

Annual Report 2019

deepmatter™

The fastest path to discovery

DIRECTORS, OFFICERS AND ADVISORS

Directors

James Ede-Golightly	Non-Executive Chairman
Mark Warne	Chief Executive
Michael Bretherton	Finance Director (resigned 28 June 2019)
Lauren Lees	Finance Director (appointed 28 June 2019)
Lee Cronin	Scientific Founder & Non-Executive Director (resigned 12 April 2019)
David Cleevely	Non-Executive Director (resigned 12 April 2019)
Laurence Ede	Non-Executive Director
Bettina Goerner	Non-Executive Director (appointed 15 March 2019)

Secretary

Lauren Lees	(appointed 28 June 2019)
Michael Bretherton	(resigned 28 June 2019)

Registered Office

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29 Great George Street
Bristol BS1 5QT

Broker and Nominated Advisor

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London EC2V 7QR

Auditor

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Registrar and Transfer Agent

Neville Registrars
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Halesowen B62 8HD

Company Number

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CHAIRMAN'S STATEMENT

I am pleased to report on a year of solid progress for DeepMatter, with the Group taking tangible steps towards its vision to digitise chemistry. All the targets set by the management team for 2019 were achieved, both financially and strategically, laying down a platform for growth in the years ahead. The DigitalGlassware™ Pioneer Programme has been brought to a successful conclusion and the first Pioneer converted to a revenue generating contract, the management team has been strengthened and the sales pipeline for DigitalGlassware™ has expanded considerably. The acquisition of InfoChem GmbH ("InfoChem") has further increased the income of the Group, bringing high margin recurring software revenues, while adding technological capabilities and customers. COVID-19 has impacted the way in which the business operates, however the pipeline of revenue remains strong and the impact of the virus on customer working practices has increased interest in our products.

Group revenues increased from £nil to £1.2 million in the year. Approximately 75% of these revenues are recurring in nature, derived from long standing customers and represent a stable base of revenues for the year ahead. Gross profit was £0.5 million at a margin of 44%, and the operating loss was £3.4 million (2018: £2.0 million), before exceptional costs relating to the acquisition. The Group recorded a loss after tax of £3.0 million (2018: £1.8 million) and an EPS loss of 0.42 pence (2018: loss of 0.35 pence) per share, in line with management's expectations. The Group raised approximately £4.0 million through a placing of shares in March 2019. The funds greatly strengthened the business, further financing ongoing DigitalGlassware™ technology development, user and partner support, marketing, data science initiatives and the manufacture of hardware. We would like to thank all the new and existing investors who took part for their support.

The Board carefully manages investment to support the Group's growth opportunity and has adopted a capital efficient strategy. A consolidation of personnel resources following the integration of the InfoChem business has resulted in a reduction in the cost base of the Group, the benefit of which will manifest itself in 2020. The Group closed the year with a net cash position of £2.6 million (2018: £1.1 million).

The Group continues to execute on the organic growth strategy of the business, seeking to grow both DigitalGlassware™ and ICSynth™ revenues, while remaining alert to the potential of acquisitions to enhance product development or add further customers to the Group.

Board Changes

As DeepMatter transitions out of the R&D stage into commercialisation, so the composition of the Board has evolved. The Founding Scientific Director, Lee Cronin, and fellow Non-Executive Director, David Cleevly, both retired from the Board during the year, while continuing to provide support as part of an Advisory Committee. The commercial expertise on the Board was strengthened in the year with the appointment of Bettina Goerner as Non-Executive Director following the acquisition of InfoChem. Lauren Lees was appointed as Financial Director, having previously been Group Financial Controller. concurrent with Michael Bretherton retiring as Financial Director.

We would like to wholeheartedly thank Michael, David and Lee for their contributions to the Group, and warmly welcome the new Board members. As part of the continuing evolution of the Board I will be retiring as a Director of the Company at the 2020 AGM, having served as a Director since 2014. The Board is in discussion with candidates and expects to announce the appointment of a Non-Executive Chairperson later in the year.

COVID-19

Our priority at this time has been to ensure the well-being of our teams, and we have moved to remote working across our sites. To mitigate the impact of COVID-19 on the short-term conversion of the sales pipeline, cost-cutting measures have been implemented to preserve the Group's resources. The Board is confident sufficient measures have been put in place to ensure the progression of the Group through this time and maintains a vigilant focus on costs and the end market.

Summary and Outlook

DeepMatter is a well-managed business with a robust growth strategy and growing market opportunity. While the uncertainty caused by COVID-19 situation will likely have an impact on the length of contract discussions in the short-term, it is evident the opportunity for the Group's technology is significant and long-term. The change to working practices within laboratories caused by social distancing is highlighting the need to share scientific data both remotely and within the lab, accelerating the digitisation of the laboratory and underlining the value proposition of the DigitalGlassware™ platform.

The Board is therefore confident in the prospects for DeepMatter, its ability to weather the current market conditions and deliver on the increasing interest and relevance of its offering.

James Ede-Golightly
Non-Executive Chairman
28 May 2020

STRATEGIC REPORT

The Directors present their Strategic Report with the audited consolidated financial statements and their assessment of risks faced by DeepMatter Group Plc ("DeepMatter" or the "Company") and its subsidiaries ("the Group") for the year to 31 December 2019.

The Company has four wholly owned subsidiaries, three of which are active trading entities, InfoChem GmbH ("InfoChem"), DeepMatter Limited ("DML") and OpenOLabs Limited ("OpenOLabs"). DeepMatter Tech Limited ("DTL") is a dormant subsidiary.

Principal Activity and Business Model

The Group's ongoing business activity, undertaken by DML and InfoChem, is that of the digitisation of the chemical space coupled with innovative chemical discovery.

The Group continues to make exciting progress in deploying its DigitalGlassware™ technology platform, comprising an easy-to-use software interface and a unique, low footprint sensor array, which allows an individual to access reproducible chemistry via internet protocols.

As outlined in our Annual Report for 2018, our strategic priorities for 2019 were to:

- Ensure engagement with Key Opinion Leaders
- Progress industrial site roll-outs to early adopters
- Initiate Cheminformatics integration into DigitalGlassware™

We are pleased to report having realised all these priorities in 2019.

Market & Strategy

The Company's strategy is focused on the development of DigitalGlassware™, a data rich platform, which we believe has the potential to transform chemistry lab processes, bringing the benefits of digital technology, cloud computing and AI to the lab, improving R&D productivity.

Chemical companies are making their plants and processes increasingly digital, data-driven and interconnected. Human interaction to produce chemical products introduces many opportunities for error and the 'Reproducibility crisis' in chemistry, where chemical experiments cannot be accurately reproduced and therefore duplication work is required, is estimated to cost the industry over \$28 billion* annually in the US alone.

Our innovative platform, DigitalGlassware™, is a cloud-based software, proprietary hardware and machine-learning enabled platform which eradicates reproducibility issues. Experiments are accurately and systematically recorded, coded and entered into a shared data cloud, allowing scientists to collaborate effectively, sharing details of their experiments from anywhere and in real-time.

Our goal is for our DigitalGlassware™ technology platform, along with other cheminformatics products, to be used across the pharmaceutical and wider chemical research industry to produce new chemical products, better, faster and cheaper. We will achieve this through:

- Organic growth of the User Base, Data Repository and Revenues
- Strategic Partnerships with influencers, sector adjacent hardware and data providers
- Commercial validation of the aggregate data proposition

Operational Review

The Pioneer Programme

The Pioneer Programme, for the initial testing and industry validation of the DigitalGlassware™ platform has now been brought to a successful conclusion, with one of the Pioneers converting to a revenue generating contract in the year.

Growing market validation and awareness

2019 saw growing market validation for the Company's DigitalGlassware™ technology. This started with the Company receiving its first purchase order for the platform in August 2019, from o2h discovery ("o2h"), an Anglo-Indian medicinal chemistry service provider that has end-to-end capability to take drug discovery programmes to the IND filing stage. o2h participated in the Company's Pioneer Programme during 2018, trialling the DigitalGlassware™ platform in both its research and process chemistry operations. Having participated in the Pioneer Programme, and being sufficiently impressed by the DigitalGlassware™ technology, o2h elected to pay for the provision of a greater number of user licences. This roll out will enable o2h to use DigitalGlassware™ as part of its drug-discovery collaboration with a strategic customer.

In December 2019, we announced a collaboration with leading multinational pharmaceutical and biopharmaceutical firm AstraZeneca, with the aim of improving the productivity and reproducibility of compound synthesis.

Later that month, we welcomed three leading sector figures as industry advisors on our commercial roll-out of DigitalGlassware™. The advisors bring in-depth knowledge in research & medicinal chemistry, process chemistry and industrially focused closed-loop robotics and automation, all target industries for DigitalGlassware™.

Following the year end, our traction with institutions has continued. In February 2020, we were delighted to announce two collaborations with leading UK Universities: The Institute of Process Research and Development (iPRD) at the University of Leeds and the University of Nottingham's School of Chemistry. In April 2020 we also announced a trial of DigitalGlassware™ within the Drug Discovery Unit of the Cancer Research UK Beatson Institute.

* published by Freedman et al at the Global Biological Standards Institute, Washington, D.C., USA in the peer reviewed journal PLOS Biology 13 (2015).

STRATEGIC REPORT (CONTINUED)

To support awareness of the DigitalGlassware™ platform, we initiated marketing activity during the year, targeting both the corporates who will purchase the licences for DigitalGlassware™ and the chemists who will use it, through increased attendance at industry events, social media marketing and direct marketing activities.

Acquisition and integration of InfoChem GmbH

In March 2019, we completed the acquisition of InfoChem, a specialist in cheminformatics, from global publisher Springer-Verlag GmbH ("Springer Nature"). The total consideration payable was £2.031 million satisfied as to £0.321 million (€0.374 million) in cash and the issue of 68,400,000 new ordinary shares in the capital of the Group comprising of 25,600,000 initial consideration shares and 42,800,000 deferred consideration shares.

The acquisition and integration of InfoChem provided a solid financial platform for the business, bringing customers and recurring revenues while adding key software functionality to increase the capabilities of the DigitalGlassware™ platform. The acquisition provides the Group with cost effective access to extensive scientific expertise, established data sources and chemical information software tools. Integration of the operations are now complete, with selected InfoChem cheminformatics capabilities now embedded in DigitalGlassware™. A rolling programme of integration continues.

The pipeline of sales opportunities for ICSynth™, InfoChem's core product offering, has increased following acquisition and the Company is increasingly building awareness of InfoChem's value proposition within this growing market, supporting market share growth.

Strengthening of our team

During the year, the leadership team of the Group has been strengthened through the appointments of a new Financial Director, Chief Operating Officer and Marketing Lead.

Evolution of the suite of software offerings

DigitalGlassware™

We have continued to develop the DigitalGlassware™ platform through the year, building core capability and adding integrations with further software and hardware platforms, to increase the richness and quality of data captured and the platform's commercial attraction. Being a cloud-based platform, upgrades to the capabilities of the platform can be completed frequently, and these have included Electronic Laboratory Notebook ("ELN") interfacing, third party analytical hardware integration, streamlining of the interface, bespoke export options, automatically embedded Health & Safety codes, real-time sensor alerts, new virtual sensors, and the launch of a publicly accessible version of chemistry content on the DigitalGlassware™ platform.

As expected, the Group has also begun to identify unique chemistry insights, which it will use to create intellectual property and share with the wider scientific community in due course, as further proof of the validity of the platform. For example, correlating reaction yields and purities to multiple features recorded in data to determine which features are significant in changing synthesis outcomes. Through these efforts, the potential of the DigitalGlassware™ technology is gaining recognition in the scientific community.

To date, the DigitalGlassware™ platform has been used to collect data from over 2,400 days of chemistry research across over 1,000 individual experimental runs. Data has been collected and structured, comprising nearly 17 billion sensor readings over 400 million samples. Of the most frequently used synthetic reaction types in medicinal chemistry*, the majority are represented in the DigitalGlassware™ platform.

The first patents relating to unique chemistry insights from the platform have been filed and we have a rapidly growing minable data repository.

ICSynth™: innovative retro-synthesis tool

InfoChem's lead software product, ICSynth™, is a key asset for the Group. This desktop machine learning based synthesis design tool reduces costs and identifies unique choices for chemical reactions. The Synthesis Planning market is growing rapidly, and we see a strong opportunity to take market share with this product which, unlike peers, allows retrosynthesis prediction for novel molecules, in-house installation using our customers' knowledge model and the use of any reaction database as a knowledge model. An update to the software application has been under development, rich in new features and release of an advanced user interface is planned for later in 2020.

COVID-19 and Current Trading

As with many businesses, the impact of the COVID-19 pandemic has been felt both by us and our customers. We have seen a protraction of contract negotiations with our target customer base of large pharmaceutical organisations, whose immediate focus has been on the reorganisation of their workforces and the prioritisation of COVID-19 related activities.

Our priority has been to ensure the well-being of our teams, and the Group has moved to remote working across our sites, with all existing customers being fully supported remotely. In order to protect the business through this period, we have reduced the cost base of the Group through the deferment of Board and management and employee salaries, the reduction of expenditure and the use of Government support schemes where appropriate in both the UK and Germany.

The need to either close laboratories or reduce the workforce occupancy within laboratories, implement

* as reported in the frequently cited publication by Brown and Boström of pharmaceutical company AstraZeneca in the Journal of Medicinal Chemistry 59, 4443 (2016)

STRATEGIC REPORT (CONTINUED)

remote working and share data across offsite and onsite teams has highlighted the benefit of the cloud-based sharing of scientific data and underlined the value-proposition of the DigitalGlassware™ platform. While negotiations can be protracted, we are engaged in promising discussions with several multi-national organisations, our relationship with AstraZeneca continues and we have a growing pipeline of further opportunities.

Outlook

Currently our focus is on safeguarding the business through the challenging period ahead, retaining a tight control of costs and preserving our resources, while ensuring we have the ability to capitalise on our growing sales pipeline.

Our ongoing objectives in 2020 will be based around further development of DigitalGlassware™ through:

- Organic growth of the User Base, Data Repository and Revenues
- Strategic Partnerships with influencers, sector adjacent hardware and data providers
- Commercial validation of the aggregate data proposition
- Signing more revenue-generating contracts with large pharma
- Enhancing the Platform's capabilities in Research and Process Chemistry and Teaching

With a blue-chip customer base, proven technology, recurring revenues and growing market awareness we believe we have the right structure to succeed and look to the long-term future with confidence.

Share Capital & Funding

The Group held cash balances of £2.6 million at 31 December 2019 reflective of an increase of £1.5m on the balance of £1.1 million at the end of December 2018. The increase was a result of the placing of shares completed on the 13 March 2019 at 2.5 pence per share and which raised £4.0 million in gross cash funding. As at 31 December 2019, there were 736,533,946 ordinary shares in issue.

Financial Review

The Consolidated Financial Statements have been prepared for the year to 31 December 2019.

Key Group performance indicators are set out below:

Name	31 December 2019	31 December 2018
Net assets (£ million)	9.10	6.20
Net asset value per share (pence)	1.23	1.13
Total loss after tax (£ million)	(2.98)	(1.92)
Basic loss per share from continuing operations (pence)	(0.43)	(0.33)
Cash and short-term deposits with banks (£ million)	2.61	1.09

Segment EBITDA is reviewed by the Chief Operating Decision Maker and disclosed within note 7 to the accounts.

Consolidated statement of comprehensive income

The Group incurred a total loss after tax for the year ended 31 December 2019 of £2.98 million compared to a loss of £1.92 million in the previous year.

Consolidated statement of financial position

The Group continues to benefit from a solid balance sheet with net assets at 31 December 2019 of £9.10 million compared to £6.20 million at 31 December 2018. The increase in net assets reflects the acquisition of InfoChem and the increased cash balance following the placing in March 2019.

Consolidated statement of cash flows

The Group's overall cash position increased by £1.52 million during the year. The increase mainly reflects £2.72 million of cash used in operating activities offset by the net proceeds of the placing of £3.87 million during the year.

Directors & Employees

As at 31 December 2019, the Group had 42 employees, consisting of 5 Directors and 37 mainly technical and scientific staff. The profile of the Directors and their remuneration is detailed in the Directors' Report on pages 8 to 10.

During the year the Group employed an average of 26 of its own technical and scientific staff, together with an average of 7 management and administrative staff and 5 Directors.

