

REGISTERED NUMBER: 03507286 (England and Wales)

ANNUAL REPORT AND
FINANCIAL STATEMENTS
OF THE
FORBIDDEN TECHNOLOGIES plc GROUP
FOR THE YEAR ENDED
31 DECEMBER 2016

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FOR THE YEAR ENDED 31 DECEMBER 2016**

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COMPANY INFORMATION

DIRECTORS: SB Streater
DP Main
JC Lees
AM Musa (resigned 22 February 2017)
JS Irving
A Bentley

SECRETARY: MC Kay

REGISTERED OFFICE: Tuition House
27 – 37 St George's Road
Wimbledon
London
SW19 4EU

REGISTERED NUMBER: 03507286 (England and Wales)

AUDITORS: Kingston Smith LLP
Statutory Auditor
Chartered Accountants
Devonshire House
60 Goswell Road
London
EC1M 7AD

SOLICITORS: Blake Morgan
6 New Street Square
London
EC4A 3DJ

**NOMINATED ADVISER
AND BROKER:** Allenby Capital Limited
3 St Helen's Place
London
EC3A 6AB

**CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016**

Executive Summary

We stated that our intention was to make 2016 the year we begin to see sales traction. I am pleased to report that this objective has been clearly accomplished and we continue to move in the right direction, as evidenced by year on year invoiced sales growth of 42%, or 25% in H1 and 59% in H2.

In order to establish and grow this sales momentum, we made several positive changes to the structure of the organisation in the period, most notably trebling the size of our sales team from two to six people.

The market opportunity for Forbidden is increasingly compelling, with trends continuing to move in our favour driven largely by the growing adoption of cloud video storage for professional content and a growing focus on sports. Some of the most high-profile and demanding events in the world used our platform to rapidly produce clips and highlights packages from their content in 2016, such as the Paralympics, Wimbledon, and the UEFA Champions League.

Forbidden is now a significantly more balanced and commercially-focused business than it was 12 months ago, underpinned by the most advanced technology in the industry. With the right product, company structure and funding now in place, the Board is confident of maintaining a positive growth trajectory and looks to the future with optimism.

Further to Aziz Musa's departure as CEO in February 2017, the Company is actively engaged in the search for a replacement with strong commercial growth experience. I, supported by CFO Jonathan Lees and Head of R&D Stephen Streater, have assumed the responsibilities of the CEO on a short-term basis.

Introduction

Forbidden Technologies plc (AIM: FBT) is the AIM quoted owner and developer of Forscene, the market-leading cloud video platform.

The Company is continuously building on its powerful cloud video platform with multiple applications which can be used by a range of different users, including: rights holders; broadcasters; sports and news video specialists; post-production houses; other mass market digital video channels; corporates and consumers.

The Company's platform applications help customers improve their time to market on time sensitive content, efficiently exploit the full value of their content, more effectively engage with their customers/fans, and gain the remote access, efficiency and scalability benefits of a cloud-based platform such as Forscene. Specific applications include:

- Enabling sports broadcasters and rights holders to engage more effectively digitally with their viewers by allowing them to provide clips and highlights packages during the broadcast, faster than ever before.
- Enabling news producers to efficiently distribute news digitally and localise content.
- Enabling production houses and post production houses to remotely capture, log, edit and review their content, speed up the post production process and save money.
- Enabling professional video producers to incorporate user generated content from smartphones.
- Enabling sports franchises, or any brand with large numbers of consumers, to improve their fan/consumer engagement with a unique combination of tools.

Consolidated income statement and consolidated statement of financial position

In the year ended 31 December 2016, the Group recorded revenue of £774,825 (£708,717 in 2015), which represented an increase of 9% year on year. Revenue, for income statement purposes, is derived from invoiced sales of £1,007,074 (£707,502 in 2015), which represented an increase of 42% year on year. Deferred revenues grew year on year by 593% from £39,004 to £270,321. Operating costs during the year to 31 December 2016 were £2,441,441 compared to £2,686,059 in the corresponding period in 2015. Operating costs for income statement purposes are net of capitalised development costs which were £281,466 in comparison to £488,729 in the prior year. The loss before interest, taxation, depreciation and amortisation was £1,787,406 (2015: £2,085,750). The net loss for the year of £2,340,464 compares to a loss of £2,556,423 in 2015.

The Group is debt free and had cash and cash equivalents at 31 December 2016 of £3,711,033 in comparison to a balance as at 31 December 2015 of £1,675,695. This cash balance includes two successful fundraisings during the period to 31 December 2016 which generated total net cash, after fundraising costs of £4,007,101.

**CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016**

Consolidated income statement and consolidated statement of financial position - continued

In the Chairman's Statement at the General Meeting held on 28 December 2016, we indicated that the Company would achieve total cost savings of approximately £500,000 by the end of 2016 in comparison to 2015. Following a restructuring which was implemented in May 2016, total cost savings primarily in the second half of 2016 were £472,975 comprising £244,618 of operating costs and £228,357 of capitalised costs. This is in line with the Company's annualised run rate target of £1 million in savings communicated to Shareholders earlier in the year.

2016 Sales growth momentum and positioning for long term growth

After achieving year on year invoiced sales growth in the first half of the year of 25%, we accomplished equivalent growth in the second half of the year of 59% resulting in full year invoiced sales growth of 42%. Although off a relatively small base, this is showing the progress we have been aiming to achieve.

Revenues, based on our profit and loss statement, lag invoiced sales growth. In the first half of the year, we had no year on year growth; however, the second half of the year showed 17% growth resulting in total revenues for the year of £774,825 (£708,717 in 2015). This is in comparison to total invoiced sales of £1,007,074 compared to £707,502 in 2015. This growth has come while also maintaining our gross margins at over 84%.

Our growth in 2016 has come from focusing our new business development activities into the sports market and the development of our international presence. Our UK post production business grew by 7% and maintains high customer retention rates. Against our growth priorities, in sports we grew by 39% versus 2015, and now sports comprises 32% of our total revenue. Internationally, we grew our revenue by 17% in 2016, with the US as our second most important market comprising 16% of our total revenue. Linked to our growth focus we have also increased our average invoiced sales value from £558 in 2015 to £1,264 in 2016. Our news sector, which was not prioritised and is reliant on one reseller, did decline.

In May-June, we made a significant adjustment to our business that has contributed to this growth momentum. We committed to grow our sales team, which we have achieved, taking the team from 2 people at the beginning of the year to its current level of 6 people. This was done whilst at the same time reducing our overall level of cash expenditures by an annualised equivalent of approximately £1 million starting in the second half of 2016.

Starting in the second half of the year, we initiated the repositioning of our products into one cloud video platform, Forscene, with multiple applications (see www.forscene.net). The Company already has one of the most comprehensive SaaS platforms for rapidly generating clipping and highlights packages for sports and news, and for reality TV and factual programmes, highly efficient remote logging and non-linear editing solutions. To this end, the eva and Captevat applications will sit as additional applications within our Forscene platform. With a single platform focus, our sales efforts are now solely focused on business to business. In this context, the eva and Captevat applications will be interesting to brands with large consumer bases where adding video solutions and content will help drive engagement. Within our www.forscene.com site, HD Live is derived from eva and Forscene Cut and Share is derived from Captevat. Our clients now see more clearly the full range of potential benefits we can provide them. For example, in the sports market, our clients are currently primarily using us to improve their digital distribution of content. We help them get production quality clips and highlights packages rapidly into the digital market, often within minutes of the actual event. The repositioning of our products into one cloud video platform has been an important step in improving our ability to commercialise our technology and further broaden Forscene's appeal in the market. This is vital in helping rights holders to support and grow their revenue streams. Events where we were used in 2016 include the Paralympics, Wimbledon, and the UEFA Champions League. Additional sports solutions include a range of applications that can be used to improve fan engagement for sports franchises.

Our growth focus is supported by a smaller, but strong and highly experienced technology development team led by Stephen Streater, the Company's founder. We continue to develop our platform by building new apps and capabilities against specific customer needs. In addition, we continue to develop our core cloud infrastructure, with particular focus on continually progressing our patent protected codec, 'Blackbird'. This codec is uniquely developed to deal with the demanding requirements of professional editors, and continues the progression of evolving, in line with improving video quality, which has moved from 'Standard Definition' to 'High Definition' to 'UHD/4k' over the last few years.

Management Team and Organisation

By the end of 2016, we had grown our commercial team, created a more tightly focused technology and product development team led by Stephen Streater (CTO), and an efficient and stronger finance and human resources capability led by Jonathan Lees (CFO).

Our commercial and service delivery team at the end of the year comprised 15 people or 52% of the organisation. This team includes sales, marketing, sales support, product management and service delivery. We also add to our commercial capabilities through the selective sign up of resellers.

**CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016**

Management Team and Organisation – continued

Although, we have reduced the size of our technology and product development team, we continue to progress the development of our platform through a clear focus on developments matched against clearly identified customer requirements.

We finished the year with a stronger and more balanced organisation than we started with at the beginning of 2016.

In February 2017, the Company's Chief Executive Officer, Aziz Musa, resigned for personal reasons and we wish him well in the future. I, assisted by Stephen Streater and Jonathan Lees have taken on the responsibilities of the Chief Executive Officer on a temporary basis whilst we search for a new CEO and continue to drive the growth of the Company.

Cash Management and Fundraising

Cash management is a constant focus of the executive management team. Our use of cash has been focused on increasing the balance of spend towards sales and marketing to drive growth in sales and reduce cash burn. We are vigilant in ensuring additional investments are targeted where there is commercial benefit.

