INTELLIGENT ULTRASOUND®

for smarter scanning

Transforming ultrasound through AI

2019 Annual Report and Accounts

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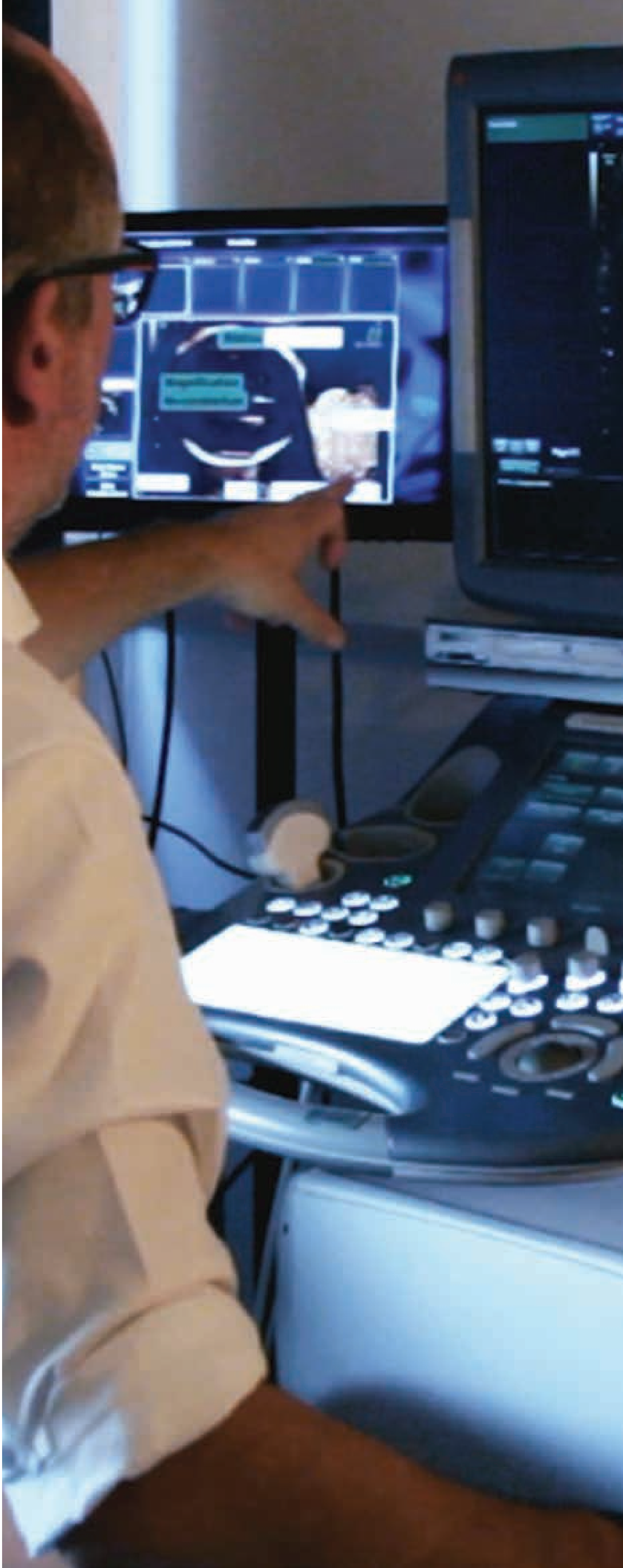

Operational Highlights

- Signed first long-term AI software licence and co-development agreement with one of the world's leading ultrasound equipment manufacturers
- Increased AI imaging database to over 4 million images
- Strong contribution from North America with revenue up 53% to £2.6m
- Signed marketing partnership with FUJIFILM SonoSite, Inc in the US for ultrasound training and services
- Commenced alliance with Mediscan to use AI and simulation to improve patient care in India and enhance the Group's ultrasound scan image library
- Commenced regulatory approval process and commercial discussions for ScanNav AnatomyGuide's Peripheral Nerve Block AI software

See full Chief Executive's Review
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Financial Highlights

Revenue

£5.9m (2018: £5.3m)

Adjusted EBITDA loss[1]

£3.1m (2018: £2.7m)

Cash & short term deposits

£7.3m (2018: £5.6m)

See full Financial Review
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Post year end:

Received ISO13485:2016 medical device accreditation

Launched Covid-19 simulator

Successful £4.8m equity placing

[1] Non-GAAP measure, see page 12.

Intelligent Ultrasound (AIM: MED) is a global leader in the provision of artificial intelligence-based clinical image analysis software tools for the diagnostic medical ultrasound market and hi-fidelity virtual reality simulators for the ultrasound training market

The Group operates two divisions:

Clinical Artificial Intelligence (AI) Division

Focussed on developing deep-learning-based algorithms to make ultrasound machines smarter and more accessible. Products in development include ScanNav Audit, ScanNav AutoCapture and ScanNav AnatomyGuide.

Simulation Division

Focussed on hi-fidelity ultrasound education and training through simulation via its three main products: ScanTrainer obstetrics and gynaecology training simulator; HeartWorks cardiac and echocardiography training simulator and BodyWorks Eve Point of Care (PoCUS) and Emergency Medicine training simulator.

See full Business Model
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Our journey

IPO	Acquired IML	Acquired IUL	ScanNav in clinic	AnatomyGuide
Listed on AIM 2014	Heartworks simulator Q3 2016	AI from Oxford University Q3 2017	First AI in St George's London Q1 2018	Clinical data collection H2 2018

2014 | 2015 | 2016 | 2017 | 2018

2014	2016	2017	2018
£4m placing	£3m placing	£5m placing	£5m placing

Our Products

Clinical AI software

SCANNAV™ | Audit

ScanNav Audit is an AI-based ultrasound software product that provides real-time support for ultrasound practitioners performing fetal anomaly scans at 20 weeks gestation by assessing the conformance of the images they record to US and global scanning protocols.

SCANNAV™ | Auto Capture

ScanNav AutoCapture is an AI-based ultrasound software product that automatically captures images that meet the clinical criteria set out in the US and global 20-week fetal anomaly scanning protocols, and aims to decrease scan time whilst maintaining scan protocol adherence.

ANATOMYGUIDE™

ScanNav AnatomyGuide is an AI based ultrasound software product which can automatically identify and highlight key anatomical structures in a live ultrasound image. The product is currently being developed for use during Peripheral Nerve Block (PNB) procedures.

Simulator Training Platforms

SCANTRAINER®

A range of hi-fidelity haptic-based ultrasound simulators aimed at the obstetrics and gynaecology training markets.

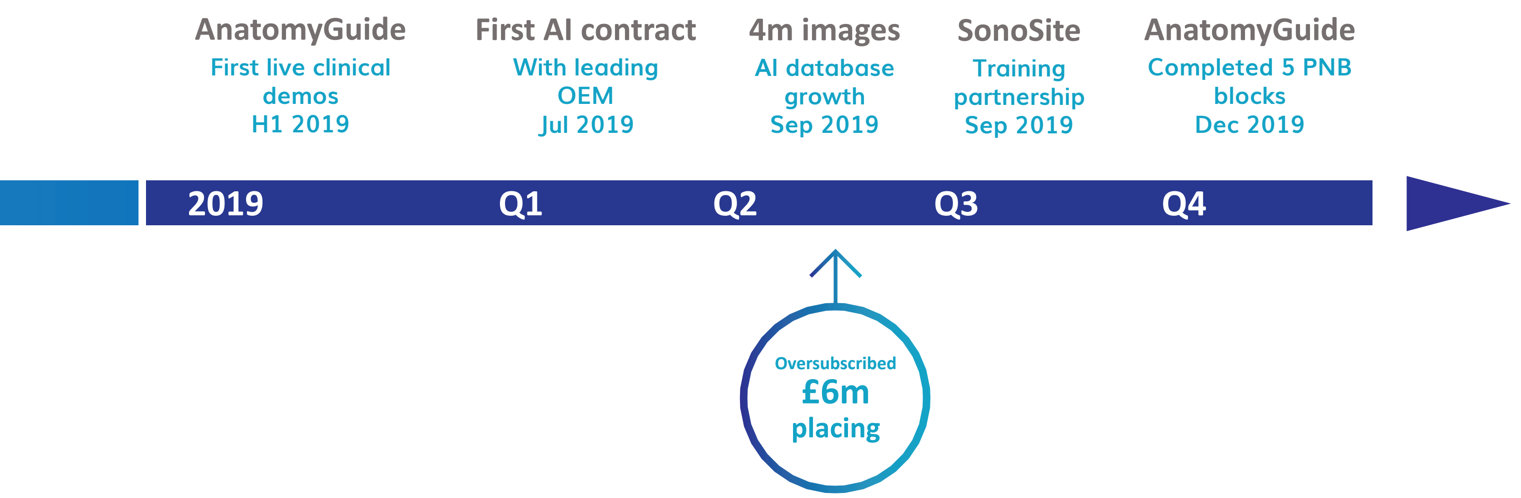
HEARTWORKS®

A range of hi-fidelity manikin-based ultrasound simulators aimed at the cardiac and anaesthesiology training markets.

BODYWORKS | Eve®

A range of hi-fidelity manikin-based ultrasound simulators aimed at the PoCUS, emergency medicine, critical care and intensive care training markets.

ScanNav Audit, ScanNav AutoCapture and ScanNav AnatomyGuide are software products in development. They will be licensed as medical devices and so will require regulatory approval prior to product launch.



Invest in R&D to develop and then commercialise software-based disruptive technologies in the ultrasound healthcare market

Our strategy to unlock this growth is to:

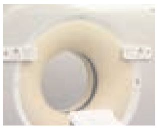
1. make it easier for medical professionals to learn how to use ultrasound through the development of advanced ultrasound training simulators that enable more clinicians to use ultrasound in the clinic and hence enable more training simulators to be sold; and

2. make it easier for medical professionals to use ultrasound in the clinic by providing real-time AI assisted interpretation of the ultrasound images whilst they are scanning the patient, enabling the Group to sell software to ultrasound manufacturers and manufacturers to sell more ultrasound devices.

There are four key medical imaging modalities


X-ray


MRI


CT


Ultrasound

Of these, ultrasound is used by many medical professionals


Sonographers

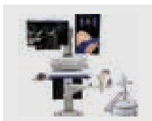

Doctors


Specialists

These professionals need to be trained to the highest standards

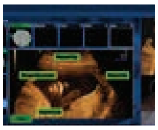

BODYWORKS|Eve®

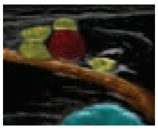

HEARTWORKS®


SCANTRAINER®

We make three of the world's leading ultrasound training simulators

Once trained, hospitals need to maximise use of these scarce resources


SCANNAV™


ANATOMYGUIDE™

Our AI based software in development enables real-time image analysis

Hospitals also need to minimise misdiagnosis


SCANNAV™ | Audit

We are developing our AI based software to speed up diagnosis

In the future consumers may be able to scan themselves at home


SCANNAV™ | Healthcheck

Future products for development could include at home scanning apps

Ultrasound is one the world's leading diagnostic modalities and although the increasing availability of low-cost handheld devices has the potential to dramatically increase the professional ultrasound user base, we continue to believe that this alone is not sufficient to open up the potential for ultrasound to become a mass-market diagnostic tool that can also be used by medical practitioners who do not possess specialist ultrasound skills. To achieve this, ultrasound needs to become simpler to use by making ultrasound machines 'smarter', supporting users both in their scanning and with automated decision-making.

This will involve using AI to integrate image analysis into professional imaging devices, provided not just by the major companies in the current ultrasound market, but also onto the new, smaller and cheaper handheld devices. This is a new and exciting market and, although competitive and fast moving, having won our first significant contract with a major ultrasound device manufacturer, it's one we believe we have the skills and capabilities to compete in.

We aim to be not only a major global provider of hi-fidelity simulation-based ultrasound training, but also to follow the medical professional into the clinic and be a provider of AI based clinical ultrasound software that can support, guide and speed up ultrasound scanning to make ultrasound more accessible.

This model builds on the key strengths and resources of the Group by leveraging our knowledge and experience in medical ultrasound, simulation and machine learning to develop software that can increase the numbers of medical professionals who can use ultrasound, as well as increasing the speed and quality of scanning itself.

In the long term, as the price of the hardware comes down and the performance of our AI enabled software advances, we aim to provide enabling software for mass market AI-based scanning at home for the health-conscious consumer.

Our strategic aims and how we intend to achieve them

Purpose	**To enhance the performance of ultrasound in healthcare**		
Strategic aims	**Training through simulation** To develop and sell a range of ultrasound training simulators that meet the needs of the global medical professional training and education market	**Using AI to speed up scanning** To develop and sell a range of AI-based clinical ultrasound software tools that enable hospitals and imaging centres to maximise their ultrasound resources and scan more patients by speeding up scanning	**Using AI to improve diagnosis** To develop and sell a range of AI-based clinical ultrasound software tools that enable hospitals and imaging centres to improve ultrasound-based diagnosis
How	Focus on hi-fidelity simulation Aimed at medical teaching schools and sonography schools where the ultrasound scanning performance is important Extend simulator range into new ultrasound growth markets	Build and maintain large curated ultrasound image databases Develop AI software that meets a medical need and has a viable commercial market Work with OEMs to integrate our software into their devices	Identify new markets for AI in the area of pathology diagnosis Develop AI software that identifies where potential pathologies can be picked up earlier during triaging
KPIs	**Revenue** **New product releases**	**R&D expenditure** **AI partner agreement** **Image database** **Revenue**	**Products in development** **Image database** **OEM contracts** **Revenue**

See Key Performance Indicators
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Riccardo Pigliucci

"We remain an ambitious Group, that is successfully expanding into the new AI-based clinical software market"

Overview of the year

2019 was a pivotal year for the Group with the pre-revenue Clinical AI Division meeting all its commercial and development milestones for its first two AI-based software platforms.

This included:

- signing our first long-term licence and co-development agreement in July 2019 with one of the world's leading ultrasound equipment manufacturers for our AI-based real-time ultrasound imaging software, a significant advance in validating our commercial model; and
- completing the pre-regulatory development of AnatomyGuide, the real-time anatomy highlighting software for nerve blocks and progressing both regulatory approval and commercial discussions

The Group's Simulation Division continued to show year-on-year growth and increased revenue by over 10% to £5.9m, with particularly encouraging results in North America. The marketing partnership agreement signed with FUJIFILM SonoSite, Inc. in the second half of the year, is a signal that our focus on high quality training remains important to the ultrasound market.

Strategy

Just over two years ago, the Group took the strategic decision to capitalise on our expertise in ultrasound image simulation and training by expanding the business into the development of real-time AI-based software for integration into ultrasound equipment used in the clinic. The expansion required both the successful acquisition and integration of The University of Oxford start-up company, Intelligent Ultrasound Limited, to augment our existing AI capability, as well as the support of shareholders to fund the subsequent research and development.

Two years on, I am impressed to see how much the executive team has achieved in such a short time, but I would also like to thank our existing and new shareholders for having the vision to back the company through this strategic change.

A component of this strategy was to change the Group name from MedaPhor Group plc to Intelligent Ultrasound Group plc. The Board believes that the new name is reflective of our strategic change to being both a leading developer of artificial intelligence clinical software and a global leader in ultrasound training through simulation.

Board and governance

The Board continues to recognise the importance of maintaining the highest standards of corporate governance and the Company has adopted the Quoted Companies Alliance Governance Code. Towards the end of the year we appointed an external advisor to conduct a full review of our Board and its performance. The review is currently on going and it is expected that its recommendations will be implemented during 2020.

" I would like to thank all the staff in the Group for working so hard in 2019 to grow the simulation business and to meet all the development and commercial milestones that we set for the new AI software products."

At the end of the year, Wilson Jennings, the Group's CFO stepped down from the Board and I would like to thank Wilson for his valuable contribution since joining the Group ahead of our IPO in 2014 and to wish him well for the future in his semi-retirement. Wilson has been an integral part of our team and he will be missed by the management and staff alike.

At the same time the Board is very much enjoying working with our new CFO, Helen Jones, who joined the Board on the 1 January 2020. She has a strong commercial and technical background that will benefit the Company going forward.

People

I would like to thank all the staff in the Group for working so hard in 2019 to grow the simulation business and to meet all the development and commercial milestones that we set for the new AI software products.

We operate in a highly competitive market and recruitment and retention of the best people remains a priority for the Group.

Outlook

This has been a strong year for the Group. The Clinical AI Division has performed particularly well, meeting all its milestones including signing its first licensing agreement with a major OEM and progressing development and commercial discussions for its second AI software product. The Simulation Division has worked hard to grow revenue, retain margin and keep its overheads in line with expectations.

However, the Covid-19 virus is currently impacting all regions in which the Group operates and the Group has therefore implemented a number of cost-saving measures to seek to minimise the impact of a reduction in simulation division revenue, prior to the Group generating its first AI-based software revenues, which are expected during 2021.

The £5m Placing announced in April 2020, will enable the Group to continue to progress its ScanNav and AnatomyGuide AI products to launch, accelerate the development of the new AI product variants and strengthen the balance sheet, should the impact of Covid-19 be longer or more disruptive to sales than expected.

We remain an ambitious business that is successfully expanding into the new AI-based clinical software market. Once the Group is through this period of Covid-19 related uncertainty, we aim to continue to build upon this momentum and reach the profitability inflection point from a growing stream of anticipated future Clinical AI software revenues.

Riccardo Pigliucci
Non-Executive Chairman
14 May 2020

Stuart Gall

"Our aim is to develop the latest AI software technology that will change ultrasound imaging over the next decade and make ultrasound scanning accessible to more medical professionals"

Artificial intelligence is expected to have a significant impact on ultrasound imaging over the next decade and we aim to be at the forefront of that change.

To achieve this, we have organised the Group into two divisions – Clinical AI and Simulation, both of which are supported by a central management and administrative resource. The report below details how each division operates, the progress made over the year and the key challenges faced.

CLINICAL AI DIVISION

Our aim is to be a global player in the provision of AI-based clinical ultrasound software that can boost scanning quality and streamline sonographer workflow in medical ultrasound specialties, such as anaesthesiology, obstetrics, gynaecology, radiology and primary care medicine, as well as making ultrasound accessible to more medical professionals.

The division is built around the 2017 acquisition of The University of Oxford AI software company, Intelligent Ultrasound Limited (whose name we subsequently assimilated at the beginning of the year) that supplemented our in-house image analysis and ultrasound know-how and is enabling us to develop potentially ground-breaking AI image analysis tools for the professional ultrasound scanning market.

The algorithms are based on an excellent, growing database of over 4 million images that drive our machine learning; combined with sophisticated deep learning models originally developed by Professor Alison Noble FRS OBE (a founder of Intelligent Ultrasound Limited) and her team from The University of Oxford. This has enabled us to develop our ScanNav image analysis software and the first of these products are in the process of being brought to market in 2020.

On 4 July 2019 the Group announced that it had signed its first long-term licence and co-development agreement for its AI software with one of the world's leading ultrasound equipment manufacturers. The long-term agreement will enable the integration of our real-time image analysis software onto a range of specialty specific ultrasound systems marketed in the global healthcare market. The first royalty per unit revenues are expected during 2021. Terms of the agreement remain confidential and undisclosed for commercial reasons.

ScanNav Audit

The ScanNav Audit software provides real-time support for ultrasound practitioners performing anomaly scans on fetuses at 20 weeks gestation. ScanNav Audit aims to ensure that a complete set of scan images, that conform to the required global scanning protocols, are captured during the procedure. The ScanNav software acts as a live 'virtual' peer-review, ensuring that the scan is performed correctly by highlighting issues to the sonographer as he or she saves each image. The software will also provide a record of each sonographer's performance, allowing managers to monitor staff and form part of the record keeping requirements of the clinic. ScanNav Audit requires regulatory approval prior to launch.

The Group expects to develop multiple obstetrics variants of ScanNav Audit to complement the 20-week protocol software described above.

ScanNav AutoCapture

The ScanNav AutoCapture software automatically captures and analyses all the ultrasound image planes in real-time, as the sonographer moves the ultrasound probe over the patient's abdomen during the 20-week fetal anomaly scan. The software then automatically selects and saves the key images required to meet the global protocols. The Directors believe that the ScanNav AutoCapture software has the potential to:

- speed up workflow – as the software automatically captures the correct images, operators do not need to manually freeze and save each image required by the protocol – allowing them to focus on their dynamic assessment of the fetus; and
- improve accuracy and consistency – the use of AI software should reduce the operator variability from the procedure, which is expected to result in more accurate and consistent image capture.

ScanNav AutoCapture requires further development and regulatory approval prior to launch.

The Group also expects to develop multiple obstetrics variants of ScanNav AutoCapture to complement the 20-week protocol software described above.

ScanNav AnatomyGuide

ScanNav AnatomyGuide is an AI based ultrasound software product which can automatically and in real-time, identify anatomical structures on the live ultrasound scan image, highlighting structures such as arteries that must be avoided during the needling procedure. The software is being developed for use during Peripheral Nerve Block (PNB) procedures to support less experienced practitioners and its development has been partly funded by Innovate UK.

PNB is a form of regional anaesthesia using needling that can be used for certain surgical procedures as a safer and cheaper alternative to general anaesthesia and as a form of pain relief (potentially reducing the need for opioid analgesia). However, PNB requires significant skill to guide the needle safely through the patient's body.

In May 2019, we made the first live demonstration of the ScanNav AnatomyGuide software to clinicians at the Annual Scientific Meeting of Regional Anaesthesia United Kingdom (RA-UK)

The product development was substantially completed during 2019 for the first five nerve blocks and the regulatory and commercial partner process has started, with the aim of bringing the first variant of the product to market the first half of 2021.