Our staff give us the knowledge that feeds into our digitisation of chemistry expertise and our core technological capabilities, with that knowledge flowing directly through our business model to create value for our shareholders. Accordingly, the long-term success of the Group relies upon the knowledge and dedication of our staff. The Board therefore understands the importance of employee engagement, not only by offering a beneficial remuneration package but also keeping employees as fully informed as possible with regard to the Group's performance and prospects, seeking their views, wherever possible, on matters which affect them as employees.

Risk Review

The analysis of key performance indicators ("KPIs") is included in the Financial Review section of the Strategic report. The Directors believe that performance should also be measured by achievement against technical and business development milestones.

The Group's risk management objectives and exposure to various risks are detailed in note 22 to the Group financial statements. The key operating risks of the Group and the measures taken to manage these are summarised below.

STRATEGIC REPORT (CONTINUED)

Technology & Development Risk

There is a risk that the technology development of DigitalGlassware™ is delayed or specific programme targets cannot be met. The Group manages the development of its technology through separate development programmes. Each programme has a specific set of milestones (either internal or external), together with measurable goals and a timeline. Performance against each of these is monitored regularly, depending on the programme requirements. This enables the Group to identify issues at an early stage and take appropriate mitigating actions.

Commercial success and market acceptance of technological development

There can be no assurance that any current or future technology programmes of DML and InfoChem will be successfully developed into commercially viable products or services. The Group's success will depend on the market's acceptance of its products or services and there can be no guarantee that this will be forthcoming or that alternative competitor technologies are adopted by the market instead.

Attraction and retention of key employees

The Group depends on its Directors and other key employees and whilst it has entered into contractual arrangements with these individuals with the aim of securing the services of each of them, retention of these services cannot be guaranteed. The Group has attempted to reduce this risk by offering competitive remuneration packages and investment in training, development and succession planning.

Intellectual Property

A part of the Group's future development and growth depends on its intellectual property. If intellectual property is inadequately protected, the Group's future success could become adversely affected. The Group may not be able to protect and preserve its intellectual property or to exclude competitors with competing technology products. The Group continues to invest in the protection and expansion of its intellectual property portfolio. In addition, the Group uses internal procedures and controls to identify and capture new intellectual property and to prevent unauthorised disclosure to third parties.

Financial Risks

The Group's activities expose it to a number of financial risks including foreign exchange risk, credit risk, interest rate risk and liquidity risk. At present the Group does not use financial derivatives in the normal course of business. The Group's and the Company's financial instruments comprise cash and cash equivalents, trade and other receivables, lease liabilities, equity investments and trade and other payables. The main purpose of these financial instruments is the funding of the Group's activities.

Foreign Exchange Risk

The Group's exchange risk is limited to cash balances held within InfoChem and transactions with foreign customers. The Group seeks to reduce exposure to foreign exchange risk by maintaining the principal cash balances of the Group in Sterling. Exposure to foreign exchange is monitored and kept under review.

Credit Risk

The Group's principal financial assets are cash and cash equivalents and trade and other receivables. The Group's credit risk is primarily attributable to its cash and cash equivalents and timely receipts from customers. The Group performs credit checks on potential new customers to mitigate this risk and the Group seeks to reduce the credit risk associated with cash by only holding cash with institutions that have good credit ratings.

Interest Rate Risk

The Group has no external financing facility, therefore its interest rate risk is limited to the level of interest received on its cash surpluses. Interest rate risk on cash, cash equivalents and short-term deposits is partially mitigated by using an element of fixed-rate accounts and short-term deposits.

Liquidity Risk

The Group seeks to manage liquidity by ensuring sufficient funds are available to meet foreseeable needs and to invest cash assets safely and profitably. The Group had cash, cash equivalents and short-term deposit balances of £2.61 million as at 31 December 2019 (2018: £1.09 million).

In order to minimise risk to the Group's capital, funds are invested across a number of financial institutions with sound credit ratings. Cash forecasts are updated regularly to ensure that there is sufficient cash available for foreseeable requirements.

Based on the current cash balance at the 31 December 2019, the Directors expect that the Group will need to raise additional funds through either equity-based investor funding or debt finance within 12 months. The Group is also pro-actively responding to the current COVID-19 situation, utilising appropriate Government support schemes in both the UK and Germany to control the cost base being incurred whilst navigating through this period of increased uncertainty. Subject to raising funds as described above or reducing certain day-to-day working capital requirements, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future as a going concern.

STRATEGIC REPORT (CONTINUED)

Section 172(1) statement

From the perspective of the Board, and as a result of the governance structure for the Group, the matters that it is responsible for considering under Section 172 of the Companies Act 2006 ("s172") have been considered to an appropriate extent by the senior management in relation to the Company.

Such consideration is included in the statements set out below, noting the directors' duty under s172 to act in good faith to promote the success of the Group for the benefit of its shareholders but having regard amongst other matters to the following:

- the likely consequences of any decision in the long term;
- the interests of the Group's employees;
- the need to foster the Group's business relationships with customers and others;
- the impact of the Group's operations on the community and the environment;
- the desirability of the Group maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Group.

The key stakeholders have been identified as customers, employees, shareholders, and our communities.

(i) Customers

Throughout 2018 and 2019, DML partnered with a total of seven organisations across three continents as part of its DigitalGlassware™ Pioneer Programme (the "Pioneers"). The seven Pioneers include multinational life science companies, research institutions and leading academic institutions. The purpose of the Pioneer Programme was to solicit feedback to guide the testing and enhancement of our technology for use in commercial and academic settings. This Pioneer Programme has provided us with valuable insights, expert feedback and given us confidence that the product is fit for deployment on a wider scale. During 2019 one of the Pioneers converted to a revenue generating contract in the year, strongly advocating the value of the feedback.

On an ongoing basis, DML and Infochem, through their Product Management functions, continue to solicit feedback from all their customers and the wider scientific community, with features and capabilities identified by its customers contributing to the Group's technical and commercial roadmap as deemed appropriate based on resourcing capabilities.

(ii) Employees

Good two-way communication with staff is a key requirement for high levels of engagement, fostering a culture of innovation and helping deliver the Group's operations. We engage with staff by ensuring regular staff meetings take place, we have a flat management structure and clear reporting lines, with attendance of key staff at certain Board meetings. We also conduct periodic engagement surveys.

(iii) Shareholders

The Group wishes to engage with investors and potential investors to keep them informed of the Group's results and progress and ensure a congruence of objectives between the shareholders and the Board. The company ensures sufficient maintenance of the Group's website is completed and responds to any shareholder enquiries. Periodic investor information and news releases are circulated, and the publishing and posting of the Annual and half-year reports are on time. The Board works to ensure there is engagement with shareholders at the AGM.

(iv) Communities

The Group seeks to minimise the impact of our operations on the environment through the pursuit of good business practices and is committed to:

- continually making improvements by designing and implementing environment management systems in its offices to reduce, reuse and recycle general waste.
- prioritise sourcing sustainable office space, including the use of renewable energy, appropriate choices in our fit outs, and re-using office furniture where possible;
- working collaboratively with contractors and local suppliers to reduce emissions and sourcing locally across our offices and address any issues, such as use of plastic packaging and where possible implement the best sustainable solution.

Future Developments

The Board remains committed to delivering additional value for our shareholders and aims to pursue its corporate strategies as outlined in the Chairman's Statement.

On behalf of the Board

Mark Warne
Chief Executive
28 May 2020

Company Number: 05845469

DIRECTORS' REPORT

The Directors present their report and the audited consolidated financial statements for DeepMatter Group Plc ("the Company") and its subsidiaries (the "Group") for the year to 31 December 2019.

Principal Activities

A review of the Group's activities is included in the Strategic Report on page 3.

Business Review

A review of Group performance and future prospects is given in the Chairman's Statement on page 2 and in the Strategic Report on pages 3-7.

Share Capital

The share capital of the Company increased in the year through the issue of 160,185,680 ordinary shares to raise funds and the issue of 25,600,000 ordinary shares to acquire the entire share capital of InfoChem.

Results and Dividends

The audited consolidated financial statements have been prepared for the year to 31 December 2019. The loss before tax from continuing operations for the year was £3.36 million (2018: £1.99 million). The Directors do not recommend a dividend in respect of the year to 31 December 2019 and no dividends were paid during the year under review or the prior year.

Substantial Shareholdings

No single person directly or indirectly, individually or collectively, exercises control over the Company. The Directors are aware of the following persons, who had an interest in 3% or more of the issued ordinary share capital of the Company as at 28 May 2020:

Name	No. of ordinary shares	% holding
IP Group and controlled undertakings	266,959,497	36.25%
Richard Griffiths and controlled undertakings	123,182,111	16.72%
Prof Lee Cronin	55,973,019	7.60%
Robert Quested	42,285,279	5.74%
GU Holdings	39,373,994	5.35%
Springer Nature	25,600,000	3.48%

At this date no other person had notified any interest in the ordinary shares of the Company required to be disclosed to the Company in accordance with Chapter 5 of the Disclosure and Transparency Rules of the Financial Services Authority in respect of holdings exceeding the 3% notification threshold.

Directors and their interests

The Directors who have held office during the year and in the subsequent period to the signing of these financial statements were as follows:

Mark Warne
Michael Bretherton (resigned 28 June 2019)
David Cleevely (resigned 12 April 2019)
Lee Cronin (resigned 12 April 2019)
Laurence Ede
James Ede-Golightly
Bettina Goerner (appointed 15 March 2019)
Lauren Lees (appointed 28 June 2019)

The remuneration of the Directors from all Group companies for the year under review is shown below:

Directors' Remuneration

Name of Director	Salaries and fees £'000	Pension Contributions £'000	Total December 2019 £'000	Total December 2018 £'000
Mark Warne	150	8	158	89
Michael Bretherton	6	–	6	12
David Cleevely	4	–	4	14
Lee Cronin	4	–	4	12
Laurence Ede	24	–	24	24
James Ede-Golightly	20	–	20	14
Bettina Goerner	–	–	–	–
Lauren Lees	43	1	44	–
	251	9	260	165

All Directors have service contracts with one month's notice with the exception of the Chief Executive and Finance Director whose service contracts are for six months' notice. The Directors are all required to put themselves up for re-election periodically in accordance with the Articles of Association and all service contracts and letters of appointment are subject to early termination provisions.

Remuneration for Executive Directors is recommended by the Remuneration Committee and agreed by the Board as a whole. During the year, two Executive Directors benefitted from pension payment contributions of £9,200 (2018: £3,750). At the present time, none of the Executive Directors receive any other benefits and nor do they receive a bonus from the discretionary bonus scheme.

Remuneration for Non-Executive Directors is set by the Board as a whole. Non-Executives do not receive any pension payments or other benefits and nor do they participate in bonus or share option schemes.

DIRECTORS' REPORT (CONTINUED)

Director's Share Options

On 11 March 2019, the Board granted an initial award of options to Mark Warne over 25,000,000 ordinary shares at an exercise price of 2.5 pence, reflecting the 2.5 pence issue price of the placing of shares issued between 12 and 13 March 2019 to raise gross cash proceeds of £4 million. Provided Mark remains an employee, his options vest over 36 months starting from the commencement of his employment but subject to specific share price triggers being reached as set out in the table below. All unexercised options lapse after 10 years from the date of grant. No other Directors have been granted share option awards.

Share Price Trigger (£)	Number of plan shares in respect of which the Options may be exercised
None	3,750,000
0.04	3,750,000
0.06	3,750,000
0.08	3,750,000
0.10	3,750,000
0.12	1,250,000
0.14	1,250,000
0.16	1,250,000
0.18	1,250,000
0.20	1,250,000

The share option charge recognised in respect of the options granted to Mark Warne was £274,000 (2018: £nil) for the year ending 31 December 2019.

Directors' interests and indemnity arrangements

Directors' interests in the shares of the Company, including family interests, are disclosed in the section below. No Director had, during or at the end of the year, a material interest in any contract which was significant in relation to the Group's business except in respect of service agreements and share options and as disclosed above and on pages 8 and 9.

As permitted by the Articles of Association, in accordance with the provisions of the Companies Act 2006 the Company has maintained insurance throughout the year for its Directors and officers against the consequences of actions brought against them in relation to their duties for the Company. The Company has granted no indemnities to any of its Directors against liability in respect of proceedings brought by third parties.

Director dealings in Shares of the Company

The Company has adopted a model code for Directors' dealings in securities of the Company which is appropriate for a company quoted on AIM. The Directors comply with Rule 21 of the AIM Rules relating to Directors' dealings and also take all reasonable steps to ensure compliance by the Group's "applicable employees" as defined in the AIM Rules.

Directors' Interests in Shares of the Company

The beneficial interests of the Directors in the issued share capital of the Company at 31 December 2019 are given below:

	Ordinary shares of £0.0001 each			
	31 December 2019		31 December 2018	
	Number	Percent	Number	Percent
Mark Warne	1,541,475	0.21%	541,475	0.10%
Michael Bretherton	4,433,824	0.60%	4,033,824	0.73%
David Cleevely	15,692,993	2.13%	15,692,993	2.85%
Lee Cronin	55,973,019	7.60%	55,173,019	10.02%
Laurence Ede	1,201,586	0.16%	801,586	0.15%
James Ede-Golightly	2,680,249	0.36%	2,080,249	0.38%

Profiles of the Directors

Mark Warne

Chief Executive

Mark Warne was appointed as Chief Executive Officer of the Company on the 2 July 2018. Mark, who joined DeepMatter as a Non-Executive Director in September 2015 also served as its Executive Chairman between April 2017 and July 2018. Mark is widely recognised in the UK and International life sciences sector, having spent almost 10 years at IP Group Plc, a leading intellectual property commercialisation company, where he led the Healthcare team. He managed a portfolio of £330m of net assets in 2016/2017 and represented IP Group on the boards of both listed and private companies. In 2018, concurrent with the integration of Touchstone Innovations into IP Group, Mark became a Partner in the Life Sciences division. He joined IP Group from pre-clinical drug discovery CRO, Exelgen, where he was Managing Director. Mark spent eight years at Exelgen (formerly Tripos Discovery Research) where he also held positions in licensing and strategic affairs, project management and research. He has a PhD in Computational Chemistry, an MSc in Colloid Science and a BSc in Chemistry, all from the University of Bristol. Mark is a Chartered Chemist and member of the Royal Society of Chemistry. He serves as a Non-Executive Director on the boards of Open Orphan Plc and Ixico Plc.

DIRECTORS' REPORT (CONTINUED)

Lauren Lees

Finance Director

Lauren Lees was appointed Finance Director of the Company in June 2019. She had previously served as Group Financial Controller during which time she has played a significant role in the strategic and operational development of the Group. Previously she was Group Financial Controller at BioOutsource, a high growth start-up life science company acquired by Sartorius AG serving on both the local management team and strategy team. Lauren Lees is an ICAS Chartered Accountant who trained at Grant Thornton UK LLP.

James Ede-Golightly

Non-Executive Chairman

James joined the board in 2014. He is chairman of Oxford Advanced Surfaces and East Balkan Properties and has extensive experience as a Non-Executive including Silence Therapeutics and Oxehhealth. James was a founder of ORA Capital Partners in 2006, having previously worked as an analyst at Merrill Lynch Investment Managers and Commerzbank. He is a CFA Charterholder and holds an MA in economics from Cambridge University. In 2012, he was awarded New Chartered Director of the Year by the Institute of Directors.

Laurence Ede

Non-Executive Director

Laurence Ede was the Managing Director and co-owner of Tocris Bioscience, a company producing chemical compounds for pharmaceutical research, when it was sold to Techne Corporation for £75M in 2011. Mr. Ede had previously led the Management Buyout of Tocris for £14M five years earlier and grew its value by focusing on developing the business to be an increasingly significant provider of products within the life science arena. Mr. Ede is currently a Non-Executive Director of Ubiquigent Ltd, a drug discovery services company and Rosa Biotech Ltd, a biosensor development business. He has a BSc in Chemistry from Reading University and an MBA from the University of Bath.

Bettina Goerner

Non-Executive Director

Bettina Goerner is Managing Director, Databases, at Springer Nature, based in Heidelberg, Germany. She oversees product development, portfolio management and commercialisation for the databases and corporate product lines. This spans a portfolio of products relevant to academic institutions and corporations with R&D activity in areas like drug discovery and material sciences. Springer Nature was created as a result of the merger of Nature Publishing Group, Palgrave Macmillan, Macmillan Education and Springer Science+Business Media in May 2015. Bettina graduated in Molecular Biology (MSc) from the International Max Planck Research School after a research stay at the Harvard Institute of Medicine. She first ventured into the corporate world with assignments at McKinsey & Company and INSEAD Business School, before joining Springer Nature in 2008. She was responsible for Springer Nature's open access activities from 2009 to 2013 before moving to her current position.