During the year, we successfully raised additional equity funding twice. In June 2016, we completed a net fundraising of £1.2m at 7p per share. In December, we completed an additional fundraising of net £2.8m at 10p per share. Our cash position at the end of the year of £3.7m provides us with a strong balance sheet from which to grow the business.

Post Period Highlights

Post year end, there have been a number of highlights:

- In January, we announced a three-year deal with deltatree for one of their clients. This shows deltatree's belief in the long-term strength of our Forscene platform and our ability to support them in growing their market by delivering superior digital sports solutions. Along with IMG who is also a key client, deltatree is a major service provider in the sports market where we already work with them across a number of sports and clients.
- Also in January 2017, we announced a new video codec, Blackbird 9, where we have launched the patent protection process. Blackbird 9 significantly reduces the data rate compared to earlier Blackbird codecs. With Forbidden's patented loss-free artificial intelligence ("AI") compression engine at its core, Blackbird 9 is expected to improve the experience of professional users of the Forscene platform as they move towards editing higher resolution videos, by allowing for the efficient compression and decompression of video for uploading, editing and publishing. With both faster playback and fewer internet accesses per video, Blackbird 9 also improves multicam performance, where multiple video streams are logged or edited concurrently.

Future outlook

For 2017, we start the year with deferred revenues of £270,321 vs. £39,004 at the beginning of 2016, as well as a larger pipeline of business. In addition, we have a larger sales and marketing team, and more resellers and key partnerships compared to last year.

We will continue to sell the full and growing benefits of our Forscene platform to all existing customers and resellers, as well as prospective customers. We will grow our reseller channel to market from our current base of resellers which include post production facilities houses and sector specialists such as in sports and news, and geographic specialists.

We believe our ambitions are also supported by the growing adoption of cloud video storage for professional content, particularly in the broadcast and sports markets. The cloud video storage market is a high growth market and cloud applications, such as ours, are a natural adjunct to storage. Our strong position in this market will be supported by continued development of our platform on applications against specific client needs. In addition, our relationships with Microsoft Azure and Amazon Web Services (AWS) indicate their belief in the need for video applications in the cloud. Forscene is already being used in both Microsoft Azure and AWS applications.

Finally, the Board and management team are confident that we have the platform, capabilities and funding in place, to continue to grow our business. Our recent funding, gives us the capability to invest behind clear new growth opportunities, whilst continuing to move towards cash generation and profitability.



David Main
Chairman

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016**
Strategic update for the business

In 2016, the Group created a leaner business, focused on the commercial development of the organisation, and built growth momentum.

During the year, we adjusted our strategy to become more intensively focused on growth opportunities where we could be adding revenue benefits to our customers. This is in addition to the core benefits of the cloud, which are remote access, scalability and lower costs. This has increased our focus in sports and other live media applications. We are increasingly differentiated when customers need live video editing and are exploring adding user generated content applications. Adding digital distribution of live content within minutes, such as clips and highlights packages, adds to the revenue potential of our customers.

In addition, we decided to unify all our applications onto a single platform, Forscene, and focus solely on B2B selling, where we can differentiate our solution. Growing the number of applications on a single platform, improves our ability to sell and provide a broader range of integrated solutions to our target customers. Each market segment requires different combinations of applications to meet their needs. This approach differentiates us significantly from new market entrants who come in with a single narrow solution for a customer.

The combination of focusing our growth on live applications, which are higher value, and selling a set of applications on a single platform is targeted to grow the average value of each sale. In addition, the customer opportunities, where either of these factors apply, will be against customers where there are strong opportunities for repeat revenues and further growth. Growing the average value of our customers and high customer retention rates are at the heart of our commercial strategy going forward.

To support our commercial strategy, we continue to develop our Forscene platform and applications, and the supporting infrastructure. We prioritise our development activities against clear client needs and market potential. Our development activities can be broken into three core types of activities:

- Improve and simplify the user interface and user experience of existing applications.
- Develop new applications against specific customer needs and market opportunities.
- Continuously improve our platform infrastructure against changing market needs including, for example, the adoption of higher definition video production and viewing, and evolving software usage requirements such as Java and JavaScript.

A detailed review of the Group's financial performance during the year ended 31 December 2016 and an outlook for the future is provided within the Chairman's statement on page 2.

Key Performance Indicators

Revenue for the year was £774,825 (2015: £708,717); the loss for the year was £2,340,464 (2015: £2,556,423). The results are shown in more detail on page 14.

In addition to the monthly management accounts, the Board uses the following key performance indicators in the management of the key risks of the business and as a measure of business performance.

- Invoiced Sales is our core measure for the performance of the sales and marketing team. As an alternative performance measure (APM), this is a better indicator of commercial activity than revenue presented in the Income Statement. The sales team are targeted on the basis of deals closed and invoices raised, as opposed to adjusting this number based on the timing of the delivery of the service and the matching revenues. The reconciliation of revenue per the Income Statement, and invoiced sales is as follows:

| | 2016 £ | 2015 £ |
|---------------------------------------|------------------|----------------|
| Revenue | 774,825 | 708,717 |
| Increase in deferred income | 231,317 | 6,041 |
| Decrease/(increase) in accrued income | 932 | (7,256) |
| Invoiced Sales | <u>1,007,074</u> | <u>707,502</u> |

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016**
Key Performance Indicators - continued

- Average sales value per invoice and per customer is a measure we track on a regular basis. Our sales priorities, approach and efforts are guided by the sales potential of a customer. We continuously look at ways to consolidate relationships we have in a business higher up the organisation. In the last year, we increased both our average sales value per invoice and sales value per customer.

| | 2016 | 2015 |
|--------------------------|-------|-------|
| | £ | £ |
| Sales value per invoice | 1,264 | 558 |
| Sales value per customer | 9,660 | 7,846 |

- Customer retention guides our thinking on which potential new customers to focus on, as well as measuring the quality of our applications and service levels. On a monthly basis, we review our customer base to understand which customers are continuing with us or switching. There are many situations where our applications are a subset of a solution and we have limited control over the retention of the customer. In 2016, 82% of our 2015 customers continued to use us.
- Costs are categorised and monitored against budget and current needs on a monthly basis. Variable or discretionary spend is monitored weekly by management.
- Cash is managed closely to ensure that management is able to forecast accurately and reliably cash movement on a weekly basis in the short-term and on a monthly basis in the longer-term. Management uses an integrated income statement, cash flow and balance sheet working capital model for forecasting. It conducts regular sensitivity analysis to ensure that cash resources will be sufficient to meet the Group's future needs. The balance of cash at the year-end was £3,711,033 (2015: £1,675,695).

PRINCIPAL RISKS AND UNCERTAINTIES
Liquidity risk

The Board reviews future working capital requirements on a monthly basis against funds available.

Foreign currency risk

The Group enters into transactions in the UK, and internationally, and is exposed to currency fluctuations in the exchange rates for these regions although most of its transactions are denominated in sterling. The Group does not currently hedge against foreign currency risk since the directors feel that, at current levels of income and expenditure, the risk is low and its effect does not materially influence the Group's working capital position and financial performance. The directors review foreign exchange movements on an ongoing basis to assess the Group's risk relating to changes in foreign currency exchange rates.

In light of the uncertainty over the timing and the terms of UK's exit from the European Union the Group may be exposed to foreign currency volatility arising from transactions in foreign currencies. The impact in 2016 of the weakening value of sterling primarily against the US\$ following the EU referendum was positive and represented approximately 0.5% of invoiced sales.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. There is one longstanding customer that represented more than 10% of sales in 2016. In order to manage credit risk the ageing of the balances is reviewed regularly. Bad debt in 2016 was less than 0.5% of invoiced sales.

Capital management

The Board's objectives when managing capital 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. In recent years it has exclusively focused on equity funding and has not utilised debt funding. During the year the Group raised £4 million of new equity net of costs to ensure that the Group has a strong capital position to support the growth and development of the business.

Technology risks

Forscene is a cloud-based platform operating in several market sectors, including the conservative professional broadcast market. The Group's ability to sell its applications is affected by the rate of adoption of cloud services. Forbidden's flagship product runs in Java. Whilst this is supported by its owner Oracle, sales could be impacted if Java is rejected by clients or potential clients. Forbidden is starting to build new applications, as well as upgrading existing applications and software infrastructure, in JavaScript. As such, it is dependent on JavaScript support within browsers.

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016**

PRINCIPAL RISKS AND UNCERTAINTIES – continued

Product Risks

There are risks related to new product development activities, or upgrades, which may take longer than expected to be market ready and/or the market opportunity for these products may not materialise. The Group regularly reviews its product development investment and focuses an increasing proportion of its activities against specific customer requirements.

Competitor and market risks

Competitors and new entrants could succeed in producing superior product offerings on a more timely basis, or outperform at marketing and selling their products, thereby slowing down the adoption of Forbidden's applications. In addition, competitors and new entrants could react to new market opportunities faster than Forbidden, which would result in a loss of sales opportunities. The Group continuously monitors its strategy and market focus. It regularly reviews the activities of existing and emerging competitors, and monitors the emergence of new market opportunities, and adjusts the focus of its applications development and commercial activities accordingly.

Security risks

Forbidden protects itself against cyber-attack by addressing known risks, such as published internet vulnerabilities, by installing patches. From time to time the Group appoints independent contractors to test the Group's defences.

Organisational risks

As a small Group, Forbidden has a high proportion of key staff, and loss of key staff is a risk. A productive working environment, respect for staff, regular company-wide communication meetings, regular compensation reviews, promotion opportunities where relevant, and regular awards of share options are all elements of Forbidden's staff retention risk mitigation. The Group has over time built a strong network of organisations that can respond to key resourcing challenges effectively.