Future ScanNav products

The successful placing in August 2019 enabled the Group to start the process of building a third software development team that will look to begin the process of developing ScanNav Assist.

ScanNav Assist
ScanNav Assist aims to facilitate the automatic recognition of abnormalities within a general ultrasound scan confirming that a clinician has correctly scanned the anatomical area of interest and then flagging any areas of potential abnormality, so the patient can be triaged to a specialist. The Directors believe that ScanNav Assist will have the potential to allow more point-of-care medical practitioners to use ultrasound imaging for front line diagnosis. The Directors believe that once developed such a device would be likely to support a broad range of medical professionals including GPs, midwives, paramedics and doctors working in Emergency Rooms.

ScanNav HealthCheck
ScanNav HealthCheck aims to develop the current ScanNav technology to enable consumers to perform scans on themselves. When combined with the next generation of low-cost ultrasound devices, this software could have the potential to enable health conscious individuals to benefit from the ability to scan themselves at home.

AI image database

In March 2019, we announced an alliance with Mediscan Systems, a premier fetal medicine and ultrasound research and training centre based in India, under which the Group provides ScanTrainer ultrasound training simulators in return for access to their large ultrasound image libraries (see Note 2 of the notes to the accounts). This has enabled us to significantly expand our AI image database. To date Mediscan has supplied over one million images to the Group and we are pleased to continue to support Mediscan in its goal of improving the quality of ultrasound practice in India and throughout the world.

The division's AI image database currently has in excess of 4 million images from several providers and we expect this to continue to grow in 2020 and beyond.

The curation and management of this data is of paramount importance to the Group and, as such, all externally sourced ultrasound imaging data is anonymised before it is sent to us. Patient consent and the right to use the data are obtained under a GDPR-compliant data sharing agreement for each image library. Ultrasound scans recorded by the Group from volunteers are also stored anonymously and always obtained with their consent and GDPR compliance.

Notwithstanding the data anonymisation, all image data is stored securely, and its use is restricted to those who require access for development work. None of the source images are used in products sold to end-users – these only contain the output of the deep-learning models that the images were used to create.

Challenges to the Clinical AI Division

AI image analysis in ultrasound is a new area of medical innovation and we are attempting to open-up markets in which the market size and the revenue models, although forecast to be significant, are unproven. We are also attempting to do this with relatively small amounts of development funds, compared to some of the AI based medical image analysis companies already operating in the US, China and Israel.

Our approach to these challenges is as follows:

- focus on developing AI software that has both a clinical need and a clear economic rationale for its purchase;
- partner our first products with OEMs who can access the large ultrasound market more quickly with their existing product ranges and sales networks and facilitate faster regulatory approvals; and
- continue to build our AI image database to ensure we have high quality, curated images that are relevant to build AI algorithms in the field of anaesthesiology, obstetrics, gynaecology, radiology and primary care medicine.

The signing of our first agreement with one of the world's leading ultrasound manufacturers, combined with the encouraging reception to our products under development, has given us confidence that we can turn our pre-regulatory products into commercial products that can generate long-term revenue for the division.

SIMULATION DIVISION

Based in Cardiff (UK), Alpharetta (US) and with representation in Beijing (China), our Simulation Division designs, develops and sells some of the world's leading hi-fidelity ultrasound training systems for teaching ultrasound scanning to medical professionals in institutions and medical device companies.

This is the original business that was created out of Cardiff University Medical School and is the foundation of our expertise in ultrasound imaging and understanding of the clinical needs of the medical professionals who rely on ultrasound's growing diagnostic capabilities.

Our comprehensive range of ultrasound training simulators are, in the main, high value, cap-ex sales made to the global medical institution market and sold through our direct sales forces in the US and UK and a network of almost 30 resellers in the rest of the world. The division has continued to grow sales year-on-year, and it is recognised as one of the gold standard providers of ultrasound training simulators in the obstetrics/gynaecology (OBGYN), echocardiography/anaesthesiology (ECHO) and emergency medicine/point-of-care (PoCUS) markets.

During the year, the division reduced its cash burn impact on the Group and pre-Covid-19 expected this trend to continue in 2020.

Research & Development

During 2019 the Simulation R&D team focussed much of its resource on the development of a new Compact version of the ScanTrainer for the OBGYN markets that aims to extend ScanTrainer's appeal to smaller hospitals and medical simulation centres in the US and around the world.

In addition, a new augmented reality (AR) app was developed, based on the HeartWorks software, aimed at broadening its appeal to the global cardiac and echocardiography teaching market and potentially to individual doctors who will benefit from access to the system's market leading 3D cardiac anatomy and ultrasound capabilities.

Post year end we launched a Covid-19 version of our BodyWorks Point-of-Care simulator designed to train healthcare providers to use lung ultrasonography. Ultrasound is believed to have major utility for the management of respiratory related Covid-19 due to its safety, repeatability, absence of radiation, low cost and point of care use. The Covid-19 upgrade module was made available globally free of charge to all our existing customers and we hope it will enable rapid and effective training of more healthcare professionals working in the front line of this global emergency, in this extremely difficult time.

Territory review

Our Simulation Division sales grew by over 10% to £5.9m in 2019 (2018: £5.3m) and there are positive signs that the ultrasound simulator market for hi-fidelity training simulators will continue this growth in the longer term. However, the global impact of the Covid-19 (see Covid-19 section below) means this is under review for 2020.

North America
Revenue in 2019 increased by over 50% to £2.6m (2018: £1.7m).

This was an excellent performance by the North America team and the region remains a key market for medical simulation. Based in Alpharetta, Georgia the team are now able to provide full sales, marketing, shipping, technical support and small-scale local system build and we believe this capability was an important element in enabling us to enter into a marketing agreement with FUJIFILM SonoSite Inc.'s to deliver a training solution to the point-of-care ultrasound (PoCUS) market.

The agreement utilises Intelligent Ultrasound's BodyWorks Eve PoCUS training solution and the HeartWorks transthoracic echocardiography (TTE) and transoesophageal echocardiography (TEE) simulator training platforms to accelerate training for all SonoSite systems. Both companies will co-exhibit at numerous conferences, as well as providing hands-on workshops where clinician training is needed.

During the year sales of HeartWorks and BodyWorks on the new Eve manikin platform were particularly encouraging and we expect the FUJIFILM SonoSite Inc.'s marketing agreement will generate increased awareness and therefore demand for these simulators.

Rest of the World

Revenue in 2019 was steady at £2.6m (2018: £2.6m).

Revenue in the Rest of the World is mainly generated by over 30 resellers and we have begun to reap the benefits of their investment in 2018 and 2019 in BodyWorks demonstration systems. As well as a landmark sale of multiple systems to universities in Romania, we were encouraged by good growth from the Iberian market. France, however, proved a harder market in 2019, but a refreshment of the reseller parties is expected to enable a return to growth for the region.

United Kingdom

Revenue in 2019 declined by 28% to £0.7m (2018: £1.0m).

The UK had a difficult year, which was believed to be in part due to the inertia in NHS non-essential spending caused by the continued delay in completing Brexit. Despite significant interest being shown by hospital departments wishing to buy our systems, many found their purchase requests being delayed or blocked by the hospital procurement departments. After a very challenging 2019, the Chancellor's budget on 11 March 2020 offered some comfort through his commitment to provide more funding for the NHS.

Challenges to the Simulation Division

High values sales in the medical training sector remain affected by health budgets, which can be both hard to access and predict, especially during times of political upheaval or global pandemics, which can divert funds from training to frontline care. Like many markets, medical simulation is subject to competitive products and associated pricing and margin pressures.

To date the Division has responded well to these pressures by focussing on offering products that provide a gold standard in training ultrasound. This has traditionally been important to end-user's whose careers depend on their ability to scan and diagnose using ultrasound and as a consequence, purchasing decisions tend to be based on quality of training and value for money, rather than simply the lowest priced solution.

Clearly the potential impact on sales from Covid-19 are difficult to quantify at this time but are closely monitored by the Group to assess the impact on inventory, supply chain and staff availability, as well as sales revenue. The development of a new simulation system aimed at training medical professionals working in response to the threat from Covid-19 is an example of the Division's agile response to unpredictable market conditions.

Quality Management System

In 2018 the UK operation implemented a Quality Management System and I'm pleased to say that post year-end on 4 March 2020, we received ISO 13485:2016 certification following an audit of our systems by the certification body, LRQA.

ISO 13485:2016 is the internationally recognised quality standard to ensure the consistent design, development, production, installation and sale of medical devices that are safe for their intended purpose. The Group's Clinical AI division is in the process of bringing a range of AI-based image analysis software products to market and obtaining ISO13485:2016 certification is an essential step in taking these software products through regulatory approval.

Workplace environment

We recently decided to merge our two UK sites into the Cardiff office but, in response to the threat from Covid-19, we have now implemented a working from home policy for the majority of our staff. In the longer term, we intend to move to larger, more modern and flexible office space in the centre of Cardiff. We were recently proud to host a visit by the Chancellor of the Duchy of Lancaster, The Rt Hon Michael Gove MP and The Secretary of State for Wales, The Rt Hon Simon Hart MP, where they experienced first-hand the advances the Group has made over the last two years.

Post Covid-19,we would be delighted to welcome any shareholders or prospective investors should they wish to visit us to see our technology for themselves.

Placing

The Directors believe that the post year end £4.8m placing approved by shareholders on 4 May 2020 will enable the Group to meet its anticipated profitability inflection point from expected future revenues from Clinical AI division.

Looking ahead

Despite the understandable concerns over Covid-19 and its potential negative impact on revenue in 2020, we aim to be both ambitious and successful in our quest to train medical professionals in the use of ultrasound, which, more than ever, is a key medical diagnostic tool; as well as develop cutting-edge AI software technology that will generate long-term licence revenue for the Group over the coming years.

Stuart Gall
CEO
14 May 2020

Summary financial performance

£m (unless otherwise stated)	2019	2018
Revenue	**5.9**	5.3
Gross profit	**3.5**	2.8
Gross profit margin %	**58**	53
R&D costs	**2.0**	1.3
Administrative expenses	**(8.2)**	(7.1)
Adjusted EBITDA*	**(3.1)**	(2.7)
Loss after taxation	**(4.2)**	(3.4)
Cash and investments (short term deposits)	**7.3**	5.6

*Non-GAAP measure reconciled below

Revenue

Revenues from the Simulation Division increased 11% to £5.9m (2018: £5.3m). The growth achieved this year was due to strong simulator sales in North America, up by £0.9m (53%) compared to 2018. However, this was partially offset by a fall in UK sales of £0.3m (28%) considered be attributable to continued training budget cuts in the NHS and uncertainty surrounding the timing and impact of Brexit. Sales in the Rest of the World were in line with 2018.

Gross profit

Gross margin increased from 53% in 2018 to 58% in 2019 and was helped by the higher proportion of direct sales representing 56% of total sales (2018: 50%), as well as a number of higher margin distribution sales.

Administrative expenses

Administrative expenses increased by £1.0m during the year to £8.2m (2018: £7.1m) as a result of our continued increased investment in R&D activity, particularly in the Clinical Division. We also increased the number of sales support staff employed in North America and the number of logistics staff in the UK.

Research and development costs and grants received

The Group expensed through the income statement £2.2m (2018: £1.3m) of R&D costs in 2019, largely in relation to earlier stage R&D activity in the Clinical AI Division, which had not yet met the criteria for capitalisation under IAS 38. A further £0.5m (2018: £0.5m) of costs relating to the continued ongoing development of products in the Simulation Division were capitalised within intangible assets.

The Group received an R&D grant from Innovate UK of £0.2m (2018: £0.3m) which has been included as Other Income in the Statement of Consolidated Income.

Adjusted EBITDA

	2019	2018
	£m	£m
Operating loss	**(4.6)**	(3.6)
Add back:		
Depreciation & amortisation	**1.4**	1.2
Share option charges	**0.1**	0.1
Exceptional items	**—**	(0.4)
Adjusted EBITDA	**(3.1)**	(2.7)

The adjusted EBITDA loss increased by £0.4m in 2019 which was mainly attributable to the higher level of investment in R&D activity during in the year.

Adjusted EBITDA is not a measurement of financial performance under IFRS however it is considered that the presentation of adjusted EBITDA enhances the understanding of Group financial performance, in regard to understanding its ability to generate stable and predictable cash flows from operations.

Exceptional items in 2018

The Exceptional Item in the prior year related to a credit of £0.4m in respect of a fair value adjustment on the settlement of contingent consideration relating to the acquisition of IUL in 2017 (see Note 8 in the notes to the consolidated financial statements).

Taxation

The Group claims each year for R&D tax credits and, since it is loss-making, elects to surrender these tax credits for a cash rebate. The amount included within the consolidated income statement in respect of amounts received and receivable for the surrender of R&D expenditure was £0.168m (2018: £0.214m). The 2019 tax credit also includes £0.1m credit in respect of a release of a provision made in 2018 for potential pre-acquisition over claims of R&D tax credits in IUL which HMRC confirmed in the period does not need to be repaid. The tax credit for the year also includes deferred tax of £0.09m (2018: £0.09m) on the fair value of intangible fixed assets acquired with IML and IUL which is being recognised over the life of those assets.

As at 31 December 2019, the Group has cumulative gross UK tax losses of approximately £14.9m (2018: £11.4m) for which no deferred tax asset has been recognised.

Placing and open offer

On 28 August 2019 the Company issued 63,369,043 new ordinary shares of 1 pence each at a price of 10 pence per share which raised £6.2m before costs of the share issue and £5.8m after costs. The share issue costs of £0.5m have been netted off against the share premium arising on the new share issue.

Post year end on 5 and 6 May 2020 the Company issued a further 49,400,000 new ordinary shares of 1 pence each at a price of 10.5 pence per share which raised £5.2m before costs, and £4.8m after costs.

Balance sheet

Consolidated net assets increased to £11.1m (2018: £9.4m). Intangible fixed assets at £2.3m were £0.6m lower than the carrying amount at 31 December 2018 of £2.9m. Additions to intangibles in the year were £0.5m relating to capitalised development costs; whereas, amortisation of all intangibles including IP and brands totalled £1m.

The Group adopted the new leasing standard IFRS 16 in 2019 and recognised an additional £0.1m to Property, plant and equipment and a corresponding lease liability in relation to leases of office space and company cars.

Trade and other receivables of £2.7m (2018: £1.9m) have increased largely due to the timing profile of the high level of sales in the last quarter of 2019. Trade and other payables of £1.7m (2018: £1.3m) include £0.1m of share warrants issued as part of the consideration for the acquisition of IUL in 2017 (2018 restated: £0.1m).

Parent company intercompany receivables

An expected credit loss of £1.2m was recognised in 2019 against intercompany receivables in the Parent Company Statement of Comprehensive Income (see Note 16).

Cash and investments

Cash and cash equivalents at 31 December 2019 stood at £1.8m (2018: £5.6m). The Group also had £6.3m of investments in the form of cash held in short term deposits that matured post year end on 6 January 2020.

Net cash used in operating activities was £3.3m (2018: £2.6m) and the net cash outflow arising from investing activities was £6.3m (2018: £0.9m). Cash flow in the year was boosted by the placing of new ordinary shares in the Company which raised £5.8m net of costs (2018: placing raised £4.8m net of costs). The net proceeds have been and will continue to be used for the research and development costs of bringing the ScanNav and ScanNav AnatomyGuide products to market, to continue the proof of concept research and development work on future ScanNav products and general working capital.

Events since the end of the financial year

The Covid-19 virus and the resultant downturn in global business are well documented and impacting all regions in which the Group operates. With the uncertainty of both the severity and length of the Covid-19 disruption and how this may impact on the Group's originally intended next fund-raising window in 2021, in April 2020 the Group took the decision to bring forward its next fund raise.

On 4 May 2020, shareholders approved the placing to raise £4.8m after transaction costs through the issue of 49,400,000 new Ordinary Shares at 10.5 pence per share. The funds from the placing mean that the Group can continue its new product development and have sufficient working capital headroom to reach its anticipated profitability inflection point from expected future revenues from the Clinical AI division.

SECTION 172 STATEMENT

The following disclosure describes how the Directors have had regard to the matters set out in Section 172 (1) (a) to (f) and forms the Directors' statement required under 414CZA of the Companies Act 2016.

The Directors are required by law to act in good faith to promote success of the Company for the benefit of the shareholders as a whole and are also required to have regard for the following:

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

In 2018 the Group adopted the Corporate Governance Code for Small and Mid-Size Quoted Companies from The Quoted Companies Alliance (the "QCA Code"). The QCA Code is an appropriate code of conduct for the Group's size and stage of development. There is a discussion of how the Group applies the ten principles of the QCA Code in support of its growth in the Corporate Governance section of this report and on the Group website.

The Directors discharge their duties by monitoring and assessing stakeholder interests in two primary ways:

(i) Regular information flow from the Executive Directors.

The Executive Directors are directly involved in day-to-day business operations. The Non-Executive Board members receive regular written and verbal business updates from the Executive Directors via monthly reports, face-to-face at regular Board meetings or between Board meetings as required.

(ii) Direct engagement of Board members.

Directors are expected, where appropriate, to engage directly with, or on behalf of, stakeholders. The Directors consider the interests of each of our key stakeholder groups when considering their duties under S172 and take into account the information gathered through engagement with these stakeholders when determining the Group's strategies and key decisions.

A summary of our stakeholder engagement activities, together with the issues and factors the Directors have considered in respect of our stakeholders in complying with Section 172 (1) (a) to (f) is set out in the tables below.

Stakeholder	Material issues	How we engage
Customers **We stay close to our current and potential customers, building long-term relationships.**	• Manage key customer relationships through our direct and reseller sales network • Meet project development milestones • Customer satisfaction • Product innovation	• Exhibitions and conferences to showcase our products • Regional account management structure across the world to encourage meaningful, consistent and ongoing engagement with customers • Focus on continued innovation and product development and prioritisation of R&D resource and spend • Newsletters
Employees **Our people are a highly skilled and technical workforce. They are an essential component of the Group's ability to stay ahead in a fast-paced competitive environment.**	• Employee care and value • Retention and talent • Remuneration and benefits package • Diversity and inclusion • Workforce engagement • Day to day engagement from Executive team	• Staff Handbook • Monthly constructive dialogue between the CEO and all employees • Annual full UK employee engagement event • Open working spaces in the offices allowing an open, collegiate and free thinking environment

Stakeholder	Material issues	How we engage
Shareholders **All Board decisions are made to promote the long-term success of the Group for the benefit of our shareholders.** **We aim to attract Shareholders who are interested in a long term holding in our Company. This involves a good understanding of our strategic objectives, our business model and our culture.**	• Financial performance • Path to profitability • R&D projects to market • Our strategy • Long-term viability	• Regular dialogue between members of the Board, senior management and Company's major shareholders and analysts • Results presentations and regular engagement with major shareholders • Participation in sector investor conferences • Annual Report and Accounts • Results statements, trading updates and press releases • Shareholder meetings • Investor roadshows • Annual General Meeting • Feedback from corporate broker
Community & Environment **The Group regularly reviews the impact of operations on the environment and the communities in which it operates.**	• Impact of operations on local community and the environment • Carbon footprint • Employment opportunities	• CSR policies and initiatives reviewed by the Board bi-annually • Minimal negative impact of operations on the local community • Local employment opportunities • Increasing use of web based demonstration of products to reduce air travel use • Building our reputation
Suppliers **Our relationship with our suppliers is integral to the delivery of quality products to our customers and the operational success of our business.**	• Potential disruption of supply chain • Competitiveness • Financial performance • Research and development investment	• Engage with key suppliers regularly to ensure uninterrupted supply chain • Standard business terms • Prompt payment with agreed and reasonable terms • Day-to-day dialogue and communications between the sales and build teams
Regulators and professional advisors **The Group works with regulators and professional advisors to enable it to operate within the appropriate regulatory and legal requirements**	• Maintaining the licence to operate • Ensure all obligations under laws and regulations are understood	• Regular internal communications, training about monitoring of compliance and regulatory matters • Obtain specialised eternal guidance in relation to obtaining regulatory approval for products in development

PRINCIPAL RISKS AND UNCERTAINTIES

The long-term success of the Group depends on the continual review, assessment and control of the key business risks it faces.

The following are identified as the principal risks and uncertainties facing the Group. Financial risk factors are disclosed in Note 27 of the financial statements:

Risk	Impact	Mitigating actions
Future funding requirements	Growing the business in the short to medium term is dependent on cash from revenue which is currently generated solely by the Group's Simulation Division; beyond this, and until the Clinical AI Division is generating sufficient income, the Group will be reliant on being able to access external funding.	The Board receives rolling cash flow projections on a monthly basis and monitors these against the Group's long-term projections. Post year end on 4 May shareholders approved an equity placing to raise £4.8m net of transaction costs which ensures that the Group has sufficient funds to continue to trade for at least the next 15 months, taking into account a number of potential outcomes of the impact of Covid-19 on the Group in the short to medium term. The Group is currently monitoring the Covid-19 situation on a regular basis with cash preservation continuing to be a primary concern.
Economic and political conditions	The Group may be faced with changes in the general economic climate in each territory in which it operates that may adversely affect the financial performance of the Group.	The Group seeks to mitigate this risk by conducting operations on a broad geographic basis and by introducing new technologies to remain innovative.
Brexit	While the United Kingdom has withdrawn from the European Union, uncertainty remains about future trading agreements with EU member states and other territories around the world.	The Group's use of distributors based within the European Union may go some way to mitigating these uncertainties. Similarly, the fact that the Group's sales in the USA are generated through its North American subsidiary may mitigate the impact of future trading agreements in the territory. Furthermore, the Group operates in global markets in the healthcare sector which is largely tariff free.
Covid-19	The Group may face restrictions on both its simulation sales revenues and its clinical AI development, if countries are forced to implement strict quarantines during a viral pandemic.	The Group is monitoring the situation on a continual basis and has performed detailed forecasts to assess the potential impact under a range of scenarios. The Group has ordered sufficient stock to minimise any overseas supplier delivery constraints. The R&D teams can work remotely, as required, although team projects may be impacted. A Covid-19 version of BodyWorks to teach early stage pneumonia ultrasound identification has been developed post year end for sale into UK and US hospitals.
Technology	The Group invests in research and development to enable the delivery of new and enhanced products and services. All technology-based companies face the risk of being overtaken by superior solutions or undercut in price by low cost competitors.	The Group closely monitors the market on an on-going basis. The Group maintains its investment in R&D and developing a platform for its services based on continuously evolving proprietary technology.

