Eagle Eye Solutions Group plc

Strategic and Directors' report,
consolidated and company financial
statements

Registered number 8892109

30 June 2018

Company information

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Strategic report

Chairman's Statement

I am delighted to report a breakout year for Eagle Eye, in which a key highlight was the successful launch of PC Optimum for Canada's largest retail group, Loblaw Companies Limited ("Loblaw"). Our activity during the Year confirms our position as a leading provider of digital promotions and loyalty services, underpinning our strategy to become a global leader in personalised digital marketing.

The successful deployment of the PC Optimum loyalty programme is testament to our people and the quality and capability of the technology they have created. On behalf of the Board, I would like to thank and congratulate everybody who has worked so hard to deliver this major project that sets us up to deliver future success.

The last two years have seen us make significant investments in our people and processes and offering, including the launch of the Digital Wallet bringing together all of the services of the AIR platform, such that we now have a compelling capability matched by proven scale to deliver and grow, both in the UK and internationally.

This Year's success has been made possible by the implementation of important changes at all levels of the business, with a particular focus on our culture and people, introduced over the last two years by Tim Mason since his appointment as CEO. As well as the recruitment of experts, we have seen successful internal promotions into key roles. The senior management team is now supported by a bigger and more experienced team with a broader skill set, who together are capable of driving the business into its next stage of growth.

We have continued to deliver against our "Win, Transact and Deepen" strategy, which has helped us win new customers, increase transactions from existing customers and deepen our customer relationships, both in the UK and internationally. Notable successes include the signing of new customers, such as Greene King, Scottish fashion chain M&Co. and Boparan (a group that owns the brands Ed's Easy Diner, Giraffe, Harry Ramsden's and Fishworks).

In the year we have successfully renewed key contracts with Greggs, Mitchells and Butlers, M&S and PizzaExpress. This is the first year in which we have measured customer churn, and I am pleased to report that this was low at 1.7% in value (FY17: 2.6%). Importantly, this low churn rate together with these renewals are the proof points of the continued and growing relevance of the AIR platform for competing in today's rapidly changing retail landscape.

Notably, we also signed several new partners in the Year, including Groupon and Google, and ran a number of brand campaigns through our Food & Beverage ("F&B") network with leading brands, including Old Mout, Bacardi and Gordons. While we now have the proven capability to support Tier 1 retailers, our offering is relevant to consumer-facing operators and brands across all sectors and of all sizes, with each adding to our network and the growth of our redemption and interaction volumes and recurring revenues.

These achievements have filtered through to our financial results. We recorded Group revenue growth of 33% to £14.8m (FY17: £11.1m) and, importantly, recurring revenue increased to 77% of Group revenue (FY17: 68%), reflecting the growth in volumes through the platform as our significant contracts moved to the transactional stage of their lifecycle. This, in turn, provides us with a strong basis for future growth. Overall, adjusted EBITDA loss for the Year of £2.0m (FY17: £1.8m loss) reflects the investment we have made into the Company and exceeds our expectations as we look to transition to EBITDA breakeven.

With cash reserves ahead of management's expectations at the end of the Year, and our extended £5m banking facility with Barclays Bank PLC, we are confident that we have the headroom to deliver on our growth strategy into the next year.

The value of one-to-one customer connections

We believe the size of the market opportunity is significant and continues to grow as a result of our new Digital Wallet offering. There is a growing desire from retailers and brands to carry out real-time, personalised customer engagement activities, with the intention of driving measurable customer acquisition and retention not only online, but within their physical stores.

In the current tough retail climate, we believe the ability of the AIR platform to attract and retain customers will be game-changing for High Street retail and that the time for this type of technology is now. We are therefore excited about the opportunity ahead.

People

I would like to take this opportunity to thank all of our employees, customers, partners and shareholders for their continued support throughout the Year and I look forward to achieving further successes together in the future.

The Board and I also wish to express our great sadness at the death of our fellow Director, Andrew Thomson, during the Year. Drew's expertise and contribution to the Company will be sorely missed.

Summary

The growth in total volumes through the platform and associated recurring revenue, coupled with our cash headroom, provide us with a steady financial base on which to build. The strength of our existing customer base, our proven product proposition and size of our market opportunity mean the Board remains confident in the outlook for the business and is committed to driving increased shareholder value in the years ahead.

Malcolm Wall, Non-Executive Chairman

Chief Executive Officer's report

When I joined as CEO in 2016 I saw an opportunity for Eagle Eye to revolutionise the way that businesses engage with consumers. This Year the market has seen Loblaw and Sainsbury's make significant progress in adopting both digital and personalised approaches to customer engagement. The retail industry is under significant pressure and I am convinced the winners going forward are those integrating digital into their business.

We are proud that we are part of the winning formula for Loblaw. Launched in February 2018 and running on the AIR platform, its PC Optimum loyalty programme operates at a scale, complexity and level of personalisation that is astounding.

We have scaled our operational capability during the Year to service our significant customers. The platform has handled a tremendous increase in volumes, driven predominantly by new, higher-volume digital loyalty transactions. The platform also delivers this volume at speed and is capable of processing over 3,000 transactions per second.

This enhanced operational and product capability means that the world leading retailers can look to Eagle Eye as their provider of digital promotions and loyalty services, positioning us as the marketing technology provider of choice.

At my appointment I said that I thought Eagle Eye was capable of being "Better, Bigger, Faster". The launch of Loblaw is a proof point of that strategy and my belief is that it will allow us to grow faster with bigger retailers going forward. We firmly believe the time for our technology is now.

Growing market opportunity

Growing digital consumer adoption is creating an unprecedented marketing opportunity. Consumers are using their mobiles and the internet to make direct connections with retailers, enabling retailers to carry out data driven, real-time, sophisticated digital marketing across all sales channels, including web, mobile and in-store.

Traditional forms of promotions are impersonalised and cannot be measured with the result being that they are extremely wasteful. The digital equivalent can be personalised and tracked throughout its life. The ability to move to performance-based marketing enables greater value for a company's investment. The more traditional loyalty schemes, such as basic 1% discount programmes that rely on plastic cards to accrue points and paper 'money off' coupons, are expensive to run and take a long time to reach the consumer, potentially losing their relevance. The digital equivalent is much cheaper and delivered in real-time, increasing its likely relevance to the consumer.

To capitalise on the digital consumer adoption trends, retailers need to digitally connect to customers in order to drive visits and spend per visit whilst measuring the effect and returns on marketing performance and sales. Eagle Eye is uniquely positioned to provide solutions that can unlock the available opportunities in this space.

Real-time engagement

Recent consumer research found 87% of shoppers' product searches begin online, up from 71% in 2017* and that 30% of all mobile searches are location-related**. Availability and location are important factors to a consumer. We give our customers the opportunity to add marketing "in the now" which delivers additional levels of relevance leading to engagement retention, frequency and emotional loyalty. This explains why we continually stress the importance of the real-time nature of the connection.

The limitations of legacy marketing systems leave many "bricks and clicks" operators unable to generate and deliver dynamic, personalised campaigns and offers that are context appropriate to all locations and channels. Eagle Eye offers the solution, through digitising marketing messages, promotions and rewards that can be tailored according to individual customer preferences and measured from issuance through to redemption at the point of sale, across all channels, online or in-store.

**SOURCE: Sponsored report (2018) Shopper-First Retailing, Publicis Groupe, 14 August 2018*
***SOURCE: https://www.thinkwithgoogle.com/data/near-me-searches-related-to-location/*

Digital customer connections

Many larger operators with existing analogue marketing, promotional and loyalty scheme-based capabilities are struggling to find effective ways to move the dial from analogue to digital marketing execution. Under competitive, strategic and operational pressure, they lack the strategic will or means to adapt and innovate.

However, we have begun to see leading loyalty operators take the necessary steps to ensure their customer-facing marketing propositions are fit for digital purpose and can provide deep customer-driven competitive insight. Examples of this include Sainsbury's buyout of Nectar in the UK, Loblaw's launch of the PC Optimum programme with a membership of over 14 million people in Canada and Woolworths in Australia investing in big data analytics specialist Quantium.

This activity is pushing operators across other sectors and regions to consider similar performance marketing and promotional investments for proven ROI, data driven, digitally-enabled customer insight and fraud-busting cost savings and efficiencies.

Measuring marketing performance

A real-time redemption capability at the point of sale is essential to enable a single customer view across both store-based and online platforms. This single customer view is the foundation necessary to enable our customers to capitalise on the potential of Artificial Intelligence (AI), as knowing who their customers are, what they buy, where and when will be the first step to a successful AI implementation. The customer connection provided by Eagle Eye combined with AI will identify the next-best action, message, offer or even channel of engagement for every customer, setting the standard for advanced performance marketing, at a speed and scale that only machine learning-based analytical systems can support.

Win, Transact, Deepen

1. **Win**:

We made continued progress in adding new brands and retailers to the AIR platform during the Year. At 30 June 2018, Eagle Eye had 294 customers and brands on the AIR platform, including 85 FMCG brands; up from 233 customers including 74 FMCG brands in the prior year.

We signed new contracts with Greene King, Scottish fashion chain M&Co., Boparan (a group owning brands such as Ed's Easy Diner, Giraffe, Harry Ramsden's and Fishworks), the former of which further cements our leading position in the UK F&B market. These contracts cover a range of services across our Gift, digital promotions and app solutions. These wins also benefit our brand partners, as our extended redemption network and user base provides greater opportunities to run measurable campaigns.

2. **Transact**

Redemption and interaction volumes grew 556% year-on-year to 403.7m (FY17: 61.5m) driven by growth in coupon and promotions, the addition of new loyalty services and the annualisation of customers that went live in FY17.

During the Year, we ran several brand campaigns through our F&B network with leading brands including Red Bull, Baileys, Old Mout, Bacardi, Gordons and Carlsberg. The latter three brands used chatbots to issue the offers, which proved a very successful, innovative way of communicating via Facebook and Messenger to millennials whilst providing a new method for Eagle Eye to engage with consumers.

Issuance partners form a key part of our 'Transact' strategy and remain a significant marketing channel for retailers and brands to run innovative campaigns and extend their audience. During the Year, we were delighted to sign several new framework agreements with Google, Groupon, Hospitality Line, Giftcloud and Global Savings Group as well as renewed contracts with The Marketing Lounge, Dining Club and Student Beans.