David Main
Chairman

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2016**

The directors present their report with the consolidated financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITY

The principal activity of the Group in the year under review was the development and commercial exploitation of cloud-based video technology.

DIVIDENDS

No dividends will be declared for the year ended 31 December 2016 (2015:£Nil).

EVENTS SINCE THE END OF THE YEAR

Information relating to events since the end of the year is given in the notes to the financial statements.

DIRECTORS AND DIRECTORS' INTERESTS

The following directors have held office during the period from 1 January 2016 to the date of this report.

SB Streater
DP Main
JC Lees
AM Musa (resigned 22 February 2017)
JH Cowan (resigned 26 September 2016)
JS Irving
A Bentley

The directors who held office during the financial year had the following interests in the shares of the Company according to the register of directors' interests:

| | Class of share | Interest at end of year | Interest at start of year |
|-------------|------------------------------|-------------------------|---------------------------|
| SB Streater | Ordinary shares of 0.8 pence | 63,985,714 | 62,700,000 |
| DP Main | Ordinary shares of 0.8 pence | 535,714 | 250,000 |
| JC Lees | Ordinary shares of 0.8 pence | - | - |
| AM Musa | Ordinary shares of 0.8 pence | - | - |
| JH Cowan | Ordinary shares of 0.8 pence | - | - |
| JS Irving | Ordinary shares of 0.8 pence | - | - |
| A Bentley | Ordinary shares of 0.8 pence | 30,000 | 30,000 |

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2016 – continued**
DIRECTORS AND DIRECTORS' INTERESTS – continued

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the Company were granted to any of the directors or their immediate families, or exercised by them, during the financial year except as indicated below:

| | At start of year | Granted | Exercised | Lapsed | At end of year | Exercise price £ | Market price on date of exercise £ | Date from which exercisable | Expiry date |
|-----------|---------------------|---------|-----------|--------|-------------------|------------------------|--|-----------------------------------|-------------|
| DP Main | 50,000 | | | | 50,000 | 0.16 | - | 05/07/2013 | 04/07/2020 |
| DP Main | 50,000 | | | | 50,000 | 0.36 | - | 05/11/2013 | 04/11/2020 |
| DP Main | 55,000 | | | | 55,000 | 0.1275 | - | 06/10/2014 | 05/10/2021 |
| DP Main | 75,000 | | | | 75,000 | 0.245 | - | 12/05/2015 | 11/05/2022 |
| DP Main | 40,000 | | | | 40,000 | 0.26 | - | 20/08/2015 | 19/08/2022 |
| DP Main | 50,000 | | | | 50,000 | 0.275 | - | 25/04/2016 | 24/04/2023 |
| DP Main | 100,000 | | | | 100,000 | 0.255 | - | 25/07/2016 | 24/07/2023 |
| DP Main | 75,000 | | | | 75,000 | 0.215 | - | 25/04/2017 | 24/04/2024 |
| DP Main | 100,000 | | | | 100,000 | 0.19 | - | 23/09/2017 | 22/09/2024 |
| DP Main | 100,000 | | | | 100,000 | 0.05875 | - | 18/11/2018 | 17/11/2025 |
| DP Main | | 250,000 | | | 250,000 | 0.085 | - | 07/06/2019 | 06/06/2026 |
| JC Lees | 75,000 | | | | 75,000 | 0.215 | - | 25/04/2017 | 24/04/2024 |
| JC Lees | 25,000 | | | | 25,000 | 0.19 | - | 23/09/2017 | 22/09/2024 |
| JC Lees | 500,000 | | | | 500,000 | 0.09 | - | 25/06/2018 | 24/06/2025 |
| JC Lees | 350,000 | | | | 350,000 | 0.05875 | - | 18/11/2018 | 17/11/2025 |
| JC Lees | | 120,000 | | | 120,000 | 0.085 | - | 07/06/2019 | 06/06/2026 |
| AM Musa | 100,000 | | | | 100,000 | 0.225 | - | 19/05/2017 | 18/05/2024 |
| AM Musa | 100,000 | | | | 100,000 | 0.19 | - | 23/09/2017 | 22/09/2024 |
| AM Musa | 600,000 | | | | 600,000 | 0.0825 | - | 11/05/2018 | 10/05/2025 |
| AM Musa | 600,000 | | | | 600,000 | 0.05875 | - | 18/11/2018 | 17/11/2025 |
| AM Musa | | 500,000 | | | 500,000 | 0.085 | - | 07/06/2019 | 06/06/2026 |
| JH Cowan | 100,000 | | | | 100,000 | 0.1275 | - | 06/10/2014 | 05/10/2021 |
| JH Cowan | 100,000 | | | | 100,000 | 0.245 | - | 12/05/2015 | 11/05/2022 |
| JH Cowan | 25,000 | | | | 25,000 | 0.26 | - | 20/08/2015 | 19/08/2022 |
| JH Cowan | 50,000 | | | | 50,000 | 0.275 | - | 25/04/2016 | 24/04/2023 |
| JH Cowan | 100,000 | | | | 100,000 | 0.255 | - | 25/07/2016 | 24/07/2023 |
| JH Cowan | 75,000 | | | | 75,000 | 0.215 | - | 25/04/2017 | 24/04/2024 |
| JH Cowan | 25,000 | | | | 25,000 | 0.19 | - | 23/09/2017 | 22/09/2024 |
| JH Cowan | 500,000 | | | | 500,000 | 0.0825 | - | 11/05/2018 | 10/05/2025 |
| JH Cowan | 350,000 | | | | 350,000 | 0.05875 | - | 18/11/2018 | 17/11/2025 |
| JH Cowan | | 100,000 | | | 100,000 | 0.085 | - | 07/06/2019 | 06/06/2026 |
| JS Irving | 100,000 | | | | 100,000 | 0.05875 | - | 18/11/2018 | 17/11/2025 |
| JS Irving | | 100,000 | | | 100,000 | 0.085 | - | 07/06/2019 | 06/06/2026 |
| A Bentley | 100,000 | | | | 100,000 | 0.05875 | - | 18/11/2018 | 17/11/2025 |
| A Bentley | | 100,000 | | | 100,000 | 0.085 | - | 07/06/2019 | 06/06/2026 |

The market price of the shares at the year-end was 11.38p. The highest closing market price during the year was 13.00p and the lowest closing market price was 7.12p. The options granted to AM Musa and JH Cowan have lapsed since the year-end.

FINANCIAL INSTRUMENTS

The Group's financial instruments comprise trade debtors, trade creditors and cash. The Group has not entered into any derivative or other hedging instruments. The Group's practice has been to finance its operations and expansion through the issue of equity share capital. Financial assets comprise cash at bank and in hand. Financial assets and financial liabilities exclude short-term debtors and creditors. The fair value of the financial assets and financial liabilities are not materially different from their carrying values.

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2016 – continued**

SUBSTANTIAL SHAREHOLDERS

At the year end the following shareholders held an interest of 3% or more in the Company's ordinary share capital:

SB Streater
Schroders plc
Miton Group plc

POLITICAL AND CHARITABLE CONTRIBUTIONS

The Group made £85 in charitable donations in the year (2015: £507).

AUDIT COMMITTEE

The Audit Committee comprises David Main (Chairman) and Andrew Bentley. In the period since the last Directors' Report it met five times.

The Committee's mandate is to:-

- Monitor the integrity of the financial statements of the Group including its annual statutory accounts and monthly management accounts;
- Review the accounting policies, treatment of unusual transactions, estimates and judgements, taking into account the views of the external auditors;
- Review and challenge the clarity and completeness of disclosure in the Group's financial reports (both narrative and financial);
- Monitor the adequacy and effectiveness of the Group's internal controls and risk management systems;
- Appraise the content and disclosure within the annual statutory accounts and make recommendations to the Board;
- Oversee the relationship with the external auditors and review their effectiveness, making recommendations to the Board in relation to their appointment, re-appointment or removal and price; and
- Communicate to shareholders the extent of the Committee's activities.

Specific actions taken by the Committee since the date of the last Directors' Report include the following:

- A review of the Interim accounts of the Group as at 30 June 2016 and the Annual Report and Statutory Accounts of the Group for the year ended 31 December 2016. The review of the Annual Report took into account guidance from the Financial Reporting Council in respect of the contents of the Strategic Report, the use of Alternative Performance Measures and the disclosure of accounting policies.
- Satisfactorily concluding the Group's response to the review by the Financial Reporting Council of the 2014 Annual Report and Statutory Accounts.
- A regular review of the three year working capital forecasts of the Group with particular focus on sensitivities impacting cash burn.
- A review of the development costs capitalisation and amortisation policies and a post-year end impairment review.
- A review of the disclosures in the Chairman's Statement to ensure that the performance of the Group for the year ended 31 December 2016 are adequately described and reported thereon.
- An assessment of the performance of Kingston Smith LLP as auditors of the Group. On the basis that the Committee conclude that the audit continues to be independent, objective and effective; that they have been the auditors of the Group for less than ten years; and that the lead partner who has held the position for five years will be replaced next year, the Committee recommends that Kingston Smith LLP continue as auditors of the Group for the next financial year; and will not now be recommending a tender is conducted by the Group until the earliest 2018. A resolution to reappoint Kingston Smith LLP and give authority to the Directors to determine their remuneration will be submitted to the Shareholders at the AGM.
- A review of the findings of the auditors arising out of the audit of the Group for the year ended 31 December 2016. The Committee can report that there were no significant findings arising from the audit which could have given rise to material misstatements and reclassifications and that there were no significant matters concerning the operation of the accounting and control systems brought to the attention of the Committee.