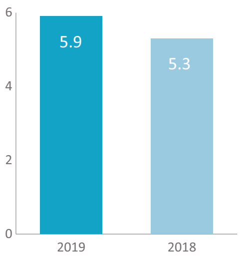
Risk	Impact	Mitigating actions
Cyber security and general data protection	The Group stores anonymised patient scans for use in its software development projects and its Cloud based simulation systems also store customer data on servers managed by a third party. There is a risk of data loss or system security breach which would result in loss of reputation with customers and investors and there is a risk of regulatory penalty.	Compliance with the General Data Protection Regulation (GDPR) introduced in May 2018 is managed on an ongoing basis. Its third party server manager, which is a major player in the information technology sector, has confirmed its compliance with GDPR.
Litigation	All technology-based companies face the risk of litigation and the Group experienced this in 2016 when it was involved in a completely unexpected IP action brought by one of its US based competitors.	The Group continues to mitigate the risk of litigation by reviewing its IP position against all its competitors and conducting annual reviews of its freedom to operate in its target markets.
Key employees	The Group is dependent upon a relatively small number of staff who might be hard to replace. Talented software developers and experts in simulation and AI technology are in demand in today's environment. The recruitment of specialised software experts remains an ongoing challenge.	The Group's response to this risk has been to offer competitive remuneration and benefits to encourage talented people to join and remain with the Group. The UK business also plans to move to new premises which are closer to major transport links and offer a better work environment.
Supply chain	The Group relies on third party manufacturers for the supply of the majority of raw materials. Problems with obsolescence and manufacturer facilities may lead to delay and disruptions in the supply chain which could have a significant negative impact on the Group's operations.	The Group maintains a close dialogue with key suppliers and closely monitors its inventory status and customer demand to ensure that any potential problems in the supply chain can be managed.
Regulatory risk	There can be no guarantee that the Group's AI products will be able to obtain or maintain the necessary regulatory approvals in any or all of the territories in respect of which applications for such approvals are made.	The Group seeks to reduce this risk by developing products to recognised standards and has recently been awarded ISO13485:2016 medical device accreditation. The Group also seeks to reduce this risk by keeping appraised with changes in the standards geographically, by seeking advice from regulatory advisers, consultations with regulatory approval bodies and by working with experienced partners.
Foreign exchange	The Group has transactional currency exposures. The Group has a US subsidiary, it makes purchases of inventory and incurs other costs in foreign currencies and makes sales denominated in Sterling, US Dollars and Euro.	Fluctuations in exchange rates between the Group's functional currency of Sterling and the currency of transactions could adversely impact the financial results. The US Dollar costs incurred by the US subsidiary are hedged by revenues invoiced in US Dollars. The Group has, when necessary, utilised foreign currency hedging instruments to mitigate the impact of unhedged currency fluctuations.
Credit risk	There is a risk of non-payment of debts due from customers and external distributors.	The Group aims to minimise its exposure to credit risk through a mixture of credit limits and credit checks on new customers and distributors and requiring up-front payments where appropriate.

KEY PERFORMANCE INDICATORS

The key performance indicators used to assess the performance and financial status of the Group are as follows:

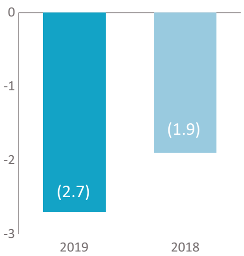
Financial

Revenue (£m)
Revenue from supply of Simulation products



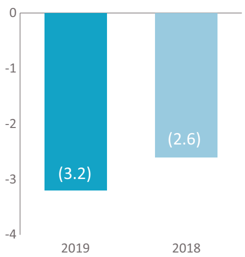
2019: Increase of 11%

Research & development expenditure (£m)
Total R&D expenditure including capitalised development costs



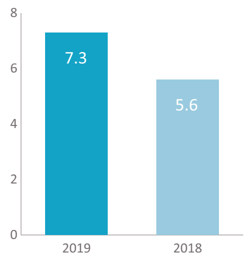
2019: Increase of 32%

Cash used in operations (£m)
Cash used in operations



2019: Loss increased by 23%

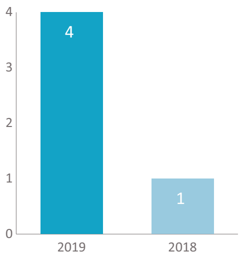
Cash, cash equivalents and short term deposits (£m)
Cash resources available



2019: Increase of 30%

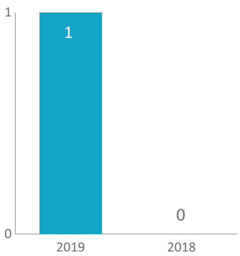
Operational

AI image database (million)
Total number of AI database ultrasound images



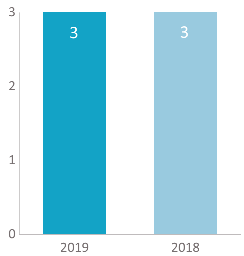
2019: Increase of 300% through internal & external image acquisition

AI partner agreements
Signed partner agreements in the year



2019: Long-term licence and co-development agreement with major OEM signed in July 2019

Number of AI products in development
The focus for 2019 and beyond is to deliver world-beating artificial intelligence software to support and guide medical professionals using ultrasound in a clinical environment.



2019: Continued to progress the development of our existing AI products

The Company is required by the Companies Act 2006 to include a Strategic Report in its Annual Report. The information that fulfils this requirement can be found from pages 1 to 18. Signed by order of the Directors on behalf of the Board.

The Strategic Report contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

This Strategic Report was approved by the Board on 14 May 2020 and signed on its behalf by:

Stuart Gall
Chief Executive Officer

Transforming ultrasound through AI

Riccardo Pigliucci, Non-Executive Chairman, *Appointed: 2012*

Riccardo has more than 30 years' experience of guiding private and publicly listed high technology companies and brings a wide range of experience in sales, marketing, operations, financing, acquisitions and public offerings within the medical sector. He is a former President, COO and Board Member of The Perkin Elmer Corporation, has served as CEO of Life Sciences International plc, Chairman and CEO of Discovery Partners International and was on the Board of several private and publicly listed companies including Dionex, a public company purchased by Thermo Fisher in December 2010, DVS Sciences, sold in January 2014 to Fluidigm and most recently Affymetrix, sold to Thermo Fisher in March 2016. Mr Pigliucci is a member of the UK Institute of Directors and has received a Professional Director Certification from the American College of Corporate Directors, a public company director education and credentialing organization.

Committees: *Ex-officio member of the Audit and Remuneration Committees.*

Executive Directors

Stuart Gall, Chief Executive Officer, *Appointed: 2009*

Stuart was a joint founder and executive director of Fusion IP plc, an AIM listed university IP commercialisation company, before its purchase by IP Group plc for £103 million in 2014. Stuart has a sales, marketing and general management background with over 25 years' experience in starting small technology led companies, fund raising for and managing SMEs and acting as an executive director for a number of public companies. Stuart is an engaging and motivational leader with an energetic management style and the drive and enthusiasm to 'tell the Intelligent Ultrasound story'. He also leads an active life outside work, taking part in running and cycling races throughout the year. In addition to Fusion IP, he has previously worked at British Airways plc, The Promotions Partnership Limited, Anvil Limited and Toad Group plc (now 21st Century Technology plc). Stuart attends regular external courses during the year to keeps his skills up to date and relevant.

Ian Whittaker, Chief Operating Officer, *Appointed: 2016*

Ian was formerly the CEO of Inventive Medical Ltd (IML), the cardio ultrasound simulation company which was acquired by the Company in August 2016. Ian previously held general management roles at Hewlett Packard (HP) in the UK and EMEA, living in Grenoble and Geneva for 5 years. He was appointed to the HP UK Board in 2001, working as Vice President for HP's UK Consumer, Imaging and Printing business, where he was closely involved in the integration of Compaq into the HP group following its acquisition in 2002. Since leaving HP in 2005, Ian worked with blue chip US technology companies and UK start-ups before being appointed CEO of IML in 2010 and COO of the Group in September 2016.

Nicholas Sleep, Chief Technology Officer, *Appointed: 2012*

Before joining the Group, Nicholas ran his own consultancy specialising in providing management support to early stage companies. Nicholas is a software engineer by background but has also run companies in areas as diverse as stem cell therapeutics and biofuels. Previous companies include The Technology Partnership Limited, Magnecell Limited, Procognia Limited (where he negotiated out-licensing deals with Qiagen and GE) and The Automation Partnership Limited (where he grew a £0.4m annual turnover business to over £3m in two years). Nicholas has a BscMEng from The University of Manchester and an MBA from Cranfield university school of management. Running the group's Artificial Intelligence division, Nicholas takes an active part in the national debate on both the benefits of machine learning for medical imaging and the roadblocks that need to be removed for this potential to be realised. He keeps his skills current by interaction with colleagues, internal training courses and regular attendance of clinical symposia.

Wilson Jennings, Chief Financial Officer, *Appointed: 2014, Resigned: 31 December 2019*

Wilson qualified as a Chartered Accountant with Deloitte Haskins & Sells in 1984. Wilson is a team player and problem-solver who has broad experience of setting up US and European operations from his time as Finance Director of Isis Research plc and spent 14 years as Finance Director and latterly Chief Executive Officer of AIM quoted 21st Century Technology plc. As a member of the ICAEW, Wilson continues his professional development to keep abreast of current financial and regulatory issues. Wilson retired from the Board on 31 December 2019.

Helen Jones, Chief Financial Officer, *Appointed: 1 January 2020*

Helen qualified as a Chartered Accountant with PwC in 2004 and has a BS(Hons) in French and Spanish. Before joining the Board, Helen was part of the senior finance team at Amerisur Resources plc, an AIM quoted oil and gas company and spent over 10 years in various senior group finance and tax roles within Tata Steel Europe. These roles enabled her to acquire experience in corporate acquisitions, restructurings and disposals as well as debt and equity transactions, IFRS and investor relations. Most recently she was significantly involved in the $350 million acquisition of Amerisur.

A Board with a broad range of skill and experience

Non-Executive Directors

Professor Nazar Amso, Non-Executive Director, *Appointed: 2004*

One of the founders of the Group, Nazar is an Emeritus Professor at Cardiff University. He has been a Fellow of the Royal College of Obstetricians and Gynaecologists since 1999 and Founding Fellow of the Higher Education Academy. Nazar has more than 25 years' experience in ultrasound education. At Cardiff University, Nazar pioneered integration of simulation into the ultrasound Masters' programme. Nazar is passionate about introducing ultrasound simulation into the undergraduate curriculum and has continuously championed that cause around the world. Nazar has been and remains on a number of national and international committees defining and setting standards in ultrasound practise. He is a recognised expert in the field of ultrasound, Chairs the Board's Medical Advisory Committee and brings a wealth of medical and training experience to the Board.

David Baynes, Non-Executive Director, *Appointed: 2011*

David is currently the Chief Operating Officer of IP Group plc. David was the joint founder and Chief Executive Officer of Fusion IP plc before its purchase by IP Group plc for £103 million in 2014. David has previously worked at Celsis International plc, Toad Group plc (now 21st Century Technology plc), which he co-founded, and Codemasters Limited. David's association with IP Group, which is a major shareholder in the Company, means that he does not qualify as an independent director, but he is a very welcome member of the Board who makes an invaluable contribution, bringing a wealth of corporate finance experience backed by clear strategic thinking and no shortage of common sense.

Committees: *Chairman of the Audit Committee, Remuneration Committee.*

Professor Nick Avis, Non-Executive Director, *Appointed: 2006*

Nick was the Scientific Director for the Group in its formative years. Nick's research interests include: interactive and real-time visualization and virtual/augmented reality systems; computational steering; application acceleration using many-core devices, remote rendering; interactive grid middleware and visual analytics of social media data. Nick has conducted many successful projects with both academic and industrial partners including JISC, HLRS, Electronics Visualization Lab, University of Chicago, Wuhan Technical University and Toyota Motor Corporation (Japan). In September 2013 he joined the University of Chester to establish the first new Faculty of Science and Engineering and in September 2018 was appointed Pro-Vice-Chancellor for Research and Knowledge Transfer. Nick is a member of the Engineering and Physical Sciences (EPSRC) peer review college and was previously a lay member of the Postgraduate Medical Education and Training Board (PMETB) and the General Medical Council (GMC). Nick has completed the Entrepreneurial University Leadership Programme.

Committees: *Audit Committee, Remuneration Committee.*

Andrew Barker, Non-Executive Director, *Appointed: 2017*

Andrew was formerly Chairman and acting CEO of Intelligent Ultrasound Limited (IUL). Andrew has over 30 years' experience in senior management of technology and software businesses and in venture capital, having been involved in the early stages of internet computing with Sun Microsystems in Silicon Valley, later going on to help build Intel's venture arm in the UK. He is an experienced NED and investor in early stage companies with disruptive technology. His portfolio has a med-tech focus and, in addition to his position as a director of the Company, Andrew is the Chairman of Brainomix and Oxford Brain Diagnostics, both University of Oxford medical imaging spin outs, and a Partner of Anchard Associates LLP. Andrew holds the Institute of Directors Certificate in Company Direction.

Committees: *Chairman of the Remuneration Committee, Audit Committee.*

Introduction

Intelligent Ultrasound is traded on the AIM market of the London Stock Exchange (LSE:MED). The Director's recognise the importance of sound corporate governance and are committed to maintaining high standards of corporate governance. As a company whose shares are admitted to AIM, the Board has adopted and complies with the Quoted Companies Alliance's Corporate Governance Code ("the QCA Code") to the extent that they consider them appropriate for a company of the size and nature of the Group, in establishing its corporate governance policies.

The QCA Code sets out 10 corporate governance principles and how to apply these principles, including a set of specific disclosures required in the Company's annual report and accounts or on its website. The Company's disclosures on its website ("the Website Disclosures") can be found at:

www.intelligentultrasoundgroup.com/wp-content/uploads/The-Companys-Application-of-the-QCA-Code.pdf

The narrative below sets out the QCA Code's 10 corporate governance principles and signposts where the related disclosures can be found in the annual report and accounts and/or on the website. It also includes a description of the areas in which the Company's governance structures and practices differ from the expectations set out by the QCA Code and changes in governance arrangements.

The Chairman's Corporate Governance Statement

The role of the Chairman

It is the role of the Board to ensure that Intelligent Ultrasound is managed for the long-term benefit of all its shareholders. Underpinning this are the corporate governance processes that have been put in place since IPO that are designed to ensure control, reduce risk and add long-term value whilst giving the shareholders the opportunity to express their views and expectations for the Group in a manner to encourage open dialogue. Ultimate responsibility for the quality of, and approach to, corporate governance lies with myself, as Chairman of the Board.

How the QCA Code is applied by the Group to support medium to long-term success

The Company applies the code to maintain the 10 principles set out in the QCA Code by:

1. Establishing a strategy and business model to promote long-term value for shareholders.
2. Seeking to understand and meet shareholder needs and expectations.
3. Taking into account wider stakeholder and social responsibilities and their implications for long term success.
4. Embedding effective risk management, considering both opportunities and threats throughout the organisation.
5. Maintaining the Board as a well-functioning, balanced team led by the Chairman.
6. Ensuring that between them the Directors have the necessary up-to-date experience, skills and capabilities.
7. Evaluating Board performance based on clear and relevant objectives, seeking continuous improvement.
8. Promoting a corporate culture based on ethical values and behaviours.
9. Maintaining governance structures and processes that are fit for purpose and support good decision-making by the Board.
10. Communicating how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

Areas in which the Company's governance structures and practices differ from the expectations set out by the QCA Code and proposed changes in governance arrangements

Understanding shareholder needs and expectations

The Company's shareholders include a number of private individuals who have invested though VCT/EIS and other investments funds and it is not possible to engage with all elements of the Company's shareholder base to gain an understanding of their needs and expectations. However, the directors (principally the CEO and CFO) endeavour to meet with major shareholders and engage with others at presentations made to groups of shareholders. All Directors attend the Company's Annual General Meeting with shareholders. Existing and potential investors are also invited to contact the Company about any investor relations matter by emailing intelligentultrasound@walbrookpr.com.

Requirement to have at least two independent Non-executive Directors on the Board

The Board has identified two Non-executive Directors who it considers to be independent, Nick Avis and Andrew Barker. Nick Avis has served on the Board for more than 9 years, but, for the foreseeable future, will continue to offer himself up for re-election each year. Both Nick Avis and Andrew Barker participate in share option schemes in the Company, but the value of their share options is not significant, relative to their respective personal financial position, and their remaining un-lapsed options vest after set time periods with no dependence on any Company performance measure. Currently no Senior Independent Director has been appointed, but the Board continues to evaluate a possible appointment.

The Board should understand and challenge its own diversity, including gender balance, as part of its composition

The Board includes some diversity in terms of the background and ethnicity of each director, however, up until 31 December 2019 there were no female members of the Board. The Board has addressed this post year end with the appointment of a female CFO to replace Wilson Jennings. The Group will look to further increase the diversity of the Board when seeking to appoint additional, appropriately qualified, directors in future.

Key governance related matters that have occurred during the year

Towards the end of the year we appointed an external advisor to conduct a full review of the Board and its performance. The review is currently on going and it is expected that it's recommendations will be implemented during 2020.

This report sets out in broad terms how we comply with the QCA code at this point in time. We will provide annual updates on our compliance with the Code.

Riccardo Pigliucci
Chairman
14 May 2020

The 10 principles of the QCA Code and related disclosures

Deliver Growth

1. Establish a strategy and business model which promote long-term value for shareholders

The Group's business model is set out in Part III, section 1 of the Website Disclosures. Additional detail on the Group's business model and strategy to deliver shareholder value in the medium to long-term is discussed in the Strategic Report. The section Principle risks and uncertainties includes a discussion of the key challenges facing the Group and how these will be addressed.

2. Seek to understand and meet shareholder needs and expectations

The approach taken by the Company to understand and meet shareholder needs and expectations is set out in Part III, section 2 of the Website Disclosures.

3. Take into account wider stakeholder and social responsibilities and their implications for long-term success.

The way the Company takes into account its stakeholder and social responsibilities is discussed in Part III, section 3 of the Website Disclosures.

4. Embed effective risk management, considering both opportunities and threats throughout the organisation.

Part III, section 4 of the Website Disclosures provides a detailed narrative of the Group's approach to risk management covering: identification, rating and mitigation of risk, financial controls, staff policies and procedures and roles and responsibilities.

Maintain A Dynamic Management Framework

5. Maintain the Board as a well-functioning, balanced team led by the Chairman

The Board comprises the Non-executive Chairman, four Executive Directors and four Non-executive Directors. The Board considers that Nick Avis and Andrew Barker are independent Directors. Currently no Senior Independent Director has been appointed, but the Board continues to evaluate a possible appointment.

The Board meets in person at least six times each year with additional meetings when circumstances and urgent business dictate. At these meetings the Board reviews a schedule of reserved matters including trading performance, budgets, financial strength, strategy (including investment and acquisition opportunities), risk management, controls, compliance, reports to shareholders, succession issues and recruitment of senior management. In addition, the Board has pre-scheduled meetings by conference call to keep the directors informed of operational developments in the months when in-person meetings are not scheduled.

It is the responsibility of the Company Secretary (supported by reports submitted by the other Executive Directors) to provide the Board with high quality information in a timely manner to facilitate the proper assessment of the matters requiring a decision or insight.

All the Directors have access to the advice and services of legal counsel. Each director is entitled, if necessary, to seek independent professional advice at the Company's expense. In addition, the Directors have direct access to the advice and services of the Company Secretary.

The Board has established Audit and Remuneration Committees with formally delegated duties and responsibilities. The Audit Committee comprises David Baynes as Chairman along with Riccardo Pigliucci, Professor Nick Avis and Andrew Barker. The Remuneration Committee comprises Andrew Barker as Chairman along with Riccardo Pigliucci, Professor Nick Avis and David Baynes.

The Audit Committee has primary responsibility for monitoring the quality of internal controls and ensuring that the financial performance of the Group is properly measured and reported on. It receives and reviews reports from the Group's management and external auditors relating to the interim and annual accounts and accounting and internal control systems in use throughout the Group. The Audit Committee meets at least twice in each financial year and has unrestricted access to the Group's external auditors.

The Remuneration Committee reviews the performance of the Executive Directors and makes recommendations to the Board on matters relating to their remuneration and terms of service. The Remuneration Committee also makes recommendations to the Board on proposals for the granting of share options and other equity incentives pursuant to the employee share option schemes or equity incentive plans in operation from time to time. The Remuneration Committee meets at least twice each year to set targets for the Executive Board and review their remuneration.

The Executive Directors are employed full-time by the Group, although the CEO, Stuart Gall also works as a consultant to IP Group plc for one day each month however this commitment ended on 30 April 2020. The Chairman is contracted to work for the Company for 48 days per annum, Professor Nick Avis and Andrew Barker are contracted to work for the Company for 20 days per annum and David Baynes and Professor Nazar Amso are contracted to work for the Company for 12 days per annum.