Google built momentum through its partnership during the Year, utilising the benefits of the merchant network to extend its redemption capability across multiple sectors. Its 'Visa Tap & Win' campaign was extended by five months, illustrating how modern technology and appealing offers drive increased and effective consumer engagement. The campaign achieved a conversion rate of over 30% compared to traditional paper-based campaigns that typically deliver a redemption rate of up to 2%.

3. **Deepen**

We continue to successfully deepen our customer relationships. Having adopted our technology and realised the real-time marketing benefits, customers are broadening their Eagle Eye-enabled capabilities by accessing our wider suite of products. During the Year, we generated revenue growth from existing clients across all sectors, including Tier 1: 38% and F&B: 28%.

We are also pleased to announce the renewal of five longstanding clients: Greggs (five-year contract), Mitchells & Butlers (three-year contract), PizzaExpress (one-year contract) and M&S (six-month contract). In all cases the AIR platform is being used to power an enhanced digital marketing, loyalty or promotional experience for the client. These renewals reflect the ongoing value and increased strength of Eagle Eye's offering as well as our ability to build both lasting and lucrative client relationships.

There has also been good growth in messaging volumes, which increased 26% to 56.1m (FY17: 44.4m) due to additional services provided for JD Sports and Paragon. Revenue growth was limited to 4% due to price pressures in a competitive and maturing space.

The launch of PC Optimum loyalty programme for Loblaw

Loblaw successfully launched its new PC Optimum programme on 1 February 2018, using the AIR platform to deliver personalised, flexible and convenient rewards to millions of Canadians.

The PC Optimum programme has combined two of Canada's most loved loyalty programmes, PC Plus and Shoppers Optimum, to become one of the largest in Canada. With 8 million and 11 million members respectively, combining these two programmes has created one of the largest in the country's history. The new, state-of-the-art programme offers members more redemption options and greater convenience, and the merger marks the first integration of two retail loyalty programmes of this scale into one programme.

The AIR platform sits at the heart of PC Optimum and integrates with Loblaw's channels and systems, enabling a single customer view across Loblaw's varying businesses, including Loblaw's supermarkets, Shoppers Drug Mart, PC Financial and Joe Fresh. The platform currently generates over 150 million offer permutations per week, meaning we can lay claim to having the world's leading digital loyalty solution.

More than 14 million customers converted to the new PC Optimum programme within the first six months of launch. Loblaw processes approximately 1 billion customer transactions in their stores each year, the majority of which are tied to its loyalty programme.

Activity since launch has significantly accelerated redemption volume growth on the AIR platform. Contract revenue shifted from initial implementation fees in H1 2018 to generate recurring transaction fees in H2 2018, as expected.

Post Year-end, in August 2018, just six months after launch, PC Optimum added Esso fuel stations owner Imperial as a new programme partner. The addition significantly increases the number of locations where Loblaw's customers can earn points and is driving further transaction growth through the platform. Loblaw's customers now have an additional 2,000 locations across Canada at which they can earn points on eligible fuel purchases, convenience store products and car wash services, bringing the total number of participating PC Optimum locations to 4,500. This is another proof point of the level of complexity and scale that the AIR platform can rapidly deliver and manage. We are not aware of any other solution in the market able to offer this scale.

Innovation

We continued to innovate during the Year with the launch of our Digital Wallet, which powers PC Optimum for Loblaw, and we extended its core capability to other Grocery, F&B and Retail clients. In addition, we have enhanced our Staff Rewards and Gift propositions.

The Digital Wallet is a step change in our offer and capability, bringing together the AIR platform's services. Historically, we have tracked our customers through an ID connected to a particular promotion which had a short life cycle. The Digital Wallet is the new ID, which is now linked to an individual customer, where a customer could have many personas attached to the same wallet (e.g. loyalty card number, credit card, Facebook login, email address etc). This allows them to collect all associated promotions and rewards from Eagle Eye services in one container and is delivered via the customer's preferred channel and media (coupons, email, text and even location-based triggers) to provide a more personalised experience. Linking the Digital Wallet to the customer now allows marketing data to be tracked throughout the customer's life cycle with that retailer. We believe the Digital Wallet capabilities are unique and will be a real differentiator for Eagle Eye going forward.

We have enhanced our Staff Rewards proposition that links with HR systems, enabling staff discounts to be digitally delivered. This delivers multiple benefits, including improving staff engagement, eliminating fraud in staff schemes and boosting retention, whilst providing another use of our Digital Wallet innovation. We have begun to model subscription plans and entitlements in the platform, enabling a further loyalty-based capability to our current customers. This is already being used by two customers, with one due to go live this month.

We have also remodelled our Gift proposition to include support for physical delivery (in partnership with CPI) and implemented best-in-class gift voucher purchase flows. We are currently building our B2B functionality focusing on how the Gift experience can be personalised using both physical and digital gift vouchers.

During the year we scaled our operational capability for capacity and speed to service our largest customers, the results of which are demonstrated by the growth in our volume and speed KPIs. This has involved the addition of two data centres in North America and the scaling and upgrade of facilities in the UK.

Our focus on innovation continues into the year ahead, which will see us build on the successful launch of the Digital Wallet and introduce subscriptions.

Regulatory Compliance

Eagle Eye was well prepared for the European Union's General Data Protection Regulation (GDPR), when it came into force on 25 May 2018. To ensure we were compliant for this date, we carried out a comprehensive Data Protection Impact Assessment (DPIA) of the GDPR requirements and impact on our processes, platforms and relationships, implementing the changes required. We trained all our staff, reviewed and analysed all the data we hold and have worked hard to meet and exceed these new data privacy regulatory standards.

We are proud to be fully certified to the International Standard ISO27001:2013. This standard provides for specific operational controls governing how we manage the confidentiality, integrity and accessibility of all the information we use every day, in whatever format it is accessed or stored. We have rolled the GDPR requirements into our existing ISO27001 Information Security and DPA compliance activities and have implemented Privacy by Design into our development processes to continue to engrain GDPR standards into our everyday activities. We see GDPR as a positive development that will help us, and our clients, build and reinforce trust among consumers that their personal data will not be misused. We have also appointed a Compliance Manager to oversee this vital aspect of our business, reporting to David Aylmer, COO, who is responsible for quarterly GDPR updates to the Board.

Partner updates

In March 2017 we signed a new partnership agreement with TCC Global, allowing Eagle Eye to extend its digital promotions offer into the European loyalty market. The AIR platform underpins the TCC Smart Connect proposition to deliver omnichannel shopper engagement through its digital campaigns. We are currently assessing how we can develop a joint turnkey solution to improve TCC's sales cycle.

In March 2018 we signed a global partnership with Aptos, a leading global retail technology solutions provider to more than 1,000 retail brands across 55 countries. We hope the agreement will see us work collaboratively on a pre-integrated solution to provide digital connection to customers without the need for integration at the point of sale. We currently have four joint UK customers with Aptos; Clarks, Thomas Pink, M&Co. and Pets at Home. As a result of this partnership, we will look to expand our footprint in Speciality Retail globally.

Investment

Following the successful placing in June 2017, FY18 was marked by a period of investment in our next phase of growth. The platform has been enhanced to offer world class digital loyalty services, which are now live with Loblaw. In addition, we have integrated new technology and issuance partners that continue to build out our network and audience reach.

We invested in operational capability in Canada to support both performance requirements within Loblaw, as our biggest client, and the Group's growth within the Canadian market, where we see significant additional opportunity. We have begun to explore the market outside of Canada and have had initial conversations with other retailers across North America and Asia Pacific. The interest we have received in Australia has prompted us to increase our presence in the area and this is a geography we will focus on in the year ahead.

We have expanded our 'Win' resource both in sales and operations, to reflect the right combination of commercial management and product skills required to successfully win new customers and deepen existing relationships.

We have also upskilled our senior management team and now have subject matter experts in loyalty, FMCG brands and product marketing to ensure we continue to be relevant in today's market and help us take our proposition to the market quicker.

People

The past 12 months has seen us continue to grow our team, as we have hired talented new people to help us drive the business forward, as well as promoting from within, aligning those hiring decisions more closely to our Company values. Our average headcount increased from 100 to 130, the majority of which was driven by customer-led growth.

We hired a new HR Director, Claire Essex-Crosby, who has proposed and begun delivering against the People Strategy for the business. We have also promoted one of our own, Al Henderson, who has been with the business for four years most recently running the F&B division, to the critical role of Chief Sales Officer. These appointments set us up for continued success in the years ahead. We have created flexible structures to support the increase in headcount and keep us agile. We have increased our social media presence and hired graduate-level skills in for the first time as part of our ongoing recruitment practices. These investments in our people will enable us to deliver against our strategic plan and we will continue to attract, retain and reward people based on our values and the Eagle Eye 'Purple Standard'.

Looking Ahead

As we enter the new financial year, we have a sense of increasing momentum and confidence. The investments we have made into our people, platform and processes mean we have the scale and proof points to deliver upon our growth strategy and potential.

We believe Eagle Eye is now well-placed to capitalise on growing market demand. Our proven personalisation offering for Tier 1 retailers opens an avenue of growth internationally that was only theoretical before. We believe the Digital Wallet, which for the first time brings together all our offerings into a single customer view, provides us with significant competitive advantage and that this, coupled with our proof of delivery with Loblaw, will stand us in good stead to unlock opportunities in new geographies and sectors.

In 2019 we will focus on extending our reach into adjacent sectors to which we believe the AIR platform is applicable, such as QSR, Foodservice, Convenience and Speciality Retail, as well as continuing to develop our market leading position in Grocery, F&B and other Retail. We will continue to build on our strong positions in the UK, Europe and North America, while also increasing our activities in Australia where we have had promising initial discussions.

We have set ourselves the challenge of running our business "Better, Simpler and Cheaper", to assist in our move towards EBITDA profitability. Whilst we will make significant investment during the year in developing the product and growing the business, we will also look for inherent productivity and efficiencies coming from the scale of what we do.

Outlook

We have had a positive start to trading in the year, including the deepening of Greene King and JD Sports as well as the launch of new Loblaw partner Esso, adding fuel stations to the PC Optimum programme, both of which we expect to drive additional volume growth in the year ahead. Redemption and interaction volumes on the platform for the first two months of the current financial year were 132.6 million, showing considerable growth on the prior year, tracking in line with management's forecast.

Whilst it is still early in the current financial year, the momentum and number of visible sales opportunities in the pipeline give the Board confidence that trading is in line with its expectations for the full year. In order to achieve our targets, the focus for the team in the year ahead will be to convert these opportunities and continue to deepen our existing customer accounts.