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2016 – continued**

REMUNERATION COMMITTEE

The Remuneration Committee comprises David Main (Chairman), James Irving and Stephen Streater. It is responsible both for setting salary levels and incentive programs at the senior management level, reviewing and approving material changes to salaries and incentive programs across the Group, and awarding Share Options to all employees of the Group. In the period since the last Directors' Report it met four times. Specific actions taken by the Committee since the date of the last Directors' Report include the following:-

- Approve the restructuring of the organisation in May 2016.
- Approve the waiver of salary by the Executive Directors.
- Approve the employee-wide grant of options in June 2016.
- Approve the 2017 sales commission plans and senior management compensation changes.

SHARE OPTION SCHEMES

In the 12 months to 31 December 2016, options over ordinary shares of 0.8p in the Company were granted under the Company's Enterprise Management Incentive Share Option Scheme and Unapproved Scheme as follows.

| Date granted | No of shares over which options granted | No of Directors & employees to whom options granted | Exercise price (pence) | Date from which exercisable | Date to which exercisable |
|--------------|---|---|------------------------|-----------------------------|---------------------------|
| 7 June 2016 | 1,950,000 | 23 | 8.5 | 7 June 2019 | 6 June 2026 |

On termination of employment, employees and directors lose their share options unless the Board exercises its discretion to allow an employee or director to retain their share options for a limited period. Options are granted to individual employees and directors. Options vest three years after the date of grant on condition that the recipient is still an employee or director of the Company. The Directors are permitted to determine that options which might otherwise lapse may remain exercisable for a period up to ten years from the date of grant. This confers discretion on the Directors to agree extended dates for exercise of options in certain limited circumstances, where the option-holder would otherwise cease to be eligible to exercise the options, if the Directors consider it to be in the best interests of the Company to do so.

The exercise price for the share options issued was the market price at the date the options were granted.

CORPORATE GOVERNANCE

The listing rules require that listed companies (but not companies quoted on AIM) incorporated in the UK should state in their report and accounts whether they comply with the UK Corporate Governance Code ("the Code") and identify and give reasons for any area of non-compliance. The Code is published by the Financial Reporting Council and is periodically reviewed and updated. The Company is listed on AIM and therefore no disclosure is required.

The Group supports the principles and aims of the code and follows the code wherever it is reasonable to do so. It operates an effective board which normally meets at least 12 times a year to consider the progress of the Group. The Board holds additional, one-off meetings to review and reset the Group's strategy and future direction.

The objective of the Group's corporate governance structure and processes is to create transparency in business decisions and actions so that it remains accountable to its stakeholders. The value placed on good corporate governance is reflected in the governance practices and everyday working processes.

Wherever possible, appropriate controls are in place and monitored by the Board. However, full compliance with the code is not possible because of the size and resource constraints of the Group and because of the relative cost benefit assessment in putting in place the additional procedures. As the Group grows in size and resources the Board intends to continue to increase its compliance with the Code.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2016 – continued**

STATEMENT OF DIRECTORS' RESPONSIBILITIES – continued

Company law requires the directors to prepare financial statements for each financial year. The directors are required by the AIM Rules of the London Stock Exchange to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected to prepare the Company financial statements on the same basis.

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 and cash flows of the Group and the Company and the financial performance of the Group for that year. 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 in the preparation of the financial statements the company has complied with IFRS as adopted by the EU, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware and 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 the company's auditors are aware of that information.

AUDITORS

The auditors, Kingston Smith LLP, will be proposed for re-appointment at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD:



JC Lees Director

Date: 10 March 2017

**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF
FORBIDDEN TECHNOLOGIES PLC**

We have audited the financial statements of Forbidden Technologies plc for the year ended 31 December 2016 which comprise the Consolidated and Company Statements of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Statements of Cash Flows, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 11 and 12 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

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 2016 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.

Opinion on other matters prescribed by the Companies Act 2006

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

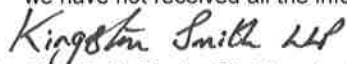
- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the 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 where the Companies Act 2006 requires us to report to you if, in our opinion:

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



John Staniforth (Senior Statutory Auditor)
for and on behalf of Kingston Smith LLP, Statutory Auditor

10 March 2017

Devonshire House
60 Goswell Road
London
EC1M 7AD

CONSOLIDATED INCOME STATEMENT AND STATEMENTS OF COMPREHENSIVE INCOME

Consolidated income statement and statements of comprehensive income

| | Notes | 2016 £ | 2015 £ |
|--|-------|-------------|-------------|
| CONTINUING OPERATIONS | | | |
| Revenue | 2 | 774,825 | 708,717 |
| Cost of Sales | | (120,790) | (108,408) |
| GROSS PROFIT | | 654,035 | 600,309 |
| Operating costs | | (2,441,441) | (2,686,059) |
| EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION AND AMORTISATION | | (1,787,406) | (2,085,750) |
| Depreciation | | (50,053) | (156,162) |
| Loss on disposal of fixed assets | | - | (1,309) |
| Amortisation | | (456,298) | (334,602) |
| Employee share option costs | | (73,250) | (84,783) |
| | | (579,601) | (576,856) |
| OPERATING LOSS | 4 | (2,367,007) | (2,662,606) |
| Finance income | 5 | 3,014 | 27,124 |
| LOSS BEFORE INCOME TAX | | (2,363,993) | (2,635,482) |
| Income tax | 6 | 23,529 | 79,059 |
| LOSS FOR THE YEAR | | (2,340,464) | (2,556,423) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | (2,340,464) | (2,556,423) |
| Earnings per share expressed in pence per share | | | |
| Basic – continuing and total operations | 7 | (1.63p) | (1.94p) |
| Fully diluted - continuing and total operations | | (1.63p) | (1.94p) |


Company statement of comprehensive income

| | 2016 £ | 2015 £ |
|--|-------------|-------------|
| LOSS FOR THE YEAR | (2,340,586) | (2,556,458) |
| Other comprehensive income | - | - |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | (2,340,586) | (2,556,458) |

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION
31 DECEMBER 2016

| | Notes | Group | | Company | |
|-------------------------------------|-------|------------------|------------------|------------------|------------------|
| | | 2016 £ | 2015 £ | 2016 £ | 2015 £ |
| ASSETS | | | | | |
| NON-CURRENT ASSETS | | | | | |
| Other intangible assets | 8 | 1,343,834 | 1,518,666 | 1,343,834 | 1,518,666 |
| Property, plant and equipment | 9 | 48,448 | 74,956 | 48,448 | 74,956 |
| Investments | 10 | - | - | 641 | 641 |
| | | 1,392,282 | 1,593,622 | 1,392,923 | 1,594,263 |
| CURRENT ASSETS | | | | | |
| Trade and other receivables | 11 | 418,774 | 233,845 | 417,272 | 233,211 |
| Current tax assets | | 23,529 | 79,059 | 23,529 | 79,059 |
| Cash and bank balances | 12 | 3,711,033 | 1,675,695 | 3,710,927 | 1,674,637 |
| | | 4,153,336 | 1,988,599 | 4,151,728 | 1,986,907 |
| TOTAL ASSETS | | 5,545,618 | 3,582,221 | 5,544,651 | 3,581,170 |
| EQUITY AND LIABILITIES | | | | | |
| CAPITAL AND RESERVES | | | | | |
| Issued share capital | 13 | 1,443,890 | 1,054,518 | 1,443,890 | 1,054,518 |
| Share premium | | 16,935,301 | 13,317,572 | 16,935,301 | 13,317,572 |
| Capital contribution reserve | | 125,000 | 125,000 | 125,000 | 125,000 |
| Retained earnings | | (13,454,916) | (11,187,702) | (13,455,073) | (11,187,737) |
| TOTAL EQUITY | | 5,049,275 | 3,309,388 | 5,049,118 | 3,309,353 |
| CURRENT LIABILITIES | | | | | |
| Trade and other payables | 14 | 496,343 | 272,833 | 495,533 | 271,817 |
| TOTAL LIABILITIES | | 496,343 | 272,833 | 495,533 | 271,817 |
| TOTAL EQUITY AND LIABILITIES | | 5,545,618 | 3,582,221 | 5,544,651 | 3,581,170 |

The financial statements were approved by the Board of Directors on 10 March 2017 and were signed on its behalf by:


 DP Main – Director


 JC Lees – Director

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

| | Issued share capital £ | Retained earnings £ | Share premium £ | Capital contribution reserve £ | Total equity £ |
|---|------------------------------|---------------------------|-----------------------|---|-------------------|
| Balance at 1 January 2015 | 1,054,518 | (8,716,062) | 13,317,572 | 125,000 | 5,781,028 |
| Changes in equity | | | | | |
| Share based payment | - | 84,783 | - | - | 84,783 |
| Total comprehensive income for the year | - | (2,556,423) | - | - | (2,556,423) |
| Balance at 31 December 2015 | 1,054,518 | (11,187,702) | 13,317,572 | 125,000 | 3,309,388 |
| Changes in equity | | | | | |
| Issue of share capital (net of expenses) | 389,372 | - | 3,617,729 | - | 4,007,101 |
| Share based payment | - | 73,250 | - | - | 73,250 |
| Total comprehensive income for the year | - | (2,340,464) | - | - | (2,340,464) |
| Balance at 31 December 2016 | 1,443,890 | (13,454,916) | 16,935,301 | 125,000 | 5,049,275 |