6. Ensure that, between them, the Directors have the necessary up-to-date experience, skill and capabilities

The Board is satisfied that, between the Directors, it has an effective and appropriate balance of skills and experience, including in the areas of innovation, software development, the use of medical ultrasound, finance, marketing, international trade and corporate acquisitions.

The Board includes some diversity in terms of the background and ethnicity of each director and during 2019 there were no female members of the Board, although this has now been addressed with the appointment of Helen Jones replacing Wilson Jennings as the CFO from 1 January.

The Directors' biographies including details required by the QCA Code are provided in the previous section.

7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

The manner in which the performance of each member of the Board is measured and evaluated is set out in Part III, section 7 of the Website Disclosures. The Website Disclosures also make reference to succession planning considerations.

8. Promote a corporate culture that is based on ethical values and behaviours

The Board has introduced an ethics policy which forms part of the Group's Staff Handbook and a breach of the policy by any member of staff would result in disciplinary action to ensure that the Company's ethical values and behaviours are recognised and respected. A summary of the policy is set out in Part III, section 8 of the Website Disclosures.

9. Maintain good decision-making by the Board

Part III, section 9 of the Website Disclosures sets out the Group's governance structures and processes that have been put in place to support good decision making by the Board.

Build Trust

10. Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

The Company's strategy for maintaining a dialogue with shareholders and other relevant stakeholders is set out in Part III, section 10 of the Website Disclosures.

Number of Committee meetings held and attended during 2019:

	Board meeting	Board call	Audit Committee	Remuneration Committee
Number of meetings in 2019	**6**	**6**	**2**	**3**
Chairperson	**RP**	**RP**	**DB**	**AB**
Riccardo Pigliucci	6	6	2	3
Nazar Amso	6	6	N/a	N/a
Stuart Gall	6	6	N/a	N/a
Wilson Jennings	6	6	N/a	N/a
Ian Whittaker	6	6	N/a	N/a
Nicholas Sleep	6	6	N/a	N/a
Andrew Barker	6	6	2	3
Nicholas Avis	5	6	2	3
David Baynes	6	6	2	3

This report covers activities of the Audit Committee in 2019 and in the period up to the approval of the 2019 Annual Report and Accounts (together, the 'period').

The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors. The Company's management has the primary responsibility for the financial statements, for maintaining effective internal control over financial reporting, and for assessing the effectiveness of internal control over financial reporting. In fulfilling its oversight responsibilities, the Committee reviewed and discussed the audited consolidated financial statements included in this Annual Report with management and the Group's external auditor, including a discussion of the quality, not just the acceptability, of the accounting principles; the reasonableness of significant judgments; and the clarity of disclosures in the financial statements.

The Committee is governed by its Terms of Reference, a copy of which can be found on the Company's website at: https://www.intelligentultrasoundgroup.com/wp-content/uploads/Audit-Committee-Terms-of-Reference.pdf

Members of the Committee

The Committee is chaired by David Baynes and includes two independent Non-executive Directors, Nick Avis and Andrew Barker, along with the Chairman of the Board, Riccardo Pigliucci. For this purpose 'independent' means that, apart from Directors' fees and interests in shares and share options in the Company, Nick and Andrew are independent of management, independent in character and judgement and free from any business or other relationship or circumstance which is likely to affect, or could appear to affect the exercise of their independent judgement as Committee members. The Chair of the Committee, David Baynes, has recent and relevant financial experience.

The Group's external auditor

The Audit Committee recognises the importance of maintaining the independence of the Group's external auditor, both in fact and appearance. Each year, the Committee evaluates the qualifications, performance and independence of the Group's external auditor and determines whether to re-engage the current auditor. In doing so, the Audit Committee considers the quality and efficiency of the services provided by the auditors, the auditors' global capabilities and the auditors' technical expertise and knowledge of the Group's operations and industry.

Internal audit

The Group does not have an internal audit function, as the Board does not consider the current scale of operations warrant such a function. However, the Board will keep this under review, with a view to creating an internal audit function when it is warranted.

Audit Committee meetings

The Committee has held three full meetings since the publication of the 2018 Report & Accounts.

The membership of the Audit Committee, together with appointment dates and attendance at meetings, is set forth below:

Member	Committee member since	Attendance at full meetings held since publication of the prior year Report & Accounts
David Baynes (Chair)	14 August 2014	3/3
Nick Avis	14 August 2014	3/3
Andrew Barker	1 January 2018	3/3
Riccardo Pigliucci	14 August 2014	3/3

The meetings of the Committee are designed to facilitate and encourage communication among the Committee, the Company, and the external auditor. The Committee discussed with the external auditor the overall scope and plans for their audit and the key audit risks identified at the audit planning stage at a meeting held on 17 December 2019.

The Committee subsequently met with the external auditor (with and without the CFO present) on 18 March 2020 to discuss the draft Report & Accounts 2019, results of their examinations to that date; their evaluation of the Company's internal control and the overall quality of the Company's financial reporting.

The Committee also reviewed and discussed together with management and the external auditor the effectiveness of the Group's internal control over financial reporting and the auditor's audit of internal control over financial reporting.

Financial reporting

The Committee has reviewed, with both management and the external auditor, where the more significant judgements have been made and the quality and appropriateness of the Group's accounting policies. The Committee has also reviewed the assumptions and provided assurance to support the going concern statement. The Board has adopted the going concern basis in preparing these financial ftatements and considers that the Group is able to continue in operation and meet its liabilities as they fall due for at least the next 15 months.

Approval of the financial statements

The Audit Committee has concluded that it has acted in accordance with its Terms of Reference. At the meeting on 18 March 2020 the Audit Committee considered each section of these report and accounts and the document as a whole, as proposed by the Company and subsequent to a review of the final draft of the report and accounts; it reached the conclusion and advised the Board that it considered the 2019 Annual Report & Accounts to be fair, balanced and understandable and, combined with the QCA Code Website Disclosures, provided the information necessary to assess the Group's business plan and strategy. The Chair of the Audit Committee will be available at the 2020 AGM to answer any questions about the work of the Committee.

Approval

This report was reviewed and approved by the Audit Committee and signed on its behalf by:

David Baynes
Chair of the Audit Committee
14 May 2020

This report to shareholders sets out the Company's remuneration practices and how they align the interests of senior management with those of shareholders and also outlines the Executive Directors' bonus scheme for the current year which is designed to underpin the Company's objective to provide shareholder value.

The Remuneration Committee is responsible for determining and reviewing compensation arrangements for the Directors. The Committee ensures that the remuneration practices of the Company move towards best practice in light of the Company's size and profile and with the interests of shareholders.

As an AIM-quoted company, the information provided is disclosed to fulfil the requirements of AIM Rule 19. The Company is not required to comply with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008; however, it is committed to achieving high governance standards.

The information is unaudited except where stated.

The Committee includes two independent Non-executive Directors, Nick Avis and Andrew Barker (Chair), along with David Baynes and the Chairman of the Board, Riccardo Pigliucci.

The Terms of Reference of the Remuneration Committee are available on the Company's website at:

https://www.intelligentultrasoundgroup.com/wp-content/uploads/Remuneration-Committee-Terms-of-Reference.pdf

Directors and their interests

The Directors' interests in the shares of the Company are detailed below: -

	1p ordinary shares held at 31 December 2019	% of issue Ordinary share capital (219,996,792 ordinary Shares)	1p ordinary shares held at 1 January 2019	% of issued ordinary share capital (156,627,749 ordinary shares)
	No.		No.	
Nazar Amso[1]	**1,134,000**	0.52%	**1,084,000**	0.69%
Stuart Gall[1]	**828,236**	0.38%	**628,236**	0.40%
Wilson Jennings[1]	**394,118**	0.18%	**294,118**	0.19%
Ian Whittaker[1]	**374,982**	0.17%	**349,982**	0.22%
Nicholas Sleep[1]	**326,471**	0.15%	**226,471**	0.14%
Andrew Barker	**317,992**	0.14%	**317,992**	0.20%
Nicholas Avis[1]	**225,000**	0.10%	**200,000**	0.13%
Riccardo Pigliucci	**117,648**	0.05%	**117,648**	0.08%

[1]These Directors acquired a total of 500,000 shares via the Placing in August 2019.

In addition to the above, Professor Nazar Amso is the beneficial holder of 180,000 shares representing 0.08% (2018: 0.11%) of the issued share capital through The Amso Trust and Professor Amso's spouse holds 120,000 shares representing 0.05% (2018: 0.08%) of the issued share capital.

Parties related to Professor Nicholas Avis hold 141,177 shares representing 0.06% (2018: 0.09%) of the issued share capital.

Director’s remuneration

The Committee aims to ensure that the total remuneration for Executive Directors is designed to:

- be competitive and to attract, retain and motivate executives of a high calibre;
- be appropriate to the scale of their responsibility;
- provide for a significant element of “at risk” performance-related pay;
- ensure Directors identify with the interests of shareholders; and
- are fairly remunerated in the light of their own personal performance, their contribution to the Group’s overall performance and, where appropriate, the performance of the divisions for whose performance they are individually directly responsible.

The remuneration package for Executive Directors comprises:

- basic salary;
- pension allowance;
- performance related bonuses;
- share-based incentives; and
- other benefits.

The Directors’ remuneration (audited) for the year ended 31 December 2019 was:

	Salaries & fees	Bonus	Pension allowance	Travel & accommodation allowance	Other benefits	Total 31 December 2019	Total 31 December 2018[1]
	£	£	£	£	£	£	£
Riccardo Pigliucci	54,558	—	—	—	—	**54,558**	53,750
Nazar Amso	20,000	—	—	—	—	**20,000**	60,000
Nicholas Avis	20,000	—	—	—	—	**20,000**	14,530
Andrew Barker	20,000	—	—	—	—	**20,000**	18,505
David Baynes	20,000	—	—	—	—	**20,000**	13,667
Stuart Gall[3]	183,340	27,501	18,334	14,550	1,953	**245,678**	238,030
Wilson Jennings[2]	136,919	20,858	13,692	21,280	—	**192,749**	189,230
Nicholas Sleep[3]	157,426	23,175	15,743	25,240	422	**222,006**	213,304
Ian Whittaker[3]	139,050	10,429	13,905	—	4,422	**167,806**	168,750
Total	**751,293**	**81,963**	**61,674**	**61,070**	**6,797**	**962,797**	**969,766**

[1]restated to exclude share-based payment charges
[2]resigned 31 December 2019
[3]Post year end these Directors voluntarily deferred payment of their bonus in light of Covid-19

In 2018 fees of £60,000 in respect of medical advisory services provided by Professor Amso were paid to Medical and Educational Academy Limited, a company which is wholly owned by Professor Amso’s wife. No equivalent fees were paid in 2019.

Mr Baynes and Mr Gall each hold an interest in IP Group plc. The £20,000 fees in respect of the services provided by Mr Baynes were paid to IP Group plc (2018: £13,667).

Basic salary

Salary and benefits are reviewed annually by the Committee and benchmarked against comparable roles in the sector and general market conditions.

Pensions

Each Executive Director receives a pension allowance equivalent to 10% of their basic salary.

Performance related bonuses

i) 2019 Bonus Plan

The Executive Directors could each earn up to the equivalent of approximately 20% of their basic salary on the successful achievement of agreed targets. However, the Directors agreed to pass 25% of their potential bonus to Group staff, as appropriate. As such the 2019 bonus plan was as follows:

Executive Director	2019 Targets	Achieved
CEO and CFO	• Increase the share price of the Company by over 50% • Year-end cash higher than forecast	100%
Chief Technical Officer	• At least one significant OEM contract for supply of the Group's ScanNav Software to be signed during the year • AutoCapture and Anatomy Guide to be in the regulatory approval process in a timely manner	100%
Chief Operating Officer	• Achieve target growth in Simulation Division sales • Simulation Division to achieve target EBITDA	50%

The Committee may exercise its discretion over up to 50% of the potential bonus payment.

Post year end, in light of the ongoing Covid-19 crisis, Stuart Gall, Ian Whittaker and Nicholas Sleep voluntarily agreed to defer the payment of their 2019 bonus.

ii) 2020 Bonus Plan

Each Executive Director can earn up to 15% of their base salary on the successful achievement of the following:

- The first 50% is based on hitting the 2020 City targets of £7.3m Group turnover, first AI product launched to market and second material AI agreement signed with an OEM;
- The second 50% is based on each executive director hitting individual divisional and corporate targets as agreed by the Committee at the beginning of the year; and
- An additional bonus of up to 15% could also be paid on the achievement of exceptional performance targets, set by the Committee

The Committee may exercise its discretion over up to 50% of the potential 15% bonus payment, but not over the exceptional performance.

Directors' interests in share options

At 31 December 2019 the following options had been granted to the Directors and remain current and unexercised:

	Option exercise price	Balance as at 1 January 2019	Balance as at 31 December 2019	Expiry date
Nazar Amso	16.508p	84,000	84,000	16 March 2021
Nazar Amso	19.0p	80,000	80,000	1 May 2023
Nazar Amso	42.5p	150,000	150,000	30 June 2024
Nick Avis	16.508p	84,000	84,000	16 March 2021
Nick Avis	42.5p	40,000	40,000	30 June 2024
Andrew Barker	16.22p	135,000	135,000	6 October 2027
Stuart Gall	19.0p	268,000	268,000	1 May 2023
Stuart Gall	42.5p	324,000	324,000	30 June 2024
Stuart Gall	11.25p	2,437,000	2,437,000	29 May 2028
Wilson Jennings	42.5p	200,000	200,000	30 June 2024
Wilson Jennings	11.25p	1,000,000	1,000,000	29 May 2028
Riccardo Pigliucci	19.0p	216,000	216,000	1 May 2023
Riccardo Pigliucci	42.5p	80,000	80,000	30 June 2024
Nicholas Sleep	19.0p	268,000	268,000	1 May 2023
Nicholas Sleep	42.5p	260,000	260,000	30 June 2024
Nicholas Sleep	11.25p	1,605,000	1,605,000	29 May 2028
Ian Whittaker	20.5p	200,000	200,000	4 April 2027
Ian Whittaker	11.25p	1,000,000	1,000,000	29 May 2028

The vesting conditions are detailed in Note 24 of the financial statements.

Other benefits

The Executive Directors are offered life insurance and private healthcare insurance.

Non-executive Directors

The salary of the Chairman is determined by the Board excluding the Chairman and the salaries of the Non-executive Directors are determined by the Board excluding the Non-executive Directors following a recommendation from the Chairman of the Remuneration Committee.

The Non-executive Directors, other than David Baynes, have been awarded share options in previous years.

Approval of the Remuneration Committee Report

The Chair of the Committee will be available at the 2020 AGM to answer any questions about the Group's senior management remuneration policies and practices. This report was reviewed and approved by the Remuneration Committee and signed on its behalf by:

Andrew Barker
Chair of the Remuneration Committee
14 May 2020

The Directors present their report and audited consolidated financial statements of Intelligent Ultrasound Group plc (the "Company" or the "Group") for the year ended 31 December 2019.

Principal activities

The Company is incorporated as a public limited company and is registered in England and Wales with registered number 09028611. Its registered office is at Cardiff Medicentre, Heath Park, Cardiff, CF14 4UJ.

The Group's principal activities are the development, marketing and distribution of medical training simulators and the development of clinical ultrasound software.

Information included in the Strategic report

The Directors have chosen to set out the following information in the Strategic report which would otherwise be required to be contained in the Directors' report:

- performance of the business;
- financial review;
- principal risks and uncertainties; and
- likely future developments.

Results and dividends

The consolidated financial statements incorporate the results of the Company and its subsidiary undertakings. The Group's results for the year ended 31 December 2019 are shown in the Statement of Comprehensive Income. The Directors do not recommend the payment of a dividend.

Research and development

The Group's research and development activity plays an important role in the operational and financial success of the business. The Group spent £2,709,207 (2018: £1,854,532) on research and development activities of which £2,044,540 (2018: £1,341,861) was expensed and £485,249 (2018: £512,671) was recognised as a development cost asset. The Group received research and development grant income during the year of £157,314 which has been included in Other Income in the Consolidated Statement of Comprehensive Income (2018: £310,475).

Financial risk management objectives and policies

A description of the Group's financial risk management objectives and policies is included in Note 27 to the financial statements.

Going concern

The financial statements have been prepared on a going concern basis. The Group meets its day-to-day working capital requirements from its cash reserves. Post year end on 4 May shareholders approved an equity placing to raise £4.8m net of transaction costs which ensures that the Group has sufficient funds to continue to trade for at least the next 15 months, taking into account a number of potential outcomes of how Covid-19 will impact the Group in the short to medium term.

Directors and their interests

The following Directors have held office during the year and up to date of this report:

Nazar Amso

Nicholas Avis

Andrew Barker

David Baynes

Stuart Gall

Wilson Jennings (resigned 31 December 2019)

Riccardo Pigliucci

Nicholas Sleep

Ian Whittaker

Helen Jones (appointed 1 January 2020)

The Directors' interest in shares, share options and their remuneration is set out in the Remuneration report.

Insurance

The Company has made qualifying third party indemnity provisions for the benefit of its Directors, which remain in force at the date of this report and throughout the year. Directors' and officers' liability insurance is provided for all Directors of the Company.

Auditors

The auditors, BDO LLP, have indicated their willingness to continue in office and a resolution for their re appointment will be proposed at the forthcoming Annual General Meeting.

Corporate governance

The Company's statement on corporate governance can be found in the Corporate Governance Report. The report forms part of this Directors' report and is incorporated into it by cross-reference.

Substantial shareholdings

The following shareholders held 3% or more of the issued share capital of the Company as at 7 May 2020, following the equity placing:

Shareholder	Number of shares	% of issued capital (as at date of notification)
IP Group	56,740,641	21.06
Parkwalk Advisors	36,000,000	13.36
Octopus Investments	31,403,500	11.66
Polar Capital	21,500,000	9.73
Amati Global Investors	15,869,000	5.89
Herald Investment Management	9,481,900	3.52
Canaccord Genuity Wealth Management	9,444,400	3.51
Rathbones	8,279,088	3.07

Statement as to disclosure of information to the auditor

The Directors who were in office on the date of approval of these financial statements have confirmed:

- as far as they are aware, that there is no relevant audit information of which the auditor is unaware.
- each of the Directors has confirmed that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

The Directors' report was approved by the Board on 14 May 2020 and signed on its behalf by:

Helen Jones
Chief Financial Officer and Company Secretary

14 May 2020

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 elected to prepare the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

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 they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The Directors are responsible for ensuring the Annual Report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Each of the Directors confirms that, to the best of their knowledge:

- the Group and Company financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position of the Group and the Company and of the profit or loss of the Group;
- the Strategic report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces;
- so far as the Director is aware, there is no relevant audit information of which the Group's auditor is unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's auditors is aware of that information.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

This responsibility statement was approved by the Board on 14 May 2020 and is signed on its behalf by:

Helen Jones
Chief Financial Officer and Company Secretary
14 May 2020

Opinion

We have audited the financial statements of Intelligent Ultrasound Group plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2019 which comprise the Group Statement of Comprehensive Income, Group and parent company Statement of Changes in Equity, Group and Parent Company Statement of Financial Position and Group and Parent Company Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements 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 the 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 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.

Going concern

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key matter
Impairment of intangible assets Inventive Medical Limited (IML) Intelligent Ultrasound Limited (IUL) *Note 12* In 2016 the IML acquired intellectual property, the carrying value of which is £1.3m as at 31 December 2019. Additionally, the IUL acquired intangible fixed assets the carrying value of which is £1.1m as at 31 December 2019. These assets are considered for impairment annually. Both subsidiaries have been historically loss making, and this is an impairment indicator under IAS 36. The valuation of assets for which there is no active market is inherently an area with a high level of judgement by management.	We have performed detailed testing on the discounted cash flow calculations provided by management, to support the carrying value of each of the intangible assets held in the balance sheet. The assets acquired in IML are currently being used to generate cash flows. We have tested management's forecasts against a number of different trading scenarios such as reduced revenues and increased costs. We corroborated the discount rate used to third-party evidence and performed sensitivity analysis on that discount rate. The assets acquired in IUL are not currently being used to generate cash flows, but are being used in product development. We critically evaluated the cash flows associated with the assets acquired in IUL. This testing took the form of stress testing management cash-flow models against potential down-side scenarios such as delays to product development, missing revenue targets and cost overruns. We then compared the asset valuations in both divisions against the carrying values in the accounts. We have observed tangible evidence that the product in which the acquired intangibles in IUL are used is in final development stages and that production is on target for a late 2020 launch. **Key observations:** We did not identify any material misstatements around the valuation of acquired intangible assets in IML and IUL.

Key audit matter	How our audit addressed the key matter
Going concern **Group** The group have historically been loss making and required additional funding to continue development of new products. There have been operating and investing cash outflows from the group of £4.3m in 2019 (2018: £3.5m). The preparation of the going concern assessment by management includes significant judgements and the audit work in this area includes judgement in evaluation the results of the work performed. The audit team have identified a risk that the group has insufficient funds to meet its short term needs. In the spring of 2020 the full impact of Covid-19 is unknown but it is clear that hospitals will divert funds towards front line treatment and away from investment in the short term. This could result in further reductions in revenues generated by the group and put additional pressure on cash reserves. In response to this Management provided a number of revised scenarios modelling revenue loss but identifying key areas of cost saving. In May 2020, management sought additional funding from shareholders in order to continue their operations. This resulted in a net cash inflow of £4.8m. This new funding was factored into management's forecasts and as disclosed in Note 3, management have concluded that there are sufficient funds, taking into account the estimated impact of COVID-19, to continue operating for at least the next 15 months.	We obtained management's going concern assessment, which forecast cash flows for the next five years. These indicated that the Group had sufficient cash to operate for at least 15 months past the date of signing the financial statements. This is in large part due to the cash injection received from the share issue on 4 May 2020. We identified the key risks to the continued operation of the group to be liquidity and cash-flow. Management prepared cash flow forecasts which we used to calculate the number of months of operating cash-flows that the Group had on the balance sheet at the end of the financial year, including future cash inflows. We performed stress testing on the key assumptions included within those forecasts. A number of scenarios were considered including significantly reduced revenues as a result of the COVID-19 pandemic. We assessed management's ability to produce accurate forecasts by comparing financial performance in 2019 against the original budget produced in 2018. We also compared management's April 2020 outturn against the revised budget for that month. This showed that revenue was ahead of budget. We performed detailed testing on the cost reductions figures by agreeing these back to historic and current costs. We reviewed the disclosures in the financial statements relating to going concern in the Directors' Report and Accounting Policies to ensure that they were consistent with audited forecasts. **Key observations:** A going concern basis of preparation is appropriate and no material uncertainty has been identified.