The size of our market opportunity underlines our belief that we are just at the start of our journey and we look to the future with confidence.

Tim Mason, Chief Executive Officer

Financial review

Key Performance Indicators

Financial	**2018 £000**	**2017 £000**
Revenue	14,755	11,058
Adjusted EBITDA loss (1)	(2,014)	(1,769)
Operating loss before interest and tax	(4,634)	(3,843)
Net cash (2)	372	3,724
Cash and cash equivalents	1,472	3,724
Short-term borrowings	(1,100)	-

Non-financial	**2018**	**2017**
Number of redemptions and interactions	403.7m	61.5m
Messaging volumes	56.1m	44.4m
% of subscription transaction revenue	77%	68%
Customers and brands on the platforms	294	233
Customer churn by value	1.7%	2.6%

(1) Adjusted EBITDA loss excludes share-based payment charges along with depreciation, amortisation, interest and tax from the measure of profit.
(2) Net cash is Cash and cash equivalents less short-term borrowings.

Group results

Revenue
Revenue growth for the Group was 33% for the Year (FY17: 71%), with revenue increasing to £14.8m (FY17: £11.1m). This was slightly behind management expectations due to certain strategic contract negotiations extending into the new financial year. However, revenue growth accelerated during the Year, with H2 18 revenue accounting for £8.3m (H1 18: £6.5m), representing growth of 28% on H1 18 (H1 17 to H2 17: 18%).

This growth has been driven by a 64% increase in recurring subscriptions and transactions revenue on the AIR platform to £9.7m (FY17: £5.9m), aided specifically by Loblaw's PC Optimum programme launching in February 2018 and the full year effect of transactions from Sainsbury's. Globally, Tier 1 AIR revenue growth (including one off set up fees) was 38% with growth from existing F&B clients at 28% in the Year.

Overall, revenue from the AIR platform now represents 89% of total revenue, £13.1m (FY17: 85%, £9.4m). This increase was largely as a result of the Group's success with our existing Tier 1 grocer clients, strongly supported by new business wins across all our other sectors, and deepening relationships with existing clients, thus increasing redemption volumes.

Redemption and interaction volumes, a key measure of usage of the AIR platform, grew by 556% year-on-year to £403.7m for the Year (FY17: 61.5m), driven by the full-year impact of Sainsbury's transactions, Loblaw's PC Optimum launch and increased volumes from existing F&B and other retail clients. The PC Optimum launch reflected the coming to market of our new loyalty service, where such services command a lower price per transaction compared to traditional promotional transactions. This, along with the nature and basket value of the underlying consumer purchases made at the Group's grocer clients, meant that as expected the revenue per transaction was lower.

Overall, £11.4m of revenue generated from subscription fees and transactions over the network represented 77% of total revenue (FY17: 68%, £7.5m). The balance, £3.4m, relates to implementation fees for new customers and new services and represents 23% of total revenue (FY17: 32%, £3.5m). The reduction in implementation fees primarily reflects the £2.5m (FY17: £2.8m) implementation fees of UK and international Tier 1 clients that have gone live, opening up recurring transactional revenues, as previously communicated.

Although messaging volumes increased 26% in the Year to 56.1m (FY17: 44.4m), messaging revenue growth was restricted to 4% to £1.7m for the Year (FY17: £1.6m), as anticipated. This reflects the continued pressure on price in the competitive messaging market, with gross margin for messaging falling 2ppts to 40% (FY17: 42%). Throughout the Year, the Group has continued to win new messaging accounts which has helped to drive the transactional volume growth.

Gross profit

Gross margin was maintained at 87% (FY17: 88%) as gross profit grew 32% to £12.9m (FY17: £9.8m). The core AIR platform gross margin carries a significantly higher margin than the messaging business, at 93% (FY17: 96%). The slight reduction in margin primarily reflects costs associated with the network of redemption partners for the Google 'Visa tap and win' campaign.

Other costs of sales include the cost of sending SMS messages, revenue share agreements and outsourced, bespoke development work. All internal resource costs are recognised within operating costs, net of capitalised development.

Adjusted operating costs

Adjusted operating costs of £14.9m (FY17: £11.5m) represent sales and marketing, product development (net of capitalised costs), operational IT, general and administration costs. The Group has managed its cost base, only adding to it when certain strategic triggers have been achieved. Although the investment in people is the main driver of this growth, with the average headcount for the Year increasing to 130 (FY17: 100), the increase in staff costs has been restricted to 20%, which is less than the growth in gross margin. The only cost category which has increased ahead of gross margin growth is the Group's infrastructure spend, which increased 90% to £2.7m (FY17: £1.4m) as the Group has completed the scaling of the AIR platform to support the throughput and stability required by the Group's Tier 1 clients.

Within staff costs, gross expenditure on product development increased 39% to £4.1m (FY17: £2.9m), predominantly reflecting our investment in our new loyalty services in the Year. Capitalised product development costs were £2.0m (FY17: £1.5m) whilst amortisation of capitalised development costs was £1.3m (FY17: £1.5m).

EBITDA

Reflecting the timing of the Group's strategic investments in the cost base, adjusted EBITDA loss for the Year was, as previously announced, ahead of management expectations at £2.0m (FY17: loss £1.8m). To provide a better guide to the underlying business performance, adjusted EBITDA loss excludes share-based payment charges along with depreciation, amortisation, interest and tax from the measure of profit. The GAAP measure of loss before interest and tax was £4.6m (FY17: £3.8m) reflecting an increase in the non-cash share-based payment charge to £1.2m (FY17: £0.4m) reflecting vesting of options (see page 27 for further details).

EPS and dividend

Following receipt of a £0.4m research and development (R&D) tax credit (FY17: £0.3m) and due to historic success in R&D tax claims, we have taken the decision to recognise an additional £0.3m, the receipt of which we expect will follow submission of the Group's 2018 tax returns. As such, reported basic and diluted loss per share was 14.83p (FY17: loss per share 15.73p).

The Board does not feel it appropriate at this time to commence paying dividends.

Group Statement of Financial Position

The Group had net assets of £6.4m at 30 June 2018 (FY17: £8.9m), including capitalised intellectual property of £2.8m (FY17: £2.2m) and net cash of £0.4m (FY17: £3.7m). The movement in net assets reflects the loss made in the Year.

Cashflow and net cash

Net cash at the end of the Year was £0.4m (FY17: £3.7m). The main components to the net cash decrease of £3.3m for the Year (FY17: £2.4m increase) were the operating cash outflow of £1.3m (FY17: £2.0m), reflecting the EBITDA loss of £2.0m (FY17: £1.8m), offset by a working capital inflow of £0.3m (FY17: outflow of £0.5m) and the research and development tax receipt of £0.4m (FY17: £0.3m), and capital investment in the AIR platform of £2.0m (FY17: £1.5m).

Banking facility

During the Year the Group extended the term and value of its revolving loan facility with Barclays Bank PLC to £5.0m (FY17: £3.0m) which expires on 30 June 2020. The Group's gross cash of £1.5m (FY17: £3.7m) and undrawn facility of £3.9m (FY17: £3.0m) give the Group £5.4m of headroom, which the Directors believe is sufficient to support the Group's existing growth plans.

Principle risks and uncertainties

Evolution of the market

The Group operates in an evolving market and there is a possibility that the rate of growth in mobile commerce will not match independent predictions or that users of mobile devices will change their behaviour with respect to mobile commerce. The Group's services are new and continually evolving and it is difficult to predict the future growth rates, if any, and the size of these markets. Even if the market for the Group's products develops as anticipated, the Group may face severe competition from other businesses offering similar products and services and there can therefore be no assurance that the Group will be able to secure customers for its products and services on acceptable terms and conditions, or successfully adjust the Group's strategy to meet the changing market dynamics.

The Group is in and continues to enter new international markets and not all of these markets may be at the same stage of development. The Group may face competition from other local businesses in those territories offering similar products and services and there can therefore be no assurance that the Group will be able to secure customers for its services on acceptable terms and conditions, or successfully adjust the Group's strategy to meet the different dynamics of these new markets.

These risks are mitigated by the strength and experience of the Group's management team.

Technological changes could overtake the products being developed by the Group

The Group's business is dependent upon technology which could be superseded by superior technology, more competitively priced technology or a shift in retail practices which could affect both the potential profitability and the saleability of the Group's product offering. Staying abreast of technological changes may require substantial investment. The Group's existing software products need to develop continually in order to meet customer requirements. The Group may encounter delays and incur additional development and production costs and expenses, over and above those expected by the Directors, in order to develop suitable technologies and products. The technology used in the Group's products is still evolving and is highly complex and may change rapidly. Research and development by other companies may render any of the Group's products in development, or currently available, obsolete. This risk is primarily mitigated by the quality of the technical staff recruited and investment in defining and refining the product roadmap.

Protection of intellectual property

The Group's success and ability to compete effectively are in large part dependent upon exploitation of proprietary technologies and products that the Group has developed internally, the Group's ability to protect and enforce its intellectual property rights so as to preserve its exclusive rights in respect of those technologies and products, and its ability to preserve the confidentiality of its know-how. The Group relies primarily on enforcement of its pending and granted patents under applicable patent laws and non-disclosure agreements to protect its intellectual property rights. No assurance can be given that the Group will develop further technologies or products which are patentable, that patents will be sufficiently broad in their scope to provide protection for the Group's intellectual property rights against third parties, or that patents will have been granted in all new territories which the Group enters.

Patents pending or future patent applications may not be granted and the lack of any such patents may have a material adverse effect on the Group's ability to develop and market its proposed products. Where patents have been granted the Group may not have the resources to protect any such issued patent from infringement. There is a significant delay between the time of filing of a patent application and the time its contents are made public, and others may have filed patent applications for subject matter covered by the Group's pending patent applications without the Group being aware of those applications. The Group's patent applications may not have priority over patent applications of others and its pending patent applications may not result in issued patents. Even if the Group obtains patents, they may not be valid or enforceable against others. Moreover, even if the Group receives patent protection for some or all of its products, those patents may not give the Group an advantage over competitors with similar products. Furthermore, the Group cannot patent much of the technology that is important to its business. If the Group fails to obtain adequate access to, or protection for, the intellectual property required to pursue its strategy, the Group's competitors may be able to take advantage of the Group's research and development efforts.