Corporate governance

The Board of the Company is responsible for the Group's corporate governance policies and recognises the importance of this in creating a sustainable, growing and profitable business. The Board believe strongly in the value and importance of good corporate governance and in their accountability to all of the Company's stakeholders, including its shareholders, employees, customers, suppliers, advisers and regulators. Robust corporate governance improves performance and mitigates risk and therefore is an important factor in achieving the medium to long term success of the Group. In the statement which follows, the Board explains its approach to corporate governance and how the Board and its committees operate.

Compliant with AIM Rules, the Company has adopted the Quoted Companies Alliance (QCA) corporate governance code with effect from 28 September 2018. This can be found on the company's website using the following link: <https://www.deepmattergroup.com/content/investor/governance>.

DIRECTORS' REPORT (CONTINUED)

A summary of the key points for disclosure are listed below;

Governance Principles	Compliant Explanation
<p><i>Establish a strategy and business model which promote long-term value for shareholders</i></p>	<p>The Group's business model is the digitisation of chemistry. As part of this process, DML has successfully developed and operates DigitalGlassware™, a big data analysis platform focused on enabling reproducibility in chemistry. DigitalGlassware™ comprises an easy-to-use software interface and sensor array to collect, store and process data generated from chemical experiments. InfoChem complements and strengthens the DigitalGlassware™ platform, bringing strong cheminformatic capabilities to the Group.</p> <p>The key challenges and risks faced by the Group are set out on in the strategic report and include technology and development, commercial success and market acceptance, intellectual property and the attraction and retention of key employees.</p> <p>The Board believes that it has the right team and strategy in place, appropriate to the current size and complexity of the Group, in order to deliver the strategic aims of the Group over the medium to long term.</p>
<p><i>Embed effective risk management, considering both opportunities and threats, throughout the organisation</i></p>	<p>Risk management at the Company is an integral part of decision making and is embedded in normal business operations. It exists to help protect and safeguard employees, clients, Group assets and reputation and to help achieve business objectives. The Company's Board of Directors is responsible for ensuring that the Group maintains an appropriate system of internal control. The system of control is designed to manage rather than eliminate the risk of failure to achieve business objectives.</p> <p>The Board has prepared a risk register for the Group that identifies key risks in the areas of operational strategy, financial, regulatory, environmental, research and development and the wider macro-economic considerations. All Directors are provided with a copy of this register, which is reviewed periodically and updated as and when necessary. The Board considers the risk register when assessing the current status of the Group and its operations as well as the intended strategic aims and progress of the Group. Given the stage of development the Group is currently at, an internal audit function is not deemed required. This will be monitored as the company evolves.</p>
<p><i>Maintain the Board as a well-functioning, balanced team led by the Chair</i></p>	<p>The members of the Board have a collective responsibility and legal obligation to promote the interests of the Group and are collectively responsible for defining corporate governance arrangements. Ultimate responsibility for the quality of, and approach to, corporate governance lies with the Chair of the Board.</p>

DIRECTORS' REPORT (CONTINUED)

Governance Principles	Compliant Explanation
<p><i>Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities</i></p>	<p>All members of the Board bring significant and varied sector experience, and many have board and public markets experience. The Board's members have chemical, technological, financial, regulatory, and venture stage operational experience and one member, Lauren Lees, is a chartered accountant. The Board believes that its blend of relevant experience, skills and personal qualities and capabilities is sufficient to enable it to successfully execute its current strategy. Directors attend seminars and other regulatory and trade events as considered appropriate to ensure that their knowledge remains current.</p> <p>All Directors have access to the advice and services of the Company Secretary and in the course of their duties, if necessary, are able to take independent professional advice at the Company's expense. Committees have access to such resources as are required to fulfil their duties.</p> <p>The Non-Executive Directors contribute independent thinking and judgement through the application of their external experience and knowledge, scrutinise the performance of management, provide constructive challenge to the Non-Executive Chairman and ensure that the Company is operating within the governance and risk framework approved by the Board.</p>
<p><i>Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement</i></p>	<p>Whilst the Company does not currently have an externally facilitated appraisal process for Directors, the Chairman engages with all Directors to ensure that their individual contribution is relevant and effective and that they are committed members of the Board.</p>
<p><i>Promote a corporate culture that is based on ethical values and behaviours</i></p>	<p>Our long-term growth is underpinned by our core values, which are considered to be:</p> <ol style="list-style-type: none"> 1. We place our customer users first and ensure that we understand the current and future needs of those who use our products and services, and always strive to exceed their expectations. 2. We are committed to innovation in what we do and how we do it, by being creative, pragmatic and different. 3. We focus on creating an environment where people want to work and give their best and feel empowered to make a difference. 4. We expect all our directors and employees to respect each other, to act honourably, to follow the law and to conduct business with the highest professional and ethical standards.
<p><i>Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders</i></p>	<p>The Company encourages two-way communication with both its institutional and private investors and respond quickly to all queries received. The Chairman and Chief Executive talk regularly with the Company's major shareholders and ensure their views are communicated fully to the Board.</p>

DIRECTORS' REPORT (CONTINUED)

The Board

The Board currently comprises a Non-Executive Chairman, a Chief Executive, a Finance Director and two Non-Executive Directors.

At the 31 December 2019, the Board consisted of five directors of whom two are Executive and three are Non-Executive. One Non-Executive Director, Laurence Ede, is considered to be an independent Director.

All Directors are required to attend Board and relevant Board Committee meetings and, where possible, the AGM each year and to be available at other times as required for face-to-face and telephone meetings with the executive team and investors as reasonable. Each Director is required to keep their skill set up to date by attendance at webinars, CPD training and attending relevant corporate update sessions where appropriate.

Meetings held in the 12 months to 31 December 2019 and the attendance of the Directors at these meetings is summarised below:

Position	Independence	Board (7)	Audit (2)	Remun- eration (2)	Total	Attendance
Executive Directors						
Mark Warne	No	7/7	–	–	7/7	100%
Lauren Lees (appointed 28 June 2019)	No	3/3	–	–	3/3	100%
Michael Bretherton (resigned 28 June 2019)	No	4/4	–	–	4/4	100%
Independent Non-Executive Directors/Committee Members						
James Ede-Golightly	No	7/7	–	–	7/7	100%
Laurence Ede	Yes	7/7	2/2	2/2	11/11	100%
Bettina Goerner (appointed 15 March 2019)	No	5/5	1/1	1/1	7/7	100%
Lee Cronin (resigned 12 April 2019)	No	2/2	–	–	2/2	100%
David Cleevely (resigned 12 April 2019)	Yes	2/2	1/1	1/1	4/4	100%

Audit committee

The Audit Committee's primary responsibilities are to monitor the integrity of the financial affairs and statements of the Company, to ensure that the financial performance of the Company and any subsidiary of the Company is properly measured and reported on, to review reports from the Company's auditors relating to the accounting and internal controls and to make recommendations relating to the appointment of the external auditors.

The Audit Committee comprises Laurence Ede, who acts as Chairperson, and Bettina Goerner. The Chair of the Audit Committee is provided with a comprehensive guide for review of the company's Financial Reporting Cycle by the Finance Director, which includes advice on nurturing a culture of improvement, timing, planning, reporting on skillset and experience and the use of auditors and follows guidance suitable for Audit committees of AIM quoted companies issued by the FRC and ICAEW(2019).

Remuneration committee

The Remuneration Committee's primary responsibilities are to review the performance of the Executive Directors of the Company and to determine the broad policy and framework for their remuneration and the terms and conditions of their service and that of senior management (including the remuneration of and grant of options to such persons under any share scheme adopted by the Company). The Remuneration Committee comprises Bettina Goerner, who acts as Chairperson, and Laurence Ede.

The remuneration of Non-Executive Directors is set by the Board as a whole.

DIRECTORS' REPORT (CONTINUED)

Remuneration Policy

It is the Company's policy that Executive Directors should have contracts with an indefinite term providing for a maximum of six months' notice. The main elements of the remuneration package for Executive Directors and senior management are:

Base annual salary

The base salary is reviewed annually by the Remuneration Committee and any change in salary is applied from the beginning of each calendar year. In determining the base annual salary, the Remuneration Committee considers several factors, including the current position and development of the Group, individual contribution, and market salaries for comparable organisations.

Pension and other benefits

As with all employees, the Executive Directors may participate in the Group defined contribution pension scheme. In the 2019 fiscal year, the maximum employer pension contribution was 5% of base salary.

Share incentive schemes

The Company operates share option plans, under which certain Directors have been granted options to subscribe for ordinary shares. All options are equity settled. The options have an exercise price of 2.5 pence and vesting occurs in tranches over a three year period subject to share price performance targets. If the options remain unexercised after a period of ten years from the date of grant, the options expire. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

Discretionary annual bonus arrangements

All Executive Directors and senior managers are eligible for a discretionary annual bonus which is paid in accordance with a bonus scheme developed by the Remuneration Committee. This takes into account performance against defined personal objectives and the financial performance of the Company.

Internal Control

The Board is responsible for maintaining a sound system of internal control. The Board's measures are designed to manage, but not eliminate, risk and such a system provides reasonable but not absolute assurance against material misstatement or loss.

Some key features of the internal control system are:

- (i) Management accounts information, budgets, forecasts and business risk issues are regularly reviewed by the Board which meets at least four times per year;
- (ii) The Group has operational, accounting and employment policies in place;
- (iii) The Board actively evaluates the risks inherent in the business and ensures that appropriate controls and procedures are in place to manage these risks; and
- (iv) There is a clearly defined organisational structure and well-established operational and financial reporting and control systems.

Going concern

As in previous years the Group has continued to utilise its cash resources to fund losses whilst the Digital Glassware™ platform is commercialised and the sales pipeline is being established.

The Group continues to actively seek new business opportunities and progress discussions with our existing partners. At the year end, the timing and value of new revenue contracts remains uncertain and the current COVID-19 situation increases this uncertainty. However, discussions are progressing and are expected to result in additional new revenues for the Group.

The Group has acted proactively in efficiently restructuring the business to align itself with the evolving operational cost base and sales projections. In response to COVID-19, the Group has utilised appropriate schemes offered by both the UK and German Governments to efficiently manage the cost base whilst navigating this period of increased uncertainty in global markets.

The cash balance at the 31 December 2019 was £2.6 million. Based on its current expenditure the Group expects that it will need to raise additional funds through either equity-based investor funding or debt finance within 12 months. Subject to this, or reducing certain day-to-day working capital, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

After making appropriate enquires and considering the assumptions and uncertainties described above, the Directors consider that it is appropriate to adopt the going concern basis in preparing the consolidated financial statements. Accordingly, the financial statements do not include any adjustments which would be required if the going concern basis of preparation was deemed to be inappropriate. However, if the Group is unable to deliver upon its proposed revenue projections, or alternatively proposed cost reductions, there is limited headroom in the current forecasts and as such there is considered a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

DIRECTORS' REPORT (CONTINUED)

Post Balance Sheet Event

The current COVID-19 situation has been identified by the Directors as a non-adjusting post balance sheet event. Whilst the financial impact of COVID-19 on the current year for the Group is unknown, the Group expects that sales transactions may take longer to conclude as large pharmaceutical companies reduce operations and restructure their budgets in response to COVID-19. The potential impact of COVID-19 on the Group's ability to continue as a going concern is discussed above in detail.

Risk management

The Group's risk management objectives and exposure are detailed in the Strategic Report on pages 5 to 6 and in note 22 of the financial statements.

Employment policy

When applicable, the Directors are committed to continuing involvement and communication with employees on matters affecting both the employees and the Group.

The Group supports employment of disabled people wherever possible through recruitment, by retention of those who become disabled and generally through training, career development and promotion.

Creditor payment policy

The Group seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Group does not have a standard code of conduct that deals specifically with the payment of suppliers.

At the end of the year outstanding invoices for the Group and Company represented 24 days purchases (2018: 24 days).

Annual General Meeting

The next Annual General Meeting will take place at 11.00am on Thursday 25th June 2020, at St Brandon's House, 29 Great George Street, Bristol, BS1 5QT.

Voting rights

On a show of hands at a general meeting of the Company every holder of shares present in person and entitled to vote, and every proxy duly appointed by a member entitled to vote, has one vote and on a poll every member present in person or by proxy and entitled to vote has one vote for every share held.

Further details regarding the Annual General Meeting can be found in the Notice of Annual General Meeting at the back of this document. None of the shares carry any special rights with regard to control of the Company. Due to the COVID-19 crisis, shareholders are required to follow the latest 'stay-at-home' measures and Government guidance in respect of public gatherings and therefore are instructed that they should not attend the AGM in person but instead submit their votes by proxy, with all votes to be routinely dealt with by way of a poll. Electronic and paper proxy appointments and voting instructions must be received by the Company's transfer agent not later than 48 hours (not counting non-working days) before the meeting.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group and parent company financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of the affairs of the Company and of the Group and of the profit or loss of the Group for that period.

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

DIRECTORS' REPORT (CONTINUED)

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable the Directors to ensure that any financial statements comply with the requirements of the Companies Act 2006. They are also responsible, as a matter of general law, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are also responsible for ensuring that they meet their responsibilities under the AIM rules.

The Directors are responsible for the maintenance and integrity of the company's website (www.deepmattergroup.com), and legislation in the UK governing the preparation and dissemination of financial statements, may differ from legislation in other jurisdictions.

Independent Auditors

The independent auditors, Nexia Smith & Williamson, have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the AGM.

Disclosure of information to auditors

So far as each Director is aware, there is no relevant audit information of which the Company and the Group's auditor was unaware. Each Director has taken all the steps that the director ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company and the Group's auditor was aware of that information.

This information is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

Approved by order of the Board

Lauren Lees

28 May 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DEEPMATTER GROUP PLC

Opinion

We have audited the financial statements of DeepMatter 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, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Cash Flows, the Consolidated and Parent Company Statements of Changes in Equity and the 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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard 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.

Material uncertainty related to going concern

We draw attention to note 4 to the financial statements concerning the Group and parent company's ability to continue as a going concern.

The Group reported a loss of £3.0 million for the year and will potentially require a further round of fund raising or alternative funding arrangements to allow it to continue to meet its liabilities as they fall due for the next 12 months if the forecast cost reductions are unable to be fully executed.

In addition, on 11 March 2020, Covid-19 was declared a pandemic by the World Health Organisation. The impact of the Covid-19 pandemic on the business remains unquantifiable at this stage, particularly in relation to the impact on a future fund raise, revenue growth and the duration of government support measures.

These conditions, as further explained in note 4 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt upon the company and Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

Emphasis of matter – valuation of goodwill, intangible assets and parent company's investments in subsidiaries and intercompany receivables

We draw attention to the disclosures made in note 15 to the Group financial statements concerning the valuation of goodwill and intangible assets and the disclosures made in notes C2 and C4 to the parent company financial statements concerning the valuation of investments in subsidiaries and of the intercompany receivables respectively.

In the Group financial statements, the valuation of £4.8 million of goodwill and £1.8 million of intangible assets are dependent upon the future cash flows generated by the subsidiary companies, which are themselves dependent on the value and timing of product sales, obtaining regulatory approval and products being taken to market, including their successful commercialisation.

Similarly, the carrying value of investments in subsidiary companies of £7.6 million and intercompany receivables of £5.0 million are also dependent on these future cash flows.

The ultimate outcome of these matters cannot presently be determined, and the financial statements do not reflect any provision that may be required if the cash flows generated by the subsidiary companies is not as forecast. Our opinion is not modified in respect of these matters.

Key audit matters

We have identified the following key audit matters described below. Key audit matters include the most significant assessed risks of material misstatement, including those risks that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team.

In addressing these matters, we have performed the procedures below which were designed to address the matters in the context of the financial statements as a whole and in forming our opinion thereon. Consequently, we do not provide a separate opinion on these individual matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DEEPMATTER GROUP PLC (CONTINUED)

Goodwill and intangible asset impairment – Group only

Key audit matter description

As explained further in notes 15 and 24, the Group recognises goodwill and other intangible assets in respect of its current and prior year acquisitions. Management are required to undertake impairment reviews on an annual basis, in line with accounting standards.

This presents an area of audit risk, given the uncertainty over the value and timing of future cash flows and the amortisation period assigned. For this reason, we have considered this an area of key audit focus.

