FOR THE YEAR ENDED 31 DECEMBER 2019

### 23. SHARE OPTIONS AND WARRANTS

The Group operates share-based payment arrangements to remunerate directors and key employees in the form of options and warrants. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

The fair value at grant date is independently determined using the Black Scholes Model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk free interest rate for the term of the option and the correlations and volatilities of the peer group companies.

In determining the expected price volatility, the directors have taken account of expectations regarding the current and future circumstances in the virtual reality market, both from the perspective of investment into content creation and hardware manufacture, and from the perspective of consumer trends, to assess the expected uptake of virtual reality as a mainstream outlet for music and other media and entertainment genres.

#### DIRECTOR OPTIONS AND WARRANTS

The following table sets out the details of options and warrants held by directors at 31 December 2019:

Director	Warrants and options in parent at 1 January 2019	Exercised during the year	Warrants and options at 31 December 2019	Exercise price	Expiry date
Simon Cole	4,615,090	-	4,615,090	1.1p	16.05.2026
Anthony Matchett	11,537,725	-	11,537,725	1.1p	16.05.2026
Steven Hancock	11,684,783	(147,058)	11,537,725	1.1p	16.05.2026
Ian Hanson	4,615,090	-	4,615,090	8.125p	17.07.2027
Andy Botha	4,615,090	-	4,615,090	5.7p	20.12.2028
	<u>37,067,778</u>	<u>(147,058)</u>	<u>36,920,720</u>		

No options or warrants issued to directors were have lapsed or been forfeited during the year. This calculation takes into account warrants and options awarded to directors in the performance of their duties.

#### EQUITY SETTLED SHARE OPTION SCHEME

The Group operates an approved enterprise management incentive scheme under which employees have been granted options to purchase shares in MelodyVR Group PLC.

MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

23. SHARE OPTIONS AND WARRANTS (continued)

The following table sets out the details of share options held at 31 December 2019:

	2019		2018	
	Average exercise price per share option	Number of options	Average exercise price per share option	Number of options
As at 1 January	5.7p	44,486,521	5.1p	28,609,707
Granted during the year	13.9p	57,970,410	6.9p	17,526,814
Exercised during the year	14.6p	(5,475,949)	-	-
Forfeited during the year	5.3p	(6,019,727)	8.5p	(1,650,000)
<b>As at 31 December</b>	10.4p	<u>90,961,255</u>	5.7p	<u>44,486,521</u>
<b>Vested and exercisable at 31 December</b>	10.9p	<u>77,894,348</u>	5.2p	<u>19,366,068</u>

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Grant Date	Expiry date	Weighted average exercise price	Share options 31 December 2019	Share options 31 December 2018
13 October 2016	13 October 2026	1.1p	11,613,522	12,212,157
02 February 2017	02 February 2027	0.8p	3,750,000	3,750,000
17 July 2017	17 July 2027	8.1p	11,647,550	11,647,550
12 March 2018	12 March 2028	9.0p	6,361,724	7,661,724
7 December 2018	7 December 2020	-	-	4,600,000
20 December 2018	20 December 2028	5.7p	4,615,090	4,615,090
31 December 2019	31 December 2021	15.3p	44,973,369	-
16 October 2019	16 October 2024	5.3p	8,000,000	-
<b>Total</b>			<u>90,961,255</u>	<u>44,486,521</u>

Weighted average remaining contractual life of options outstanding at end of period

4.15 years

8.79 years

Of the share options outstanding at 31 December 2019 9,230,180 (2018: 13,845,270) are held by directors of the Company.

**MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

**23. SHARE OPTIONS AND WARRANTS (continued)**

**WARRANTS**

The Group issues warrants to directors, key advisors, commercial partners and others in consideration of the benefit accruing to the Group. The following table sets out the details of warrants held at 31 December 2019:

	<b>2019</b>		<b>2018</b>	
	<b>Average exercise price per warrant</b>	<b>Number of warrants</b>	<b>Average exercise price per warrant</b>	<b>Number of warrants</b>
As at 1 January	7.0p	206,985,521	6.4p	226,775,183
Granted during the year	-	-	5.5p	6,000,000
Exercised during the year	1.9p	(8,877,585)	1.6p	(25,581,327)
Forfeited during the year	1.9p	(393,156)	1.4p	(208,335)
<b>As at 31 December</b>	<b>7.3p</b>	<b>197,714,780</b>	<b>7.0p</b>	<b>206,985,521</b>
<b>Vested and exercisable at 31 December</b>	<b>7.3p</b>	<b>197,714,780</b>	<b>7.0p</b>	<b>206,985,521</b>

Warrants outstanding at the end of the year have the following expiry date and exercise prices:

<b>Grant Date</b>	<b>Expiry date</b>	<b>Exercise price</b>	<b>Share options 31 December 2019</b>	<b>Share options 31 December 2018</b>
31 July 2015	31 July 2020	1.2p	9,230,180	9,230,180
30 June 2016	30 June 2026	1.1p	51,294,234	51,294,234
16 October 2016	16 October 2019	1.85p	1,470,588	10,741,329
22 December 2016	22 December 2021	4.3p	43,239,926	43,239,926
17 July 2017	17 July 2022	14.2p	43,239,926	43,239,926
20 March 2017	20 March 2022	12.4p	43,239,926	43,239,926
29 October 2018	29 October 2023	5.5p	6,000,000	6,000,000
<b>Total</b>			<b>197,714,780</b>	<b>206,985,521</b>
Weighted average remaining contractual life of warrants outstanding at end of period			3.30 years	4.68 years

Of the warrants outstanding at 31 December 2019 27,690,540 (2018: 27,886,617) are held by directors of the Company.

# MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### 23. SHARE OPTIONS AND WARRANTS (continued)

##### MEASUREMENT OF FAIR VALUES

The model inputs for options granted during the year ended 31 December 2019 included:

	Share options scheme		Warrants	
	2019	2018	2019	2018
Fair value at grant date (weighted-average)	0.2p	4.6p	n/a	1.8p
Share price at grant date (weighted-average)	5.07p	8.46p	n/a	5.25p
Exercise price (weighted-average)	13.91p	6.87p	n/a	5.5p
Expected volatility	40%	40%	n/a	40%
Expected life (weighted average)	2.4 years	10 years	n/a	5 years
Risk-free interest rate	0.50%	0.50%	n/a	0.50%

Total expenses arising from share-based payment transactions recognised in profit or loss during the year were as follows:

	2019	2018
	£	£
Options and warrants issued to directors	73,133	173,994
Options issued under employee share scheme	226,343	333,452
Options issued to commercial and other partners*	144,000	-
Warrants issued to commercial and other partners	-	139,347
<b>Total</b>	<b>443,476</b>	<b>646,793</b>
<b>Share option reserve</b>	<b>2,417,741</b>	<b>1,974,265</b>

\* Options issued to commercial and other partners includes 49,970,410 option shares granted under an option agreement to subscribe for an equivalent of \$10 million of new Ordinary Shares at a price to be determined at the time of exercise which would value the Company's issued equity share capital at approximately £220 million.

#### 24. FINANCIAL INSTRUMENTS

##### CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are:

- to safeguard the Group's ability to continue as a going concern, so that it continues to provide returns and benefits for shareholders;
- to support the Group's growth; and
- to provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure an optimal capital structure and equity holder returns, taking into consideration the future capital requirements of the Company and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Management regards total equity as capital and reserves, for capital management purposes.

# MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### 24. FINANCIAL INSTRUMENTS (continued)

##### CREDIT RISK

The main credit risk relates to liquid funds held at banks. The credit risk in respect of these bank balances is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

##### LIQUIDITY RISK

The Group seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs.

An analysis of trade and other payables is given in note 19. These payables are payable within a year.

##### FOREIGN EXCHANGE RISK

Foreign exchange risk arises when individual Group entities enter into transactions denominated in a currency other than their functional currency. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Sterling and the US dollar. The foreign exchange exposure is analysed on a regular basis. Sensitivity analysis has been omitted from the financial statements given the low risk and the immaterial impact a change in exchange rates would have on the reported figures.

#### CATEGORIES OF FINANCIAL INSTRUMENTS

The IAS 39 categories of financial asset included in the statement of financial position and the headings in which they are included are as follows:

	2019		2018	
	Group £	Company £	Group £	Company £
<b>Financial assets:</b>				
Cash and bank balances	6,795,341	20,565	19,327,948	18,013,110
Trade and other receivables	3,382,819	44,106,776	1,601,896	20,787,552
Investments	-	5,352,731	-	5,352,731
Financial assets – non-current	235,446	-	-	-
<b>Financial liabilities at amortised cost:</b>				
Trade and other payables	(1,143,311)	(172,907)	(1,933,437)	(569,715)

#### 25. RELATED PARTY TRANSACTIONS

##### Company

At the balance sheet date amounts owed from subsidiary undertaking MelodyVR Ltd totalled £43,307,058 (2018: £20,743,240), and owing to MelodyVR Inc totalled £92,699 (2018: £44,312). There were no other related party transactions during the year to 31 December 2019.

#### 26. POST YEAR END EVENTS

On 23 March 2020, the Company raised gross proceeds of \$12m via the placing of 275,410,966 ordinary shares at a price of 3.75 pence per share.

On 1 April 2020, Ian Hanson resigned as a director of the Company.

On 14 April 2020, Grant Dollens was appointed to the Board as Non-executive Director.

On 11 May 2020, the Company resolved by Special Resolution to change its name to MelodyVR Group PLC.

Other than the above, the Directors were not aware of any other material events since the reporting date.

**MELODYVR GROUP PLC (FORMERLY EVR HOLDINGS PLC)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**27. ULTIMATE CONTROLLING PARTY**

MelodyVR Group PLC is listed on the Alternative Investment Market of the London Stock Exchange, and therefore the directors do not consider there to be any single ultimate controlling party.