Once granted, a patent can be challenged both in the patent office and in the courts by third parties. Third parties can bring material and arguments which the patent office granting the patent may not have seen. Therefore, issued patents may be found by a court of law or by the patent office to be invalid or unenforceable or in need of further restriction.

Product risk

The Group's business involves providing customers with highly reliable software and services. If the software or services contain undetected defects when first introduced or enhanced, the Group may fail to meet its customers' performance requirements or otherwise satisfy the contract specifications. As a result, it may lose customers and/or may become liable to them for damages. Whilst the Group has liability insurance in place and endeavours to negotiate limitations on its liability in its customer contracts, this is not always commercially possible. Additionally, the Group is committed to developing products for its customers on a set timeline. However, the pace of progress of the development projects may not be as expected and the Group could fail to meet its customers' timing or performance requirements. As a result of these risks, the Group may lose customers, may become liable to those customers for damages and may suffer damage to its reputation.

The Group has service level commitment obligations with some of its customers in which it provides various guarantees regarding levels of service. The Group may not be able to meet these levels of service due to a variety of factors, both inside and outside the Group's control. If the Group fails to provide the levels of service required by the agreements, such customers may be entitled to terminate their contracts or may choose not to enter into new work orders with the Group and this may also damage the Group's reputation and reduce the confidence of the Group's customers in its software and services, impairing its ability to retain existing customers and attract new customers.

Online security breaches, data loss and fraud

Security breach and fraud remain key concerns in the online payments world and any security breach or fraud event might deter consumers from purchasing goods via online voucher and offer content or using a Digital Wallet. Any move away from the mobile channel for purchasing goods could have a negative impact on the Group's growth prospects and revenues.

Security breach and fraud may also lead to regulatory investigations, sanctions (including fines) and litigation with clients and consumers. Any regulatory investigation or litigation may be costly and may divert efforts and attention of the Group's key management and other personnel and resources, may cause wider reputational damage to the Group and may result in existing clients terminating contracts and deter potential new clients from becoming actual clients.

Any compromise of the Group's systems, security breaches or data loss may result in the temporary inability of the Group to operate its services and clients' mobile sites and applications and therefore may have a detrimental impact on the Group's revenues, both directly through the inability of the Group's clients to trade or of the Group to authenticate offers, and indirectly through loss of confidence in the security of the Group's platform.

In line with its ISO 27001 accredited procedures, the Group uses a third party security and data compliance service to monitor and mitigate against this risk in addition to client specific security testing and has robust business continuity procedures in place.

Dependence on key customers and sectors

The Group is dependent on a number of key contracts and partner relationships for its current and future growth and development. A limited number of clients account for a large percentage of the Group's revenue. Whilst the Group endeavours to enter and renew long term agreements with its clients, there can be no assurance that clients will continue to be secured on acceptable terms and conditions.

The Group is also focussed on the Grocery, Food and Beverage and Retail sectors. Although a downturn in each of these sectors can result in increased demand for the Group's services, as discounts and offers are used to encourage footfall, a long term downturn could have a negative impact on the Group's growth prospects and revenues. This risk is mitigated by entry into additional territories and refinement of the Group's products for entry into new sectors.

Reliance on key suppliers

The Group is dependent on a small number of key suppliers for the hosting of its IT infrastructure and delivery of messaging services. A disruptive event affecting any one of these suppliers could mean that the Group is unable to meet its customers' timing or performance requirements. As a result of these risks, the Group may lose customers, may become liable to those customers for damages and may suffer damage to its reputation. To mitigate against this risk, the Group has service level agreements in place with these key suppliers and has multiple suppliers and sites, including a live disaster recovery site, to ensure continuity of service to its customers.

Employee recruitment and retention

The ability to continue to attract and retain employees with the appropriate expertise and skills cannot be guaranteed. Finding and hiring top talent can be costly and might require the Group to grant significant equity awards or other incentives, which could adversely impact its financial results. The Group's future development and prospects depend to a significant degree on the experience, performance and continued service of its senior management team. Effective product development and innovation, upon which the Group's success is dependent, is in turn dependent upon attracting and retaining talented technical and marketing employees, who represent a significant asset and serve as the source of the Group's technological and product innovations. In addition, to continue to expand the Group's customer base, increase sales and achieve growth generally, the Group will need to hire additional qualified sales personnel as well as in administrative and operational support functions. If the Group is unable to hire, train and retain such talent in a timely manner an undue burden could be placed on existing employees, the development and introduction of the Group's products could be delayed and its ability to sell its products and otherwise to grow its business could be impaired, which may have a detrimental effect upon the overall performance of the Group.

Changes in applicable laws and regulations

Although the Group has addressed the changes brought about by the introduction of the General Data Protection Regulation during the year, laws and regulations governing internet-based services, related communication services and information technology, e-commerce, the processing of personal data, the processing of payment card data and mobile commerce in the United Kingdom and other territories continue to evolve and, depending on the evolution of such regulations, may adversely affect the Group's business.

Exit of UK from European Union

The UK has voted in an advisory referendum to leave the European Union (commonly referred to as "Brexit"). While negotiations between the UK and the European Union continue, the impact of Brexit is not yet clear, but it may significantly affect the fiscal, monetary and regulatory landscape in the United Kingdom, and could have a material impact on its economy and the future growth of its various industries. Depending on the exit terms negotiated, the United Kingdom could lose access to the single European Union market and the global trade deals negotiated by the European Union on behalf of its members. Such a change in trade terms could affect the attractiveness of the United Kingdom as an investment centre and, as a result, could have a detrimental effect on UK companies. This may impact the Group's ability to access funding in the future, and its prospects. Although no direct impact is expected to the Group's relationship with its customers and key suppliers, it is not possible at this point in time to predict fully the effects of an exit of the UK from the European Union; it could have a material effect on the Group's business, financial condition and results of operations. In particular, it may impact the Group's ability to recruit suitably skilled staff for its UK-based operations.

Exchange rate risk

As the Group's international operations grow, exchange rate fluctuations could have a material effect on the Group's profitability or the price competitiveness of its services. There can be no assurance that the Group would be able to compensate or hedge against such adverse effects and therefore negative exchange rate movements could have a material adverse effect on the Group's business, prospects and financial performance.

Employee involvement

The Group recognises and seeks to encourage the involvement of its employees, with the aim being the recruitment, motivation and retention of quality employees throughout the Group. The Group encourages employee performance through employee remuneration packages, including by granting share options, and by promoting its core values to employees. The Group ensures that employees are fully aware of financial and economic factors affecting its performance.

The Group's employment policies, including the commitment to equal opportunity, are designed to attract, retain and motivate employees regardless of sex, race, religion or disability. Equality of treatment includes full and fair assessment of applications and extends to training and continuing career development.

The Group is committed to ensuring and communicating the requirements for a safe and healthy working environment for all employees, consistent with health and safety legislation and, where practicable, gives full consideration to applications for employment from disabled persons.

By order of the board

L. Sharman-Munday

Lucy Sharman-Munday
Company Secretary

5 New Street Square
London
EC4A 3TW

17 September 2018

Governance

Board of Directors

Malcolm Wall – Non Executive Chairman – A, B

Malcolm joined the Group as a non-executive director in 2014, taking the role of Chairman in September 2016. He was previously CEO, and then advisor to the board, of Abu Dhabi Media Company. He is also the former Chief Executive, Content for Virgin Media where he ran Virgin's television proposition, the Virgin Media portal and their television channel groups. Malcolm joined Virgin from United Business Media, where he was Chief Operating Officer. He has also worked in senior executive roles for a number of ITV companies, including Granada, Anglia and Southern. Malcolm is currently Chairman of Audioboom plc and Dock10 Limited. He is also a non executive director of Image Nation LLC.

Tim Mason – Chief Executive Officer

Tim joined as chairman in January 2016, later moving to CEO in September 2016. He has over 30 years' experience within the grocery and retail industries, with a strong background in strategic marketing and customer loyalty. Tim's last role was as Chairman of Bonmarche Holdings plc from 2013 to 2015. Prior to that he was Deputy CEO at Tesco from January 2010 to December 2012. He held a number of other roles within the Tesco Group between 1982 and 2012 including CMO for Tesco and CEO of Fresh & Easy LLC. He is also currently Chairman of Starcount Group Limited and a director of Its Fresh Limited and So Purple Group Limited.

Steve Rothwell – Founder and Chief Technical Officer

Steve founded the Group in 2003, and is responsible for the product vision, development and roadmap. Prior to that, he was the founder and Chief Executive Officer of Eagle Eye Technology Limited, a software consultancy business. Before that he was a developer and consultant for Consult Hyperion, developing concepts in the media and payments industries, and a software engineer for Ericsson. Steve has a BEng in Electrical and Electronic Engineering from the University of Leicester.

Lucy Sharman-Munday – *Chief Financial Officer*

Lucy joined the Group in 2014. Prior to this, she was the CFO of the 5one group, the global consultancy providing services, analysis and software to help retailers achieve a customer-centric strategy. The global role covered Europe, South Africa and setting up America. Prior to this she worked for Adapt Group Ltd, and in 2006 iSOFT plc as an integral part of the turn-around team that successfully sold the business to IBA Health Group at the end of 2007. Lucy began her career at KPMG in 1999 and is a member of the Institute of Chartered Accountants in England & Wales.

Bill Currie – Non Executive Director – A

Bill joined the Group as a non-executive director in 2011. He is the founder of the William Currie group of companies. Previously he was a top ranked city investment analyst, serving as Joint Managing Director of Charterhouse Securities and Director of Research at BZW. Bill and his wife, Kate, were co-founders of The Fragrance Shop Limited. His current directorships include Metapack Limited, Belvedere Schools Limited, LTS Group Limited and Wranx Limited.

Board of Directors (continued)

Sir Terry Leahy – Non Executive Director

Sir Terry joined the Group as a non-executive director in 2011. Sir Terry completed a 32 year career at Tesco plc as Chief Executive from 1997 to 2011. Leahy received a Knighthood for services to food retailing in the 2002 New Year Honours. He was chosen as Britain's "Business Leader of the Year" in 2003 and the Fortune European Businessman of the Year for 2004. Since 2011 he has focused on investments in early-stage businesses. His current directorships include Metapack Limited, the Social Mobility Foundation and the Foundation Years Trust and he is a Special Advisor to CD & R, the US private equity firm.

Board Committee Membership

A – Audit Committee

B - Remuneration Committee

Directors' report

The Directors present their annual report and the audited consolidated financial statements for the year ended 30 June 2018.