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

| | Issued share capital £ | Retained earnings £ | Share premium £ | Capital contribution reserve £ | Total equity £ |
|---|---------------------------------|---------------------------|-----------------------|---|-------------------|
| Balance at 1 January 2015 | 1,054,518 | (8,716,062) | 13,317,572 | 125,000 | 5,781,028 |
| Changes in equity | | | | | |
| Share based payment | - | 84,783 | - | - | 84,783 |
| Total comprehensive income for the year | - | (2,556,458) | - | - | (2,556,458) |
| Balance at 31 December 2015 | 1,054,518 | (11,187,737) | 13,317,572 | 125,000 | 3,309,353 |
| Changes in equity | | | | | |
| Issue of share capital (net of expenses) | 389,372 | - | 3,617,729 | - | 4,007,101 |
| Share based payment | - | 73,250 | - | - | 73,250 |
| Total comprehensive income for the year | - | (2,340,586) | - | - | (2,340,586) |
| Balance at 31 December 2016 | 1,443,890 | (13,455,073) | 16,935,301 | 125,000 | 5,049,118 |

**CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016**

| | | Group | | Company | |
|---|-------|--------------------|--------------------|--------------------|--------------------|
| | Notes | 2016 £ | 2015 £ | 2016 £ | 2015 £ |
| Cash flows from operating activities | | | | | |
| Cash used in operations | A | (1,748,825) | (2,212,498) | (1,747,873) | (2,158,108) |
| Tax received | | 79,059 | 33,650 | 79,059 | 33,650 |
| Net cash from operating activities | | (1,669,766) | (2,178,848) | (1,668,814) | (2,124,458) |
| Cash flows from investing activities | | | | | |
| Payments for intangible fixed assets | | (281,466) | (488,729) | (281,466) | (488,729) |
| Payments for property, plant and equipment | | (23,545) | (44,639) | (23,545) | (44,639) |
| Proceeds from sale of property, plant and equipment | | - | 1,887 | - | - |
| Maturity of fixed term deposits | | - | 2,000,000 | - | 2,000,000 |
| Interest received | | 3,014 | 27,124 | 3,014 | 27,124 |
| Net cash from investing activities | | (301,997) | 1,495,643 | (301,997) | 1,493,756 |
| Cash flows from financing activities | | | | | |
| Share issue (net of expenses) | | 4,007,101 | - | 4,007,101 | - |
| Net cash from financing activities | | 4,007,101 | - | 4,007,101 | - |
| Increase/(decrease) in cash and cash equivalents | | 2,035,338 | (683,205) | 2,036,290 | (630,702) |
| Cash and cash equivalents at beginning of year | B | 1,675,695 | 2,358,900 | 1,674,637 | 2,305,339 |
| Cash and cash equivalents at end of year | B | 3,711,033 | 1,675,695 | 3,710,927 | 1,674,637 |

**NOTES TO THE CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016**
A. RECONCILIATION OF LOSS BEFORE INCOME TAX TO CASH (USED IN)/GENERATED FROM OPERATIONS

| | Group | | Company | |
|--|--------------------|--------------------|--------------------|--------------------|
| | 2016 £ | 2015 £ | 2016 £ | 2015 £ |
| Loss before income tax | (2,363,993) | (2,635,482) | (2,364,115) | (2,635,517) |
| Depreciation | 50,053 | 156,162 | 50,053 | 156,162 |
| Loss on disposal of fixed assets | - | 1,309 | - | - |
| Amortisation charges | 456,298 | 334,602 | 456,298 | 334,602 |
| Employee share option costs | 73,250 | 84,783 | 73,250 | 84,783 |
| Finance income | (3,014) | (27,124) | (3,014) | (27,124) |
| Earnings before interest, taxation, depreciation and amortisation | (1,787,406) | (2,085,750) | (1,787,528) | (2,087,094) |
| Movements in working capital: | | | | |
| (Increase)/decrease in trade and other receivables | (184,929) | 60,033 | (184,061) | 126,146 |
| Decrease in inventories | - | 41,963 | - | 17,564 |
| Increase/(decrease) in trade and other payables | 223,510 | (228,744) | 223,716 | (214,724) |
| Cash (used in)/generated from operations | (1,748,825) | (2,212,498) | (1,747,873) | (2,158,108) |

B. CASH AND CASH EQUIVALENTS

The amounts disclosed in the Statement of Cash Flows in respect of cash and cash equivalents are in respect of these balance sheet amounts:

| | Group | | Company | |
|------------------------------------|---------------|-------------|----------------|-------------|
| Year ended 31 December 2016 | 31/12/16 | 1/1/16 | 31/12/16 | 1/1/16 |
| Cash and cash equivalents | 3,711,033 | 1,675,695 | 3,710,927 | 1,674,637 |
| Year ended 31 December 2015 | 31/12/15 £ | 1/1/15 £ | 31/12/15 £ | 1/1/15 £ |
| Cash and cash equivalents | 1,675,695 | 2,358,900 | 1,674,637 | 2,305,339 |

**NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements of the Group and of the Parent Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC interpretations and the Companies Act 2006 as applicable to companies reporting under IFRS. These accounts have been prepared under the historical cost convention.

The Parent Company is taking advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form part of the financial statements.

Basis of consolidation

The Group financial statements are consolidated in accordance with IFRS 10. It is established under IFRS10 that Forbidden Technologies plc (the parent) controlled the activities of Forbidden Technologies Inc (the subsidiary) up to 31 December 2016 on the basis that the parent is exposed, or has rights, to variable losses or returns from its involvement with the subsidiary and has the ability to affect those losses or returns through its power over the subsidiary. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Going concern

The group incurred a loss after tax for the year of £2,340,464 (2015: loss of £2,556,423). The group continues to develop its commercial offering, successfully growing revenue in 2016 off a reduced cost-base. It is against this growth momentum that the group successfully raised funds in the year to ensure that it has adequate capital to finance further resource where necessary as the group continues to grow. Management is committed to ensuring that the group's growth continues, and is optimised, whilst also targeting a positive operating cashflow during 2018. The Directors have prepared prudent profit and loss, balance sheet and cash-flow forecasts on the basis of a restructured cost base and reducing cash burn as the business continues its growth phase. The Directors believe these forecasts demonstrate the business is capable of meeting its obligations as they fall due and are confident they have plans in place to ensure the continuity of the business for the foreseeable future. Therefore, the Directors consider that the preparation of the Group financial statements on the going concern basis is appropriate.

New and Revised Standards

Standards in effect in 2016 adopted by the Group

There were no new standards in effect that have had an effect on the financial statements. There have been improvements to standards which provide clarifications rather than substantive changes to requirements.

New and Revised Standards

IFRS in issue but not applied in the current financial statements

A number of minor amendments to IFRS's have been applied for the first time in preparing these financial statements, none of which have had a material effect

The following IFRS and IFRIC Interpretations have been issued but have not been applied by the Company in preparing these financial statements as they are not yet effective. The Company intends to adopt these Standards and Interpretations when they become effective, rather than adopt them early.

- IFRS 9, 'Financial Instruments' (for periods beginning 1 January 2018)
- IFRS 15, 'Revenue from Contracts with Customers' (for periods beginning 1 January 2018)
- IFRS 16, 'Leases' (for periods beginning 1 January 2019)
- IAS7 (amendments) Statement of Cash Flows (for periods beginning 1 January 2017)
- IFRS2 classification and measurement of share based transactions
- IAS12 (amendments) recognition of deferred tax assets for unrealised losses
- IFRS10 and IAS28 (amendments), 'Investment Entities: Applying the Consolidation Exemption'

The directors do not expect that the adoption of the Standards listed above will have a material impact on the Group in future periods except that IFRS 9 will impact both the measurement and disclosure of financial instruments, and IFRS 15 may have an impact on revenue recognition and related disclosures. The impact of IFRS 16 will be evaluated closer to the adoption date. Beyond this, it is not practicable to provide a reasonable estimate of the effect of IFRS 9, IFRS 15 and IFRS 16 until a detailed review has been completed.

NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

ACCOUNTING POLICIES - continued

Revenue recognition

The primary source of revenue is in respect of the sale of professional video editing software. The product is sold using a software licensing and delivery model in which the software is licensed on a subscription basis. The subscription or 'usage fee' pays for the licence, usage and support. Invoicing is done in three ways:

- invoiced monthly in arrears.
- user fee subscriptions charged in advance over the duration of a production or event.
- annual or multi-year licences sold to certain customers in addition to the subscriptions charged.

In respect of the Sports segment in which there are some longer-term arrangements, the license, usage and support is unbundled, invoiced separately, either in advance or phased in arrears, and charged on an annual basis or to reflect the length of an event or season.

In all types of sales transaction described above, revenue is recognised on a straight-line accruals basis over the life of the production, licence, event or season. The other material category of revenue is in respect of the sale of hardware, which is recognised on delivery.

Segmental reporting

The Group's products are delivered through an integrated web-based platform and the Board manages the business as a single business segment. In accordance with IFRS 8, information is presented based on the way in which financial information is reported internally to the chief operating decision maker and therefore the directors do not consider it to be meaningful to analyse the loss before tax or the net assets of the Group or the Parent Company further.

Information regarding geographical revenues is disclosed in note 2 to the financial statements. In addition, revenue segments utilised internally have been disclosed distinguishing between target market and revenue type.

Property, plant and equipment

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

| | | |
|-------------------------|---|---------------------|
| Leasehold improvements | - | over the lease term |
| Fixtures and fittings | - | 50% on cost |
| Computer equipment | - | 50% on cost |
| Client-facing equipment | - | 50% on cost |

Property, plant and equipment are stated at purchase cost less accumulated depreciation.

Financial instruments

Financial instruments are classified and accounted for according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the Group or the Company after deducting all of its liabilities.