Response to key audit matter

We discussed the cash flow forecasts prepared by management in their impairment calculation for each CGU. The main procedures performed on the calculations, the intangible assets workings and areas where we challenged management were as follows:

- testing the quality of management forecasting by comparing cash flow forecasts for prior periods to actual outcomes;
- in conjunction with our internal valuation specialists, we assessed the appropriateness of the assumptions that had the most material impact; the main focus was on forecast costs and the discount factor used as the assumptions made by management regarding revenue were deemed more uncertain, as referred to above in the Emphasis of Matter paragraph; market conditions were also considered by comparing the market capitalisation to the assets of the business;
- reviewing the amortisation charged during the year for intangible assets, to ensure it has been calculated in accordance with the Group's amortisation policy and consideration of whether the amortisation period is appropriate in light of future plans of the Group;
- reviewing the value of the intangible assets against the impairment reviews undertaken by management and determining whether there is any indication that the assets might be impaired; and
- considering the appropriateness of the disclosures made in the financial statements in respect of these assets and the impairment reviews undertaken.

Business combination of Infochem GmbH – Group only

Key audit matter description

As explained further in note 24, the company acquired 100% of Infochem GmbH in the year. Fair value calculations are inherently judgmental and IFRS 3 requires that consideration is given to the existence and measurement of separable, identifiable intangible assets that have been acquired. Management are also required to determine the

fair value of consideration paid and also the fair value of the net assets acquired, which requires further judgement.

This presents an area of audit risk, given the judgements required over the determination of separable, identifiable intangible assets and the fair value of the consideration paid and the net assets acquired.

Response to key audit matter

We discussed the purchase price allocation calculations prepared by management and their determination of the fair value of the consideration and net assets. The main procedures performed in our review and where we challenged management were as follows:

- reviewing the underlying agreements relating to the acquisition;
- testing the appropriateness of the valuation used for consideration and the fair value of the assets and liabilities acquired;
- testing the appropriateness of the assumptions used in the calculation of the technology and customer relationship assets that has the most material impact; the main focus was on technology asset costs and the discount factor used as the assumptions made by management regarding revenue and commercialisation of the technology were deemed more uncertain, as referred to in the Emphasis of Matter paragraph above; and
- considering the appropriateness of the disclosures made in the financial statements in respect of the acquisition.

In addition to the procedures noted above, we engaged our valuation specialists who performed the following procedures:

- evaluated the approach to valuation of the technology and customer relationship assets; and
- critically reviewed the assumptions incorporated in the valuations.

Parent company investment in subsidiaries and intercompany receivables – parent company only

Key audit matter description

As explained further in note C2 and C4 to the parent company financial statements, the valuation of the investment balance related to subsidiary companies and intercompany receivables are linked to the assessment of goodwill and the intangible assets on consolidation. This presents an area of audit risk, given the uncertainty and value of future sales used to determine the cash flow projections upon which conclusion was reached that the values are deemed recoverable. For this reason, we have considered this area of key audit focus.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DEEPMATTER GROUP PLC (CONTINUED)

Response to key audit matter

We discussed the cash flow forecasts and budgets prepared by management in their impairment calculation. The main procedures performed on the calculation and areas where we challenged management were as follows:

- testing the quality of management forecasting by comparing cash flow forecasts for prior periods to actual outcomes;
- testing the appropriateness of the assumptions that had the most material impact; the main focus was on forecast costs and the discount factor used as the assumptions made by management regarding revenue were deemed more uncertain, as referred to above in the Emphasis of Matter paragraph; in challenging these assumptions, actual results, external market conditions and progression of the business against milestones set were taken into account; reference to market conditions was considered by comparing the market capitalisation to the assets of the business;
- assessing the value of the investments against the impairment indicators of IAS 36 and determining whether there is any indication that the investments might be impaired;
- reviewing the expected credit loss assessment made of the inter-company receivables under IFRS 9; and
- considering the appropriateness of the disclosures made in the financial statements in respect of these investments and intercompany receivable balances.

Going concern – Group and parent company

This has been covered within the Material Uncertainty related to Going Concern paragraph above.

Revenue recognition – Group only

Key audit matter description

The Group is reporting revenues for the first time and is required to adopt IFRS 15. Due to the nature of revenue recognition of the Group in respect of the various performance obligations within contracts, and the estimates and judgement involved in determining the amount of revenue to recognise each year, we have considered this area of key audit focus.

Response to key audit matter

The main procedures performed on the revenue recognised and areas where we challenged management were as follows:

- A sample of contracts with customers were obtained and reviewed against the steps referenced by IFRS 15. Assessment of management's accounting treatment were performed on each contract sampled in respect of:
 - contracts identified;
 - performance obligations identified;

- determination and allocation of transaction price for each of those; and
- determination of revenue recognition method for satisfying those performance obligations.

Management were challenged on judgements made.

The revenue recognised in the year was assessed against the criteria specified in the standard that demonstrates control has passed to the customer;

- Performing tests of detail on revenue covering both completeness and existence as well performing cut-off procedures on revenue recognised; and
- considering the appropriateness and completeness of the disclosures made in the financial statements in relation to this matter.

Materiality

The materiality for the Group financial statements as a whole was set at £454,000. This has been determined with reference to the benchmark of the Group's net assets, which we consider to be an appropriate measure for a Group of companies with significant value in investments and research and development activities which are fundamental to the future trading of the Group. Materiality represents 5% of net assets as presented on the face of the Consolidated Statement of Financial Position.

The materiality for the parent company financial statements as a whole was set at £302,900. This has been determined with reference to the benchmark of the parent company's net assets, which we consider to be an appropriate measure for a holding entity. Materiality represents 2% of net assets as presented on the face of the Company Statement of Financial Position.

An overview of the scope of our audit

Of the Group's 4 reporting components, we subjected 2 to audits for Group reporting purposes and 2 to specific audit procedures where the extent of our audit work was based on our assessment of the risk of material misstatement and of the materiality of that component.

The components within the scope of our work covered: 100% of Group revenue, 100% of Group profit before tax and 100% of Group net assets.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DEEPMATTER GROUP PLC (CONTINUED)

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

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

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

- the information given in the 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 the light of the knowledge and understanding of the Group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

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

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement set out on pages 15 and 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. 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 parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Kelly Jones

Senior Statutory Auditor, for and on behalf of

Nexia Smith & Williamson

Statutory Auditor
Chartered Accountants

Portwall Place
Portwall Lane
Bristol
BS1 6NA

Date: 28 May 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	Year to 31 December 2019 £'000	Year to 31 December 2018 £'000
Continuing operations			
Revenue from contracts with customers	7	1,196	–
Cost of providing services		(667)	–
Gross profit		529	–
Research and development costs	11	(1,787)	(1,399)
Share based payments	23	(278)	(6)
Administrative costs		(1,850)	(600)
Operating loss		(3,386)	(2,005)
Finance income – net	9	23	12
Loss before tax		(3,363)	(1,993)
Taxation	10	346	180
Loss from continuing operations		(3,017)	(1,813)
Discontinued operations			
Profit/(loss) from discontinued operations	25	22	(104)
Profit on disposal of discontinued operations	25	14	–
Net result from discontinued operations		36	–
Loss for the year		(2,981)	(1,917)
Other comprehensive income			
Amounts which may be reclassified to profit or loss			
Currency translation differences on foreign operation		7	–
Total comprehensive loss for the year attributable to:			
The Company's equity shareholders		(2,974)	(1,917)
Loss per share attributable to the equity holders of the Company:			
Basic and diluted loss per share (pence) on continuing operations	20	(0.43)	(0.33)
Basic and diluted loss per share (pence) on total operations	20	(0.42)	(0.35)

The notes on pages 25 to 48 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	At 31 December 2019 £'000	At 31 December 2018 £'000
Assets			
Non-current assets			
Intangible assets and goodwill	15	6,633	4,914
Investments		3	3
Plant and equipment	13	41	29
Right-of-use assets	14	182	–
		6,859	4,946
Current assets			
Inventories		–	74
Trade and other receivables	16	432	152
Income tax asset	10	172	289
Cash and cash equivalents	17	2,607	1,086
		3,211	1,601
Liabilities			
Current liabilities			
Trade and other payables	18	(464)	(345)
Lease liabilities	14	(123)	–
		(587)	(345)
Net current assets			
		2,624	1,256
Non-current liabilities			
Lease liabilities	14	(61)	–
Deferred tax	10	(341)	–
Total non-current liabilities		(402)	–
Total net assets		9,081	6,202
Shareholder's equity			
Called up share capital	19	74	55
Share premium	21	7,136	3,287
Merger reserve	21	5,971	5,334
Shares to be issued reserve	21	1,274	204
Foreign currency translation reserve	21	7	–
Retained deficit	21	(5,381)	(2,678)
Total equity attributable to shareholders of the Company		9,081	6,202

The financial statements were approved by the Board of Directors on 28 May 2020 and were signed on its behalf by:

Lauren Lees
Finance Director

Company Number: 05845469

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Share equity £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Shares to be issued reserve £'000	Foreign currency translation reserve £'000	Total equity £'000
Balance at 31 December 2017	55	3,287	5,334	(767)	204	–	8,113
Total comprehensive loss for the year to 31 December 2018	–	–	–	(1,917)	–	–	(1,917)
Transactions with owners:							
Share based payment charge	–	–	–	6	–	–	6
Balance at 31 December 2018	55	3,287	5,334	(2,678)	204	–	6,202
Loss for the year to 31 December 2019	–	–	–	(2,981)	–	–	(2,981)
Currency translation differences	–	–	–	–	–	7	7
Total comprehensive loss for the year to 31 December 2019	–	–	–	(2,981)	–	7	(2,974)
Transactions with owners:							
Issue of shares for cash	16	3,849	–	–	–	–	3,865
Shares to be issued and issuable on acquisition of subsidiary	3	–	637	–	1,070	–	1,710
Share based payment charge	–	–	–	278	–	–	278
Balance at 31 December 2019	74	7,136	5,971	(5,381)	1,274	7	9,081

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	Year to 31 December 2019 £'000	Year to 31 December 2018 £'000
Cash flows from operating activities			
Operating loss from continuing operations		(3,386)	(2,005)
Operating profit/(loss) from discontinued operations	25	29	(213)
Depreciation and amortisation charges	11	558	59
Share based payments charge	23	278	6
Operating cash outflows before movement in working capital		(2,521)	(2,153)
Decrease/(increase) in inventories		74	(64)
(Increase) in trade and other receivables		(51)	(25)
(Decrease)/increase in trade and other payables		(247)	64
Cash used in operations		(2,745)	(2,178)
Interest received	9	28	12
Net cash used in operating activities		(2,717)	(2,166)
Cash flows from investing activities			
Purchases of property, plant and equipment	13	(12)	(13)
Cash and bank in subsidiary at acquisition net of cash payment		265	–
Net cash generated by/(used in) investing activities		253	(13)
Cash flows from financing activities			
Proceeds from the issue of share capital		4,005	–
Transaction costs arising from issue of share capital		(140)	–
Payment of lease liabilities	14	(107)	–
Taxation received	10	289	–
Net cash generated by financing activities		4,047	–
Net increase/(decrease) in cash and cash equivalents			
Cash and cash equivalents at beginning of year		1,086	3,265
Effects of exchange rate changes on cash and cash equivalents		(62)	–
Cash and cash equivalents at end of year		2,607	1,086

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

1. Corporate information

DeepMatter Group Plc ("the Company") is a public limited company incorporated, registered and domiciled in England and Wales and its shares are publicly traded on AIM, a market operated by the London Stock Exchange. The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") for the year ended 31 December 2019. The Company has four wholly owned subsidiaries, three of which are active trading entities, InfoChem GmbH ("InfoChem"), DeepMatter Limited ("DML") and OpenIOLabs Limited ("OpenIOLabs"). DeepMatter Tech Limited ("DTL") is a dormant subsidiary.

The address of the registered office is given on the inside front cover of this report. The nature of the Group's activities is set out in the Strategic Report and Directors' Report.

2. Basis of preparation

These consolidated and Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention and all values have been rounded to the nearest thousand, except where otherwise indicated. The functional currency of the Group is Sterling.

The preparation of financial statements in conformity with IFRS as adopted by the European Union requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Group financial statements are disclosed in note 6.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018, except for the adoption of new standards and interpretations noted below.

New and amended standards adopted by the Group

The Group adopted IFRS 16 "Leases" (IFRS 16) for the first time in their annual reporting period commencing the 1 January 2019.

Adoption of existing standards by the Group

The Group has applied the following standards and amendments for the first time for the annual reporting period commencing 1 January 2019:

- IFRS 15 "Revenue from Contracts with Customers" (IFRS 15)
- IAS 21 "Foreign currency transactions" (IAS 21)
- IFRS 8 "Operating Segments" (IFRS 8)

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3. Basis of consolidation

The Consolidated Financial Statements incorporate the results of the Company and its subsidiaries. Control is achieved where the Company is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Comprehensive Income from the effective date of acquisition and up to the effective date of disposal, as appropriate. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company. All inter-group transactions and balances arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2019

4. Going concern

Information on the business environment and the factors underpinning the Group's future prospects and product portfolio are included in the Chairman's Statement, Strategic Report and the Directors' Report. The cash balance at the 31 December 2019 was £2.6m and the Group expects that it will need to raise additional funds through either equity-based investor funding or debt finance within 12 months to meet its priorities for both 2020 and future years.

The current COVID-19 situation increases the uncertainty of both the timing of a fundraise and the timing and value of future sales. However, the Group, in response to COVID-19, have prepared prudent cash forecasts, assuming reduced operations, for the next 12 months which demonstrate that the Group can meet its liabilities as they fall due without further funding.

After making appropriate enquiries and considering the assumptions and uncertainties described above, the Directors consider that it is appropriate to adopt the going concern basis in preparing the consolidated financial statements. Accordingly, the financial statements do not include any adjustments which would be required if the going concern basis of preparation was deemed to be inappropriate. However, if the Group is unable to deliver upon its proposed revenue projections, or alternatively proposed cost reductions, there is limited headroom in the current forecasts and as such there is considered a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

5. Summary of significant accounting policies

Revenue from Contracts with Customers

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to exchange for those goods or services.

Revenue is recognised at the fair value of the consideration received or receivable for the sale of services in the ordinary course of business and is shown net of Value Added Tax. The Group primarily earns revenues from the sales of software licenses and software consulting services.

In the current financial year, the Group carried out a review to adopt 'IFRS 15 Revenue from Contracts with Customers' and align the revenue recognition policies of InfoChem with those of the Group.

A proportion of the contracts consist of multiple performance obligations and are bundled contracts. The performance obligations in bundled contracts were identified and an estimate was made of the fair value of the transaction price. Details of the estimates made, and obligations identified is included within critical estimates and judgements in note 6.

The following revenue recognition policies were adopted for InfoChem;

- Software licenses are recognised immediately where the performance obligation is satisfied upon the delivery of the license to the customer.
- Hosted software licenses are recognised in line with the satisfaction of the performance obligation over the license term under the output method and revenue not yet earned is accounted for within deferred income.
- Post contract support and maintenance contracts are deferred over the contractual term. Revenue is recognised using the output method based on the passage of the contractual term.
- Consulting projects are recognised on completion of the relevant performance obligations. Applying the output method, revenue is recognised as the performance obligation is met and the customer is invoiced.

The adoption of IFRS 15 has resulted in a restatement of revenues in the current year as the accounting policies of InfoChem were aligned with the Group upon acquisition. The InfoChem revenues were the first revenues for the Group and therefore no restatement of prior year revenues has been made.

In the year, DML made the first commercial sale of DigitalGlassware™. DigitalGlassware™ consists of a bundled monthly software license and hardware fee. Revenue is invoiced and recognised monthly using the output method over the contractual term.

Amounts included in deferred income are expected to be recognised within one year and are included within current liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2019

Segmental Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

Foreign currency translation

As required by IAS 21, the results and financial position of all Group entities that have a functional currency different from the presentation currency are translated in the presentation currency as follows;

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the statement of financial position;
- Income and expenses for each income statement are translated at average exchange rates; and
- All resulting exchange differences are recognised as a separate component of equity in the foreign currency translation reserve.

Leases

In the year to 31 December 2019 the Group adopted 'IFRS 16' Leases which has resulted in the Group recognising a right-of-use asset and lease liability for all contracts that are or contain a lease where the Group is a lessee. The Group has applied the modified retrospective adoption method, with no restatement of prior year comparatives.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principals of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The lessee's incremental borrowing rate applied to the lease liabilities was 3.5%.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristic;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

At the 1 January 2019, the Group had one operating lease which had a termination date of September 2019. The Group calculated the operating lease commitment on the basis that it would not renew the lease in September 2019 and this short-term lease was not recognised as a liability. The value recognised as short term lease was £31,000. A new lease was negotiated commencing 1 October 2019 over a two-year term which was recognised under IFRS 16.