Principal activities, business review and future developments

The principal activity of the Group is enabling businesses to create a real-time connection to attract and retain customers, through the provision of its marketing technology software as a service solution.

Corporate Status

Eagle Eye Solutions Group plc (the 'Company') is a public limited company domiciled in the United Kingdom and was incorporated in England & Wales with company number 8892109 on 12 February 2014. The Company has its registered office at 5 New Street Square, London EC4A 3TW. The principal places of business of the Group are its offices in Guildford and Manchester and it also operates in Toronto, Canada and Melbourne, Australia.

Directors

Tim Mason	
Steve Rothwell	
Lucy Sharman-Munday	
Bill Currie	
Sir Terry Leahy	
Drew Thomson	(deceased 18 May 2018)
Malcolm Wall	

The Company has agreed to indemnify its directors against third party claims which may be brought against them and has put in place a directors' and officers' insurance policy.

The market price of the Company's shares at the end of the financial year was £1.810 and the range of the market price during the year was between £1.625 and £2.750.

Substantial Shareholdings

At 14 September 2018, the directors have been notified of the following beneficial interests in excess of 3% of the issued share capital of the Company (excluding those shares held in treasury).

	Total shares	%
Bill Currie *	3,263,322	12.83
Sir Terry Leahy *	2,270,970	8.93
Hargreave Hale Limited	2,093,444	8.23
Andrew Sutcliffe	2,032,158	7.99
Cavendish Asset Management Limited	1,831,001	7.20
Christopher Gorell Barnes	1,531,866	6.02
Steve Rothwell	1,511,672	5.94
Julian Reiter	1,342,390	5.28
Herald Investments	877,318	3.45
Timothy Miller	872,975	3.43
Edward Pippin	855,000	3.36

*includes shares held by family members

Research and Development

Details of the Group's policy for the recognition of expenditure on research and development of its Eagle Eye AIR platform and other products are set out in note 1 of the consolidated financial statements.

Risk Management Objectives and Policies

Details of the Group's financial risk management objectives and policies are set out in note 16 of the consolidated financial statements. The key non-financial risks that the Group faces are set out on pages 12 to 15 of the Strategic Report.

Related Party Transactions

Details of the Group's transactions and year end balances with related parties are set out in note 20 of the consolidated financial statements.

Dividends

The directors do not recommend the payment of a dividend (2017: £nil).

Strategic report

The Company has chosen in accordance with Companies Act 2006, section 414C (11) to set out in the Company's strategic report on pages 1 to 15 information required to be contained in the directors' report by Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, Sch. 7, where not already disclosed in the directors' report.

Statement as to disclosure of information to the auditor

The directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditor is unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

Auditor

RSM UK Audit LLP were appointed for the year ended 30 June 2018 and have indicated their willingness to continue in office.

By order of the board

L. Sharman-Munday

Lucy Sharman-Munday
Company Secretary

5 New Street Square
London
EC4A 3TW

17 September 2018

Corporate Governance Statement

Principles of Corporate Governance

The Directors recognise the importance of sound corporate governance and confirm that the Group is complying with the QCA Corporate Governance Code (as devised by the QCA in consultation with a number of significant institutional small company investors). The QCA Code is constructed around ten broad principles and a set of disclosures. The QCA has stated what it considers to be appropriate arrangements for growing companies and asks companies to provide an explanation about how they are meeting the principles through the prescribed disclosures. The Directors have explained how each principle is applied below. The Directors consider that the Group does not depart from any of the principles of the QCA Code.

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

The Group's strategy is reviewed by the Board on an annual basis at an offsite strategy event. The Group's strategy is to drive long-term value for shareholders from:

- Continued development of the Group's product offering;
- Revenue growth from both new and existing accounts;
- Realising opportunities in relevant new sectors and geographies; and
- Scaling the cost base efficiently with the objective of being EBITDA positive and then cash generative in line with management expectations.

Seek to understand and meet shareholder needs and expectations

In addition to shareholders being welcomed and provided the opportunity to speak to the Directors at the Annual General Meeting, the Group has a series of events designed to educate and listen to shareholders:

- Private investor sessions held twice per year for significant shareholders;
- Roadshows held twice per year for institutional investors;
- Annual event held covering general developments in the market and our business; and
- Equity analyst and sell-side briefings held throughout the year for broader investor insight.

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

The Group's key stakeholders are its shareholders (see "Seek to understand and meet shareholder neds and expectations" above), employees, customers and suppliers. Each has their own communication and interaction strategy:

- **Employees**: The Group operates a weekly video-conference "town hall" for all employees that provides a business update and a forum to celebrate success and for employees to ask questions. In addition, an annual 'Company Day' is held and attended by all employees in person, providing strategic direction and Company objectives for the year ahead, a look back at progress and performance in the year and a recognition of those employees who have best demonstrated the Group's values. As part of the Group's values, we encourage employees to "get involved". The Group's clubs and societies such as netball, golf, theatre and hackathons all provide opportunities to do good and benefit society. The Group also has a charity committee which is responsible for organising events and identifying opportunities where the Group and its employees can assist those in need.

- **Customers**: All customer accounts have an assigned account management team who meet regularly with their respective clients to understand their business needs and how the Group can assist them in meeting their objectives. The Group issued an NPS (Net Promoter Score) survey for the first time in 2018 and has set up a working committee to ensure that key take outs from the survey are acted upon and an improvement has already been achieved in the second NPS survey conducted. The Group also holds an annual event that includes insight on the sector, an update from customers using the Group's technology, an update on the Group's product roadmap and an opportunity for clients to speak to each other and to members of the Group's executive leadership team.

- **Suppliers**: The Group's largest suppliers are for hosting and recruitment services. The relationships for suppliers in these categories are owned by the Chief Operating Officer/Chief Technology Officer and HR Director respectively. It is their role to meet the key suppliers on a timely basis to communicate the Group's business needs and the supplier's performance against expectations.

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

The Directors are responsible for the Group's system of internal controls and reviewing its effectiveness.

Although, no system of internal control can completely eliminate the risk of failure to achieve business objectives or provide absolute assurance against material misstatement or loss, the Group's controls are designed to provide reasonable assurance over the reliability of financial information and the Group's assets.

The key controls are as follows:

- The Executive Directors have a close involvement with the day to day operations and, with the involvement of staff, identify business risks and monitor controls;
- There is a comprehensive process of financial reporting based on the annual budget that is approved by the Board. Monthly financial results are reported with analysis of key variances against expectations;
- The Corporate risk register is owned by the executive leadership team and is reviewed by the Board on a quarterly basis. The risk register considers the impact, probability, controls in place and any mitigating factors to be considered for each risk. Where applicable, it also sets out the risk treatment plan;
- In addition, the key risks are, where applicable, reflected in the Group's ISO 27001 statement of applicability which is monitored by the Group's Security Management Team and Information Security Committee; and
- Employees are encouraged to report any new risks through the Group's internal reporting procedures.

The Group's principle risks and uncertainties are set out on pages 12 to 15.

There is currently no internal audit function as the Board and Audit Committee considers that given the Group's current stage of development, it is not necessary but this will be reviewed annually as the Group evolves.

Maintain the Board as a well-functioning, balanced team led by the chair and ensure that between them, the Directors have the necessary up-to-date experience, skills and capabilities

The Board is responsible to shareholders for the proper management of the Group. A statement of directors' responsibilities is set out on page 31 and the interests and experience of the Board are set out on pages 16 and 17. The non-executive directors have a particular responsibility to ensure that the strategies proposed by the executive directors are fully considered.

In May 2018, the Board was deeply saddened by the death of Drew Thomson. Until that time, the Board comprised of the non-executive Chairman, who was independent at the time of appointment, three executive directors and three other non-executive directors. Of the non-executive directors, the Board considered two to be independent directors (Drew Thomson and Malcolm Wall). Due to the unfortunate circumstances of losing one of the independent non-executive directors, the Group is currently recruiting for a replacement with digital or brand expertise. The non-executive Directors have retail, media and technology business expertise.

The executive leadership team includes three members of the Board, the Chief Executive Officer (who has a retail background), the Chief Technology Officer (who has a technology background) and the Chief Financial Officer (who has a finance in technology businesses background).

The Board holds regular meetings and is responsible for formulating, reviewing and approving the Group's strategy, budgets and corporate actions and overseeing the Group's progress towards its goals. Each year, the non-executive directors are required to attend 10-12 board and board committee meetings as well as a whole day offsite strategy session, which helps to shape the Group's strategy for the coming year and beyond.

Board Committees

The Board has two Committees with clearly defined terms of reference which are set by the Board. The role, work and members of the committees are outlined on pages 24 to 25.

Meetings of the Board and its committees held during the Year and the attendance of the Directors are summarised below:

	Board meetings		Audit Committee		Remuneration Committee	
	Possible	Attended	Possible	Attended	Possible	Attended
Tim Mason	11	11	-	-	-	-
Steve Rothwell	11	11	-	-	-	-
Lucy Sharman-Munday	11	11	-	-	-	-
Bill Currie	11	10	3	3	-	-
Sir Terry Leahy	11	9	-	-	-	-
Drew Thomson	10	8	-	-	4	2
Malcolm Wall	11	11	3	3	4	4

The Board has a schedule of regular business, financial and operational matters and each board committee has compiled a schedule of work to ensure that all areas for which the Board has responsibility are addressed and reviewed during the course of the Year. The Company Secretary compiles the Board and committee papers which are circulated to Directors prior to meetings. The Company Secretary provides minutes of each meeting and every Director is aware of the right to have any concerns minuted and to seek independent advice at the Group's expense where appropriate.

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

The Board carries out an annual 360° board assessment that assesses the objectives, strategy and remit of the Board, performance management, risk management and the experience, skills and capabilities of the Directors to manage the business. and the assessment is owned by the Chairman. The executive leadership team has objectives that are fed from the Group's annual strategy session. Appraisals are held twice per annum and are discussed at the Remuneration Committee. The most recent Board assessment highlighted that the non-executive Directors did not specifically have individual objectives and this will be addressed in the year to June 2019.

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

The Group has six core values that employees are recruited by (as well as skill) and are remunerated by (as well as achievement of objectives). These are:

- Excellence
- Innovation
- Integrity
- Passion
- Fun
- Teamwork

Excellence encapsulates what the Group calls "the Purple Standard" and is what is looked for on a day to day basis from the Group's employees and suppliers.