Cash and cash equivalents

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at, or close to, their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year.

Trade and other receivables

Trade and other receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Trade and other payables

Trade and other payables are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Group. The amounts are unsecured, non-interest bearing and are stated at cost.

Capital contribution reserve

The capital contribution is a distributable reserve which was created prior to the Company's flotation.

**NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

ACCOUNTING POLICIES - continued

Financial liabilities and equity

Financial instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
- b) where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

Taxation

Current taxes are based on the results shown in the financial statements and are calculated according to local tax rules, using tax rates enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full, using the liability method on temporary differences arising between the tax base of assets and liabilities and their carrying values in the financial statements. The deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction does not affect either the accounting or taxable profit or loss. Deferred tax is determined using tax rates which have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred tax asset is realised, or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Intangible assets

Expenditure on research is written off in the year in which it is incurred.

Development costs are also charged to the income statement in the year of expenditure except when individual projects satisfy the following criteria:

- the project is clearly defined;
- related expenditure is separately identifiable;
- the project is technically feasible and commercially viable;
- current and future costs will be exceeded by future sales; and
- adequate resources exist for the project to be completed.

In such circumstances the costs are carried forward. Development costs are carried forward in three categories; development of the underlying infrastructure which is amortised over ten years, development of professional products, which is amortised over five years; and development of consumer products and business applications derived from these products which is amortised over three years. The periods of amortisation for each of the categories has been calculated to reflect the relative speed of change in technology and market anticipated in each of the categories, and to reflect the periods of enhanced economic benefit to the Group as it moves into its growth phase. In each case amortisation takes place on a straight line basis, starting from the date at which the product is available for use.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

Hire purchase and leasing commitments

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

**NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**
ACCOUNTING POLICIES – continued
Share based payments

The share option programme allows employees to acquire shares of the Company. The fair value of equity settled through the options is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Critical accounting judgements and key sources of estimation and uncertainty

The preparation of financial statements in conformity with generally accepted accounting practice requires management to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the Statement of Financial Position date and the reported amounts of revenues and expenses during the reporting period.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Estimates have been used principally when determining the probable economic benefits to be derived from development expenditure and therefore whether those costs should be capitalised or whether there is subsequent evidence of impairment.

2. SEGMENTAL REPORTING

The Group operates and is managed as a single business unit. Further information is presented in respect of the geographical areas in which the Group operates. The operations of each of the Group's geographical areas are separately disclosed because of the different economic environments in which they operate but do not constitute separate reportable segments under IFRS 8.

Revenue represents externally generated amounts (excluding value added tax) derived from the principal activity and has been earned from the following geographic areas:

| | 2016 £ | 2015 £ |
|---------------|----------------|----------------|
| UK | 621,216 | 577,091 |
| North America | 120,665 | 119,153 |
| Rest of World | 32,944 | 12,473 |
| Total | 774,825 | 708,717 |

An analysis of the Group's significant categories of revenue, all of which relate to the Group's sole activity of the sale of internet-based video tools, is as follows:

| | 2016 £ | 2015 £ |
|------------------------------|----------------|----------------|
| UK Broadcast Post Production | 448,120 | 418,330 |
| Sport | 246,520 | 176,866 |
| News | 45,747 | 96,466 |
| Other | 34,438 | 17,055 |
| | 774,825 | 708,717 |

The notes form part of these financial statements

NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 20162. **SEGMENTAL REPORTING – continued**

| In addition by revenue type: | 2016 £ | 2015 £ |
|------------------------------|----------------|----------------|
| Usage fees | 549,679 | 527,784 |
| License fees | 100,238 | 58,534 |
| Hardware | 76,375 | 78,609 |
| Support | 47,883 | 28,667 |
| Other | 650 | 15,123 |
| | 774,825 | 708,717 |

During the year, sales to one customer accounted for more than 10% of the total turnover. Total sales to this customer amounted to £128,921.

3. **EMPLOYEES AND DIRECTORS**

| | 2016 £ | 2015 £ |
|-----------------------|------------------|------------------|
| Wages and salaries | 1,471,428 | 1,616,876 |
| Social security costs | 169,268 | 180,054 |
| | 1,640,696 | 1,796,930 |

After capitalisation in respect of development costs the following amounts were charged directly to the Statement of Comprehensive income:

| | 2016 £ | 2015 £ |
|-----------------------|------------------|------------------|
| Wages and salaries | 1,273,143 | 1,266,636 |
| Social security costs | 146,508 | 140,827 |
| | 1,419,651 | 1,407,463 |

The average monthly number of full time equivalent employees during the year was as follows:

| | 2016 | 2015 |
|------------------------------|-----------|-----------|
| Directors | 4 | 4 |
| Research and development | 7 | 12 |
| Sales | 3 | 2 |
| Customer support | 3 | 3 |
| Marketing and product design | 6 | 7 |
| Admin and finance | 2 | 2 |
| | 25 | 30 |

The notes form part of these financial statements

NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. EMPLOYEES AND DIRECTORS - continued

Directors' and key management personnel remuneration

| | 2016 £ | 2015 £ |
|-------------|-----------|-----------|
| VJ Steel | - | 54,167 |
| SB Streater | 122,300 | 150,000 |
| GB Hirst | - | 54,237 |
| PJ Madden | - | 49,256 |
| DP Main | 35,833 | 30,000 |
| JC Lees | 104,167 | 56,737 |
| AM Musa | 142,742 | 120,000 |
| JH Cowan | 108,736 | 96,916 |
| JS Irving | 20,000 | 3,333 |
| A Bentley | 20,000 | 2,433 |
| | 553,778 | 617,079 |

4. OPERATING LOSS

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

| | 2016 £ | 2015 £ |
|--|--------------------|--------------------|
| Operating leases | (77,512) | (88,944) |
| Foreign exchange differences | 4,077 | (2,189) |
| Research and development | (212,269) | (388,240) |
| Auditor's remuneration | (23,954) | (26,696) |
| Auditor's remuneration – non audit – taxation | (3,500) | (1,600) |
| Auditor's remuneration – non audit – all other services | (8,921) | (5,856) |
| Earnings before interest, taxation, depreciation and amortisation | (1,787,406) | (2,085,750) |
| Depreciation – owned assets | (50,053) | (156,162) |
| Loss on disposal of fixed assets | - | (1,309) |
| Development costs amortisation | (456,298) | (334,602) |
| Employee share option costs | (73,250) | (84,783) |
| Operating loss (before interest and taxation) | (2,367,007) | (2,662,606) |

The notes form part of these financial statements

NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

5. NET FINANCE INCOME

| | 2016 £ | 2015 £ |
|--------------------------|-----------|-----------|
| Finance income: | | |
| Deposit account interest | 3,014 | 27,124 |
| Finance costs: | | |
| Other interest payable | - | - |
| Net finance income | 3,014 | 27,124 |

6. INCOME TAX

| | 2016 £ | 2015 £ |
|--------------------------------------|-----------|-----------|
| Current tax: | | |
| Tax credit | 23,529 | 79,059 |
| Total tax credit in income statement | 23,529 | 79,059 |

Factors affecting the tax charge

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

| | 2016 £ | 2015 £ |
|--|-------------|-------------|
| Loss on ordinary activities before tax | (2,364,115) | (2,635,517) |
| Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20% (2015 – 20%) | (472,823) | (527,103) |
| Effects of: | | |
| Expenses not deductible for tax | 1,754 | 22,642 |
| Depreciation in excess of capital allowances | 5,014 | 21,210 |
| UK Tax losses | 373,595 | 449,570 |
| Additional relief for R&D expenditure | (18,344) | (61,498) |
| Effect of tax rate on credit | 8,925 | 29,988 |
| Timing difference on capitalised development costs | 63,700 | (30,825) |
| Employee share option cost | 14,650 | 16,957 |
| Total income tax | (23,529) | (79,059) |

The notes form part of these financial statements

NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

6. INCOME TAX - continued

Tax effects relating to effects of other comprehensive income

| | | 2016 £ | |
|----------------------------|----------|-------------|----------|
| | Gross | Tax | Net |
| Employee share option cost | (73,250) | - | (73,250) |
| | (73,250) | - | (73,250) |
| | Gross | 2015 Tax | Net |
| Employee share option cost | (84,783) | - | (84,783) |
| | (84,783) | - | (84,783) |

UK Tax losses of approximately £12,600,000 (2015: £11,000,000) are available to relieve against future profits of the Company.

| | 2016 £ | 2015 £ |
|--|-----------|-----------|
| Unrecognised deferred tax assets | | |
| Depreciation in excess of capital allowances | 1,185 | 1,163 |
| Tax losses carried forward | 2,540,457 | 2,198,194 |
| | 2,541,642 | 2,199,357 |

In accordance with IAS 12 the deferred tax assets have not been recognised due to the uncertainty of the timing of future taxable profits to enable recovery of these assets.

7. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year, excluding equity shares held by the company's Employee Share Ownership Plan.

| | 2016 | 2015 |
|--|-------------|-------------|
| Loss attributable to equity holders of the company (£) | (2,340,464) | (2,556,423) |
| Weighted average number of ordinary shares in issue | 143,364,510 | 131,814,778 |
| Basic earnings per share (pence per share) | (1.63p) | (1.94p) |

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume the conversion of all potential ordinary shares. The company's potential ordinary shares arise from share options. The share options calculation is performed to determine the number of shares that could have been acquired at fair value, based upon the monetary value of the subscription rights attached to the outstanding share options.