Additional leases were acquired upon acquisition of InfoChem in March 2019 and were recognised under IFRS 16.

The impact of the adoption of IFRS 16 in the period is the recognition of a total lease liability at 31 December 2019 of £184,000 of which £123,000 is current and £61,000 is non-current. A right-of-use asset of £182,000 was recognised. Depreciation of £107,000 was charged in respect of these assets and interest of £5,000 was recognised. Under previous accounting standards, an operating lease expense of £143,000 would have been recognised in the year to 31 December 2019 with no corresponding balance sheet entries.

Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Deferred Tax

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2019

Deferred Tax (continued)

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Sales tax

Revenues, expenses and assets and liabilities are recognised net of the amount of sales tax, except:

- Where the sales tax incurred on a purchase of assets or goods or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable;
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Research and development

Research costs are charged against income as they are incurred. Certain development costs are capitalised as intangible assets, when it is probable that future economic benefits will flow to the Group. Such intangible assets are amortised on a straight-line basis from the point at which the assets are ready for use over the period of the expected benefit, and are reviewed for impairment at each balance sheet date. Other development costs are charged against income as incurred since the criteria for their recognition as an asset are not met.

The criteria for recognising development expenditure as an asset are:

- Completion of the intangible asset is technically feasible so that it will be available for use or sale;
- The Group intends to complete the intangible asset and use or sell it;
- The Group has the ability to use or sell the intangible asset;
- The intangible asset will generate probable future economic benefits. Among many other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits;
- That the Group has available to it adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- That the Group can reliably measure the expenditure attributable to the intangible asset during its development.

No development costs have been capitalised as intangible assets to date.

Intangible assets

Intangible assets which arise on consolidation are stated at their fair value, net of amortisation and any provision for impairment. Amortisation is calculated to write off the value of all intangible assets to estimated residual value on a straight-line basis over their expected useful lives as follows:

- Patent costs and licensing rights 20 years
- Customer relationships 10 years
- Technology platform 1-2 years
- Technology database 5 years

Amortisation is included within administrative expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2019

Plant and equipment

Plant and equipment are stated at cost, net of depreciation and any provision for any impairment. Depreciation is calculated to write off the cost of all plant and equipment to estimated residual value on a straight-line basis over their expected useful lives as follows:

- Plant and machinery 4 years
- Fixtures and fittings 4-5 years
- Computer and IT equipment 3 years
- Right-of-use assets Over the term of the lease

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Consolidated Statement of Comprehensive Income

Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised as an expense immediately.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of comprehensive income. After such a reversal the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Business Combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the Group;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value, with changes in fair value recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2019

Goodwill

Goodwill arising on consolidation of subsidiaries represents the excess of fair value of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities at the date of acquisition. Goodwill is tested for impairment annually and whenever there is an indication that the asset may be impaired. Any impairment is charged to the consolidated statement of comprehensive income.

Investments

Investments in subsidiaries are stated at cost less any impairment in value. Any impairment is charged to the Company income statement.

Other Investment assets are accounted for as fair value through other comprehensive income. Gains or losses arising from changes in fair value are recognised directly in equity until the investment is disposed of or determined to be impaired, at which time the cumulative gain or loss previously recognised directly in equity, is included in the profit or loss for the period.

Financial assets and liabilities

IFRS 9 states the requirements for the classification and measurement of financial assets and financial liabilities, the impairment of financial assets, and general hedge accounting.

Financial assets and financial liabilities are recognised in the Consolidated Statement of Financial Position when the Group becomes party to the contractual provisions of the instrument. Financial assets are de-recognised when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are de-recognised when the obligation specified in the contract is discharged, cancelled or expired.

Subsequent to initial recognition, assets are measured at either amortised cost, fair value through other comprehensive income or fair value through profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash at hand, bank balances and short-term deposits of less than three months. The Group's funds are held for the purpose of funding the future growth of the business. Deposits are placed with banks and financial institutions with a sound credit rating, and such investments are regularly reviewed by the Board.

Share-based payments

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment share option transactions, whereby employees rendered services as consideration for equity instruments (equity-settled transactions).

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee.

Share options are valued at the date of grant using the Black-Scholes Merton model or by applying Binomial probability modelling and are charged to operating profit over the overall vesting period of the award with a corresponding credit to retained earnings.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

Upon exercise of share options, the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate, share premium.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2019

6. Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. 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 year are addressed below.

Critical accounting estimates

Impairment of tangible and intangible assets

The Group tests whether goodwill has suffered any impairment on an annual basis. For the 2019 and 2018 reporting periods, the recoverable amount of the cash-generating units (CGUs) was determined based on value-in-use calculations which require the use of assumptions.

As a result of the acquisition of InfoChem, goodwill is monitored by the Directors at the level of the two operating segments of DeepMatter and InfoChem.

DeepMatter

It is Management's assessment that the CGU of DeepMatter includes both the Group's investment in DML and in OpenIOLabs as the technology platform acquired upon acquisition of OpenIOLabs in 2017 is used within the DeepMatter CGU.

The value-in-use calculations in respect of DeepMatter use cash flow projections based on financial budgets approved by the Directors covering a five-year period. Cash flows beyond the five year periods are extrapolated using a multiplier of 10. The pre-tax discount rate applied was 13.5%.

Based on the CGU calculation for DeepMatter, the directors have considered whether there are any indicators of impairment to the goodwill figure of £4,123,000 which arose on the acquisition of DML in 2015 and the carrying amount of the intangible of £650,000 (2018: £686,000) related to the intangible technology asset platform developed by OpenIOLabs and which arose on the acquisition of that company in 2017. The Directors concluded that no impairment charge is required at 31 December 2019.

The directors acknowledge, however, that whilst the CGU of DeepMatter is still at an early stage of development, there is considerable uncertainty regarding the valuation of the above goodwill of £4,123,000 and the further £650,000 (2018: £686,000) attributed to the intangible technology asset platform being used by DeepMatter, based on any estimate of the net present value of DeepMatter's future cash flows.

InfoChem

The CGU of InfoChem encompasses the trade of InfoChem which was acquired on the 15 March 2019.

The value-in-use calculations in respect of InfoChem use cash flow projections based on financial budgets approved by the Directors covering a five-year period. Cash flows beyond the five-year period are extrapolated using a multiplier of 10. The pre-tax discount rate applied was 22%.

Based on the CGU calculation for InfoChem, the directors have considered whether there are any indicators of impairment to the goodwill figure of £720,000 which arose on the acquisition of InfoChem and the carrying amount of the intangibles of £1,046,000 related to the intangible technology assets and customer relationship asset which arose upon acquisition. The Directors concluded that no impairment charge is required at 31 December 2019.

The directors acknowledge, however, that there is considerable uncertainty regarding the valuation of the above goodwill of £720,000 and the further £1,046,000 attributed to the intangible assets, based on any estimate of the net present value of InfoChem's future cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2019

Valuation of consideration and resultant goodwill arising on business combination

InfoChem

The Company completed the acquisition of 100% of the issued share capital of InfoChem in March 2019 from Springer Nature for a consideration which included 42.8 million ordinary shares which may be issued no earlier than 18 months after the acquisition date (once the period for warranty claims has expired) and provided that no warranty claims have been made. In the event of a warranty claim, the Company is able to cancel Springer Nature's right to the number of deferred shares as are necessary to satisfy the claim in full.

The fair value of the deferred shares contingent consideration has been determined as £1,070,000 and is based on the acquisition date fair value of the shares of 2.5 pence per share and assumes that there will be no warranty claims during the warranty period.

Revenues

A proportion of the contracts with customers include bundled performance obligations. In allocating the transaction price to the relevant performance obligations, the following estimates were made:

- Post Contract Support (PCS) includes bug fixing and minor compatibility updates. The transaction price allocated to PCS was estimated to be 15% of the contract value. This is consistent with the transaction price in contracts where PCS is sold as a single performance obligation.
- Service warranty obligations reflect service level agreements (SLAs) agreed with customers. The transaction price allocated to service warranty obligations was estimated to be 15% of the contract value. This is consistent with the transaction price in contracts where a service warranty obligation is sold as a single performance obligation.

Inter-company balances

To support working capital requirements, loans are provided to Group subsidiary companies. The Directors consider these inter-company balances to be recovered through the on-going trade of the subsidiaries which is based on the forecast underlying cashflows of these companies for which uncertainty remains over whether these will be achieved.

Inter-company loans are considered repayable on demand and no interest is payable on these loans.

Judgements

Going Concern

Based on the year end cash balance of £2.6m, the Directors expect that the Group will need to raise additional funds through either equity-based investor funding or debt finance within the next 12 months. The Group continues to actively pursue this however the timing of such an event remains uncertain and the current COVID-19 situation increases the uncertainty. In response to COVID-19, the Group have acted pro-actively, utilising appropriate Government support schemes to efficiently manage operational costs during this period of increased uncertainty. Based on raising funds or making further reductions to the day-to-day working capital of the Group, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. However, if the Group is unable to deliver upon its proposed revenue projections, or alternatively proposed cost reductions, there is limited headroom in the current forecasts and as such there is considered a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Revenues

In adopting IFRS 15 'Contracts with Customers', judgements were made by the Directors as to the timing of the satisfaction of performance obligations and the amounts allocated to performance obligations.

The following judgements were made in respect of the timing of the satisfaction of performance obligations:

- Software licenses which are delivered by a license key are determined to satisfy the performance obligation at the point of delivery and revenue is recognised immediately;
- Hosted Software licenses are determined to satisfy the performance obligation over the contractual license term;
- Post contract support and maintenance is delivered throughout the license term and is determined to satisfy the performance obligation over the contractual license term; and
- Consulting work is recognised on completion of the relevant performance obligation as agreed with the customer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2019

Short term evaluation trials of software products by customers are recognised as one performance obligation as it is determined that the customer is required to experience all aspects of the evaluation to fully assess the software.

The Directors have determined that minor warranty obligations are not a separate performance obligation and are a quality guarantee. The term of the guarantee is one year and is effective throughout the license term which is 12 months. As a result, no warranty provision under IAS 37 has been calculated as the license term end dates are concurrent with the 31 December 2019.

There are no customer contracts in the Group which are determined to contain a significant financing component.

Development costs

Development costs to date in respect of DML have not been capitalised as intangible assets as the Directors consider DML to still be at an early stage of development on our planned progression to the digitisation of chemistry. Development costs are charged against income as incurred since the criteria for their recognition as an asset are not met.

Estimate of useful life of acquired intangible assets

Upon acquisition of InfoChem on the 15 March 2019, intangible assets were identified and restated to their fair values. The Directors made a judgement in respect of the expected useful lives of the intangible assets acquired and an appropriate amortisation charge is made. The useful economic life of the intangibles was estimated as follows:

- Customer relationships 10 years
- Technology platform 1-2 years
- Technology database 5 years

The Directors acknowledge, however, the actual useful life may be shorter or longer than the estimates made, depending on technical innovations and competitor actions.

Leasing

In determining the lease term under IFRS 16, the Directors consider all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The lessee's incremental borrowing rate applied to the lease liabilities was 3.5%.

7. Segmental Reporting

The Chief Operating Decision Maker has been identified as the Chief Executive Officer ("CEO") of the company. The Group has two operating segments and the CEO reviews the Group's internal reporting which recognises these two segments in order to assess performance and allocate resources. The Group has determined its reportable segments which are also its operating segments based on these reports. The Group currently has two operating and reportable segments being DeepMatter and InfoChem;

- DeepMatter – this segment owns, develops and is in the early stage of commercially exploiting intellectual property, software, hardware and data analysis capabilities (including machine learning) combined as a visionary, disruptive platform called DigitalGlassware™, enabling step changes in productivity and discovery for scientists in the pharma and life science sectors.
- InfoChem – this segment develops and commercialises cheminformatics software to handle, store and retrieve chemical structures and reactions for application in pharma, life sciences and scientific publications. The segment has industry established market leading tools for the production of synthesis planning and reaction prediction solutions and the automatic extraction of scientific information from text and images.

Information regarding the operation of the reportable segments is included below. The CEO assesses the performance of the operating segments based on revenue and a measure of earnings before interest, tax, depreciation and amortisation (EBITDA) before any allocation of Group overheads, charges for share based payment and costs associated with acquisitions. This segment EBITDA is used to measure performance as the CEO believes such information is most relevant in evaluating the results of the segment.

The Group's EBITDA for the year has been calculated after deducting the Group overheads from the EBITDA of the two segments as reported internally. Group overheads include the cost of the Board, listing costs, all the costs of running the premises in Glasgow and Munich, Group marketing, finance and legal and professional fees.

The segment information is prepared using accounting policies consistent with those of the Group as a whole.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2019

The non-current assets are reviewed by the chief operating decision-maker in reviewing the carrying value of goodwill and intangibles for indicators of impairment. Segment non-current assets are measured in the same way as in the financial statements and the assets are allocated based on the operations of the segment and the physical location of the asset.

The current assets and non-current and current liabilities of the Group are not reviewed by the chief operating decision-maker on a segment basis and therefore none of the Group's current assets and current and non-current liabilities are segmental assets and liabilities and are all unlocated for segmental disclosure purposes. For that reason, the Group has not disclosed details of these segmental assets and liabilities.

The discontinued operations of SICM which was disposed of on the 15 January is not reviewed by the chief operating decision maker and has therefore not been disclosed within operating segments.

In the year to 31 December 2019, the Group had 3 customers that exceeded 10% of total revenue, being 21% and two each at 17% (2018: nil).

All segments are continuing operations.

Revenue from contracts with customers by geographic location

	Year ended 31 December 2019			Year ended 31 December 2018		
	External £'000	Internal £'000	Total £'000	External £'000	Internal £'000	Total £'000
Germany	576	–	576	–	–	–
Switzerland	347	–	347	–	–	–
United Kingdom	157	–	157	–	–	–
North America	103	–	103	–	–	–
Rest of the world	13	–	13	–	–	–
Revenue for the period	1,196	–	1,196	–	–	–

The revenues reported above are both by destination and origin.

Revenue from contracts with customers by operating segment

	Year ended 31 December 2019			Year ended 31 December 2018		
	External £'000	Internal £'000	Total £'000	External £'000	Internal £'000	Total £'000
DeepMatter	40	–	40	–	–	–
InfoChem	1,156	–	1,156	–	–	–
Revenue from contracts with customers	1,196	–	1,196	–	–	–

Loss by operating segment

	Year ended 31 December 2019			Year ended 31 December 2018		
	EBITDA share based payments and acquisition £'000	Depreciation, amortisation, acquisition costs & share based payments £'000	Operating Profit/(loss) £'000	EBITDA share based payments and acquisition £'000	Depreciation, amortisation, acquisition costs & share based payments £'000	Operating Profit/(loss) £'000
DeepMatter	(1,295)	(78)	(1,373)	(1,463)	(59)	(1,522)
InfoChem	(108)	(481)	(589)	–	–	–
Group overheads	(1,104)	–	(1,104)	(477)	–	(477)
Acquisition costs	–	(42)	(42)	–	–	–
Share based payments	–	(278)	(278)	–	(6)	(6)
Loss before tax and interest	(2,507)	(879)	(3,386)	(1,940)	(65)	(2,005)
Group interest and tax			369			192
Discontinued operations after tax			22			(104)
Profit on disposal of discontinued operation			14			–
Loss for the period			(2,981)			(1,917)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2019

Non-current assets by segment

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
DeepMatter		
UK	4,965	4,943
Germany	–	–
InfoChem		
UK	–	–
Germany	1,891	–
Total non-current segment assets	6,856	4,943
Unallocated:		
Financial assets at fair value through other comprehensive income	3	3
Total non-current assets as per the statement of financial position	6,859	4,946

8. Employee Benefit Expense

	2019 £'000	2018 £'000
Salaries and fees	2,069	1,081
Social security costs	303	106
Pension costs	48	47
Share based payments (note 23)	278	6
	2,698	1,240

The average monthly number of employees of the Group was:

	2019 No.	2018 No.
Directors	5	6
Technical, scientific and administrative staff	33	17
	38	23

Directors' emoluments

The following disclosures are in respect of the emoluments paid to the Directors of the Company

	2019 £'000	2018 £'000
Salaries and fees	251	161
Pension contributions	9	4
Social security costs	29	13
Directors remuneration	289	178

9. Finance Income and expense

	2019 £'000	2018 £'000
Finance income		
Bank interest receivable	28	12
Finance expense		
Interest charge for lease liabilities	(5)	–
Net finance income	23	12

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2019

10. Taxation

	2019	2018
	£'000	£'000
<i>Current Tax</i>		
UK Corporation tax credit on continuing operations	172	180
UK tax credit on discontinued operations (note 25)	(7)	109
Total UK corporation tax credit	165	289
<i>Deferred income tax</i>		
Deferred tax credit	174	–
Total deferred tax credit	174	–
Total tax credit	339	289

The tax credit in the consolidated statement of comprehensive income for the year is detailed below. Current tax credit is lower than the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are reconciled below:

	2019	2018
	£'000	£'000
Loss before tax on continuing operations	(3,363)	(1,813)
Profit/(Loss) before tax on discontinued operations	43	(213)
Loss before tax on total operations	(3,320)	(2,026)
Loss multiplied by the average standard rate of corporation tax in the UK of 19% (2018: 19%)	(631)	(385)
Effects of:		
Expenses not deductible for tax	67	24
R&D tax credits received in respect of prior periods *	(172)	(289)
Utilisation of tax losses	(7)	
Prior year adjustment	7	
Difference in overseas tax rates	(76)	
Deferred tax not recognised on losses carried forward	473	361
Total tax credit	(339)	(289)
Tax credit on continuing operations	(346)	(180)
Tax charge/(credit) on discontinued operations	7	(109)
Total tax credit	(339)	(289)

*The tax credit accounted for in 2019 was received in February 2020 and is shown as an income tax asset at the 31 December 2019 year end.