The Board believes that a culture based on these values provides a competitive advantage and is consistent with fulfilment of the Group's strategy. The culture is monitored through the biannual employee appraisal process and through the use of a satisfaction and engagement survey which is performed annually. The executive leadership team reviews the key findings of the survey and determines whether any action is required.

Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

In addition to the Board and its committees referred to under "Maintain the Board as a well-functioning, balanced team led by the chair and ensure that between them, the Directors have the necessary up-to-date experience, skills and capabilities" and set out in more detail below, the Group operates a number of sub-boards, each of which has a chairman and an Executive Director sponsor and are attended by a wider cross-section of key senior managers from across the business.

- The executive leadership team reviews the day to day operations against the business objectives set within the Group's strategy;
- The Trading Board monitors the sales, strategic partnerships and project delivery required to achieve the targeted revenue growth;
- The Product Board monitors the product delivery against the roadmap and takes customer and market feeds to drive the innovation of the product that is discussed, debated and prioritised within this forum; and
- The People Board discusses all employee related matters, including reward and benefits, talent attraction and retention strategy, employee relations and recruitment.

Remuneration Committee

Until his untimely death, the Remuneration Committee was chaired by Drew Thomson and consisted of two non-executive directors, Drew Thomson and Malcolm Wall. Drew is yet to be replaced and the future composition of the Remuneration Committee will be determined by the Board following this appointment. The Committee is expected to meet no less than twice a year. Executive directors may attend meetings at the Committee's invitation.

The Remuneration Committee is responsible for determining and agreeing with the Board the broad policy for the remuneration and employment terms of the Executive Directors, Chairman and other senior executives and, in consultation with the Chief Executive Officer, for determining the remuneration packages of such other members of the executive management of the Group as it is designated to consider. The Committee is also responsible for the review of, and making recommendations to the Board in connection with, share option plans and performance related pay and their associated targets, and for the oversight of employee benefit structures across the Group.

The remuneration of non-executive directors is a matter for the Board. No director may be involved in any decision as to their own remuneration. This Remuneration Committee report includes a summary of the remuneration policy and the Annual Report on Remuneration.

Audit Committee

The Audit Committee is chaired by Bill Currie, and consists of two non-executive directors, Bill Currie and Malcolm Wall. The Audit Committee meets formally not less than three times every year and otherwise as required. The external auditors are invited to each meeting and the Chief Executive Officer and Chief Financial Officer (together with members of the finance team as appropriate) attend by invitation.

The Committee assists the Board in meeting its responsibilities in respect of corporate governance, external financial reporting and internal controls, including, amongst other things, reviewing the Group's annual financial statements, reviewing and monitoring the extent of the non-audit services undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of the Group's internal controls and risk management systems.

In fulfilment of these objectives the Committee:

- reviews the Group's financial statements and finance-related announcements, including compliance with statutory and listing requirements. Compliance is reviewed each year with the Chief Financial Officer and enhancements are made as appropriate;
- considers whether these statements and announcements provide a fair, balanced and understandable view of the Group's strategy and performance, and of the associated risks. Further consideration of these matters is also provided by the Board as a whole;
- considers the appropriateness of accounting policies and significant accounting judgements and the disclosure of these in the financial statements;
- reviews the effectiveness of financial controls and systems. The Group does not have an internal audit function and the Committee continues to be of the view that the Group is not yet of a size and complexity to warrant the establishment of such a function; and
- oversees the relationship with and performance of the external auditors.

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

Communications with shareholders are set out above under "Seek to understand and meet shareholder needs and expectations". Meetings with analysts and institutional shareholders are held following the interim and full year results and on an ad-hoc basis. These meetings are usually held by the CEO and the CFO. There is an opportunity at the annual general meeting for individual shareholders to raise general business matters. Notice of the annual general meeting is provided at least 21 days in advance of the meeting being held.

Additionally, communications with other relevant stakeholders are set out above under "Take into account wider stakeholder and social responsibilities and their implications for long-term success". The Group's informative website contains information to be of interest to new and existing investors. In addition, the Group retains the services of a financial PR consultancy, providing an additional contact avenue for investors.

Remuneration Committee Report

Directors' remuneration policy

The Group's remuneration policy is formulated to attract and retain high-calibre executives and motivate them to develop and implement the Group's business strategy in order to optimise long-term shareholder value. It is the intention that this policy should conform to best practice standards and that it will continue to apply for 2019 and subsequent years, subject to ongoing review as appropriate.

The policy is framed around the following key principles:

- *total rewards will be set at levels that are sufficiently competitive to enable the recruitment and retention* of high-calibre executives;
- total incentive-based rewards will be earned through the achievement of performance conditions consistent with shareholder interests;
- the design of long-term incentives will be prudent and will not expose shareholders to unreasonable financial risk;
- in considering the market positioning of reward elements, account will be taken for the performance of the Group and of each individual Executive Director; and
- reward practice will conform to best practice standards as far as reasonably practicable.

When formulating the scale and structure of remuneration, the Remuneration Committee takes account of a number of different factors including market practice and external market data of the level of remuneration offered to Directors of similar type and seniority in other companies whose activities and size are similar. In addition, the pay and employment conditions of employees are also considered when determining Directors' remuneration. The Remuneration Committee may also seek advice from external consultants where appropriate and the services of Korn Ferry were retained during the year. No Director was involved in deciding the level and composition of their own remuneration.

The Executive Directors receive an amount of fixed pay made up of a base salary, and in some cases a benefits package and pension contribution.

Short term performance for senior executives is incentivised using an annual bonus scheme based on the achievement of profitability and personal strategic goals. Long term performance is incentivised by way of a long term incentive plan ('LTIP') based on the achievement of performance goals aligned to the Company's business strategy and measured over a three-year period.

Employees of the Group are rewarded for excellent performance by the award of EMI options. Vesting of these options is based on the achievement of certain revenue targets to be achieved three years after the grant of the options.

These various schemes provide the Board with tools to help it to continue to strengthen the alignment of employee and shareholder interests.

Executive Directors' remuneration for 2018

2018 base salaries

The Executive Directors' base salaries were increased in the year effective from 1 January 2018 by 5% recognising the strong performance of the Executive Directors, their relative responsibilities and the performance of the Group during the previous 12 months.

	Salary 1 January 2017 £000	Salary 1 January 2018 £000
Tim Mason	300	315
Steve Rothwell	170	178
Lucy Sharman-Munday	170	178

2018 Annual bonus

The Executive Directors have a maximum annual bonus opportunity of 69% of salary, performance is measured on both personal objectives linked to the strategic direction of the business (maximum opportunity 25% of annual salary) and revenue achievement (maximum opportunity 44% of annual salary). The combined target bonus opportunity is 50% of salary. The delta between the target (50%) and the maximum (69%) represents the stretch target. The revenue target was between £13.5m and £21.6m; the outturn being £14.8m. The bonus payable to the Executive Directors in respect of both revenue and personal objective performance in FY18 was determined as set out below:

	Maximum performance	Actual performance	Actual bonus payable
Tim Mason	69% of salary payable	34.4% of salary payable	£108,518
Steve Rothwell	69% of salary payable	33.3% of salary payable	£59,351
Lucy Sharman-Munday	69% of salary payable	35.3% of salary payable	£62,921

2015 LTIP awards vesting

The Committee assessed the very strong performance of the Company during the 3-year performance period to 30 June 2018, the extent of the actual growth over the last 3 years being over 200% in revenue growth from year end 30 June 2015, £4.9m to 30 June 2018, £14.8m. This coupled with the significant progress with tier 1 clients, such as the successful launch of Loblaw's PC Optimum programme led to the Remuneration Committee using its discretion in determining that the 2015 LTIP awards (granted January 2016) will vest following completion of the current closed share trading period as detailed below.

	Date of grant	Number of shares vesting	Total value of LTIP award[1]
Tim Mason[2]	4 January 2016	443,165	£ 849,035
Steve Rothwell	12 January 2016	45,926	£ 87,987
Lucy Sharman-Munday	12 January 2016	39,383	£75,451

1. Value of award uses 3-month average share price to 30 June 2018 of £1.925846 and nominal cost exercise price of £0.01 per share.
2. Award granted to CEO in his role as Executive Chairman

LTIP award granted in FY2018

On 9 November 2017 LTIP awards were granted as nominal cost options under the Eagle Eye LTIP Share Option Scheme to the Executive Directors as set out in the table below subject to the following performance targets to be met during the performance period of three financial years ending 30 June 2020.

Performance targets for FY18 LTIP awards

Performance measures	Threshold vesting	Target vesting	Stretch vesting
	35% of max	62.5% of max	100%
Revenue - 50% of award	£21.330m	£23.700m	£26.070m
Adjusted EBITDA - 50% of award	£2.250m	£2.500m	£2.750m

1. There is linear vesting in between each of the vesting points
2. The Committee may scale back the level of vesting if it considers at the time of vesting that the formulaic level of vesting does not reflect the overall underlying performance of the Company or investor experience taking into account, among other matters, share price.

LTIP award granted in FY2017

On 21 September 2016 LTIP awards were granted as nominal cost options under the Eagle Eye LTIP Share Option Scheme to the Executive Directors as set out in the table below subject to the following performance targets to be met during the performance period of three financial years ending 30 June 2019.

Performance targets for FY17 LTIP awards

	Threshold vesting	Target vesting	Stretch vesting
	35% of max	62.5% of max	100%
Revenue 50% of award	£16.650m	£18.500m	£20.350m
Adjusted EBITDA 50% of award	£(250,000)	£nil	£250,000

1. There is linear vesting in between each of the vesting points
2. The Committee may scale back the level of vesting if it considers at the time of vesting that the formulaic level of vesting does not reflect the overall underlying performance of the Company or investor experience taking into account, among other matters, share price.