Key audit matter	How our audit addressed the key matter
Impairment of investments in subsidiaries IUG (Company) *Note 14* The Company holds investments in subsidiaries of £5.3m (2018: £5.2m). These are valued at cost less impairment in line with the Group's stated accounting policies. Management have identified impairment indicators in line with IAS 36 and have used discounted cash flows to calculate the fair value of these investments. The valuation of assets for which there is no active market is inherently an area with a high level of judgement by management.	Management produced an accounting paper setting out the treatment of impairments against the reporting standard (IAS 36). This compared the carrying value of assets to the higher of fair value less cost to sell and value in use. We considered the inputs into management's cash-flow model. To do this we corroborated assumptions where possible, such as the current stage of new product development, by agreeing to customer submissions. Where such evidence did not exist, we held discussions with the Board and compared forecast performance with historical performance. The key assumptions made by management are the discount rates, revenue growth and development progress on Clinical Division products. We corroborated the discount rate used to third-party evidence and performed sensitivity analysis on that discount rate. We tested the revenue assumptions by conducting sensitivity analysis using professional judgement to simulate adverse movements in revenue streams. We also compared forecast revenues to historic actual revenues. Management performed their own sensitivity analysis which supported their conclusion that no impairment to the carrying value of investments was required. We considered the scenarios selected by management for their sensitivity against our knowledge of the business. **Key observations:** Our audit procedures did not identify any material misstatements in the carrying value of investments in subsidiaries.
Impairment of intercompany loans IUG (Company) *Note 16* The provisions of IFRS 9 require that intercompany loans not be distinguished from third-party loans. The Directors have considered the recoverability of intercompany debtors in the parent company accounts. The Directors consider that a provision is required against these loans, as the subsidiaries do not have sufficient liquidity to settle the debt if demanded. The carrying value of these loans and the impairment booked is shown in Note 16.	Management prepared an accounting paper in line with IFRS 9 (Financial Instruments) setting out their rationale for deciding to impair intercompany loans by £1.2m. We compared the methodology used in the paper to the accounting standard. The subsidiaries of the parent are loss making and therefore, the loans to the parent were deemed to be credit impaired. We considered management's estimates over the future cash flows for each division by testing the assumptions around revenue growth against stress-tested forecasts considering the impact by reducing revenues by 20% and 50%. We were able to agree assumed discount rates and product development to third party evidence. We also included all three assumptions as adjusted metrics in our own sensitivity analyses. In arriving at their conclusions, management produced cash-flow models to forecast financial performance of the two cash generating units – the Simulation Division and the Clinical Division. In addition, management prepared models to simulate over and underperformance. We used professional judgement to assess the reasonableness of management's judgement over the likelihood of different scenarios occurring and checked the accuracy of weighted average calculations. We simulated the fall in revenue by reducing management's expectations by up to 50% in 2020 and then continuing historical growth at 20% pa from 2021. We looked at the impact of delays by assuming that key Clinical Division products were delayed in roll out by 12 months and the impact this would have on falling revenues and an additional year of development costs. **Key observations:** Our audit did not highlight any material misstatements in the impairment of intercompany loans.

Our application of materiality

	Materiality FY2019	Materiality FY2018	Basis for Materiality
Group	£90,000	£81,000	Materiality has been based on 1.5% of Group revenue (2018 – 1.5%) which we consider to be an appropriate benchmark as the Group is currently loss making.
Parent Company	£89,000	£80,000	Materiality has been based on 4% of Net Assets of the parent company (2018 – 4%) which we consider to be an appropriate benchmark as the primary function of the parent company is as a holding company. Parent company materiality has however, been capped at 99% (2018 - 98%) of Group materiality.

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

We have set Performance Materiality at £62,000 (2018 - £61,000), which is 70% (2018 – 75%) of Materiality. Performance Materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

For each significant component in the Group we allocated a planning materiality lower than our overall Group planning materiality in the range of £14,000 to £79,000 with a similar restriction of 70% for performance materiality. The materiality level was calculated by reference to a proportion of Group materiality appropriate to the relative scale of the component concerned, based on revenue.

We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of £1,800 (2018: £1,600). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

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

We have undertaken a full scope audit of all components and therefore we have covered 100% of the Group’s revenue and net assets.

Whilst materiality for the financial statements as a whole was £90,000, each component of the Group (including the parent company) was audited to a lower level of materiality.

Other information

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

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

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, set out on page 34, 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's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Sarah Joannidi (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Bristol

14 May 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2019

	Note	2019	2018
		£	£
Continuing operations			
REVENUE	7	**5,915,671**	5,313,164
Cost of sales		**(2,462,207)**	(2,479,781)
GROSS PROFIT		**3,453,464**	2,833,383
Other income		**157,314**	310,475
Administrative expenses excluding exceptional costs		**(8,168,711)**	(7,120,434)
Exceptional administrative items	8	**–**	362,718
Total administrative expenses		**(8,011,397)**	**(6,447,241)**
OPERATING LOSS	8	**(4,557,933)**	(3,613,858)
Finance costs		**(2,002)**	(7,402)
LOSS BEFORE TAXATION		**(4,559,935)**	(3,621,260)
Taxation	9	**337,517**	203,796
LOSS ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE PARENT		**(4,222,418)**	(3,417,464)
OTHER COMPREHENSIVE INCOME			
Items that will or may be reclassified to profit or loss:			
Exchange (loss)/gain arising on translation of foreign operations		**(33,453)**	844
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**(33,453)**	844
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE PARENT		**(4,255,871)**	(3,416,620)
LOSS PER ORDINARY SHARE (PENCE) ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE PARENT			
Basic and diluted	11	**(2.37)p**	(3.59)p

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

STATEMENTS OF FINANCIAL POSITION
as at 31 December 2019

	Note	Group			Company		
		2019	2018 Restated	2017 Restated	2019	2018 Restated	2017 Restated
		£	£	£	£	£	£
NON-CURRENT ASSETS							
Intangible assets	12	**2,331,779**	2,886,562	**3,366,477**	**—**	—	—
Property, plant and equipment	13	**544,775**	417,732	**312,506**	**—**	—	—
Investments in subsidiaries	14	**—**	—	—	**5,310,133**	5,184,133	**8,586,133**
Trade and other receivables	16	**—**	—	—	**4,013,498**	475,919	**6,076,828**
		2,876,554	3,304,294		**9,323,631**	5,660,052	**14,662,961**
CURRENT ASSETS							
Inventories	15	**663,240**	851,491	**413,244**	**—**	—	**—**
Trade and other receivables	16	**2,699,608**	1,912,975	**1,709,436**	**100,122**	96,098	**48,753**
Current tax assets		**147,517**	80,302	**—**	**—**	—	**—**
Investments (short term deposits)	17	**5,500,000**	—	**—**	**5,500,000**	—	**—**
Cash and cash equivalents	18	**1,790,318**	5,607,052	**4,250,198**	**60,388**	4,761,668	3,419,431
		10,800,683	8,451,820	**6,372,878**	**5,660,510**	4,857,766	3,468,184
TOTAL ASSETS		**13,677,237**	11,756,114	**10,051,861**	**14,984,121**	10,517,818	18,131,145
CURRENT LIABILITIES							
Trade and other payables	19	**(1,670,029)**	(1,342,196)	**(1,932,968)**	**(211,221)**	(207,177)	**(1,047,735)**
Deferred income	20	**(325,177)**	(311,496)	**(207,684)**	**—**	—	**—**
Lease liabilities	13	**(53,095)**	—	**—**	**—**	—	**—**
Current tax liabilities		**—**	(100,000)	**—**	**—**	—	**—**
Provisions	21	**(94,776)**	(68,972)	**(80,555)**	**—**	—	—
		(2,143,077)	(1,822,664)	**(2,221,207)**	**(211,221)**	(207,177)	(1,047,735)
NON-CURRENT LIABILITIES							
Deferred income	20	**(108,680)**	(160,074)	**(90,381)**	**—**	—	**—**
Deferred taxation	22	**(287,994)**	(377,994)	**(467,994)**	**—**	—	**—**
Lease liabilities	13	**(20,340)**	—	**—**	**—**	—	**—**
		(417,014)	(538,068)	**(558,375)**	**—**	—	**—**
TOTAL LIABILITIES		**(2,560,091)**	(2,360,732)	**(2,779,582)**	**(211,221)**	(207,177)	**(1,047,735)**
NET ASSETS		**11,117,146**	9,395,382	**7,272,279**	**14,772,920**	10,310,641	**17,083,410**
EQUITY							
Share capital	23	**2,199,968**	1,566,278	**907,015**	**2,199,968**	1,566,278	**907,015**
Share premium	23	**21,653,273**	16,437,213	**12,216,670**	**21,653,273**	16,437,213	**12,216,670**
Share warrants	23	**125,669**	125,669	**125,669**	**125,669**	125,669	**125,669**
Accumulated losses		**(20,074,969)**	(15,854,436)	**(12,423,931)**	**(14,360,026)**	(12,846,555)	**(521,022)**
Share-based payment reserve		**687,600**	561,600	**413,600**	**606,200**	480,200	**332,200**
Merger reserve		**6,538,023**	6,538,023	**6,013,065**	**4,547,836**	4,547,836	**4,022,878**
Foreign exchange reserve		**(12,418)**	21,035	**20,191**	**—**	—	**—**
TOTAL EQUITY		**11,117,146**	**9,395,382**	**7,272,279**	**14,772,920**	**10,310,641**	**17,083,410**

Refer to Note 3 for detailed information on Restatement of comparatives.

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

The Company has elected to take the exemption under Section 408 of the Companies Act 2006 to not present the Statement of Comprehensive Income for the Company. The result for the Company for the year was a loss of £1,513,471 (2018: loss of £6,423,705).

These financial statements were approved and authorised for issue by the Board of Directors on 14 May 2020 and were signed on its behalf by:

Helen Jones
Chief Financial Officer

Stuart Gall
Chief Executive Officer

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

	Note	Share capital	Share premium	Share warrants	Accumulated losses	Share-based payment reserve	Merger reserve	Foreign exchange reserve	Total equity
		£	£	£	£	£	£	£	£
BALANCE AS AT 31 DECEMBER 2017 (as previously reported)		907,015	12,216,670	—	(12,423,931)	413,600	6,013,065	20,191	7,146,610
Impact of IFRS 15 and correction of error		—	—	125,669	(13,041)	—	—	—	112,628
BALANCE AS AT 1 JANUARY 2018 as restated		907,015	12,216,670	125,669	(12,436,972)	413,600	6,013,065	20,191	7,259,238
COMPREHENSIVE INCOME FOR THE YEAR									
Loss for the year and total comprehensive (loss)/income		—	—	—	(3,417,464)	—	—	844	(3,416,620)
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY									
Shares issued for cash	23	597,503	4,481,275	—	—	—	—	—	5,078,778
Cost of raising finance	23	—	(260,732)	—	—	—	—	—	(260,732)
Retention shares issued further to acquisition of IUL	23	61,760	—	—	—	—	524,958	—	586,718
Cost of share-based awards	24	—	—	—	—	148,000	—	—	148,000
		659,263	4,220,543	—	—	148,000	524,958	—	5,552,764
BALANCE AS AT 31 DECEMBER 2018		1,566,278	16,437,213	125,669	(15,854,436)	561,600	6,538,023	21,035	9,395,382
Impact of IFRS 16		—	—	—	1,885	—	—	—	1,885
BALANCE AS AT 1 JANUARY 2019 as restated		**1,566,278**	**16,437,213**	**125,669**	**(15,852,551)**	**561,600**	**6,538,023**	**21,035**	**9,397,267**
COMPREHENSIVE INCOME FOR THE YEAR									
Loss for the year and total comprehensive loss		**—**	**—**	**—**	**(4,222,418)**	**—**	**—**	**(33,453)**	**(4,255,871)**
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY									
Shares issued for cash	23	**633,690**	**5,703,214**	**—**	**—**	**—**	**—**	**—**	**6,336,904**
Cost of raising finance	23	**—**	**(487,154)**	**—**	**—**	**—**	**—**	**—**	**(487,154)**
Cost of share-based awards	24	**—**	**—**	**—**	**—**	**126,000**	**—**	**—**	**126,000**
		633,690	**5,216,060**	**—**	**—**	**126,000**	**—**	**—**	**5,975,750**
BALANCE AT 31 DECEMBER 2019		**2,199,968**	**21,653,273**	**125,669**	**(20,074,969)**	**687,600**	**6,538,023**	**(12,418)**	**11,117,146**

The above Group statement of changes in equity should be read in conjunction with the accompanying notes.

Refer to Note 3 for detailed information on Restatement of comparatives.

COMPANY STATEMENT OF CHANGES IN EQUITY

as at 31 December 2019

	Note	Share capital	Share premium	Share premium	Accumulated losses	Share-based payment reserve	Merger reserve	Total equity
		£	£	£	£	£	£	£
BALANCE AS AT 31 DECEMBER 2017 (as previously reported)		907,015	12,216,670	—	(521,022)	332,200	4,022,878	16,957,741
Impact of IFRS 9 and correction of error		—	—	125,669	(5,901,828)	—	—	(5,776,159)
BALANCE AS AT 1 JANUARY 2018 as restated		907,015	12,216,670	125,669	(6,422,850)	332,200	4,022,878	11,181,582
COMPREHENSIVE INCOME FOR THE YEAR								
Loss for year and total comprehensive loss		—	—	—	(6,423,705)	—	—	(6,423,705)
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY								
Shares issued for cash	23	597,503	4,481,275	—	—	—	—	5,078,778
Cost of raising finance	23	—	(260,732)	—	—	—	—	(260,732)
Retention shares issued further to acquisition of IUL	23	61,760	—	—	—	—	524,958	586,718
Cost of share-based awards	24	—	—	—	—	148,000	—	148,000
		659,263	4,220,543	—	—	148,000	524,958	5,552,764
BALANCE AS AT 31 DECEMBER 2018		**1,566,278**	**16,437,813**	**125,669**	**(12,846,555)**	**480,200**	**457,836**	**10,310,641**
COMPREHENSIVE INCOME FOR THE YEAR								
Loss for the year and total comprehensive income		—	—	—	**(1,513,471)**	—	—	**(1,513,471)**
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY								
Shares issued for cash	23	**633,690**	**5,703,214**	—	—	—	—	**6,336,904**
Cost of raising finance	23	—	**(487,154)**	—	—	—	—	**(487,154)**
Cost of share-based awards	24	—	—	—	—	**126,000**	—	**126,000**
		633,690	5,216,060	—	—	126,000	—	5,975,750
BALANCE AT 31 DECEMBER 2019		**2,199,968**	**21,653,273**	**125,669**	**(14,360,026)**	**606,200**	**4,547,836**	**14,772,920**

The above parent company statement of changes in equity should be read in conjunction with the accompanying notes.

Refer to Note 3 for detailed information on Restatement of comparatives.

	Note	Group 2019	Group 2018	Company 2019	Company 2018 Restated
		£	£	£	£
CASH FLOWS FROM OPERATING ACTIVITIES					
Loss before taxation		**(4,559,935)**	(3,621,260)	**(1,513,471)**	(6,423,705)
Depreciation	8	**334,209**	244,957	**—**	—
Amortisation of intangible assets	8	**1,040,032**	992,586	**—**	—
Credit loss allowance on intercompany receivables		**—**	—	**1,213,411**	3,017,033
Impairment of investments in subsidiaries		**—**	—	**—**	3,550,000
Fair value adjustment on contingent consideration		**—**	(362,718)	**—**	(362,718)
Finance costs/(income)		**2,002**	7,402	**(1,443)**	(415)
Share-based payment charge	10	**126,000**	148,000	**—**	—
Operating cash flows before movement in working capital		**(3,057,692)**	(2,591,033)	**(301,503)**	(219,805)
Movement in inventories		**188,251**	(438,247)	**—**	—
Movement in trade and other receivables		**(786,633)**	(203,539)	**(4,024)**	(47,345)
Movement in trade and other payables		**282,570**	507,545	**4,044**	108,878
Cash used in operations		**(3,373,504)**	(2,725,274)	**(301,483)**	(158,272)
Income taxes received		**80,302**	133,495	**—**	—
NET CASH USED IN OPERATING ACTIVITIES		**(3,293,202)**	(2,591,779)	**(301,483)**	(158,272)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		**(355,321)**	(361,707)	**—**	—
Disposal of property, plant and equipment		**12,194**	11,523	**—**	—
Increase in intercompany loans		**—**	—	**(4,750,990)**	(3,317,952)
Increase in short term deposits	17	**(5,500,000)**	—	**(5,500,000)**	—
Internally generated intangible assets	12	**(485,249)**	(512,671)	**—**	—
Interest received		**—**	—	**1,443**	415
NET CASH USED IN INVESTING ACTIVITIES		**(6,328,376)**	(862,855)	**(10,249,547)**	(3,317,537)
CASH FLOWS FROM FINANCING ACTIVITIES					
Issue of new shares	23	**6,336,904**	5,078,778	**6,336,904**	5,078,778
Share issue costs	23	**(487,154)**	(260,732)	**(487,154)**	(260,732)
Principal elements of lease payments		**(37,371)**	—	**—**	—
Finance costs paid		**(2,002)**	(7,402)	**—**	—
NET CASH GENERATED FROM FINANCING ACTIVITIES		**5,810,377**	4,810,644	**5,849,750**	4,818,046
NET INCREASE IN CASH AND CASH EQUIVALENTS		**(3,811,201)**	1,356,010	**(4,701,300)**	1,342,237
Cash and cash equivalents at beginning of year		**5,607,052**	4,250,198	**4,761,688**	3,419,431
Exchange (losses)/gains on cash and cash equivalents		**(5,533)**	844	**—**	—
CASH AND CASH EQUIVALENTS AT END OF YEAR	18	**1,790,318**	5,607,052	**60,388**	4,761,668

The accompanying notes are an integral part of these financial statements. Refer to Note 3 for detailed information on Restatement of comparatives.

1. General information

Intelligent Ultrasound Group plc (“the Company”) is a public limited company incorporated and domiciled in the United Kingdom whose shares are traded on AIM, a market operated by the London Stock Exchange. The Company’s registration number is 09028611 and its registered office address is Cardiff Medicentre, Heath Park, Cardiff, CF14 4UJ.

The Company’s principal activity is that of a holding company. The Group’s principal activities are the development, marketing and distribution of medical training simulators and the development of clinical ultrasound software.

The Group and the Company’s financial statements have been prepared in accordance with the requirements of the AIM rules and in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations as endorsed by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

2. New and amended standards adopted by the Group

The Group has adopted all of the new or amended accounting standards and interpretations issued by the International Accounting Standards Board (”IASB”) that are mandatory for the current reporting period.

The following new accounting standards and interpretations are most relevant to the Group. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group.

IFRS 16 ‘Leases’

The Group has adopted IFRS 16 ‘Leases’ from 1 January 2019. The nature and effect of the changes as a result of adoption of this new accounting standard are described below.

The Group has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019. The Group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles 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 weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4%.

i) Practical expedients applied

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

- 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
- The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered before the transition date the group relied on its assessment made applying IAS 17 and IFRIC 4 ‘Determining whether an Arrangement contains a Lease.

ii) Impact of adoption

The effect of adoption IFRS 16 as at 1 January 2019 (increase/(decrease)) is, as follows:

	£
ASSETS	
Property, plant and equipment	32,561
LIABILITIES	
Lease liabilities	(30,676)
OPENING ADJUSTMENT TO EQUITY	**(1,885)**

iii) Measurement of lease liabilities

	£
Operating lease commitments disclosed as at 31 December 2018	38,237
Discounted using incremental borrowing rate as at 1 January 2019	(1,388)
Discounted operating lease commitments as at 1 January 2019	36,849
Less: commitments relating to short term leases	(6,173)
LEASE LIABILITIES AS AT 1 JANUARY 2019	**30,676**

iv) Impact on 2019

	£
Increase in depreciation expense due to increase in right-of-use assets	39,284
Decrease in administrative expenses due to lower operating lease rental costs	(40,387)
Increase in finance costs relating to the interest expense on additional lease liabilities	3,016
Increase in loss on disposal of property, plant and equipment	2,927
NET INCREASE IN LOSS AFTER TAXATION	**4,840**
Decrease in cash outflows from operating activities	(37,301)
Increase in cash outflows from financing activities	37,301

IFRIC 23 ‘Uncertainty Over Income Tax Treatments’

This Interpretation, effective from 1 January 2019, clarifies how to apply the recognition and measurement requirements in IAS 12 ‘Taxation’ when there is uncertainty over income tax treatments. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits, and tax rates. IFRIC 23 requires an entity to consider whether it is probable that a taxation authority will accept an uncertain tax treatment. An entity might consider a particular tax treatment and conclude that it is probable that the tax authority will accept the proposed tax treatment in its income tax filing. If so, the entity determines taxable profit, tax losses, tax bases, unused tax losses/credits and tax rates consistently with the tax treatment proposed in its filing.