Deferred Tax

Deferred Tax Assets

The balance comprises temporary timing difference attributable to:

	2019	2018
	£'000	£'000
Fair value adjustment to revenues	4	–
Deferred tax assets	4	–

Deferred Tax Liabilities

The balance comprises temporary timing difference attributable to:

	2019	2018
	£'000	£'000
Intangible assets	(345)	–
Deferred tax liabilities	(345)	–
Net deferred tax liabilities	(341)	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2019

Deferred Tax Losses

The losses available for carry forward at 31 December 2019 comprise those of the Company and its four subsidiaries, DTL, InfoChem, DML and OpenIOLabs and amount to £11,377,000 at 31 December 2019, (2018: £8,919,000). No deferred tax asset has been recognised in respect of the losses as recoverability is uncertain.

	2019	2018
	£'000	£'000
Tax losses carried forward	2,120	1,516
Share based payment charge	53	–
Deferred tax assets (unrecognised)	2,173	1,516

Change in Corporation Tax rate

The Finance Act 2016, which received Royal Assent on 15 September 2016, includes legislation to reduce the main rate of corporation tax to 17% from 1 April 2020. Accordingly, unrecognised deferred tax assets and liabilities have been calculated at the tax rate of 17% (2018: 17%).

11. Operating Costs

	2019	2018
	£'000	£'000
Operations		
Employee benefit expense (see note 8)	2,698	1,240
Depreciation of property, plant and equipment (See note 13)	26	15
Depreciation of right-of-use assets (see note 14)	107	–
Amortisation of intangible assets (See note 15)	419	44
Operating lease costs	31	71
Loss on disposal of property, plant and equipment (See note 13)	6	–
Research and development costs	1,787	1,399
Foreign exchange gains and losses	1	–

12. Auditors' Remuneration

During the year the Company obtained the following services from the Company's auditor.

	2019	2018
	£'000	£'000
Continuing operations		
Fees payable to the Company's auditor:		
– The audit of the Company and consolidated accounts	25	15
– The audit of the Company's subsidiaries	25	10
– The provision of non-audit services	2	2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2019

13. Plant and Equipment

	Plant & machinery	Fixtures & fittings	Computer equipment	Total
Cost	£'000	£'000	£'000	£'000
At 31 December 2017	10	2	29	41
Additions	–	–	13	13
At 31 December 2018	10	2	42	54
On acquisition	194	49	68	311
Additions	–	–	12	12
Disposal	(78)	(3)	(57)	(138)
Foreign Currency Translation	1	–	1	2
At 31 December 2019	127	48	66	241
Depreciation				
At 31 December 2017	3	–	7	10
Charge for year	2	–	13	15
At 31 December 2018	5	–	20	25
On acquisition	180	32	67	279
Charge for the year	7	5	14	26
Disposal	(73)	(3)	(56)	(132)
Foreign Currency Translation	1	–	1	2
At 31 December 2019	120	34	46	200
Net Book Value				
At 31 December 2018	5	2	22	29
At 31 December 2019	7	14	20	41

14. Leases

This note provides information where the Group is a lessee.

14(a) Amounts recognised in the consolidated statement of financial position

The consolidated statement of financial position shows the following amounts relating to leases:

	2019	2018
	£'000	£'000
Right-of-use assets		
Buildings	126	–
Hardware	41	–
Vehicles	15	–
Total	182	–
Lease liabilities		
Current	123	–
Non-Current	61	–
Total	184	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2019

14(b) Amounts recognised in the consolidated statement of comprehensive income

The Consolidated Statement of Comprehensive Income shows the following amounts relating to leases:

	2019	2018
	£'000	£'000
Depreciation charge for right-of-use assets		
Buildings	81	–
Hardware	19	–
Vehicles	7	–
Total	107	–
Interest expenses (included in finance cost)	5	–

The total cash outflow for leases in 2019 was £107,000.

14(c) The Group's leasing activities and how these are accounted for

The Group leases the following assets;

- **UK office** – The Group leases an office in the UK for the operations of DML. The lease commenced on the 1 October 2019 and has a fixed term of 24 months.
- **German office** – An office is leased in Munich for the operations of InfoChem. The lease commenced on the 15 March 2019 and has a fixed term of 16 months.
- **Servers** – Hardware servers are leased to support operational activity. The lease term commenced on the 1 November 2017 and was for a period of 36 months. The Group acquired this lease on acquisition of InfoChem on the 15 March 2019. The term auto renews for a period of 12 months if notice of termination is not served. It has been assessed that the lease will run for an additional 12 months from the end of the original contract term.
- **Vehicles** – Vehicles are leased over 3-year contractual terms. Vehicles leases were acquired on the acquisition of InfoChem.

The lease agreements above do not impose any covenants and leased assets may not be used as security for borrowing purposes.

Prior to 2019, the Group only had operating lease contracts with terms of less than or equal to 12 months. IFRS 16 was adopted in the year and leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments, less any lease incentive receivable; and
- Payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the Group's weighted average incremental borrowing rate of 3.5% is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The Group is exposed to potential future increases in variable lease payments in respect of the offices based on rent reviews which are not included in the lease liability until they take effect. When adjustments to lease payments take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liability.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases of equipment and all leases of low-value assets are recognised on a straight-line basis as an expense in the Consolidated Statement of Comprehensive Income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of hardware equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2019

15. Intangible Assets

	Notes	Patents & Licences £'000	Customer Relationships £'000	Technology Assets £'000	Goodwill £'000	Total £'000
Cost						
At 31 December 2017		845	-	-	4,123	4,968
At 31 December 2018		845	-	-	4,123	4,968
Acquisition of subsidiary	24	-	378	1,029	720	2,127
Foreign currency translation		-	(1)	(4)	(3)	(8)
At 31 December 2019		845	377	1,025	4,840	7,087
Amortisation						
At 31 December 2017		10	-	-	-	10
Amortisation for year		44	-	-	-	44
At 31 December 2018		54	-	-	-	54
Amortisation for year		44	31	344	-	419
Foreign currency translation		-	(1)	(18)	-	(19)
At 31 December 2019		98	30	326	-	454
Net Book Value						
At 31 December 2018		791	-	-	4,123	4,914
At 31 December 2019		747	347	699	4,840	6,633

During the year, InfoChem was acquired for a consideration of £2.031m and intangible assets were recognised upon determining the fair value of the net assets. Technology assets totalling £1,029,000 were recognised at the date of acquisition reflecting core cheminformatics technologies and customer relationships were valued at £378,000. The details of the intangible assets acquired, and their estimated useful economic lives are as follows:

- £261,000 reflecting technology which extracts chemical meta-data from papers and patents with multi-lingual support. The technology asset is being amortised over a 2-year economic useful life.
- £175,000 assigned in respect of the ICSynth technology platform which is being amortised over a 1-year economic useful life.
- £593,000 assigned to license rights for a chemical reaction database which is being amortised over a 5-year economic useful life.
- £378,000 has been assigned to customer relationships due to recurring software license sales is being amortised over a 10-year economic useful life.

The only other licence assets held at 31 December 2019 are that of a technology licence agreement with the University of Glasgow, which is being amortised over a 20 year useful economic life, together with licences relating to a one-point-of-control technology asset platform developed by OpenIOLabs, which are also being amortised over a 20 year useful economic life.

Cash Generating Units (CGUs)

The Group tests goodwill and intangible technology assets allocated to cash generating units annually by comparing the recoverable amount of the unit with the carrying amount of the unit. The recoverable amount is determined based on estimated value in use calculated using a discounted cash flow model which is dependent on the timing and amount of forecast sales and when relevant regulatory approvals are achieved.

For the year ending 31 December 2019, the Group has identified two cash generating units within the Group. The CGU of Deepmatter encompasses the trade of DML and the remaining technology assets of OpenIOLabs. The CGU of InfoChem encompasses the trade of InfoChem.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2019

DeepMatter CGU

Where practical, forecasts are prepared over the expected life cycle of the Group's proposed products based on management's current project plans for the next five years. The forecasts are not based on past experience owing to the early stage development of the project. The recoverable amount is most sensitive to the discount rate used in the discounted cash flow model (a pre-tax discount rate of 13.5% has been used) as well as the expected future cash flows and the multiple of year five cash flows used in determining the estimated terminal value at that date (a multiple of 10 has been used). The Group have considered sensitivities in regard to the assumptions used and have reviewed both the discount factor and multiple of earnings. A variation in the discount rate of 38.5% would be required to indicate an impairment on the carrying value of goodwill and intangible asset of £4,870,000.

The Directors acknowledge that whilst both DML and OpenIOLabs are still at an early stage of development, there is material uncertainty regarding the valuation of this goodwill based on any estimate of the net present value of the subsidiary entities' future cash flows. This material uncertainty arises because of the unpredictability of the timing and amount of any revenue cash flow receipts or the full cost base cash outflows required to generate such revenues.

InfoChem CGU

Forecasts are prepared covering the next five years and are prepared based on management's current project plans for the next five years. As InfoChem was acquired in March 2019, the forecasts are not based on experience and are based on market and product knowledge. The recoverable amount is most sensitive to the discount rate used in the discounted cash flow model (a pre-tax discount rate of 22% has been used) as well as the expected future cash flows and the multiple of year five cash flows used in determining the estimated terminal value at that date (a multiple of 10 has been used). The Group have considered sensitivities in regard to the assumptions used and have reviewed both the discount factor and multiple of earnings. A variation in the discount rate of 25% or a drop of 7 in the terminal exit multiplier would be required to indicate an impairment on the carrying value of goodwill and intangible asset of £1,766,000

The Directors acknowledge that whilst InfoChem is an established company with recurring revenue streams, there is material uncertainty regarding the valuation of this goodwill based on any estimate of the net present value of the subsidiary entity's future cashflows. This material uncertainty arises due to the unpredictability of the timing of revenues and uncertainty regarding the commercialisation of the technologies acquired.

The Directors will continue to review the progress of the subsidiary entities in following the Group roadmap to the digitisation of chemistry and the pursuit of opportunities to commercialise its platform technology. In the event that any impairment to goodwill is in fact required in the future, this would result in a non-cash impairment charge through the consolidated statement of comprehensive income and with a corresponding reduction to intangible assets and goodwill in the statement of financial position.

16. Trade and other Receivables

	2019 £'000	2018 £'000
Current:		
Trade receivables	289	–
Other receivables	111	122
Prepayments	32	30
	432	152

Ageing of trade receivables

	Current	More than 30 days past due	More than 60 days past due	More than 120 days past due	Total
31 December 2019					
Gross carrying amount of trade receivables	259	34	–	–	293
Impairment provision	–	(4)	–	–	(4)
Net carrying value of trade receivables	259	30	–	–	289

The Directors consider that the carrying amount of trade and other receivables approximates to their fair values. There was a provision of £4,000 (2018: £nil) for impairment in respect of trade receivables at the 31 December 2019. The credit quality of those trade receivables not past due and not impaired is considered good.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2019

17. Cash and Cash Equivalents

	2019	2018
	£'000	£'000
Cash at bank and in hand	2,607	1,086
Denominated in UK Sterling	2,415	1,086
Denominated in Euros	192	–
Cash at bank and in hand	2,607	1,086

18. Trade and other Payables

	2019	2018
	£'000	£'000
Current:		
Trade payables	24	81
Social security and other taxes	57	36
Accrued expenses and other creditors	288	228
Deferred Income	95	–
	464	345

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. They are non-interest bearing and are normally settled on 30-45 day terms.

The Directors consider that the carrying amounts of trade and other payables approximates to their fair values.

19. Called-up Share Capital

Allotted, issued and fully paid ordinary shares of £0.0001:	No. of Shares	£'000
At 31 December 2018	550,748,266	55
Issue of consideration shares on acquisition of Infochem	25,600,000	3
Issue of placing shares	160,185,680	16
At 31 December 2019	736,533,946	74

No share options were exercised in the year ending 31 December 2019. 8,333 shares were issued during the year ending 31 December 2018 on the exercise of options by employees who left the Group.

20. Loss per share

Basic loss per share is based on the loss after tax for the year and the weighted average number of ordinary shares of £0.0001 each in issue during the year. Diluted loss per share is calculated by adjusting the average number of ordinary shares in issue during the period to assume conversion of all dilutive potential ordinary shares. The Company had a total of 74,015,278 potentially issuable dilutive ordinary shares in existence at the 31 December 2019 period end, (2018: 23,816,667), comprised of 9,215,278 share options, 22,000,000 deferred consideration shares issued in relation to the acquisition of OpenOLabs and 42,800,000 deferred consideration shares issued in relation to the acquisition of InfoChem (see note 24). The 74,015,278, potentially issuable dilutive shares have not been included in the calculations below due to their potential issuance having an effect to reduce loss per share attributable to equity holders.

	2019	2018
Continuing operations		
Loss attributable to equity holders of the Group (£'000)	(3,017)	(1,813)
Weighted average number of shares in issue	699,838,689	550,743,326
Basic and diluted loss per share (pence)	(0.43)	(0.33)
Total operations		
Loss attributable to equity holders of the Group (£'000)	(2,981)	(1,917)
Weighted average number of dilutive shares in issue	699,838,689	550,743,326
Basic and diluted loss per share (pence)	(0.42)	(0.35)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2019

21. Reserves

Details of the movements in reserves are given in the Statement of Changes in Equity. A description of each reserve is set out below.

Share premium

The share premium account is used to record the aggregate amount or value of premiums paid when the Company's shares are issued at a premium.

During the year, the reserve increased by £3.85m following a placing of shares with a nominal value of £0.02m. The increase to the share premium account was offset by £0.15m of costs incurred in raising the proceeds of £4.0m.

Merger Reserve

The merger reserve arose on the acquisition of DML under section 612 of the Companies Act 2006 as shares with a nominal value of £0.002m were issued for a total of £4.9m as consideration.

The reserve was further increased in November 2017 upon the acquisition of OpenIOLabs as shares with a nominal value of £0.002m were issued for a total of £0.46m as consideration.

In the current year, the reserve increased further upon the acquisition of InfoChem as shares with a nominal value of £0.003m were issued for a total consideration of £0.64m.

Shares to be issued reserve

The shares to be issued reserve arose on the acquisition of OpenIOLabs and has been used to record the fair value at the acquisition date of the 22 million potentially issuable deferred consideration shares in connection with that acquisition.

The reserve increased further to record the fair value of the 42.8 million potentially issuable deferred consideration shares in connection with the acquisition of InfoChem, see note 24 for more details.

Foreign Currency Translation Reserve

The foreign currency translation reserve arose on the acquisition of InfoChem. The results and financial position of InfoChem are translated into the Group's presentation currency as follows;

- Assets and liabilities are translated at the closing rate at the date of the statement of financial position; and
- Income and expenses are translated at average exchange rates.

All resulting exchange differences are recognised in the foreign currency translation reserve.

22. Financial Risk Management

Objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies, as laid out in the Strategic Report. The following information lays out the exposure the Group has to financial instruments.