Outstanding LTIP awards

	FY	Date of grant	Type of award	Number of shares granted	Exercise price £	Vested during the year	Lapsed during the year	Vested unexercised	Total 30 June 2018	Performance period ends
Tim Mason	2016	4 January 2016	LTIP	443,165	0.01	-	-	-	443,165	N/A
	2017	21 September 2016	LTIP appointment award	221,388	0.01	-	-	-	221,388	30 June 2019
	2018	9 November 2017	LTIP appointment award	221,679	0.01	-	-	-	221,679	30 June 2019
	2018	9 November 2017	LTIP	83,871	0.01	-	-	-	83,871	30 June 2020
				970,103		-	-	-	970,103	
Steve Rothwell	2014	4 April 2014	EMI	292,696	0.51	-	-	292,696	292,696	N/A
	2014	4 April 2014	Unapproved	229,759	0.51	-	-	229,759	229,759	N/A
	2015	16 December 2014	EMI	51,545	0.51	-	-	51,545	51,545	N/A
	2016	12 January 2016	LTIP	45,926	0.01	-	-	-	45,926	N/A
	2017	21 September 2016	LTIP	96,242	0.01	-	-	-	96,242	30 June 2019
	2018	9 November 2017	LTIP	47,527	0.01	-	-	-	47,527	30 June 2020
				763,695		-	-	574,000	763,695	
Lucy Sharman-*Munday*	2015	17 July 2014	EMI	62,500	1.55	-	-	62,500	62,500	N/A
	2015	3 November 2014	EMI	62,500	1.55	-	-	62,500	62,500	N/A
	2016	12 January 2016	LTIP	39,383	0.01	-	-	-	39,383	N/A
	2017	21 September 2016	LTIP	91,582	0.01	-	-	-	91,582	30 June 2019
	2018	9 November 2017	LTIP	47,527	0.01	-	-	-	47,527	30 June 2020
				303,492		-	-	125,000	303,492	

CEO appointment award

The remuneration arrangements on the appointment of the CEO included the grant of two share awards. The first share award is over 221,388 shares (granted 21 September 2016) and 221,679 shares (granted 9 November 2017) that are subject to performance measured to 30 June 2019. The Remuneration Committee used its discretion to set the performance targets below.

Performance targets for FY17, FY18 CEO LTIP appointment award

	Threshold vesting	Target vesting	Stretch vesting
	35% of max	80% of max	100%
Revenue 50% of award	£16.650m	£18.500m	£20.350m
Adjusted EBITDA 50% of award	£(250,000)	£nil	£250,000

1. There is linear vesting in between each of the vesting points
2. The Committee may scale back the level of vesting if it considers at the time of vesting that the formulaic level of vesting does not reflect the overall underlying performance of the Company or investor experience taking into account, among other matters, share price.

The second award will be over 221,679 shares and vests provided that the CEO remains with the Company to 30 June 2019 subject to an underpin to scale back the level of vesting if the Committee is unhappy with the level of performance prior to vesting. This second award will be granted in FY19.

The granting of the awards has been made on a phased basis for technical reasons relating to limits in the plan rules.

Company Chairman and Non-Executive Directors

The Non-Executive Directors' fees were reviewed with effect from 1 January 2018 to take account of the time commitment and responsibilities of the Non-Executive Directors. The fee for the Company Chairman was held at £60,000. The Non-Executive Directors base fee was aligned at £30,000 with additional fees for chairing the Remuneration Committee and Audit Committee being aligned at £5,000.

Total Directors' Remuneration

The table below sets out the total remuneration payable to the Directors:

30 June 2018	Salary and fees £000	Annual bonus[1] £000	Other benefits[2] £000	Pension £000	Long-term incentives[3] £000	Total £000
Tim Mason	308	109	9	-	849	1,275
Steve Rothwell	174	59	-	5	88	326
Lucy Sharman-Munday	174	63	5	5	75	322
Malcolm Wall	56	-	-	-	-	56
Drew Thomson	32	-	-	-	-	32
Terry Leahy	18	-	-	-	-	18
Bill Currie	18	-	-	-	-	18
	780	**231**	**14**	**10**	**1,012**	**2,047**

[1] The annual bonus shown in the table above for FY18 is in respect of performance for FY18 (and is paid in FY19).

[2] Benefits represent allowances payable, including car allowance.

[3] The performance period for the 2015 LTIP awards (granted January 2016) ended on 30 June 2018. The awards are valued using the average share price for the last 3 months of the financial year (as the date of vesting, following waiver of performance conditions on 29 June 2018 (see page 27), is after publication of this report).

30 June 2017	Salary and fees £000	Annual bonus[4] £000	Other benefits £000	Pension £000	Long term incentives[5] £000	Total £000
Tim Mason	257	105	7	-	-	369
Steve Rothwell	165	77	-	5	278	525
Lucy Sharman-Munday	159	81	5	5	(11)	239
Malcolm Wall	60	-	-	-	-	60
Drew Thomson	35	-	-	-	-	35
Terry Leahy	5	-	-	-	-	5
Bill Currie	-	-	-	-	-	-
Phill Blundell	213	-	-	3	215	431
	894	**263**	**12**	**13**	**482**	**1,664**

[4] The annual bonus shown for FY17 is in respect of performance for FY17 and was paid in FY18.

[5] Various EMI and unapproved options granted in 2014 vested during FY17 following achievement of revenue based targets. The awards are valued at the share price at the date of vesting. The exercise price for the award to Lucy Sharman-Munday was greater than the share price at the date of vesting.

Application of remuneration policy for FY19

Base salaries

The Executive Directors base salaries will be reviewed by the Remuneration Committee during the course of the year with any increases effective from 1 January 2019.

Annual bonus

The Executive Directors annual bonus targets and bonus opportunity are under review but will continue to be performance based considering both personal strategic objectives and financial measures for FY19.

LTIP awards

The Committee intends to grant LTIP awards to the Executive Directors over shares with a value equivalent to 150% of salary subject to achievement of stretching Revenue and EBITDA targets measured over three financial years to 30 June 2021. For FY19 the Committee will introduce a super stretch performance target to determine vesting of the top third (50% of salary) of the award. Targets will be determined prior to awards being granted and will be disclosed in the FY19 Remuneration Report.

Company Chairman and Non-Executive Directors

The fees for the Company Chairman and Non-Executive Directors will be reviewed during the course of the year with any increases effective from 1 January 2019.

Shares held by Directors

	Beneficially owned shares 30 June 2017	Beneficially owned shares 30 June 2018	Unvested subject to performance targets 30 June 2017	Unvested subject to performance targets 30 June 2018	Vested unexercised 30 June 2017	Vested unexercised 30 June 2018
Tim Mason	178,797	241,839	443,165	970,103	-	-
Steve Rothwell	1,511,672	1,511,672	142,168	189,695	574,000	574,000
Lucy Sharman-Munday	20,000	24,750	130,965	178,492	125,000	125,000
Malcolm Wall	37,529	37,529	-	-	-	-
Bill Currie	2,954,822	3,263,322	-	-	-	-
Terry Leahy	2,212,470	2,270,970	-	-	-	-

Statement of directors' responsibilities

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

Company law requires the directors to prepare group and company financial statements for each financial year. The directors are required by the AIM Rules of the London Stock Exchange to prepare group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected under company law to prepare the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

The group financial statements are required by law and IFRS adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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

In preparing each of the group and company financial statements, the directors are required to:

a. select suitable accounting policies and then apply them consistently;

b. make judgements and accounting estimates that are reasonable and prudent;

c. for the group financial statements, state whether they have been prepared in accordance with IFRSs adopted by the EU and for the company financial statements state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the company financial statements;

d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and 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 and the Company'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 the Company 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 Group's website.

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

Independent auditor's report to the members of Eagle Eye Solutions Group plc

Opinion
We have audited the financial statements of Eagle Eye Solutions Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 June 2018 which comprise the consolidated statement of total comprehensive income, company and consolidated statements of financial position, company and consolidated statements of changes in equity, consolidated statement of cashflows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion:
- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2018 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 United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to SME listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

<u>Revenue recognition</u>
(Refer to page 42 regarding the accounting policy in respect of revenue recognition, page 47 in respect of critical judgements and estimates applied by the Directors and note 3 to the financial statements on pages 48 to 49)

The risk
Appropriate and accurate income recognition is required to be applied by the Directors to ensure that revenue is fairly stated in the financial statements. For development services there is a risk that the revenue recognised in the period does not reflect the stage of service delivery. In the year to 30 June 2018 revenue recognised amounted to £14,755,000 (2017: £11,058,000).

Our response
Copies of customer contracts generating significant revenues in the year were obtained and the nature of services provided under the contracts discussed with relevant personnel. Revenue was analysed between type of income based on the terms of the contracts and accounting policies and agreed back to the financial statements. Detailed testing was undertaken on a sample of revenue recognised in the year checking it had been recognised in line with the disclosed accounting policy and agreeing amounts back to the associated contract. Amounts recognised were also agreed back to day rates and hours worked where appropriate. Evidence of services provided prior to the reporting date was obtained for a sample of accrued income balances to confirm that the income for those items had been recognised in the correct period. Contract terms were also inspected in respect of a sample of deferred income balances to confirm that billing was in line with the contract terms and evidence was obtained that the associated services were provided after the reporting date.

Capitalisation of development costs
(Refer to page 44 regarding the accounting policy in respect of Internally-generated development intangible assets, page 47 in respect of critical judgements and estimates applied by the Directors and note 9 to the financial statements on pages 52 to 53)

The risk
Capitalisation of development costs as intangible assets requires the Board of Directors to demonstrate that the six criteria as defined within IAS 38 Intangible Assets have all been met. Due to the judgemental nature of this assessment, there is a risk that the costs capitalised should be expensed in the period. Furthermore, there is a risk that the useful economic life of the assets in question are not appropriate based on the nature of the costs capitalised.

At the 30 June 2018, there is £2,842,000 of intellectual property capitalised (2017: £2,174,000) in the Consolidated Statement of Financial Position.

Our response
A breakdown of the costs capitalised during the period was obtained at the reporting date. The calculation of costs capitalised was re-preformed on a sample basis. Where judgements were applied in the calculation of costs capitalised, those judgements were challenged to assess the adequacy of the assertions made by the Board and further evidence obtained to support the Board's assessment that those additions should be capitalised during the year. The nature of the costs capitalised were analysed on a sample basis and checked against the IAS 38 criteria.

This understanding was also applied to ascertain whether the costs capitalised related to the enhancement of the AIR platform or separately identifiable projects and to challenge management about their assumptions relating to the remaining useful economic lives of the assets.

Carrying value of intangible assets and goodwill
(Refer to page 43 regarding the accounting policy in respect of goodwill, page 47 in respect of critical judgements and estimates applied by the Directors and note 9 to the financial statements on pages 52 to 53)

The risk
The Board of Directors are required to undertake an annual impairment review of cash generating units to which goodwill has been allocated in accordance with IAS 36 Impairment of assets.