The notes form part of these financial statements

**NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**
7. EARNINGS PER SHARE - continued

| | 2016 | 2015 |
|---|-------------|-------------|
| Loss used to determine diluted earnings per share (£) | (2,340,464) | (2,556,423) |
| Weighted average number of ordinary shares in issue | 143,364,510 | 131,814,778 |
| Share options | 13,065,000 | 12,432,500 |
| Weighted average number of ordinary shares used to determine diluted earnings per share | 156,429,510 | 144,247,278 |
| Diluted earnings per share (pence per share) | (1.50p) | (1.77p) |

As can be seen from the above table for both years the potential ordinary shares were anti-dilutive because the company was loss-making. As a result, they are not treated on the face of the Statement of Comprehensive Income as diluting basic earnings per share.

8. INTANGIBLE ASSETS**Development costs****For the Group and Parent Company**

| | 2016 | 2015 |
|--|------------------|------------------|
| COST | £ | £ |
| At beginning of year | 2,373,235 | 1,884,506 |
| Additions | 281,466 | 488,729 |
| At end of year | 2,654,701 | 2,373,235 |
| AMORTISATION | | |
| At beginning of year | 854,569 | 519,967 |
| Amortisation for year | 456,298 | 334,602 |
| At end of year | 1,310,867 | 854,569 |
| NET BOOK VALUE AT END OF YEAR | 1,343,834 | 1,518,666 |

The notes form part of these financial statements

**NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

**9. PROPERTY, PLANT AND EQUIPMENT
For the Group**

| COST | Leasehold improvements £ | Fixtures and fittings £ | Computer equipment £ | Client-facing IT equipment £ | Totals £ |
|-----------------------|--------------------------------|-------------------------------|----------------------------|------------------------------------|-------------|
| At 1 January 2016 | 87,729 | 58,036 | 312,524 | 208,810 | 667,099 |
| Additions | 3,049 | 4,139 | 14,409 | 1,948 | 23,545 |
| At 31 December 2016 | 90,778 | 62,175 | 326,933 | 210,758 | 690,644 |
| DEPRECIATION | | | | | |
| At 1 January 2016 | 35,092 | 58,036 | 308,980 | 190,035 | 592,143 |
| Charge for year | 17,987 | 1,569 | 10,747 | 19,750 | 50,053 |
| At 31 December 2016 | 53,079 | 59,605 | 319,727 | 209,785 | 642,196 |
| NET BOOK VALUE | | | | | |
| At 31 December 2016 | 37,699 | 2,570 | 7,206 | 973 | 48,448 |
| At 31 December 2015 | 52,637 | - | 3,544 | 18,775 | 74,956 |

| COST | Leasehold improvements £ | Fixtures and fittings £ | Computer equipment £ | Client-facing IT equipment £ | Totals £ |
|---------------------------|--------------------------------|-------------------------------|----------------------------|------------------------------------|-------------|
| At 1 January 2015 | 87,729 | 58,441 | 311,426 | 171,256 | 628,852 |
| Disposals | - | (405) | (5,987) | - | (6,392) |
| Additions | - | - | 7,085 | 37,554 | 44,639 |
| At 31 December 2015 | 87,729 | 58,036 | 312,524 | 208,810 | 667,099 |
| DEPRECIATION | | | | | |
| At 1 January 2015 | 17,546 | 41,893 | 276,162 | 103,576 | 439,177 |
| Depreciation on disposals | - | (202) | (2,994) | - | (3,196) |
| Charge for year | 17,546 | 16,345 | 35,812 | 86,459 | 156,162 |
| At 31 December 2015 | 35,092 | 58,036 | 308,980 | 190,035 | 592,143 |
| NET BOOK VALUE | | | | | |
| At 31 December 2015 | 52,637 | - | 3,544 | 18,775 | 74,956 |
| At 31 December 2014 | 70,183 | 16,548 | 35,264 | 67,680 | 189,675 |

The notes form part of these financial statements

**NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

**9. PROPERTY, PLANT AND EQUIPMENT - continued
For the Parent Company**

| COST | Leasehold improvements £ | Fixtures and fittings £ | Computer equipment £ | Client-facing IT equipment £ | Totals £ |
|-----------------------|--------------------------------|-------------------------------|----------------------------|------------------------------------|-------------|
| At 1 January 2016 | 87,729 | 58,036 | 312,524 | 208,810 | 667,099 |
| Additions | 3,049 | 4,139 | 14,409 | 1,948 | 23,545 |
| At 31 December 2016 | 90,778 | 62,175 | 326,933 | 210,758 | 690,644 |
| DEPRECIATION | | | | | |
| At 1 January 2016 | 35,092 | 58,036 | 308,980 | 190,035 | 592,143 |
| Charge for year | 17,987 | 1,569 | 10,747 | 19,750 | 50,053 |
| At 31 December 2016 | 53,079 | 59,605 | 319,727 | 209,785 | 642,196 |
| NET BOOK VALUE | | | | | |
| At 31 December 2016 | 37,699 | 2,570 | 7,206 | 973 | 48,448 |
| At 31 December 2015 | 52,637 | - | 3,544 | 18,775 | 74,956 |

| COST | Leasehold improvements £ | Fixtures and fittings £ | Computer equipment £ | Client-facing IT equipment £ | Totals £ |
|-----------------------|--------------------------------|-------------------------------|----------------------------|------------------------------------|-------------|
| At 1 January 2015 | 87,729 | 58,036 | 305,439 | 171,256 | 622,460 |
| Additions | - | - | 7,085 | 37,554 | 44,639 |
| At 31 December 2015 | 87,729 | 58,036 | 312,524 | 208,810 | 667,099 |
| DEPRECIATION | | | | | |
| At 1 January 2015 | 17,546 | 41,691 | 273,168 | 103,576 | 435,981 |
| Charge for year | 17,546 | 16,345 | 35,812 | 86,459 | 156,162 |
| At 31 December 2015 | 35,092 | 58,036 | 308,980 | 190,035 | 592,143 |
| NET BOOK VALUE | | | | | |
| At 31 December 2015 | 52,637 | - | 3,544 | 18,775 | 74,956 |
| At 31 December 2014 | 70,183 | 16,345 | 32,271 | 67,680 | 186,479 |

10. INVESTMENTS

Investments comprise 100% of the share capital of Forbidden Technologies Inc, a company registered in Delaware, USA, for the purposes of acting as sales agent for the Group's products in the Americas. The cost of investment was £641.

NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

11. TRADE AND OTHER RECEIVABLES

For the Group

| | 2016 £ | 2015 £ |
|---|-----------|-----------|
| Current: | | |
| Trade debtors | 297,621 | 120,368 |
| Less: provision for doubtful receivables | (7,000) | (10,000) |
| Trade debtors net of provision for doubtful receivables | 290,621 | 110,368 |
| Other debtors | 35,525 | 41,559 |
| Accrued income | 6,324 | 7,256 |
| Prepayments | 86,304 | 74,662 |
| | 418,774 | 233,845 |

Included in other debtors is a rental deposit of £19,175 (2015: £19,175) which is subject to a charge.

For the Parent Company

| | 2016 £ | 2015 £ |
|---|-----------|-----------|
| Current: | | |
| Trade debtors | 297,622 | 120,368 |
| Less: provision for doubtful receivables | (7,000) | (10,000) |
| Trade debtors net of provision for doubtful receivables | 290,622 | 110,368 |
| Other debtors | 28,855 | 40,600 |
| Amount owed by group undertaking | 5,167 | 325 |
| Accrued income | 6,324 | 7,256 |
| Prepayments | 86,304 | 74,662 |
| | 417,272 | 233,211 |

Included in other debtors is a rental deposit of £19,175 (2015: £19,175) which is subject to a charge.

12. CASH AND CASH EQUIVALENTS

For the Group

| | 2016 £ | 2015 £ |
|---------------|-----------|-----------|
| Bank and cash | 3,711,033 | 1,675,695 |

For the Parent Company

| | 2016 £ | 2015 £ |
|---------------|-----------|-----------|
| Bank and cash | 3,710,927 | 1,674,637 |

The notes form part of these financial statements

NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

13. CALLED UP SHARE CAPITAL

| | 2016 £ | 2015 £ |
|--|-----------|-----------|
| Authorised: | | |
| 200,000,000 ordinary shares of 0.8p each (2015: 200,000,000 ordinary shares of 0.8p each) | 1,600,000 | 1,600,000 |
| Allotted, called up and fully paid: | | |
| 180,486,199 ordinary shares of 0.8p each (2015: 131,814,778 ordinary shares of 0.8p each) | 1,443,890 | 1,054,518 |

On 8 March 2016 100,000 ordinary shares of £0.008 were allotted as fully paid at a premium of £0.077 following the exercise of share options. On 12 May 2016 and 7 June 2016 5,374,283 and 13,197,138 ordinary shares of £0.008 respectively were allotted as fully paid at a premium of £0.062. On 6 December 2016 and 29 December 2016 7,524,250 and 22,475,750 ordinary shares of £0.008 respectively were allotted as fully paid at a premium of £0.092.

During the year the Company issued 1,950,000 (2015 – 4,515,000) share options under the terms of the share option schemes. The total share options outstanding as at 31 December 2016 was 13,065,000 (2015: 12,432,500).