Capital risk management

The Group's capital is comprised of issued ordinary shares of £0.0001 per share and reserves. The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders. This is achieved through careful investment of surplus cash balances and tight budgetary control.

Significant accounting policies

Details of significant accounting policies and methods adopted, including criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 5 to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2019

Categories of financial instrument

	Financial asset at amortised cost £'000	Financial liabilities at amortised cost £'000	Financial assets at fair value through OCI £'000	Total £'000
At 31 December 2018				
Investments	–	–	3	3
Trade and other receivable	152	–	–	152
Cash and cash equivalents	1,086	–	–	1,086
Trade and other payables	–	(345)	–	(345)
Current lease liabilities	–	–	–	–
Non-current lease liabilities	–	–	–	–
Net Total	1,238	(345)	3	896
At 31 December 2019				
Investments	–	–	3	3
Trade and other receivables	432	–	–	432
Cash and cash equivalents	2,607	–	–	2,607
Trade and other payables	–	(464)	–	(464)
Current lease liabilities	–	(123)	–	(123)
Non-current lease liabilities	–	(61)	–	(61)
Net Total	3,039	(648)	3	2,394

All financial liabilities for both the Group and the Company are payable on demand. The amounts reflected above represent the Group's maximum exposure to credit risk for such loans and receivables. There were no out of term financial assets or liabilities.

Liquidity risk

The Directors acknowledge that there is a need to raise funding through an equity placing or debt financing in the next 12 months. The Group has a cash balance of £2.61m at 31 December 2019 and the Directors are confident that subject to raising funds or making day-to-day reductions to the working capital base that the risk to the liquidity of the Group is managed.

Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers. For banks and financial institutions only independently rated parties with sound credit ratings are used. For credit exposures to customers the Group assesses the likelihood of payment from various factors including external credit ratings, financial records and other relevant factors.

Interest Rate Sensitivity

The interest rate sensitivity of the consolidated loss for the year and equity to a reasonably possible change in interest rates of 1% with effect from the beginning of the year is illustrated below. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's cash and cash equivalents held at the balance sheet date. All other variables are held constant. Note that the impact of a fall in rates is limited to the amount of interest earned during the year.

	Year to 31 December 2019		Year to 31 December 2018	
	+1% £'000	-1% £'000	+1% £'000	-1% £'000
Interest Rate Sensitivity				
Loss for year	18	(18)	22	(12)
Equity	18	(18)	22	(12)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2019

23. Share-based payments

The company operates a share option scheme for the benefit of employees and share options are granted to certain eligible employees. The exercise price of the options is equal to the market price of the shares on the date of grant. All options are equity settled and usually vest over a period of up to 3 years. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. The options are accounted for as equity settled share based payment transactions. Options are forfeited if the employee leaves the Group before the options vest.

On 11 March 2019, options were granted to Mark Warne over 25,000,000 ordinary shares at an exercise price of 2.5 pence, reflecting the 2.5 pence issue price of the placing of shares issued between the 12 and 13 March 2019 to raise gross cash proceeds of £4 million. Provided Mark remains an employee, his options vest over 36 months starting from the commencement of his employment but subject to specific share price triggers being reached.

Share Price Trigger (£)	Number of plan shares in respect of which the options may be exercised	Fair Value of options granted (pence)
None	3,750,000	2.54
0.04	3,750,000	1.39
0.06	3,750,000	1.34
0.08	3,750,000	1.23
0.10	3,750,000	1.46
0.12	1,250,000	1.46
0.14	1,250,000	1.46
0.16	1,250,000	1.66
0.18	1,250,000	1.66
0.20	1,250,000	1.66

All unexercised options lapse after 10 years from the date of grant. No other directors have been granted share option awards.

At 31 December 2019, there were 26,736,667 (2018: 1,816,667) share options in issue at a weighted average exercise price ("WAEP") of 2.02 pence as illustrated in the following table of movements in share options during the year:

	2019		2018	
	Number	WAEP pence	Number	WAEP pence
Outstanding at 1 January	1,816,667	2.13	1,936,667	2.13
Granted during the year	25,000,000	2.50	–	–
Exercised during the year	–	–	(8,333)	2.13
Forfeited	(80,000)	2.13	(71,667)	2.13
Lapsed	–	–	(40,000)	2.13
Outstanding at 31 December	26,736,667	2.02	1,816,667	2.13

Of the 26,736,667 share options outstanding, 9,215,278 were exercisable as at 31 December 2019 (2018: 1,257,870).

The assessed fair value at grant date of options granted during the year ended 31 December 2019 is shown above for each tranche of share options which would be granted on the share price performance trigger being reached. The fair value at grant date has been determined using a binomial tree approach that takes into account the exercise price, the term of the option, the share price at grant date, the expected price volatility of the underlying share and the risk-free interest rate for the term of the option. The model inputs for options granted during the year ended 31 December are as follows;

	Granted on 11 March 2019	Granted on 1 December 2017
Expected share price volatility	62%	68%
Risk free interest rate	1.4%	2.0%
Dividend yield	0.0%	0.0%
Weighted average exercise price (pence)	2.5	2.13
Weighted average share price at date of grant (pence)	3.7	2.13

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2019

The expected life of the options is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The fair value of equity-settled share options granted are recognised as an expense in the statement of comprehensive income over the assumed period to exercise of the award, with a corresponding credit to retained earnings. The expense so recognised in the year ended 31 December 2019 amounted to £278,000 (2018: £6,000).

24. Acquisition of InfoChem

On 15 March 2019, the Company completed the acquisition of 100% of the issued share capital of InfoChem from Springer-Verlag GmbH ("Springer Nature") for a maximum consideration of £2.031 million, satisfied by payment of a cash component of £321,000 (€374,000), together with the issue of up to 68.4 million of the Company's ordinary shares, of which 25.6 million ordinary shares were issued on completion at 2.5 pence per share for a value of £640,000. The balance of 42.8 million ordinary shares (the "Deferred Shares") are issuable no earlier than 18 months after the acquisition date (once the period for warranty claims has expired) and provided that no warranty claims have been made. In the event of a warranty claim, the Company is able to cancel Springer Nature's right to the number of Deferred Shares as are necessary to satisfy the claim in full. The fair value of the Deferred Shares contingent consideration has been determined as £1,070,000 and is based on the acquisition date fair value of the shares of 2.5 pence per share and assumes that there will be no warranty claims during the warranty period.

The fair market price of the Company's shares on completion of the InfoChem acquisition has been determined at 2.5 pence per share. This 2.5 pence share price is considered to be the best estimate of fair value for a transaction of the size of the InfoChem acquisition and reflects the 2.5 pence share price that was paid by investors under the £4 million fund raise that was completed by the Company on 13 March 2019. This price has, therefore been used in the valuation of the InfoChem share consideration, rather than use of the higher AIM quoted mid-market price of 3.45 pence per share at the close of the AIM market on 14 March 2019 prior to completion of the acquisition, and which reflected a small volume of AIM market share trades around that time.

InfoChem is a company registered in Germany based in Munich which has extensive scientific expertise and a long tradition in developing successful software solutions for handling retrieval, structures and reactions. Its established base of users is in the same industries as those being targeted by the Company. The Directors anticipate that the integration of InfoChem will assist in the accelerated development of the DigitalGlassware™ platform and the shared customer base will provide an additional sales channel.

The acquisition of InfoChem was accounted for using the acquisition method of accounting. Details of the purchase consideration, the net assets acquired and the goodwill are as follows:

	£000
Cash	586
Trade receivables	74
Intangible asset	1,407
Fixed assets	33
Right-of-use assets	183
Other current assets	155
Other liabilities	(430)
Current lease liabilities	(112)
Deferred tax liability	(512)
Non-current lease liabilities	(73)
Net assets acquired	1,311
Goodwill	720
Fair value of consideration transferred	(2,031)
Satisfied by:	
Cash paid on completion	321
Ordinary shares issued on completion	640
Deferred shares contingent consideration	1,070
Total consideration	2,031

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2019

The above values of net assets and liabilities on acquisition of the subsidiary have been reviewed and aligned with Group adopted accounting policies to present the fair value amount.

The goodwill of £720,000 arising on the acquisition of InfoChem is largely attributable to the synergy of a cheminformatics business rich in chemical knowledge and technology with the DigitalGlassware™ platform. The activities of InfoChem are aligned with those of the Group and the existing technology and specialist skills within InfoChem bolster the strength of the Group.

The directors have determined that the fair value of intangible assets at the point of acquisition as follows;

- £261,000 reflecting technology which extracts chemical meta-data from papers and patents with multi-lingual support. The technology asset is being amortised over a 2-year economic useful life.
- £175,000 assigned in respect of the ICSynth technology platform which is being amortised over a 1-year economic useful life.
- £594,000 assigned to license rights for a chemical reaction database which is being amortised over a 5-year economic useful life.
- £378,000 has been assigned to customer relationships due to recurring software license sales which is being amortised over a 10-year economic useful life.

The fair value of acquired trade receivables is £74,000. The gross contractual amount for trade receivable due is £75,000 with a loss allowance of £1,000 recognised on acquisition.

InfoChem contributed revenues of £1,156,000 and net loss of £618,000 to the group for the period from 15 March to 31 December 2019. If the acquisition had occurred on 1 January 2019, consolidated pro-forma revenue and loss for the year ended 31 December 2019 would have been £1,523,000 and £464,000 respectively. These amounts have been calculated using the subsidiary's results and adjusting them for differences in the accounting policies between the Group and the subsidiary, and the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2019.

The Group incurred £94,000 of third-party acquisition related costs in respect of this acquisition. These expenses have been included in professional fees within administrative expenses in the Group's consolidated statement of comprehensive income for the period ended 31 December 2019 with £67,000 having been accrued at 31 December 2018.

25. Divestment of Scanning Ion Conductance Microscope ("SICM") trade

On 15 January 2019, the SICM trade of OpenIOlabs was sold to Scientific Digital Imaging Plc by way of an asset purchase agreement for a cash consideration of £49,220 and which after allowing for the net assets sold and the costs of disposal, generated a profit of approximately £14,000 on disposal. OpenIOlabs was acquired in November 2017 to complement the strategic digitisation of chemistry operations of the Group by securing its one point of control technology platform developed to bridge the language and compatibility gap between various hardware and software systems. The SICM trade has never been part of the continuing operations of the Group.

The results of the discontinued SICM operations, which have been separately disclosed after tax in the Group's consolidated statement of comprehensive income, were as follows:

	2019 £'000	2018 £'000
Revenue	–	170
Expenses	(7)	(383)
Other income	36	–
Profit/(Loss) before tax	29	(213)
Attributable tax (charge)/credit	(7)	109
Net loss attributable to discontinued operations	(22)	(104)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2019

26. Related Parties and Directors' Transactions

Group

Bettina Goerner joined the Board of the Company as a Non-Executive Director on the acquisition of InfoChem from Springer Nature in March 2019. Bettina Goerner continues to serve as a Managing Director of Springer Nature and no amounts were paid to Springer Nature in respect of Bettina Goerner's services in the year ending 31 December 2019.

The Group has paid companies that are part of IP Group, a significant shareholder, £20,620 in respect of the provision of administrative services (2018: £14,395). There were no amounts outstanding at the end of the year (2018: £nil).

The Group paid £12,800 (2018: £14,500) to Cleevely & Partners Ltd, a company owned by David Cleevely, a former non-executive Director who stepped down from the Board on the 12 April 2019. There were no amounts outstanding at the end of the year (2018: £nil).

The Group recognised sales of £246,000 (2018: £nil) in respect of the 'Services Agreement' between InfoChem and Springer Group companies. There was £17,000 outstanding at the end of the year (2018: £nil.)

The Group paid £108,000 (2018: £nil) in respect of the receipt of administrative services as agreed in the 'Transition Services Agreement' between InfoChem and Springer Nature AG & Co KGaA and Springer-Verlag GmbH. There were no amounts outstanding at the end of the year (2018: £nil).

Key employees

At the year-end, the Directors did not consider any employees to be key management to the Group other than the Chairman, Executive Directors and Non-Executive Directors who served during the period. Details of the remuneration paid to each Director is presented in the Directors' Report on page 8.

27. Post Balance Sheet Event

Subsequent to the 31 December 2019, the current COVID-19 situation developed in the first quarter of 2020 and continues to prevail. As a response to COVID-19, the Governments in both the UK and Germany introduced lock-down measures which the Group complied with in the interests of the well-being of staff and wider stakeholders.

The estimate of the financial effect of COVID-19 on the current financial year cannot be made. However, the Group has utilised appropriate Government support schemes in both the UK and Germany to efficiently manage the cost base. In this period of uncertainty, it is likely that the potential to grow the Group's sales in the immediate future may be more challenging as pharmaceutical companies reduce R&D spend as they reevaluate budgets in response to the COVID-19 pandemic.

Credit risk from customers has not increased from that experienced throughout 2019. 100% of the outstanding trade receivables balance of £289,000 on 31 December 2019 has been recovered subsequent to the year end.

The liquidity impact of COVID-19 to the Group is monitored and the Directors are cognisant of the need to raise additional funds within the next 12 months, through equity-based investor funding or debt financing, based on the predicted cash outflows of the Group. The uncertainty over the timing of a fundraise is increased during COVID-19. To mitigate this uncertainty, the Directors have a reasonable expectation that changes can be made to reduce the day-to-day working capital costs of the Group to ensure the Group has adequate resources to continue in operational existence for the foreseeable future.

28. Ultimate Controlling Party

In the opinion of the Directors, there is no ultimate controlling party.

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	At 31 December 2019 £'000	At 31 December 2018 £'000
Assets			
Non-current assets			
Investments	C2	7,605	5,569
		7,605	5,569
Current assets			
Trade and other receivables	C4	4,975	3,289
Cash and cash equivalents		2,318	1,027
		7,293	4,316
Liabilities			
Current liabilities			
Trade and other payables	C5	(89)	(132)
Net current assets		7,204	4,184
Net assets		14,809	9,753
Shareholder's equity			
Called up share capital	19	74	55
Share premium	21	7,136	3,287
Merger reserve	21	5,971	5,334
Shares to be issued reserve	21	1,274	204
Retained earnings		354	873
Total equity attributable to shareholders of the Company		14,809	9,753

The Company has taken advantage of Section 408 of the Companies Act 2006 and has not included its own statement of comprehensive income in these financial statements. The parent Company's loss for the year to 31 December 2019 was £797,000 (2018: £392,000).

The financial statements were approved by the Board of Directors on 28 May 2020 and were signed on its behalf by:

Lauren Lees
Director

Company Number: 05845469

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Share equity £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Shares to be issued reserve £'000	Total equity £'000
Balance at 31 December 2017	55	3,287	5,334	1,259	204	10,139
Total comprehensive loss for the year to 31 December 2018	-	-	-	(392)	-	(392)
Transactions with owners:						
Share based payment charge	-	-	-	6	-	6
Balance at 31 December 2018	55	3,287	5,334	873	204	9,753
Total comprehensive loss for the year to 31 December 2019	-	-	-	(797)	-	(797)
Transactions with owners:						
Share based payment charge	-	-	-	278	-	278
Issue of shares for cash	16	3,849	-	-	-	3,865
Shares issued and issuable on acquisition of subsidiary	3	-	637	-	1,070	1,710
Balance at 31 December 2019	74	7,136	5,971	354	1,274	14,809

COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019	2018
	£'000	£'000
Loss before tax	(797)	(392)
Share based payment charge	278	6
Finance Income	(22)	(12)
Net impairment losses on financial assets	197	–
Operating cash outflows before movements in working capital	(344)	(398)
Increase in trade and other receivables	(1,884)	(1,787)
(Decrease)/Increase in trade and other payables	(43)	71
Cash used in operations	(2,271)	(2,114)
Interest received	22	12
Net cash used in operating activities	(2,249)	(2,102)
Payment for acquisition of subsidiary	(321)	–
Investment in subsidiary undertaking	(4)	(6)
Cash used in investing activities	(325)	(6)
Proceeds from the issue of share capital	4,005	–
Transaction costs arising from issue of share capital	(140)	–
Cash from financing activities	3,865	–
Increase/(decrease) in cash and cash equivalents	1,291	(2,108)
Cash and cash equivalents at beginning of year	1,027	3,135
Cash and cash equivalents at end of year	2,318	1,027

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2019

C1. Basis of preparation

The Company separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention and all values have been rounded to the nearest thousand, except where otherwise indicated. The Company's functional currency is Sterling.

The principal accounting policies adopted are the same as for those set out in the Group financial statements.