The Group has assessed the potential impact of the new interpretation and the application of IFRIC 23 on 1 January 2019 has not resulted in a material impact.

Standards, interpretations and amendments not yet effective

At the date of authorisation of these financial statements, the Group has not applied any of the following new and revised IFRS Standards that have been issued but are not yet effective.

- IFRS 17 ‘Insurance Contracts’
- IFRS 10 and IAS 28 (amendments) ‘Sale or Contribution of Assets between an Investor and its Associate or Joint Venture’
- Amendments to IFRS 3 ‘Definition of a business’
- Amendments to IAS 1 and IAS 8 ‘Definition of Material’
- Amendments to References to the conceptual Framework in IFRS Standards

The Directors do not expect that the adoption of these Standards or amendments will have a material impact on the financial statements of the Group in future periods, except as noted below:

Amendments to IAS 1 and IAS 8 ‘Definition of Material’.

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of ‘obscuring’ material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from ‘could influence’ to ‘could reasonably be expected to influence’. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term ‘material’ to ensure consistency. The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

3. Basis of preparation

The accounting policies set out in Note 5 have been applied consistently to all periods presented in these financial statements, other than those in relation to the adoption of IFRS 16.

These financial statements are presented in Sterling as that is considered to be the currency of the primary economic environment in which the Group operates. This decision was based on the Group's workforce being based mainly in the UK and that Sterling is the currency in which management reporting and decision making is based.

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. If in the future such estimates and assumptions which are based on management's best judgement at the date of the financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the year in which the circumstances change. Critical accounting judgements and estimates are described in Note 6.

Going concern

The financial statements have been prepared on a going concern basis. The Group meets its day-to-day working capital requirements from its cash reserves. Post year end on 4 May shareholders approved an equity placing to raise £4.8m net of transaction costs which ensures that the Group has sufficient funds to continue to trade for at least the next 15 months, taking into account a number of potential outcomes of the impact of Covid-19 on the Group in the short to medium term. The Group is currently monitoring the Covid-19 situation on a regular basis with cash preservation continuing to be a primary focus.

Restatement of comparatives

Balances in the 2018 and 2017 comparative balance sheets and cash flow statements have been reclassified as follows:

i) Share warrants (Group and Company)

The consideration for the acquisition of IUL on 6 October 2017 included 837,795 share warrants with a fair value of £125,669 which were issued on completion of the acquisition. The terms of the warrant instrument agreement allow the holder to subscribe for a fixed number of shares in the Company at any time until 10 July 2021 for a fixed subscription price. In accordance with IAS 32 'Financial Instruments: Presentation', a contract that will be settled by the entity delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset is an equity instrument. At 31 December 2017, these warrants had been classified as a financial liability but follow a review of the accounting treatment the 2017 and 2018 Group and Company balance sheets have been restated to correctly reclassify these warrants to equity.

Balance sheet as at 31 December 2017 (extract)	**Group**		
	2017 Reported	**2017 Adjusted**	**2017 Restated**
	£	£	£
CURRENT LIABILITIES			
Trade and other payables	(2,058,637)	125,669	(1,932,968)
Deferred income	(207,684)	—	(207,684)
Provisions	(80,555)	—	(80,555)
	(2,346,876)	125,669	(2,221,207)
NON-CURRENT LIABILITIES	(558,375)	—	(558,375)
TOTAL LIABILITIES	(2,905,251)	125,669	(2,779,582)
NET ASSETS	7,146,610	125,669	7,272,279
EQUITY			
Share capital	907,015	—	907,015
Share premium	12,216,670	—	12,216,670
Share warrants	125,669	125,669	—
Accumulated losses		—	—
Share-based payment reserve	413,600	—	413,600
Merger reserve	6,013,065	—	6,013,065
Foreign exchange reserve	20,191	—	20,191
TOTAL EQUITY	**7,146,610**	**125,669**	**7,272,279**

	Company		
	2017 Reported	2017 Adjusted	2017 Restated
	£	£	£
CURRENT LIABILITIES			
Trade and other payables	(1,173,404)	125,669	(1,047,735)
NON-CURRENT LIABILITIES	—	—	—
TOTAL LIABILITIES	**(1,173,404)**	**125,669**	**(1,047,735)**
NET ASSETS	**16,957,741**	**125,669**	**17,083,410**
EQUITY			
Share capital	907,015	—	907,015
Share premium	12,216,670	—	12,216,670
Share warrants	—	125,669	125,669
Accumulated losses	(521,022)	—	(521,022)
Share-based payment reserve	332,200	—	332,200
Merger reserve	4,022,878	—	4,022,878
TOTAL EQUITY	**16,957,741**	**125,669**	**17,083,410**

Balance sheet as at 31 December 2018 (extract)

	Group		
	2018 Reported	2018 Adjusted	2018 Restated
	£	£	£
CURRENT LIABILITIES			
Trade and other payables	(1,467,865)	125,669	(1,342,196)
Deferred income	(311,496)	—	(311,496)
Current tax liabilities	(100,000)	—	(100,000)
Provisions	(68,972)	—	(68,972)
	(1,948,333)	125,669	(1,822,664)
NON-CURRENT LIABILITIES	**(538,068)**	**—**	**(538,068)**
TOTAL LIABILITIES	**(2,486,401)**	**125,669**	**(2,360,732)**
NET ASSETS	**9,269,713**	**125,669**	9,395,382
EQUITY			
Share capital	1,566,278	—	1,566,278
Share premium	16,437,213	—	16,437,213
Share warrants	—	125,669	125,669
Accumulated losses	(15,854,436)	—	(15,854,436)
Share-based payment reserve	561,600	—	561,600
Merger reserve	6,538,023	—	6,538,023
Foreign exchange reserve	21,035	—	21,035
TOTAL EQUITY	9,269,713	125,669	9,395,382

	Company		
	2018 Reported	2018 Adjusted	2018 Restated
	£	£	£
CURRENT LIABILITIES			
Trade and other payables	(332,846)	125,669	(207,177)
NON-CURRENT LIABILITIES	—	—	—
TOTAL LIABILITIES	**(332,846)**	**125,669**	**(207,177)**
NET ASSETS	**10,184,972**	**125,669**	**10,310,641**
EQUITY			
Share capital	1,566,278	—	1,566,278
Share premium	16,437,213	—	16,437,213
Share warrants	—	125,669	125,669
Accumulated losses	(12,846,555)	—	(12,846,555)
Share-based payment reserve	480,200	—	480,200
Merger reserve	4,547,836	—	4,547,836
TOTAL EQUITY	**10,184,972**	**125,669**	**10,310,641**

ii) Intercompany loan cash flows (Company only)

Movements in the intercompany loan accounts in the cash flow statement of the Company in 2017 and 2018 have been reclassified from 'Cashflows from operating activities' to 'Cashflows from investing activities' to more accurately reflect the nature of the intercompany balance.

4. Basis of consolidation

Where the Company has control over an investee, it is classified as a subsidiary. The Company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever the facts and circumstance indicate that there may be a change in any of these elements of control. The consolidated financial statements incorporate the results of the Company and its subsidiary undertakings. The Company was incorporated on 7 May 2014.

There are no restrictions over the Company's ability to access or use assets and settle liabilities of the Group.

5. Accounting policies

Share-based payments

The Company issues equity-settled share-based payments to certain employees and Directors of Group companies. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on an estimate of shares that will eventually vest.

The fair value is measured by use of a binomial probability option pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions and behavioural considerations. No expense is recognised for awards that do not ultimately vest due to non-market vesting conditions.

Financial instruments

Financial assets and financial liabilities are recognised in the Statement of Financial Position when the entity becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at their amortised cost using the effective interest method less any provision for impairment. The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and aging. Institutional customers such as hospitals and medical schools are assigned the lowest credit risk and non-institutional customers with poor credit history are assigned the highest credit risk. The expected loss probability rates are based on management's experience of historical credit losses for each group of trade receivables. The resultant provision matrix is then adjusted for current and forward-looking information based upon management's knowledge of the customer concerned, the prospects of recovery and includes any negative macroeconomic factors relating to the territory or sector in which the customer operates. For trade receivables, which are reported net, provisions for impairment are recorded in a separate provision account with the loss being recognised through the Statement of Comprehensive Income. On confirmation that the trade receivable will not be collectable or the indicators are that there is no reasonable prospect of recovery (due to, for example, the insolvency of the customer or legal advice that the prospects of recovery are remote), it is deemed to be credit impaired and the gross carrying value of the asset is written off against the associated provision.

Amounts owed by subsidiary undertakings

Amounts owed by subsidiary undertakings are classified and measured in accordance with the requirements of IFRS 9 including, where relevant, applying the Expected Credit Loss (ECL) model for impairment. Amounts owed by subsidiary undertakings are considered to be in default when there is evidence that the borrower will have insufficient liquid assets to repay the amount due on demand.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. A financial liability is a contracted obligation to deliver cash or another financial asset to another entity. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Trade payables

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

Leases (prior to 1 January 2019)

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. The cost of operating leases (net of any incentives received from the lessor) is charged to the Consolidated Statement of Comprehensive Income on a straight line basis over the periods of the leases.

Leases (from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The cost of a right-of-use asset also includes an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

The right-of-use assets are also subject to impairment.

ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

Forward currency contracts

Forward currency contracts are included in the Statement of Financial Position as assets or liabilities at their fair value at the period end. No forward contracts were used in the year or the prior year.

Deferred consideration

In respect of deferred share consideration for business combinations, where the number of shares to be issued may vary then the consideration does not meet the definition of equity and so, until the shares are issued, the deferred consideration is classified as a financial liability. The liability is measured as the fair value of the shares to be issued.

Goodwill

Goodwill arising on consolidation is recorded as an intangible asset and is the surplus of the cost of the acquisition over the Group's interest in the fair value of identifiable net assets (including intangible assets) acquired. Goodwill is reviewed annually for impairment. Any impairment identified as a result of the review is charged to the Statement of Comprehensive Income.

Intangible assets other than goodwill

An intangible asset, which is an identifiable non-monetary asset without physical substance, is recognised to the extent that it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its cost can be measured reliably. Such intangible assets are carried at cost net of related grants received less amortisation.

Amortisation is charged to administrative expenses in the Statement of Comprehensive Income as follows:

Internally generated intangible assets	33% Straight line
Software licences	33% Straight line

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Development expenditure is capitalised as an intangible asset only if the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefit;
- the development cost of the asset can be measured reliably;
- it meets the Group's criteria for technical and commercial feasibility; and
- sufficient resources are available to meet the development to either sell or use as an asset.

Development expenditure thus capitalised is amortised on a straight-line basis over its useful life. Where the criteria are not met, development expenditure is recognised as an expense in the administrative expenses line of the Statement of Comprehensive Income.

Intangible assets acquired as part of a business combination

For acquisitions, the Group recognises intangible assets separately from goodwill provided they are separable or arise from contractual or other legal rights and their fair value can be measured reliably. Intangible assets are initially recognised at fair value, which is regarded as their cost. Intangible assets are subsequently held at cost less accumulated amortisation and impairment losses. Where intangible assets have finite lives, their cost is amortised on a straight line basis over those lives. The nature of intangible assets recognised and their estimated useful lives is as follows:

IML software developed by third parties	3 Years
IML intellectual property	5 Years
IML Brands	5 Years
IUL intellectual property	10 years

Impairment of assets

The Group assesses annually whether there is any indication that any of its assets have been impaired. If such indication exists, the asset's recoverable amount is estimated and compared to its carrying value. Where it is impossible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest cash-generating unit to which the asset is allocated. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount an impairment loss is recognised immediately in the Statement of Comprehensive Income.

For goodwill, intangible assets that have an indefinite life and intangible assets not yet available for use, the recoverable amount is estimated annually or whenever there is an indication of impairment.

Property, plant and equipment

Property, plant and equipment are stated at cost less any subsequent accumulated depreciation or impairment losses.

Depreciation is provided on all property, plant and equipment at rates calculated to write each asset down to its estimated residual value over its expected useful life, as follows:

Furniture, fixtures and equipment	25%	Straight line
Plant & equipment		
R&D/demonstration/loan units	33%	Straight line
Other	25%	Straight line

The assets' residual values and useful lives are reviewed at each year end and adjusted if appropriate. The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Investments in subsidiaries

The Company's investments in its subsidiaries are included at cost plus the fair value of options in the Company's shares that have been granted to the employees of each subsidiary less any provision for impairment.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Short term investments

Short term investments includes term deposits with maturities over three months at the date of investment.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on a first in first out basis and includes all direct expenditure and production overheads based on a normal level of activity. Net realisable value is the price at which the stocks can be sold in the normal course of business after allowing for the costs of realisation and where appropriate for the costs of conversion from its existing state to a finished condition. Provision is made for obsolete, slow moving and defective stocks.

Foreign currencies

The functional currency of the Company is Sterling.

Foreign currency monetary assets and liabilities of group companies are converted to the functional currency at the rates of exchange ruling at the end of the financial year. Transactions in foreign currencies are converted to Sterling at the rates of exchange ruling at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

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

The Group's activities expose it to the financial risks of changes in foreign currency exchange rates. The Group uses foreign exchange forward contracts to hedge these exposures if appropriate. No forward contracts were used in the year or the prior year.

Foreign currency transactions

Foreign currency transactions are translated into Sterling using the exchange rates prevailing at the dates of the transactions.

Exceptional items

Exceptional items are those items that, in the Directors' view, are required to be separately disclosed by virtue of their size or incidence to enable a full understanding of the Group's financial performance.

Income tax

The tax credit represents the sum of the current tax credit and deferred tax credit.

Taxable profit or loss differs from net profit or loss as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the balance sheet date.

Tax credits in relation to Research and Development claims are recognised in the period when the claim is submitted.

Deferred tax assets and liabilities are recognised when the carrying amount of an asset or liability in the Statement of Financial Position differs from its tax base. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based upon tax rates that have been enacted or substantively enacted.

Revenue

Revenue excludes Value Added Tax and any equivalent sales taxes chargeable on revenue.

Performance obligations and timing of revenue recognition

Performance obligations satisfied at a point in time

The majority of the Group's revenue is derived from selling goods (principally simulation systems including related software licences) with revenue recognised at a point in time when control of the goods has transferred to the customer. This is generally when the goods are delivered to the customer or collected by the customer's agents from the Group's premises.

The customer may elect to purchase installation and training services in relation to the goods supplied by the Group. The revenue from these services is recognised once the installation and training have been provided.

Customers are able to purchase extended warranties, Cloud access, on-going service support (which incorporates ad-hoc minor 'bug-fixes') and, for some products, new release software upgrades (distinguished from minor 'bug-fixes', as these upgrades incorporate fundamental enhancements to the functionality of the software). The revenues from extended warranties Cloud access and on-going service support are recognised on a straight line basis over the term of the related contract. Revenues from the new release software upgrades are recognised on delivery of the software upgrades.

A small minority of contracts relate to (i) the provision of scan image analysis services which include the development of bespoke software and (ii) the granting of licences to allow customers to use intellectual property owned by the Group (specifically beating heart animation). The revenue from image analysis services is recognised pro-rata to the delivery of those services. The revenue from licences is recognised at the point in time when the licenced software is delivered to the customer.

In a barter transaction, where simulation systems are exchanged for non-cash consideration in the form of scan images or patient scans, the non-cash consideration is measured at fair value. The fair value of the scan images or patient scans may be set out in the commercial contract but if fair value cannot be readily determined, the fair value is measured indirectly by reference to the stand alone selling price of the simulation system provided by the Group.

Performance obligations satisfied over time

For performance obligations satisfied over time, revenue is recognised in a pattern that reflects the transfer of control of the goods and services to the customer using an appropriate method to measure progress of the transfer.

The price of the goods supplied by the Group usually includes 12 months' support and warranty. The technical support is accounted for as a separate performance obligation, with revenue recognised pro-rata to an estimate of the typical profile of the time spent on delivering the support required by customers in the first year (with 60% of the time spent in the first 3 months and the remaining balance spent on a straight line basis over the remaining 9 months). In accordance with IFRS 15, the first year warranties are not accounted for as separate performance obligations and hence no revenue is allocated to them. Instead, a provision is made for the costs of satisfying the warranties in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Determining the transaction price

The Group's revenue is almost entirely derived from fixed price contracts and, therefore, the amount of revenue to be earned from each contract is determined by reference to those fixed prices. The exception is first year support, which is included in the price of the goods. The transaction price for first year support is determined by reference to a cost-plus model to approximate to the transaction price that the Group might charge if the first year support was sold separately.

Allocating amounts to performance obligations

For the vast majority of contracts there is a fixed unit price for each product or service sold (including installation and training, extended warranties, Cloud access, on-going support and software upgrades) which is set out in the contract. For all contracts, any reductions (for example, for larger orders or sales to key opinion leader customers) are given at a specific time - when the contract is agreed. Therefore, there is no judgement involved in allocating the contract price to each item ordered in such contracts. As explained above, the revenue relating to first year support is estimated using a cost-plus model and allocated to the fulfilment of the performance obligation by reference to the typical profile of the time spent in providing support in the first year. Similarly, the revenue from image analysis services is allocated pro-rata to the fulfilment of the related performance obligations by reference to the stage of completion of these services.

Costs of obtaining contracts and costs of fulfilling contracts

Commissions paid to sales staff for generating sales orders are recognised when the customer is invoiced. In all cases this is when control of the goods passes to the customer or, in the case of services to be delivered in the future, at the point in time when the customer has agreed to purchase these future services. The value of future services extending beyond one year is not significant and so no prepaid commission is recorded as the amounts involved would not be material. No judgement is needed to measure the costs of obtaining contracts – it is the commission paid.

The costs of fulfilling contracts do not result in the recognition of a separate asset because:

- such costs are included in the carrying amount of inventory for contracts involving the sale of goods; and
- for service contracts, revenue is recognised over time by reference to the stage of completion meaning that control of the asset (the service) is transferred to the customer on a continuous basis as the service is provided. Consequently, no asset for work in progress is recognised.

Significant payment terms

Invoices for goods that are delivered at a point in time are rendered when control of the goods has passed to the customer. Invoices for services that are delivered over time are rendered on the date on which the customers agree to purchase those services. Most customers are allowed 30 days credit from the date of invoice. New distribution customers or existing customers with a poor credit history are required to pay 50% of the invoice on placement of their order, with the balance payable 30 days from delivery of the goods to them. These payment terms apply to both goods that are delivered at a point in time and services that are delivered over time.

Practical exemption

The Group has taken advantage of the practical exemption not to account for significant financing components where the time difference between receiving consideration and transferring control of goods (or services) to its customer is one year or less.

Pension costs

Pension allowances, contributions to defined contribution pension schemes and contributions to personal pension schemes are charged to the Statement of Comprehensive Income in the year to which they relate.

Warranty claims

Provision is made for liabilities arising in respect of expected warranty claims based upon management’s best estimate of the Group’s liability for remedial work and warranties granted on products sold.

Government grants

Government grants received toward specific research and development projects which can be recognised as an intangible asset are netted off against the related costs. Other government grants towards research and development projects are recognised as income over the periods necessary to match them with the related costs and are included within Other Income.

Equity

Ordinary share capital represents the nominal value of equity shares. Share premium represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue. Merger reserve represents the difference between the cost of investment and the nominal value of the share capital acquired. Foreign exchange reserve represents the differences arising on translating opening net assets of overseas operations.

Share warrants treated as equity are recorded as a separate component of equity. Warrants issued are measured at fair value at the date of issue. The fair value is included as a component of equity and is transferred from share warrants to ordinary share capital on exercise.

6. Critical accounting judgements and key sources of estimation uncertainty

i) Critical accounting judgements

In the process of applying the Group’s accounting policies, which are described in Note 5, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

Measurement and recoverability of internally generated and third party generated intangible assets

Determining the value of internally generated development costs to be recognised as an intangible asset requires management to make a judgement of the expected future economic benefits attributable to the asset along with the asset’s useful economic life. During the year, management considered the recoverability of its internally generated and third party generated intangible assets. The costs relate to the development of the Group’s simulation software and related modules and management continue to believe that the anticipated future profits will enable the carrying amount to be recovered in full. Assumptions have been made on the number of years over which the costs will be recovered based on management’s best expectations and these could turn out to be longer or shorter. The carrying value of the development costs is £691,462 (2018: £750,845).

Share-based payments

In determining the fair value of equity settled share-based payments and the related charge to the Statement of Comprehensive Income, the Company makes judgements about future events and market conditions. In particular, judgement must be made as to the likely number of shares that will vest and the fair value of each award granted. The fair value is determined using a valuation model which is dependent on further estimates, including the Company’s dividend policy, employee turnover, the timing with which options will be exercised and the future volatility in the price of the Company’s shares. Such assumptions are based on publicly available information and reflect market expectations and advice taken from qualified personnel. Different assumptions about these factors to those made by the Company could materially affect the reported value of share-based payments. The share-based payment charge for the year was £126,000 (2018: £148,000).

ii) Key sources of estimation uncertainty

The key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Recoverability of trade receivables and amounts due from subsidiary undertakings

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. This requires the Directors to make judgements as to the most appropriate provision matrix for the business. In the opinion of the Directors the most appropriate methodology is to group trade receivables based on similar credit risk and aging. Institutional customers such as hospitals and medical schools are assigned the lowest credit risk and non-institutional customers with poor credit history are assigned the highest credit risk. The expected loss probability rates are based on management's experience of historical credit losses for each group of trade receivables. The resultant provision matrix is then adjusted for current and forward-looking information based upon management's knowledge of the customer concerned, the prospects of recovery and includes any negative macroeconomic factors relating to the territory or sector in which the customer operates.