The directors held the following options to subscribe for shares in the Company:

| | Class of share | 31/12/2016 | 31/12/2015 |
|-----------|------------------------------|------------|------------|
| DP Main | Ordinary shares of 0.8 pence | 945,000 | 695,000 |
| JC Lees | Ordinary shares of 0.8 pence | 1,070,000 | 950,000 |
| AM Musa | Ordinary shares of 0.8 pence | 1,900,000 | 1,400,000 |
| JH Cowan | Ordinary shares of 0.8 pence | 1,425,000 | 1,325,000 |
| JS Irving | Ordinary shares of 0.8 pence | 200,000 | 100,000 |
| A Bentley | Ordinary shares of 0.8 pence | 200,000 | 100,000 |

14. TRADE AND OTHER PAYABLES
For the Group

| | 2016 £ | 2015 £ |
|---------------------------------|----------------|----------------|
| Current: | | |
| Trade creditors | 91,526 | 135,520 |
| Social security and other taxes | 63,011 | 52,712 |
| Other creditors | 2,681 | |
| Deferred income | 270,321 | 39,004 |
| Accruals | 68,804 | 45,597 |
| | 496,343 | 272,833 |

The notes form part of these financial statements

NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

14. TRADE AND OTHER PAYABLES – continued

For the Parent Company

| | 2016 £ | 2015 £ |
|---------------------------------|----------------|----------------|
| Current: | | |
| Trade creditors | 91,526 | 135,520 |
| Social security and other taxes | 63,011 | 52,712 |
| Other creditors | 2,681 | - |
| Deferred income | 270,321 | 39,004 |
| Accruals | 67,994 | 44,581 |
| | <u>495,533</u> | <u>271,817</u> |

15. LEASING AGREEMENTS

Minimum lease payments under non-cancellable operating leases fall due as follows:

| | 2016 £ | 2015 £ |
|----------------------------|---------------|----------------|
| In the next 12 months | 78,725 | 84,145 |
| Between one and five years | <u>86,408</u> | <u>196,852</u> |

16. FINANCIAL INSTRUMENTS

The Group's financial instruments comprise trade debtors, trade creditors, cash and liquid assets.

The Group has not entered into any derivative or other hedging instruments.

The Group's policy is to finance its operation and expansion through the issue of equity share capital.

Financial assets comprise cash at bank and in hand. The fair value of the financial assets and financial liabilities are not materially different from their carrying values.

Further details of the Board's assessment of its risks are included in the strategic report on page 5.

17. RELATED PARTY DISCLOSURES

During the year salaries and fees amounting to £6,000 were paid to PJ Madden (former Director) and relatives of PJ Madden (2015: £9,140).

JC Lees is director and 50% shareholder of Duet Partners Limited. During the year Duet Partners Limited provided services to the company to the value of £nil (2015: £8,166) under normal commercial terms.

VJ Steel (former Director) provided mentoring services in 2016 and was paid £6,000 (2015: £nil).

Little Cricket PR Limited is owned by C Cowan, the wife of JH Cowan, a director of the company until his resignation on 26 September 2016. During the year up to 26 September 2016 Little Cricket PR Limited provided PR services to the company to the value of £25,000 (2015: £nil).

Salary amounting to £3,622 was paid to L Musa, the wife of AM Musa, a director of the company, employed as marketing executive from 13 October 2016.

On 3 August 2016 the company signed a partnership agreement with Fanview Consultancy LLP to expand the company's network in the digital content arena. Fanview is owned by JS Irving, a non-executive director of the company. Fanview provided services to the value of £nil in the year.

The notes form part of these financial statements

NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

18. ULTIMATE CONTROLLING PARTY

At 31 December 2016 there was no ultimate controlling party of the Company.

19. SHARE-BASED PAYMENT TRANSACTIONS
For the Group and Parent Company

The Company believes that share ownership by executive directors and key staff strengthens the link between their personal interests and those of the shareholders. Until 2012 it operated both a tax-advantaged and a non-tax-advantaged share option scheme under which options were granted and remain exercisable. Since 2012 it has operated an Enterprise Management Incentive (EMI) share option scheme under which both tax advantaged and non-tax advantaged options have been granted. For all options, the exercise price is the market value of the share at the date of the grant. Options are granted to individual employees and directors. Options vest three years after the date of grant on condition that the recipient is still an employee or director of the Company. The Directors are permitted to determine that options which might otherwise lapse may remain exercisable for a period up to 10 years from the date of grant. This confers discretion on the Directors to agree extended dates for exercise of options in certain limited circumstances, where the option-holder would otherwise cease to be eligible to exercise the options, if the Directors consider it to be in the best interests of the Company to do so. Options are exercisable within seven years of vesting. All options are equity settled.

| Exercise price (£) | Date granted | Range of dates exercisable | Number of shares for which rights are exercisable at 31/12/2016 | Number of shares for which rights are exercisable at 31/12/2015 |
|---------------------------|--------------|----------------------------|---|---|
| Non-tax advantaged | | | | |
| 0.23 | 09/05/2006 | 09/05/2009-08/05/2016 | - | 362,500 |
| 0.135 | 27/07/2007 | 27/07/2010-26/07/2017 | 65,000 | 65,000 |
| 0.085 | 18/06/2008 | 18/06/2011-17/06/2018 | 205,000 | 305,000 |
| 0.24 | 25/08/2009 | 25/08/2012-24/08/2019 | 145,000 | 145,000 |
| 0.16 | 05/07/2010 | 05/07/2013-04/07/2020 | 670,000 | 670,000 |
| 0.36 | 05/11/2010 | 05/11/2013-04/11/2020 | 682,431 | 682,431 |
| 0.1275 | 06/10/2011 | 06/10/2014-05/10/2021 | 780,000 | 780,000 |
| Approved | | | | |
| 0.23 | 09/05/2006 | 09/05/2009-08/05/2016 | - | 5,000 |
| 0.135 | 27/07/2007 | 27/07/2010-26/07/2017 | 20,000 | 20,000 |
| 0.085 | 18/06/2008 | 18/06/2011-17/06/2018 | 65,000 | 65,000 |
| 0.24 | 25/08/2009 | 25/08/2012-24/08/2019 | 25,000 | 25,000 |
| 0.36 | 05/11/2010 | 05/11/2013-04/11/2020 | 17,569 | 17,569 |
| 0.1275 | 06/10/2011 | 06/10/2014-05/10/2021 | 200,000 | 200,000 |
| EMI | | | | |
| 0.245 | 12/05/2012 | 12/05/2015-11/05/2022 | 715,000 | 745,000 |
| 0.26 | 20/08/2012 | 20/08/2015-19/08/2022 | 335,000 | 360,000 |
| 0.275 | 25/04/2013 | 25/04/2016-24/04/2023 | 400,000 | 425,000 |
| 0.255 | 25/07/2013 | 25/07/2016-24/07/2023 | 1,175,000 | 1,300,000 |
| 0.215 | 25/04/2014 | 25/04/2017-24/04/2024 | 850,000 | 985,000 |
| 0.225 | 19/05/2014 | 19/05/2017-18/05/2024 | 100,000 | 100,000 |
| 0.19 | 23/09/2014 | 23/09/2017-22/09/2024 | 680,000 | 720,000 |
| 0.0825 | 11/05/2015 | 11/05/2018-10/05/2025 | 1,440,000 | 1,630,000 |
| 0.09 | 25/06/2015 | 25/06/2018-24/06/2025 | 500,000 | 500,000 |
| 0.05875 | 18/11/2015 | 18/11/2018-17/11/2025 | 2,075,000 | 2,325,000 |
| 0.085 | 07/06/2016 | 07/06/2019-06/06/2026 | 1,920,000 | - |

**NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**
SHARE-BASED PAYMENT TRANSACTIONS – Continued

The number and weighted average exercise prices of share options are as follows:

| | 2016 Weighted average exercise price (£) | 2016 Number of options | 2015 Weighted average exercise price (£) | 2015 Number of options |
|--|---|------------------------------|---|------------------------------|
| Outstanding at the beginning of the period | 0.166 | 12,432,500 | 0.221 | 9,832,500 |
| Granted during the period | 0.085 | 1,950,000 | 0.071 | 4,515,000 |
| Forfeited during the period | 0.144 | 850,000 | 0.203 | 825,000 |
| Exercised during the period | 0.085 | 100,000 | - | - |
| Lapsed during the period | 0.23 | 367,500 | 0.241 | 1,090,000 |
| Outstanding at the end of the period | 0.154 | 13,065,000 | 0.166 | 12,432,500 |
| Exercisable at the end of the period | 0.224 | 5,500,000 | 0.209 | 4,447,500 |

The options outstanding at the year end have an exercise price in the range of £0.05875 to £0.36 and a contractual life of ten years.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a Black-Scholes approximation model.

The management estimate for time from grant to exercise is four years, based on the volatility of shares. The contractual life of options in issue is ten years. Management also estimate that 50% of the options will lapse. The expected volatility is based on the daily fluctuation in the share price in the two years preceding the date of grant.

Details of the valuation of the share options granted in the current and prior year are as follows:

| | 2016 | 2015 |
|--|---------|---------|
| Expected volatility (expressed as % used in the modelling under Black-Scholes model) | 85.41% | 58.90% |
| Option life (expressed as weighted average life used in the modelling under Black-Scholes model) | 4 | 4 |
| Expected dividends | 0% | 0% |
| Risk free interest rate (based on national government bonds) | 1.18% | 1.95% |
| Weighted average fair value of options granted | £0.0524 | £0.0328 |
| Weighted average share price | £0.085 | £0.071 |
| Exercise price | £0.085 | £0.071 |

The notes form part of these financial statements

**NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

SHARE-BASED PAYMENT TRANSACTIONS – Continued**For the Parent Company**

Share options are granted under a service condition. Such conditions are not taken into account in the grant date fair value measurement of the services received. There are no market conditions associated with the share option grants. The total expenses recognised for the period arising from share based payments are as follows:

| | 2016 £ | 2015 £ |
|-------------------------------------|-----------|-----------|
| Equity settled share based payments | 73,250 | 84,783 |