Investments in subsidiaries

Investments in subsidiaries are stated in the Company statement of financial position at cost less provision for any impairment. Any impairment is charged to the Company income statement.

C2. Investments

	Notes	Shares in subsidiary undertakings £'000	Other Investments £'000	Total £'000
Cost				
At 31 December 2017		5,560	3	5,563
Additions		6	–	6
At 31 December 2018		5,566	3	5,569
Additions		5	–	5
Acquisition of subsidiary	24	2,031	–	2,031
At 31 December 2019		7,602	3	7,605
Impairment				
At 31 December 2017		–	–	–
Impairment		–	–	–
At 31 December 2018		–	–	–
Impairment		–	–	–
At 31 December 2019		–	–	–
Net book value				
At 31 December 2018		5,566	3	5,569
At 31 December 2019		7,602	3	7,605

The directors have considered whether there are any indicators of impairment to the Shares in Subsidiary Undertakings investment figure of £7,602,000 and concluded that no impairment charge is required.

The directors acknowledge, however, that there is considerable uncertainty regarding the valuation of this investment balance based on any estimate of the net present value of the future cash flows of the two Cash Generating Units of DeepMatter and InfoChem. See note 15 to the Group financial statements for further details.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

As at 31 December 2019, details of the Company's subsidiaries are as follows:

Name of Company	Holding	% of shares held	Nature of business	Registered Office Address
DeepMatter Limited (incorporated in Scotland)	Ordinary	100	Digitisation of chemical space and chemical discovery	38 Queen Street, Glasgow, Scotland, G1 3DX
OpenIOLabs Limited (incorporated in England & Wales)	Ordinary	100	Open source one point of control systems	St Brandon's House, 29 Great George Street, Bristol, BS1 5QT
InfoChem GmbH (incorporated in Munich, Germany)	Ordinary	100	Digitisation of chemical space and chemical discovery	Aschauer Str. 30, Munich, Germany) 81549 München, Germany
Deepmatter Tech Limited (incorporated in England & Wales)	Ordinary	100	Dormant subsidiary	St Brandon's House, 29 Great George Street, Bristol, BS1 5QT

C3. Information regarding parent company employees

The only employees of the parent company are 6 (2018: 6) of the 8 Directors who served during the year. Details of the Directors' emoluments paid to those Directors is as follows:

	2019 £'000	2018 £'000
Salaries and fees	208	161
Pension contributions	8	4
Social security costs	23	13
Directors remuneration	239	178

C4. Trade and Other Receivables

	2019 £'000	2018 £'000
Current:		
Intercompany receivables	4,969	3,274
Other receivables	–	6
Prepayments	6	9
	4,975	3,289

The Directors acknowledge that there is uncertainty over recoverability of the intercompany receivables balance, as it relies upon the underlying future trading performance of the subsidiaries, which can not be forecast with a high degree of accuracy.

C5. Trade and Other Payables

	2019 £'000	2018 £'000
Current:		
Trade payables	15	3
Social security and other taxes	7	10
Accrued expenses	54	119
Other payables	13	–
	89	132

The Directors consider that the carrying amounts of trade and other payables approximates to their fair values.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

C6. Share Capital

The movement in share capital for the Company is detailed in note 19 to the Group financial statements.

C7. Other Reserves

The movement on all other company reserves is detailed in the statement of changes in equity.

C8. Related Party Transactions

For the period ending 31 December 2019, the intercompany receivable increased by £1.7m to £5.0m (2018: £3.3m). This increase is reflective of the investment made in progressing the DigitalGlassware™ platform.

£219,000 (2018: £60,000) was recognised by the Company in respect recharges to Group entities. £53,000 was outstanding from Group entities at the end of the year (2018: £30,000).

A credit loss provision of £197,000 (2018: £nil) was recognised under IFRS 9 in the year to 31 December 2019 in respect of the intercompany receivable due from OpenIOLabs.

Further details of the related party transactions and balances are included in note 26 to the Group financial statements.

C9. Financial Risk and Capital Management

Financial risk and capital management is managed at a Group level, which is considered appropriate given the similar nature of both the Group and Company statements of financial position. Please refer to note 22 to the Group financial statements.

	Financial assets at amortised cost £'000	Financial liabilities at amortised cost £'000	Financial assets at fair value through OCI £'000	Total £'000
At 31 December 2018				
Investments	–	–	3	3
Trade and other receivables	3,289	–	–	3,289
Cash and cash equivalents	1,027	–	–	1,027
Trade and other payables	–	(132)	–	(132)
Net Total	4,316	(132)	3	4,187
At 31 December 2019				
Investments	–	–	3	3
Trade and other receivables	4,975	–	–	4,975
Cash and cash equivalents	2,318	–	–	2,318
Trade and other payables	–	(89)	–	(89)
Net Total	7,293	(89)	3	7,207

All financial liabilities for the Company are payable on demand.

Impairment of financial assets

The Company applies IFRS 9 to measuring expected credit losses relating to intercompany loans advanced to Group Companies.

The loss allowance recognised in the year was £197,000 (2018: £nil).

Impairment losses on receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting ("**Meeting**") of DeepMatter Group Plc (the "company") will be held at St Brandon's House, 29 Great George Street, Bristol, BS1 5QT at 11.00 a.m. on Thursday 25 June.

Currently, a quorum of two shareholders is required to attend in person, to be satisfied by the Chairman of the Meeting (the "**Chairman**") and another Director or the Company Secretary, although should the Government relax this requirement, or other measures be necessary, alternative arrangements will be considered.

The health of the Company's shareholders and its employees is of paramount importance. Due to the COVID-19 crisis, shareholders are required to follow the latest 'stay-at-home' measures and Government guidance in respect of public gatherings and therefore are instructed that they should not attend the AGM in person but instead submit their votes by proxy, with all votes to be routinely dealt with by way of a poll. Shareholders may ask questions in advance of the meeting by emailing AGM@deepmatter.io, with responses to be set out on the Company's investor website at www.deepmattergroup.com following the publication of the results of the AGM. Questions must be received no later than 11.00 a.m. on Tuesday 23 June 2020.

Non-Executive Director and Chairman of the Board James Ede-Golightly has today announced his intention to resign from the Board to focus on his other business interests. His resignation will come into effect following the Company's AGM. The Board would like to thank James for his contributions to the Company.

ORDINARY BUSINESS

1. Report and accounts

To receive and consider the Directors' Report, the audited consolidated Financial Statements and Independent Auditors' Report for the year ended 31 December 2019.

2. Re-appointment of a director

To consider and, if thought fit, to approve the re-appointment of Laurence Ede as a director of the Company, who retires pursuant to the Article 134 of the Articles of Association of the Company (the "**Articles**") and who is recommended by the board of directors of the Company (the "Board") for re-appointment.

3. Re-appointment of a director

To consider and, if thought fit, to approve the re-appointment of Lauren Lees as a director of the Company, who retires pursuant to the Article 129 of the Articles and who is recommended by the Board of directors of the Company for re-appointment.

4. Re-appointment of auditors

To consider and, if thought fit, to approve the re-appointment of Nexia Smith & Williamson as independent auditors of the Company and to authorise the Board to determine their remuneration.

SPECIAL BUSINESS

As special business to consider and, if thought fit, pass the following resolutions, of which resolutions 5 and 6 will be proposed as an ordinary resolution and resolution 7 will be proposed as special resolution:

5. Approval of Employee Share Plan

To consider and, if thought fit, to approve:

- 5.1 the rules of the Share Option Plan 2017 (the "Plan") which was recommended by resolution of the Board on 1 December 2017, the principal terms of which remain unchanged and are summarised in the Annex to the Notes, and under which 26,745,000 options which remain live have been granted to date. The rules of the Plan are produced to the meeting and signed by the Chairman of the meeting for the purposes of identification; and
- 5.2 the restatement of the share option pool to up to 12% of the issued share capital of the Company as at 6 p.m. on 28 May 2020.

NOTICE OF ANNUAL GENERAL MEETING

(CONTINUED)

6. Directors' authority to allot shares

- 6.1 That the Directors be generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the "2006 Act") to exercise all the powers of the Company to allot and make offers to allot Relevant Securities (as defined below):
- 6.1.1 comprising equity securities (as defined by section 560 of the 2006 Act) up to an aggregate nominal amount of £49,102.26 (such amount to be reduced by the nominal amount of any Relevant Securities allotted under paragraph 6.1.2 below) in connection with an offer by way of a rights issue:
- (i) to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings; and
 - (ii) to holders of other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary, but subject to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and
- 6.1.2 in any other case, up to an aggregate nominal amount of £23,759.35 such amount to be reduced by the nominal amount of any equity securities allotted under paragraph 6.1.1 above in excess of £25,342.91, provided that (unless previously revoked, varied or renewed) this authority shall expire 15 months from the date of passing this resolution, or, if earlier, the conclusion of the next Annual General Meeting of the Company held after the passing of this resolution save that the Company may before such expiry make an offer or enter into an agreement which would or might require Relevant Securities to be allotted after such expiry and the Directors may allot Relevant Securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.
- 6.2 This resolution revokes and replaces all unexercised authorities previously granted to the Directors to allot Relevant Securities but without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities.
- 6.3 For the purposes of this resolution, a "Relevant Security" is:
- 6.3.1 a share in the Company other than a share allotted pursuant to:
- (i) an employee share scheme (as defined by section 1166 of the 2006 Act);
 - (ii) a right to subscribe for a share or shares in the Company where the grant of the right itself constituted a Relevant Security under paragraph 6.3.2 below; or
 - (iii) a right to convert securities into a share or shares in the Company where the grant of the right itself constituted a Relevant Security under paragraph 6.3.2 below.
- 6.3.2 any right to subscribe for or to convert any security into a share or shares in the Company other than a right to subscribe for or convert any security into a share or shares allotted pursuant to an employee share scheme (as defined by section 1166 of the 2006 Act).
- 6.4 References to the allotment of "Relevant Securities" in this resolution shall be construed accordingly.

7. Disapplication of statutory pre-emption rights

- 7.1 That subject to the passing of resolution 6 above, the Directors of the Company be authorised and empowered pursuant to section 570 of the 2006 Act to allot equity securities (as defined by section 560 of the 2006 Act) for cash, either pursuant to the authority conferred by resolution 6 or by way of a sale of treasury shares, as if section 561(1) of the 2006 Act did not apply to any such allotment, provided that such power is limited to:
- 7.1.1 the allotment of equity securities in connection with an offer by way of a rights issue:
- (i) to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings; and
 - (ii) to holders of other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary, but subject to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and
- 7.1.2 the allotment of equity securities (otherwise than pursuant to paragraph 6.1.1 above) up to a maximum aggregate nominal amount of £14,730.68.

- 7.2 This authority shall expire 15 months from the date of passing this resolution, or, if earlier, the conclusion of the next Annual General Meeting of the Company held after the passing of this resolution, provided that the Company may, before the expiry of this power, make an offer or agreement which would or might require equity securities to be allotted after the expiry of this power and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power had not expired.
- 7.3 This resolution revokes and replaces all unexercised authorities previously granted to the Directors to allot equity securities but without prejudice to any allotment of equity securities already made, offered or agreed to be made pursuant to such authorities.

On behalf of the Board

Lauren Lees

Company secretary

28 May 2020

DeepMatter Group Plc
St Brandon's House
29 Great George Street
Bristol
BS1 5QT

EXPLANATORY NOTES

Entitlement to attend and vote

1. The Company specifies that only those members registered on the Company's register of members at:
 - 11.00 a.m. on 23 June 2020; or,
 - if this Meeting is adjourned, at 11.00 a.m. on the day two working days prior to the adjourned meeting (not counting non-working days),

shall be entitled to vote at the Annual General Meeting (the "Meeting").

Appointment of proxies

2. If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint one or more proxies to exercise all or any of your rights to attend, speak and vote at the Meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
3. A proxy must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting (the "Chairman") or another member of the Company who will be in attendance at the Meeting as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the Meeting you will need to appoint another member of the Company that will be in attendance at the Meeting (not the Chairman) and give your instructions directly to them.
4. A vote withheld will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy may vote or abstain from voting at his or her discretion. Your proxy may vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.

Appointment of proxy using hard copy proxy form

5. The notes to the proxy form explain how to direct your proxy to vote on each resolution or withhold their vote.

To appoint a proxy using the proxy form, the form must be:

- completed (although no voting indication need be given if you wish your proxy to exercise their discretion) and signed;
- sent or delivered to Neville Registrars, Neville House, Steelpark Road, Halesowen, B62 8HD; and received by Neville Registrars no later than 11.00 a.m. on 23 June 2020 .

In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by a duly authorised officer of the company or an attorney for the company.

Any power of attorney or any other authority under which the proxy form is signed (or a copy of such power or authority certified notarially or in some other way approved by the board of directors of the Company) must be included with the proxy form.

Appointment of proxy by joint members

6. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

Appointment of proxy through CREST

7. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) of the meeting by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("Euroclear") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must, in order to be valid, be transmitted so as to be received by Neville Registrars (ID 7RA11) no later than 48 hours before the time fixed for the AGM (not counting non-working days). For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the

EXPLANATORY NOTES

(CONTINUED)

CREST Applications Host) from which Neville Registrars is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

Changing proxy instructions

8. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, but have not retained a copy of the blank proxy form, please contact Neville Registrars, Neville House, Steelpark Road, Halesowen, B62 8HD.

If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

Termination of proxy appointments

9. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment as above. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a copy of such power or authority certified notarially or in some other way approved by the board of directors of the Company) must be included with the revocation notice.

The revocation notice must be received by Neville Registrars no later than 11.00 a.m. on 23 June 2020. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

Issued shares and total voting rights

10. As at 6 p.m. on 28 May 2020, the Company's issued ordinary share capital comprised 736,533,946 ordinary shares of £0.0001 each. Each ordinary share carries the right to one vote at a general meeting of the Company.

Quorum

11. The quorum for the Meeting is not less than two shareholders present either in person or by proxy. The majority required for the passing of each of the ordinary resolutions is a simple majority of the total number of votes cast on each such ordinary resolution. The majority required for the passing of each of the special resolutions is three-quarters of the total number of votes cast on each such special resolution.
12. At the Meeting the votes may be taken on the resolutions by a show of hands or on a poll. On a show of hands every shareholder whether present in person or by proxy has one vote. On a poll every shareholder who is present, in person or by proxy, shall have one vote for every ordinary share held. A shareholder entitled to more than one vote need not use all of their votes or cast all of their votes in the same way.
13. To allow effective constitution of the meeting, if it is apparent to the Chairman that no shareholders will be present in person or by proxy, other than by proxy in the Chairman's favour, then the Chairman may appoint a substitute to act as proxy in his stead for any shareholder, provided that such substitute proxy shall vote on the same basis as the Chairman.

Documents on display

14. The following documents will be available for inspection at the registered office of the Company during normal business hours on any weekday (weekends excepted) from the date of this notice until and for 15 minutes prior to and during the Meeting:
 - a. copies of the service contracts of executive directors of the Company;
 - b. copies of letters of appointment of the non-executive directors of the Company; and
 - c. copy of the Share Option Plan 2017.

EXPLANATORY NOTES

(CONTINUED)

Annex

Principal terms of the Share Option Plan 2017 (the Plan)

- The Plan provides for the grant of qualifying EMI options to employees and for the grant of unapproved options to the extent that options above the EMI limit are granted to that employee.
- The Board of directors has absolute discretion as to who should receive options under the Plan.
- The exercise price for any option granted under the Plan is established by the Board of directors but shall not be less than the nominal value of the ordinary shares of 0.01p in the Company.
- An option must be exercised before the 10th anniversary of its date of grant.
- The Board of directors has the discretion to determine vesting criteria which may be based on the passage of time, performance of the Company, and/or performance of the option holder. The Board of directors may at any time waive any performance related condition.
- If an option holder ceases employment for any reason (other than death), any vested options will lapse unless within 90 days of cessation the Board of directors exercises its discretion to allow any vested options to be exercised during such period as the Board of directors may allow. If an option holder dies, any vested options or any subsisting options which the Board in its discretion decides to treat as vested, may be exercised by their personal representatives within 12 months of death.
- Options may be exercised for a 6 month period in the event of a change of control or in the event of a court sanctioned reconstruction of the Company. If there is a winding up of the Company or the option holder becomes bankrupt then any options shall lapse immediately.
- The Plan is administered by the Board of directors which also has the power to amend its rules.
- The Plan will terminate on 1 December 2027.

deepmatter™

Registered office
St Brandon's House
29 Great George Street
Bristol BS1 5QT

Company Number
05845469 (England and Wales)