The Company has applied the IFRS 9 general approach to measure expected credit losses arising from amounts owed by its subsidiary undertakings. This required the Directors to make judgements to arrive at a weighted average expected credit loss based on a number of forecast cash flow scenarios and the assignment of probability factors to each scenario. The Directors concluded that the carrying amount of the amounts due by the Company's subsidiaries at 31 December 2019 was impaired and consequently an impairment charge of £1,213,411 was made to the Company's 2019 Statement of Comprehensive Income.

Investments in subsidiaries

Under IAS 36 Impairment of Assets, the Company is required to assess at the end of each reporting period whether there is an indication that an asset may be impaired. The assessment undertaken relating to the Company's investments in its subsidiaries required an estimation of future net operating cash flows, the time period over which they would occur, an appropriate discount rate and appropriate growth rate. The Directors concluded that the carrying amount of the Company's investments in its subsidiaries at 31 December 2019 was appropriate. Further details of estimates are given in Note 14.

Warranty claims and remedial work

The warranty and remedial work provision is based upon management's best estimate of the potential liability of the Group for warranty and remedial work arising from products sold to date. This estimation of potential future liability is based upon actual warranty and remedial work costs incurred to date. However, this basis alone has limitations given that the Group's products are new to the market and so management also draw upon their experience of warranty and remedial costs for similar products in arriving at their estimation of the potential liability. Management also seek to obtain back-to-back warranties from the Group's original equipment manufacturer suppliers to reduce the Group's exposure to warranty claims from its customers. The warranty provision at the year end is £94,776 (2018: £68,972).

7. Revenue analysis

The chief operating decision maker ('CODM') is defined as the Board. The format of revenue reporting is based on the Group's management and internal reporting (including reports to the CODM) of the Divisions below which carry different risks and rewards and are used to make strategic decisions. Distribution is the sale of products through the Group's resellers. Direct Sales represents the sale of the products and services direct to customers. The Group's Clinical AI Division which develops image analysis software for ultrasound through the development of deep-learning software was established in October 2017 with the acquisition of IUL and has not made any material sales to date.

The Board review the revenue and gross margin by division and channel (Distribution/Direct) and are not reporting segments under IFRS 8. All revenue is generated from external customers.

	Simulation Division		Clinical AI Division	
Year ended 31 December 2019	**Distribution**	**Direct Sales**		**Total**
	£	£	£	£
Revenue	**2,616,178**	**3,299,493**	**—**	**5,915,671**
Gross profit	**1,435,987**	**2,017,477**	**—**	**3,453,464**

Year ended 31 December 2018	Simulation Division		Clinical AI Division	
	Distribution	Direct Sales		Total
	£	£	£	£
Revenue	2,630,116	2,638,048	—	5,313,164
Gross profit	1,237,938	1,595,445	—	2,833,383

The following table provides an analysis of the Group's revenue by geography based upon the location of the Group's customers.

Year ended 31 December 2019	Simulation Division		Clinical AI Division	
	Distribution	Direct Sales		Total
	£	£	£	£
United Kingdom	—	720,355	—	720,355
North America	—	2,579,138	—	2,579,138
Rest of World	**2,616,178**	**—**	**—**	**2,616,178**
	2,616,178	**3,299,493**	**—**	**5,915,671**

Included in the Rest of World Distribution is revenue in relation to barter transactions of £455,339.

Year ended 31 December 2018	Simulation Division		Clinical AI Division	
	Distribution	Direct Sales		Total
	£	£	£	£
United Kingdom	—	994,080	—	994,080
North America	—	1,688,968	—	1,688,968
Rest of World	2,630,116	—	—	2,630,116
	2,630,116	**2,683,048**	**—**	**5,313,164**

Included within non-UK revenues are sales to the following countries which accounted for more than 10% of the Group's total revenue for the year:

	2019	2018
	£	£
USA	**2,203,585**	1,560,624
China	**597,695**	710,689

The Group had no customers who accounted for more than 10% of the Group revenue for the year ended 31 December 2019 or the year ended 31 December 2018.

8. Operating loss

	2019	2018
	£	£
Operating loss is stated after charging/(crediting):		
Cost of inventories recognised as an expense	**1,891,765**	1,749,847
Depreciation of property, plant and equipment	**334,209**	244,957
Amortisation of intangible assets	**1,040,032**	992,586
Operating lease rentals		
— Land and buildings	**—**	118,545
— Other	**—**	21,545
Staff costs (Note 10)	**4,248,530**	3,893,654
Exchange loss/(gain)	**13,022**	(15,465)
Auditor's remuneration		
— audit services	**70,000**	60,075
— tax advisory services	**11,686**	19,783
R&D cost		
— Expensed (including staff costs included above)	**2,044,540**	1,341,861
— Amortised	**544,532**	497,186

Staff and other development costs not included in the operating loss of £485,249 have been capitalised as intangible assets during the year (2018: £512,671).

Exceptional items

	2019	2018
	£	£
Fair value adjustments on contingent consideration	—	(362,718)

The fair value adjustment on contingent consideration in 2018 arose on the settlement during that year of the retained consideration on the acquisition of IUL. The consideration was satisfied by the payment of cash of £72,000 plus the issue of 18,527,936 new Ordinary Shares (“the Consideration Shares”) and 1,256,692 warrants (“the Consideration Warrants”) in Intelligent Ultrasound Group plc with a combined fair value of £2,967,694 based on the market price of the shares at the time of the completion of the transaction. Two thirds of the Consideration Shares (12,351,961 shares) were admitted to trading and two thirds of the warrants (837,795 warrants) were issued upon completion. The issue of the remaining third of the Consideration Shares and Consideration Warrants (together “the Deferred Consideration”) was deferred for 12 months from completion as the issue of these shares and warrants was contingent on no seller warranty or indemnity breaches (as specified in the Sale and Purchase Agreement) arising during that 12 month period. The issued warrants at their fair value of £125,669 along with the Deferred Consideration (retained shares at their original fair value of £926,396 and the retained warrants at their original fair value of £62,835), were originally included in current liabilities at 31 December 2017 however following a review of the accounting treatment of the completion warrants it was determined that these should have been recognised in equity which has been corrected through an opening prior period adjustment (see Note 3). The Company was not aware of any seller warranty or indemnity breaches and so the 6,175,975 deferred Consideration Shares were admitted to trading on 9 October 2018 and the 418,897 deferred Consideration Warrants were issued at the same time. The difference between the original fair value of the Deferred Consideration and the fair value of the Deferred Consideration at the settlement date of £362,718 was recognised in the 2018 Consolidated Statement of Comprehensive Income as a fair value adjustment on deferred consideration and included within exceptional items.

9. Income tax

Analysis of credit in the year

	2019	2018
	£	£
R&D tax credit	**(167,517)**	(213,796)
Adjustment for over-claim of R&D tax credit in prior periods	**(80,000)**	100,000
Deferred tax credit	**(90,000)**	(90,000)
	(337,517)	(203,796)

Factors affecting the tax charge

The Group has made a taxable loss for the year (2018: loss) but has not recognised all of the deferred tax asset arising due to uncertainty over the timing of future profit.

	2019	2018
	£	£
Loss before taxation	**(4,559,935)**	(3,621,260)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%)	**(866,388)**	(688,040)
Effects of:		
Expenses not deductible/income not taxable	**35,219**	432,358
Differences between R&D expenditure credit and capitalised revenue expenditure	**(191,348)**	(17,114)
Deferred tax not recognised	**685,000**	69,000
Total tax	**(337,517)**	(203,796)

Deferred tax

The unrecognised and recognised deferred tax asset/(liability) comprises the following:

	Unrecognised		Recognised	
	2019	2018	2019	2018
	£	£	£	£
Accelerated capital allowances	—	—	(90,500)	(113,500)
Capitalised development costs	—	—	(13,500)	(10,500)
Intangible assets	—	—	(287,994)	(377,994)
Tax losses	2,726,000	2,041,000	104,000	124,000
Total asset/(liability)	2,726,000	2,041,000	(287,994)	(377,994)

10. Employees

	2019 No.	2018 No.
The average monthly number of persons (including Executive Directors) employed by the Group was:		
Research and development	20	14
Selling and distribution	14	12
Administration	11	9
	45	35

The only staff costs incurred by the Company relate to fees paid to Non-Executive Directors.

	2019 No.	2018 No.
The average monthly number of Non-executive Directors employed by the Company was:	5	5

Staff costs for the employees and Directors of the Group (included under Administrative Expenses and in staff costs capitalised under development costs):

	2019	2018
	£	£
Wages and salaries	3,447,370	2,874,687
Social security costs	351,252	313,890
Pensions	98,648	87,873
Share-based payments	126,000	148,000
Total employed staff costs	4,023,270	3,424,450
Contractors and freelancers	377,416	550,487
Staff costs capitalised	(123,923)	(81,283)
Staff costs included under administrative expenses	4,276,763	3,893,654

Included above are costs relating to the key management of the Group:

	2019	2018
	£	£
Wages and salaries	901,123	909,868
Social security costs	109,514	104,125
Pensions	61,674	59,898
Share-based payments	54,795	63,226
	1,127,106	1,137,117

Directors' remuneration comprises the following:

	2019	2018
	£	£
Salaries and fees (including estimated value of other benefits)	**901,123**	909,868
Fees paid to third parties in respect of services provided by Directors	**20,000**	62,667
Directors' pension costs	**61,674**	59,898

No Directors are accruing benefits under company pension schemes (2018: 1).

	2019	2018
	£	£
This remuneration includes the following amounts in respect of the highest paid Director:		
Salaries and fees (including estimated value of other benefits)	**227,344**	220,230
Pension costs	**18,334**	17,800

The highest paid Director held 828,236 (2018: 628,236) shares at the year end and options in 3,029,000 (2018: 3,029,000) shares in the Company. None of the Directors exercised any of their share options during the year (2018: None). Further details of Directors' fees and salaries, bonuses, pensions and share options are given in the Remuneration report.

11. Loss per ordinary share

The loss per ordinary share has been calculated using the loss for the year and the weighted average number of ordinary shares in issue during the year as follows:

	2019	2018
	£	£
Loss for the year after taxation	**(4,222,418)**	(3,417,464)

	2019 No.	2018 No.
Basic and diluted weighted average number of ordinary shares	**178,503,090**	95,233,054
Basic and diluted loss pence per share	**(2.37)p**	(3.59)p

At 31 December 2019 and 2018 there were share options outstanding (see Note 24) which could potentially have a dilutive impact but were anti-dilutive in both years.

12. Intangible assets

	Goodwill	Intellectual property	Brand	Development costs	Other (software licences)	Total
	£	£	£	£	£	£
COST						
As at 1 January 2018	3,328,166	3,038,000	133,000	1,950,895	25,000	8,475,061
Additions	—	—	—	512,671	—	512,671
As at 31 December 2018	3,328,166	3,038,000	133,000	2,463,566	25,000	8,987,732
Additions	—	—	—	485,249	—	485,249
As at 31 December 2019	**3,328,166**	**3,038,000**	**133,000**	**2,948,815**	**25,000**	**9,472,981**
AMORTISATION/IMPAIRMENT						
As at 1 January 2018	3,328,166	502,200	37,683	1,215,535	25,000	5,108,584
Charge for year	—	468,800	26,600	497,186	—	992,586
As at 31 December 2018	3,328,166	971,000	64,283	1,712,721	25,000	6,101,170
Charge for year	—	468,800	26,600	544,632	—	1,040,032
As at 31 December 2019	**3,328,166**	**1,439,800**	**90,883**	**2,257,353**	**25,000**	**7,141,202**
NET BOOK VALUE						
As at 31 December 2019	**—**	**1,598,200**	**42,117**	**691,462**	**—**	**2,331,779**
As at 31 December 2018	—	2,067,000	68,717	750,845	—	2,886,562
As at 1 January 2018	—	2,535,800	95,317	735,360	—	3,366,477

During the year the Directors considered the need to impair the carrying value of intangible assets by performing an assessment of indicators of impairment. This resulted in a full impairment review of the Clinical Division and the Simulation Division. Having undertaken a full impairment review of both divisions, the Directors concluded that no further impairment was required.

Development costs

Development costs have been internally and externally generated. Included within internally generated development costs are assets with a net book value of £Nil (2018: £Nil) that are shown net of government grants received of £73,132 (2018: £73,132).

13. Property, plant & equipment

	Furniture, fixtures & office equipment	Plant & equipment	Right-of-use assets	Total
	£	£	£	£
COST				
As at 1 January 2018	56,495	671,657	—	728,152
Additions	3,579	358,128	—	361,707
Disposals	—	(417,976)	—	(417,976)
As at 31 December 2018	60,074	611,809	—	671,883
Adjustment on transition to IFRS 16	—	—	32,561	32,561
Additions	30,706	324,615	85,564	440,885
Disposals	—	(8,269)	(9,562)	(17,831)
As at 31 December 2019	**90,780**	**928,155**	**108,563**	**1,127,498**
DEPRECIATION				
As at 1 January 2018	38,581	377,065	—	415,646
Charge for year	6,276	238,682	—	244,958
Disposals	—	(406,453)	—	(406,453)
As at 31 December 2018	44,857	209,294	—	254,151
Charge for year	14,420	280,505	39,284	334,209
Disposals	—	(1,725)	(3,912)	(5,637)
As at 31 December 2019	**59,277**	**488,074**	**35,372**	**582,723**
NET BOOK VALUE				
As at 31 December 2019	**31,503**	**440,081**	**73,191**	**544,775**
As at 31 December 2018	15,217	402,515	—	417,732
As at 1 January 2018	17,914	294,592	—	312,506

Total depreciation expenses of £334,209 (2018: £244,958) have been charged to administrative expenses in the Statement of Comprehensive Income.

Leases

The right-of-use asset category above relates to contracts for the lease of motor vehicles and business premises previously accounted for as operating leases. See Note 1 for the changes to the accounting policies following the adoption of IFRS 16 'Leases'.

The balance sheet shows the following amounts relating to leases:

	At 31 December 2019	At 1 January 2019
	£	£
RIGHT-OF-USE ASSETS		
Premises	**60,608**	—
Vehicles	**12,583**	32,561
	73,191	32,561
LEASE LIABILITY		
Current	**53,095**	18,614
Non-current	**20,340**	12,062
	73,435	30,676

Additions to the right-of-use assets during the 2019 financial year were £85,564 in relation to a new office lease in IUNA.

Set out below is the movements during the period in the carrying amount of the lease liability:

	£
On adoption of IFRS 16 on 1 January 2019	**30,676**
Additions	**85,564**
Accretion of interest	**3,016**
Early termination adjustment	**(2,722)**
Early termination payment	**(2,712)**
Payments	**(40,387)**
At 31 December 2019	**73,435**

The following amounts relating to leases are recognised in profit and loss in the year to 31 December 2019:

	£
Depreciation expense on right-of-use assets	**39,284**
Interest expense on lease liabilities	**3,016**
Expense related to short term leases (recognised in administrative expenses)	**86,994**
	129,294

The amounts related to short term leases represent rental costs for the Group's offices which qualify as short term leases on the basis that i) the termination options for the lessee and lessor and ii) the Group will bear no more than an insignificant penalty on termination.

14. Investments in subsidiaries

	Company	
	2019	2018
	£	£
At 1 January	**5,184,133**	8,586,133
Capital contributions made during the year	**126,000**	148,000
	5,310,133	8,734,133
Impairment charge (see below)	**—**	(3,550,000)
At 31 December	**5,310,133**	5,184,133

The capital contribution represents a share-based payment expense in respect of the fair value of share options over the Company's unissued shares granted to employees of subsidiaries.

The Company's subsidiary undertakings are as follows:

Name of undertaking	Incorporated in	Interest in ordinary share capital
MedaPhor Limited	England & Wales	100%
Intelligent Ultrasound North America Incorporated (IUNA)	USA	100%
Intelligent Ultrasound Limited	England & Wales	100%
IML Finance Limited (dormant)	England & Wales	100%
Inventive Medical Limited (dormant)	England & Wales	100%
MedaPhor International Limited (dormant)	England & Wales	100%

The registered office for the undertakings incorporated in England & Wales is Cardiff Medicentre, Heath Park, Cardiff, CF14 4UJ. IUNA is registered in Delaware in the US.

The principal activity of MedaPhor Limited is the development and sale of simulation-based ultrasound training equipment.

The principal activity of IUNA is the sale of simulation-based ultrasound training equipment. MedaPhor Limited subscribed $1 in return for all of the share capital of IUNA on the date of IUNA's incorporation on 1 February 2014. On 15 August 2014 (the date of the share for share exchange between MedaPhor Limited and Intelligent Ultrasound Group plc), MedaPhor Limited sold its holding in the share capital of IUNA to Intelligent Ultrasound Group plc for $1. On 31 December 2015 the Company and IUNA entered into a debt conversion agreement under which $1,000,000 of intercompany loans due from IUNA to the Company where converted into 10,000 shares in IUNA at a price per share of $10. On 1 December 2017 the Company and IUNA entered into a further debt conversion agreement under which $1,934,560 of intercompany loans due from IUNA to the Company were converted into 193,456 shares in IUNA at a price per share of $10. IUNA is exempt from statutory audit.

The principal activity of Intelligent Ultrasound Limited is the development of medical imaging software.

The business and net assets of Inventive Medical Limited (IML) were transferred to MedaPhor Limited on 31 December 2018 and IML has not traded since that date and the intention is that it will remain dormant for the foreseeable future. MedaPhor International Limited and IML Finance Limited are dormant companies.

Impairment review of the carrying amount of the Company's investments in subsidiaries

The carrying amount of these investments relate to businesses acquired which are either part of the Group's Simulation Division or its Clinical Division. The total carrying amount of investments relating to the Simulation Division is £2,190,439 and £3,119,694 relates to the Clinical Division, following an impairment of £3,550,000 relating to the Simulation Division in 2018. These businesses have been assessed as two cash generating units for an impairment test of the carrying amounts of the related underlying investments.

Following an impairment indicators review, a detailed impairment review was performed using a value in use calculation based on the Group's divisional budgets for 2020 which have been reviewed by both management and the Board. Management have approved forecasts for the subsequent 4 years. A net present value has been calculated using a pre-tax discount rate of 13.2% for the Simulation Division and a discount rate of 22.8% for the Clinical Division taking into account the Group's cost of funds and an extra element for risk. A growth rate of 2% was used to determine the terminal value.

The conclusion of this review was that no further impairment was required in 2019.

15. Inventories

	Group 2019	Group 2018
	£	£
Finished goods and goods for resale	**663,240**	851,491

16. Trade and other receivables

Included within non-current assets

	Company 2019	Company 2018
	£	£
Amounts owed by subsidiary undertakings	**4,013,498**	475,919

The Company has determined that the amounts due from its subsidiary undertakings at 31 December 2019 totalling £9,675,271 were credit impaired (2018: £8,918,861) and the expected credit loss has been recognised in the Company's Statement of Comprehensive Income. The movements in the impairment allowance for amounts owed by subsidiary undertakings are as follows:

Impairment allowance in respect of receivables from subsidiary undertakings

	Company 2019	Company 2018
	£	£
At 1 January under IAS 39	—	—
Restated through opening retained earnings	—	5,901,828
Opening provision for impairment	**8,918,861**	5,901,828
Increase during the year	**1,213,411**	3,017,033
At 31 December	**10,132,272**	8,918,861

Included within current assets

	Group 2019	Group 2018	Company 2019	Company 2018
	£	£	£	£
Trade receivables	**2,107,685**	1,555,190	—	—
Other receivables and prepayments	**591,923**	357,785	**100,122**	96,098
	2,699,608	1,912,975	**100,122**	96,098

Group

Trade receivables are initially recognised at fair value and subsequently measured at their amortised cost using the effective interest method less any provision for impairment. The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and ageing. Customers are assigned one of four credit risk profiles (A to D) with A being the lowest credit risk profile (institutional customers such as hospitals and medical schools) and D the highest (non-institutional customers with a poor credit history). The expected loss probability rates are based on management's experience of historical credit losses for each group of trade receivables. The resultant provision matrix is then adjusted for current and forward-looking information based upon management's knowledge of the customer concerned and the prospects of recovery. The allowance that has been made for estimated irrecoverable trade receivables is £92,000 (2018: £53,905). The movement in the impairment allowance is included in Administrative Expenses in the Statement of Comprehensive Income.

At 31 December 2019 the lifetime expected loss allowance for trade receivables is as follows:

Expected loss rate	Current	1-30 days past due	31-60 days past due	61-90 days past due	More than 90 days past due
Customer profile A	0%	0%	0%	5%	10%
Customer profile B	0%	0%	5%	10%	15%
Customer profile C	1%	5%	10%	15%	20%
Customer profile D	5%	10%	15%	20%	25%

	Current	1-30 days past due	31-60 days past due	61-90 days past due	More than 90 days past due	Total 31 December 2019
Trade receivables	£	£	£	£	£	£
Gross carrying amount	930,095	489,488	339,744	153,934	286,424	2,199,685
Loss allowance	(3,264)	(9,812)	(14,992)	(8,723)	(55,209)	(92,000)
Trade receivables - net	926,831	479,676	324,752	145,211	231,215	2,107,685

At 31 December 2018 the lifetime expected loss allowance for trade receivables is as follows:

Expected loss rate	Current	1-30 days past due	31-60 days past due	61-90 days past due	More than 90 days past due
Customer profile A	0%	0%	0%	5%	10%
Customer profile B	0%	0%	5%	10%	15%
Customer profile C	1%	5%	10%	15%	20%
Customer profile D	5%	10%	15%	20%	25%

	Current	1-30 days past due	31-60 days past due	61-90 days past due	More than 90 days past due	Total 31 December 2018
Trade receivables	£	£	£	£	£	£
Gross carrying amount	957,601	290,315	38,333	46,314	276,532	1,609,095
Loss allowance	(1,315)	—	(2,949)	(242)	(49,399)	(53,905)
Trade receivables - net	956,286	290,315	35,384	46,072	227,133	1,555,190

The Directors consider that the carrying amount of trade and other receivables approximates to their fair values. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

Movements in the impairment allowance for trade receivables are as follows:

	Group	
	2019	2018
	£	£
At 1 January under IAS 39	53,905	95,136
Increase during the year	81,824	30,994
Receivables written off as uncollectible	(43,729)	(50,475)
Unused amounts reversed	—	(21,750)
At 31 December	92,000	53,905

17. Investments (short-term deposits)

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Short-term deposits	5,500,000	—	5,500,000	—

The cash held on short term deposit matured post year end on 6 January 2020.

18. Cash and cash equivalents

	Group		Company	
	2019	2018	**2019**	2018
	£	£	£	£
Cash at bank and on hand	**1,790,318**	5,607,052	**60,388**	4,761,668

19. Trade and other payables

	Group		Company	
	2019	2018	**2019**	2018
	£	£	£	£
Trade payables	**715,828**	665,040	**127,396**	143,411
Amounts owed to subsidiary undertakings	**—**	—	**—**	2,903
Taxation and social security	**81,326**	88,870	**—**	—
Accruals	**763,703**	507,568	**44,030**	21,068
Warrants	**39,795**	39,795	**39,795**	39,795
Other	**69,377**	40,923	**—**	—
	1,670,029	1,342,196	**211,221**	207,177

The Directors consider that the carrying amount of trade payables approximates to their fair value.

See Note 3 for an explanation of the Restatement of comparatives in relation to Warrants.

20. Deferred income

Revenue recognised in the year to 31 December 2019 includes £319,473 which was included in deferred income at 31 December 2018 (2018: 31 December 2017, deferred income recognised £188,462).

The vast majority of the Group's contracts are for delivery of goods and services within the next 12 months. However, certain support and extended warranty contracts have been entered into which extend beyond 12 months and the value of these contracts is included in deferred income within current and non-current liabilities. The amount of this deferred income that is expected to be recognised in future periods is analysed as follows:

	Group	
	2019	2018
	£	£
Deferred income expected to be recognised		
Within one year – included in current liabilities	**325,177**	311,496
In the second to fifth years inclusive – included in non-current liabilities	**108,680**	160,074
	433,857	471,570

21. Provisions

Remedials and warranty provision:

	Group	
	2019	2018
	£	**£**
Balance at 1 January	**68,972**	80,555
Provision made in the year	**52,709**	46,176
Remedial and warranty costs utilised in the year	**(26,905)**	(57,759)
Balance at 31 December	**94,776**	68,972

The warranty provision is all estimated to be due within one year.

The provision represents management's best estimate of the Group's liability for remedial work and warranties granted on products sold net of warranty amounts recoverable from its suppliers. The Group sources its simulation system hardware from third party suppliers and, while there is always some uncertainty relating to new technology, the actual annual remedial and warranty costs incurred suggest that the provision is sufficient.

22. Non-current liabilities – deferred taxation

	Group	
	2019	2018
	£	£
Balance at 1 January	**377,994**	467,994
Released in the year	**(90,000)**	(90,000)
Balance at 31 December	**287,994**	377,994

The provision represents the deferred tax payable on the anticipated discounted cash flows arising from the intellectual property and brand acquired with IML and IUL. The provision is being reversed pro-rata to the amortisation charge in respect of these intangible assets.

23. Share capital

	2019		2018	
	Number	**£**	Number	£
Allotted, issued and fully paid				
Ordinary shares of 1p each				
Balance at 1 January	**156,627,749**	**1,566,278**	90,701,443	907,015
Shares issued for cash	**63,369,043**	**633,690**	59,750,331	597,503
Shares issued on acquisition of IUL	**—**	**—**	6,175,975	61,760
Balance at 31 December	**219,996,792**	**2,199,968**	156,627,749	1,566,278

The fair values and premium arising on shares issued during the year are as follows:

Date	Description	Number of shares	Fair value £	Premium £
28 August 2019	Shares issued in connection with capital raising	**63,369,043**	**633,690**	**5,703,214**

On 28 August 2019 the Company placed 63,369,043 newly issued shares of 1 pence each in the capital of the Company at a price of 10 pence per share. Share issue costs of £487,154 have been netted off against the share premium arising on the new share issue.

One third of the consideration payable in respect of the acquisition of IUL in 2017 was deferred for 12 months from completion with the actual number of deferred shares and warrants to be issued dependent on any vendor warranty or indemnity breaches (as specified in the Sale and Purchase Agreement) arising during that 12 month period. The Company was not aware of any vendor warranty or indemnity breaches and so the 6,175,975 deferred consideration shares (with a fair value of £586,718 at 9.5 pence per share) were admitted to trading on 9 October 2018 and 418,897 deferred consideration warrants were issued at their fair value.

The deferred consideration warrants, which expire on 10 July 2021, are recognised in current liabilities.

The share premium arising was subject to merger relief and has been taken to merger reserve.

On 13 December 2018 the Company placed 59,750,331 newly issued shares of 1 pence each in the capital of the Company at a price of 8.5 pence per share. Share issue costs of £260,732 were netted off against the share premium arising on the new share issue.

24. Share-based payments

Share options

The Company has issued options under the Intelligent Ultrasound Group plc EMI Approved Share Option Scheme and several individual unapproved share option schemes to subscribe for ordinary shares of 1 pence each in the Company. The purpose of the share option schemes is to retain and motivate eligible employees and Directors. As at 31 December 2019 options under these schemes, including those held by Directors, were outstanding over:

	2019		2018	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of year	**13,935,473**	**16.09p**	4,493,473	25.89p
Granted during the year	**670,000**	**9.34p**	9,542,000	11.63p
Forfeited during the year	**(533,529)**	**18.54p**	(100,000)	12.50p
Outstanding at end of year	**14,071,944**	**15.68p**	13,935,473	16.09p
Exercisable at end of year	**2,805,625**	**24.29p**	2,642,390	25.10p

The exercise price and number of shares to which the options relate are as follows:

Option Exercise Price	Grant date	Balance as at 31 December 2018	Granted during year	Forfeited during year	Balance as at 31 December 2019	Option & expected life (years)	Risk free rate of return	Expected volatility	Vesting conditions notes below
Unapproved schemes									
16.508p	15/08/14	168,000	—	—	**168,000**	10	3.690%	40%	(i)
19p	15/08/14	296,000	—	—	**296,000**	10	1.790%	35%	(i)
42.5p	30/06/14	350,000	—	—	**350,000**	10	2.815%	35%	(i)
16.22p	06/10/17	268,920	—	—	**268,920**	10	1.410%	35%	(i)
12.75p	06/10/17	500,000	—	—	**500,000**	10	1.410%	35%	(ii)
12.5p	19/01/18	600,000	—	—	**600,000**	10	1.409%	37%	(ix)
11.25p	29/05/18	2,709,040	—	—	**2,709,040**	10	1.339%	38.9%	(x)
7.75p	20/12/18	150,000	—	—	**150,000**	10	1.285%	58%	(xii)
8p	18/01/19	—	150,000	—	**150,000**	10	1.380%	46.6%	(xiii)
11p	09/08/19	—	150,000	—	**150,000**	10	0.540%	61.9%	(xiv)
EMI Scheme									
19p	15/08/14	684,000	—	—	**684,000**	10	1.790%	35%	(i)
42.5p	30/06/14	924,000	—	—	**924,000**	10	2.815%	35%	(iii)
50p	15/08/14	47,058	—	(23,529)	**23,529**	10	2.508%	35%	(i)
51.5p	01/01/16	80,000	—	(60,000)	**20,000**	10	2.009%	17%	(iv)
42.5p	18/08/16	20,000	—	—	**20,000**	10	0.687%	22%	(v)
29p	21/12/16	100,000	—	—	**100,000**	10	1.440%	32%	(vi)
20.5p	04/04/17	200,000	—	—	**200,000**	10	1.071%	32%	(vii)
16.22p	06/10/17	855,495	—	—	**855,495**	10	1.410%	35%	(viii)
12.5p	19/01/18	2,650,000	—	(450,000)	**2,200,000**	10	1.408%	37%	(ix)
11.25p	29/05/18	3,332,960	—	—	**3,332,960**	10	1.339%	38.9%	(xi)
8p	18/01/19	—	220,000	—	**220,000**	10	1.380%	46.6%	(xiii)
11p	09/08/19	—	150,000	—	**150,000**	10	0.540%	61.9%	(xiv)
Total		**13,935,473**	**670,000**	**(533,529)**	**14,071,944**				

The fair value of the equity settled share options granted is estimated as at the date of grant using a binomial probability option pricing model taking into account the terms and conditions upon which the options were granted. The volatility has been estimated by reference to comparable listed companies and the dividend yield has been assumed to be 0% for all schemes.

The Group charged £126,000 to the Statement of Comprehensive Income in respect of share-based payments for the financial year ended 31 December 2019 (2018: £148,000).

The weighted average remaining life of all share options outstanding at 31 December 2019 is 7 years 6 months (2018: 8 years 5 months).

Vesting conditions:

(i) These options have vested.

(ii) These options vest, dependent upon continued service, on 6 October 2020.

(iii) 236,000 of these options will vest when the Group achieves breakeven EBITDA for a financial year, 312,000 of these options will vest on the earlier of the Group achieving EBITDA of £2m or £10m revenue for a financial year and the remainder have vested.

(iv) These options vested on 1 January 2019.

(v) These options vest, dependent upon continued service, on 18 August 2019.

(vi) These options vest, dependent upon continued service, on 21 December 2019.

(vii) 60,000 of these options vest when the Group achieves breakeven EBITDA for a financial year, 80,000 of these option will vest on the earlier of the Group achieving EBITDA of £2m or £10m revenue for a financial year and the remainder vest, dependent on continued service, on 4 April 2020.

(viii) 440,412 of these options had vested on 31 December 2018 and the remainder vest in instalments over a period of 2 years and 4 months from 1 January 2019.

(ix) These options vest dependent on continued service on 19 January 2021.

(x) 266,742 of these options vest when the Company's share price reaches 25p; 1,094,964 vest when the share price reaches 37.5p and 1,347,334 vest when the share price hits 50p.

(xi) 1,747,257 of these options vest when the Company's share price reaches 25p; 919,035 vest when the share price reaches 37.5p and 666,668 vest when the share price reaches 50p.

(xii) These options vest, dependent upon the holder not being a 'Bad Leaver' on 20 December 2021.

(xiii) These options vest, dependent upon continued service, on 18 January 2022.

(xiv) These options vest, dependent upon continued service, on 9 August 2022.

25. Financial commitments

The Group leases offices and vehicles under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. From 1 January 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases, see Note 13 for further information.

	2019	2018
	£	£
Commitments for minimum lease payments in relation to non- cancellable operating leases are payable as follows:		
Within one year	—	19,402
In the second to fifth years inclusive	—	18,835

26. Related party transactions

Details of the remuneration and share transactions with the Directors, who are the key management personnel of the Group, are disclosed in the Directors' Report.

Other related party transactions are as follows:

MedaPhor Limited ("Limited"), Intelligent Ultrasound North America Inc. (formerly MedaPhor North America Inc.) ("IUNA"), Inventive Medical Limited ("IML") and Intelligent Ultrasound Limited ("IUL") are related parties by virtue of being subsidiary companies of the Company. During the year working capital funding was provided by the Company to Limited and IUL and during the prior year the Company also provided working capital funding to IML. Limited recharged Non-executive Director fees and other expenses to the Company and the Company recharged other expenses to each subsidiary. The Company has recharged the share-based payment charge arising on share options granted by the Company to employees of Limited, IUNA and IUL (and IML in the prior year).

The value of these intercompany transactions and the amounts due to the Company by Limited, IUNA, IML and IUL at the year end are disclosed below.

IP Group plc ("IPG") is a related party by virtue of their significant shareholdings in the Company. David Baynes and Stuart Gall held an interest in IPG during the year. David Baynes is a Director of IPG and Stuart Gall undertakes consultancy work on retainer for IPG. IPG recharged expenses to the Company during the year. The value of the expenses (which exclude Directors' fees noted above) and the amounts due by the Group to IPG at each year end are disclosed below. Professor Nazar Amso is a Director of the Company and also a Director and shareholder of Advanced Medical Simulation Online Limited ("AMSOL"). The Group sold goods and services to AMSOL on an arms-length basis during the year. Professor Amso's wife is a Director and shareholder in Medical and Educational Academy Limited ("MedEd"). MedEd has provided medical advisory services to the Group during the prior year. The value of the goods and services sold to AMSOL and the charges made by MedEd for its services along with the amounts owed by AMSOL to the Group and due to the Group by MedEd at the year end are disclosed below.

Related party transactions – value of working capital funding paid to and charges made to/ (purchases from) each related party:

	2019	2018
Company	£	£
Limited (working capital)	**4,070,000**	1,431,166
Limited (Director fees)	**(84,280)**	(45,577)
Limited (expenses)	**74,491**	52,013
Limited (expenses)	**(1,728)**	(5,000)
Limited (share-based payment charge)	**95,000**	85,000
IUNA (expenses)	**4,981**	2,500
IUNA (expenses)	**—**	(5,403)
IUNA (share-based payment charge)	**12,000**	12,000
IML (working capital)	**—**	1,298,430
IML (expenses)	**—**	4,000
IML (share-based payment charge)	**—**	24,000
IUL (working capital)	**669,305**	577,687
IUL (expenses)	**18,201**	5,232
IUL (share-based payment charge)	**19,000**	27,000
IPG (expenses)	**(20,477)**	(2,713)

	2019	2018
Group	£	£
AMSOL (goods and services sold)	**2,450**	4,030
IPG (expenses)	**(20,477)**	(2,713)
MedEd (services)	**—**	(60,000)

Net amounts after allowance for expected credit losses owed by/(to) each related party. See Note 16 for detail on expected credit losses recognised.

	2019	2018
Company	**£**	**£**
Limited	**2,850,072**	—
IUL	**1,163,426**	475,919
Amounts owed by subsidiaries (after credit impairment losses)	**4,013,498**	475,919
IUNA	—	(2,903)
Net amounts owed by subsidiaries (after credit impairment losses)	**4,013,498**	*473,016*
IPG	**(28,808)**	*(6,879)*

	2019	2018
Group	**£**	**£**
AMSOL	**720**	240
IPG	**(28,808)**	(6,879)
MedEd	—	(20,000)

27. Financial instruments

i) Financial risk factors - Group

The Group's activities expose it to a variety of financial risks: liquidity risk, market risk (including currency risk), credit risk and risk associated with cash held on deposit with financial institutions. Where appropriate, the Group seeks to mitigate potential adverse effects on its financial performance.

Liquidity risk

The Group meets its day-to-day working capital requirements from its cash reserves. The Board receives rolling cash flow projections on a monthly basis and monitors these against the Group's long-term projections. These projections indicate that the Group will have sufficient funds to continue to trade for the next 15 months taking into account a number of potential outcomes of the impact of Covid-19 on the Group in the short to medium term. Therefore, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Cash held on deposit with financial institutions

The Group's main objective in managing its surplus cash is to maximise returns from funds held on deposit balanced with the need to safeguard the assets of the business and ensure that the Group has access to sufficient funds to service its working capital requirements on a timely basis. The Group holds funds on a mixture of short- and long-term deposit with Barclays Bank plc and HSBC to fulfil this objective.

Credit risk

The Group's principal financial assets are bank balances and trade and other receivables. The Group's credit risk is primarily attributable to its trade receivables and the Group attaches considerable importance to the collection and management of trade receivables. The Group minimises its credit risk through the application of appropriate credit limits to customers based on an assessment of net worth and trading history with the Group. Standard credit terms are net 30 days from date of invoice. Overdue trade receivables are managed through a phased escalation culminating in legal action. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Foreign currency risk

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

ii) Financial risk factors – Company

Amounts owed by and investments in subsidiary undertakings

In addition to the financial risk factors facing the Group described above, the Company also provides working capital funding for its trading subsidiaries, MedaPhor Limited, Intelligent Ultrasound North America Inc. and Intelligent Ultrasound Limited. The funding provided is supported by annual budgets including monthly cash flows which are approved at the start of each year by the Board. The recoverability of the amounts owed to the Company by its subsidiary undertakings and the Company's investments in its subsidiary undertakings are dependent on the ability of the subsidiary undertaking businesses to grow in line with the longer term forecasts of the Group. The Board monitors the performance of the Company's subsidiary undertakings by monthly reviews of management accounts including the sales order pipeline and cash flows compared to budget. The Company has determined that the amounts due from its subsidiary undertakings at 31 December 2019 totalling £9,675,271 (2018: £8,918,861) were credit impaired and the expected credit loss has been recognised in the Company's Statement of Comprehensive Income (see Note 16).

Capital risk management

The Company's objectives when managing capital, which comprises all components of equity, are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

Financial instruments by category – Group

Assets as per Statement of Financial Position

	Financial assets at amortised cost	
	2019	2018
	£	**£**
Trade and other receivables excluding prepayments	**2,418,414**	1,791,336
Provision for impairment	**(92,000)**	(53,905)
	2,326,414	1,737,431
Cash and cash equivalents	**1,790,318**	5,607,052
Short-term deposits	**5,500,000**	—
	9,616,732	7,344,483

Liabilities as per Statement of Financial Position

	Other financial liabilities at amortised cost	
	2019	2018
	£	**£**
Trade and other payables excluding statutory liabilities	**1,662,138**	1,253,326

The contractual maturities of all financial liabilities are up to 1 month (2017: 1 month).

The carrying amount of short term (less than 12 months) trade receivables and payables approximates their fair values.

Financial instruments by category – Company

The financial assets and liabilities of the Company are shown in Notes 16 and 19 respectively.

Financial assets consist of amounts due from subsidiary undertakings as well as other receivables. None of the other receivables is overdue and the carrying amount of these short term receivables approximates to their fair values.

Financial liabilities consist of trade and other payables. The contractual maturity of these liabilities is up to 1 month (2018: 1 month) and their carrying value approximates their fair value.

Group financial assets and liabilities are denominated in the following currencies:

Financial assets	**2019**	**2018**
	£	**£**
Trade and other receivables excluding prepayments		
Sterling	**1,214,792**	1,015,401
US Dollar	**732,871**	515,384
Canadian Dollar	**139,712**	63,429
Euro	**239,038**	143,217
	2,326,413	1,737,431
Currency denomination – Group		
Cash, cash equivalents and short term deposits:		
Sterling	**6,514,924**	4,945,055
US Dollar	**619,712**	301,964
Canadian Dollar	**35,689**	54,986
Euro	**39,181**	299,863
Swiss Franc	**80,812**	5,184
	7,290,318	5,607,052
Total financial assets	**9,616,731**	7,344,483

Financial liabilities	**2019**	2018
	£	**£**
Trade and other payables excluding statutory liabilities:		
Sterling	**1,383,322**	1,045,416
US Dollar	**316,907**	164,318
Canadian Dollar	**35,908**	40,441
Euro	**47,827**	3,151
Swiss Franc	**3,843**	—
Total financial liabilities	**1,787,807**	1,253,326

Currency denomination – Company

The financial assets and liabilities of the Company, shown in Notes 16 and 19 respectively, are all denominated in Sterling.

Currency fluctuations

At the year end the Group was exposed to fluctuations in the US Dollar, Canadian Dollar, Swiss Franc and the Euro against Sterling. The following table details the Group's sensitivity to a 10% increase or decrease in Sterling against the relevant foreign currencies rounded to the nearest £'000. 10% represents management's assessment of a reasonable possible change in foreign currency exchange rates.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A negative number below indicates a decrease in profit where Sterling strengthens against the relevant currency. For a 10% weakening in Sterling against the foreign currency, there would be an equal and opposite impact on profit and loss.

Group	**2019**	2018
	£	**£**
US Dollar	**(54,500)**	(65,000)
Canadian Dollar	**13,900**	(12,000)
Euro	**23,000**	(40,000)
Swiss Franc	**7,700**	(500)

28. Contingent liability

IUL was given to believe that it had made a potential over-claim of R&D tax credits in periods prior to its acquisition by the Company arising from an omission to file certain tax elections with HMRC on a timely basis. The potential amount that the Company could have been asked to repay was noted as a contingent liability in the 2018 Annual Report and Accounts. In November 2019, after the 2018 Annual Report and Accounts had been filed, HMRC informed the Company that it will not be seeking repayment of the R&D tax credits. Consequently, there is no longer a liability, contingent or actual, in respect of this potential over-claim of R&D tax credits.

29. Events after the reporting period

With the uncertainty of both the severity and length of the Covid-19 disruption potentially impacting on the Group's originally intended next fund-raising window for H1 2021 in April 2020 the Group took the decision to bring forward the equity placing. On 4 May 2020, shareholders approved the placing to raise £5.2m before transaction costs through the issue of 49,400,000 new Ordinary Shares at 10.5 pence per share. The funds from the placing mean that the Group can continue its new product development and have sufficient working capital headroom to reach its anticipated profitability inflection point from expected future revenues from the Clinical AI division.

30. Ultimate parent and controlling party

There was no overall controlling party as at 31 December 2019 or 31 December 2018.

CORPORATE DIRECTORY

Board of directors

Nazar Amso
Nicholas Avis
Andrew Barker
David Baynes
Stuart Gall
Helen Jones
Riccardo Pigliucci
Nicholas Sleep
Ian Whittaker

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We aim to provide gold standard in hi-fidelity simulation-based ultrasound training, as well as providing cutting edge artificial intelligence based clinical ultrasound software that can support, guide and speed up ultrasound scanning to make ultrasound more accessible for all medical professionals

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