This impairment review requires judgment in estimating the value in use of these cash generating units. Estimating the value in use requires an assessment of the future cash flows of the cash generating units and discounting at an appropriate discount rate.

At the 30 June 2018, there is £2,664,000 of goodwill capitalised (2017: £2,664,000) and £2,842,000 of intellectual property capitalised (2017: £2,174,000) in the Consolidated Statement of Financial Position.

Our response
Management's impairment review was obtained along with the underlying calculations prepared to support the carrying value of intangible assets and goodwill. The assessment was reviewed to ascertain whether it complied with the requirements of IAS 36. The forecasts used in the impairment review were agreed to Board approved budgets and checked for consistency to the forecasts prepared by management to support their going concern assessment. Where variances were identified, management explanations were obtained, considered in light of other evidence obtained during the course of the audit and questioned where appropriate.

The assumptions in relation to revenue and profit growth were challenged by considering historical trading performance, latest market expectations and probable and possible income streams taking into account current contracts, those that are in negotiation and additional potential growth.

In addition, the appropriateness of the growth and discount rate assumptions were challenged by considering the entities management had used as relevant benchmarks.

Our application of materiality
When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures and to evaluate the effects of misstatements, both individually and on the financial statements as a whole. During planning we determined a magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole (FSM). During planning FSM was calculated as £250,000, which was not changed during the course of our audit. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £5,000, as well as differences below those thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit
The financial information of the Group's two components have been audited using component materiality. These represent 100% of the groups revenue, loss before tax and gross assets/liabilities. We have specified risk-focussed audit procedures covering specific risk areas and including those identified within this report to both components. We did not rely on the work of any component auditors.

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

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

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

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

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 31, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

RSM UK Audit LLP

Graham Bond FCA (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
3 Hardman Street,
Manchester,
M3 3HF

18 September 2018

Consolidated statement of total comprehensive income
for the year ended 30 June 2018

	Note	2018 £000	2017 £000
Continuing operations			
Revenue	3	**14,755**	11,058
Cost of sales		**(1,897)**	(1,297)
Gross profit		**12,858**	9,761
Adjusted operating expenses (1)		**(14,872)**	(11,530)
Loss before interest, tax, depreciation, amortisation and share-based payment charge		**(2,014)**	(1,769)
Share-based payment charge		**(1,204)**	(431)
Depreciation and amortisation		**(1,416)**	(1,643)
Operating loss	4	**(4,634)**	(3,843)
Finance expense	6	**(22)**	(67)
Loss before taxation		**(4,656)**	(3,910)
Taxation	7	**887**	391
Loss after taxation for the financial year		**(3,769)**	(3,519)
Foreign exchange adjustments		**29**	33
Total comprehensive loss attributable to the owners of the parent for the financial year		**(3,740)**	(3,486)

(1) Adjusted operating expenses excludes share-based payment charge, depreciation and amortisation

	Note	2018	2017
Loss per share			
From continuing operations			
Basic and diluted	8	**(14.83)p**	(15.73)p

Consolidated statement of financial position
as at 30 June 2018

	Note	2018 £000	2017 £000
Non-current assets			
Intangible assets	9	**5,506**	4,838
Property, plant and equipment	10	**224**	246
		5,730	5,084
Current assets			
Trade and other receivables	12	**4,059**	3,576
Current tax receivable		**302**	-
Cash and cash equivalents	15	**1,472**	3,724
		5,833	7,300
Total assets		**11,563**	12,384
Current liabilities			
Trade and other payables	13	**(4,089)**	(3,348)
Financial liabilities	14	**(1,100)**	-
		(5,189)	(3,348)
Non-current liabilities			
Deferred tax liability	15	**-**	(174)
Total liabilities		**(5,189)**	(3,522)
Net assets		**6,374**	8,862
Equity attributable to owners of the parent			
Share capital	17	**254**	253
Share premium	17	**17,055**	17,008
Merger reserve	17	**3,278**	3,278
Share option reserve		**2,430**	1,303
Retained losses		**(16,643)**	(12,980)
Total equity		**6,374**	8,862

These financial statements were approved by the Board on 17 September 2018 and signed on its behalf by:

L Sharman-Munday

L Sharman-Munday
Director

T Mason
Director

Consolidated statement of changes in equity
for the year ended 30 June 2018

	Share capital £000	Share premium £000	Merger reserve £000	Share option reserve £000	Retained losses £000	Total £000
Balance at 1 July 2016	**222**	**10,991**	**3,278**	**1,230**	**(9,852)**	**5,869**
Loss for the financial year	-	-	-	-	(3,519)	(3,519)
Other comprehensive income						
Foreign exchange adjustments	-	-	-	-	33	33
	-	-	-	-	**(3,486)**	**(3,486)**
Transactions with owners recognised in equity						
Issue of share capital	27	5,973	-	-	-	6,000
Issue costs	-	(240)	-	-	-	(240)
Exercise of share options	4	284	-	-	-	288
Fair value of share options exercised in the year	-	-	-	(319)	319	-
Fair value of share options lapsed in the year	-	-	-	(39)	39	-
Share-based payment charge	-	-	-	431	-	431
	31	**6,017**	-	**73**	**358**	**6,479**
Balance at 30 June 2017	**253**	**17,008**	**3,278**	**1,303**	**(12,980)**	**8,862**
Loss for the financial year	-	-	-	-	(3,769)	(3,769)
Other comprehensive income						
Foreign exchange adjustments	-	-	-	-	29	29
	-	-	-	-	**(3,740)**	**(3,740)**
Transactions with owners recognised in equity						
Exercise of share options	1	54	-	-	-	55
Issue costs	-	(7)	-	-	-	(7)
Fair value of share options exercised in the year	-	-	-	(77)	77	-
Share-based payment charge	-	-	-	1,204	-	1,204
	1	**47**	-	**1,127**	**77**	**1,252**
Balance at 30 June 2018	**254**	**17,055**	**3,278**	**2,430**	**(16,643)**	**6,374**

Included in Retained losses is a cumulative foreign exchange balance of £78,000 (2017: £49,000) which could be recycled to profit and loss.

Consolidated statement of cash flows
for the year ended 30 June 2018

	2018 £000	2017 £000
Cash flows from operating activities		
Loss before taxation	**(4,656)**	(3,910)
Adjustments for:		
Depreciation	**132**	104
Amortisation	**1,284**	1,539
Share-based payment charge	**1,204**	431
Finance expense	**22**	67
Increase in trade and other receivables	**(483)**	(1,496)
Increase in trade and other payables	**738**	954
Income tax paid	**(1)**	(1)
Income tax received	**415**	346
Net cash flows from operating activities	**(1,345)**	(1,966)
Cash flows from investing activities		
Payments to acquire property, plant and equipment	**(110)**	(107)
Payments to acquire intangible assets	**(1,952)**	(1,539)
Net cash flows used in investing activities	**(2,062)**	(1,646)
Cash flows from financing activities		
Net proceeds from issue of equity	**46**	6,048
Proceeds from borrowings	**4,000**	5,600
Repayment of borrowings	**(2,900)**	(5,600)
Interest paid	**(20)**	(67)
Net cash flows from financing activities	**1,126**	5,981
Net (decrease)/increase in cash and cash equivalents in the year	**(2,281)**	2,369
Foreign exchange adjustments	**29**	33
Cash and cash equivalents at beginning of year	**3,724**	1,322
Cash and cash equivalents at end of year	**1,472**	3,724

Notes to the consolidated financial statements

1 Accounting policies

Basis of preparation

These consolidated financial statements have been prepared on a going concern basis under the historical cost convention, and in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the International Financial Reporting Interpretations Committee (IFRIC) interpretations issued by the International Accounting Standards Board (IASB) that are effective or issued and early adopted as at the date of these financial statements and in accordance with the provisions of the Companies Act 2006.

The loss before interest, tax, depreciation, amortisation and share-based payment charge is presented in the income statement as the Directors consider this performance measure provides a more accurate indication of the underlying performance of the Group and is commonly used by City analysts and investors.

The preparation of financial statements requires management to exercise its judgement in the process of applying accounting policies. The areas involving a higher degree of judgement, or areas where assumptions and estimates are significant to the Financial Information, are disclosed in note 2.

The presentational and functional currency of the Group is Sterling. Results in these financial statements have been prepared to the nearest £1,000.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 July 2017 and not early adopted

The IASB and IFRIC have issued the following relevant standards and interpretations with effective dates as noted below:

Standard	Key requirements	Effective date (for annual periods beginning on or after)
IFRS 9, Financial Instruments	This standard replaces IAS 39. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The classification depends on the entity's business model and the contractual cash flow characteristics of the instrument. It adopts hedge accounting principles which more closely align to an entity's risk management objectives. Having reviewed the nature of the Group's financial instruments, the Directors do not expect adoption of this standard to have any material impact on the results of the Group.	1 January 2018
IFRS 15, Revenue from Contracts with Customers	The standard specifies how and when a company will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based, five-step model to be applied to all contracts with customers. The standard will be adopted by the Group for the first time in the year ending 30 June 2019. The Group is finalising its detailed assessment of the impact that adoption of IFRS 15 may have on the Group's revenue streams. It is expected that the adoption of IFRS 15 will result in certain set up fees being recognised over the period of the customer contract rather than as the set up services are performed as is the case under IAS 18. In addition, initial recognition of these set up fees may be deferred until the	1 January 2018

Standard	Key requirements	Effective date (for annual periods beginning on or after)
	customer's services go live. In certain circumstances this could lead to a significant delay in the recognition of any revenue from the customer. Further, variable transaction volumes may be recognised on a straight-line basis based on expected volumes over the entire period of the customer contract, resulting in some cases in an acceleration of recognition of revenue.	
IFRS 16, Leases	The standard requires lessees to account for leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right of use asset. The Group's leases primarily relate to its office accommodation. The Directors expect that the adoption of this standard will increase the Group's non-current assets, current and long-term liabilities in the statement of financial position. In the income statement, operating expenses will be reduced, amortisation and interest expense will be increased.	1 January 2019
IFRIC 22, Foreign Currency Transactions and Advance Consideration	The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of a related asset, expense or income on the derecognition of a non-monetary asset or liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or liability arising from the advance consideration. As the Group has not been involved in any transactions including advance consideration in foreign currencies, the Directors do not expect adoption of this interpretation to have an impact on the Group.	1 January 2018
IFRIC 23, Accounting for uncertain tax treatments	This interpretation clarifies how uncertain tax treatments should be taken into account when measuring taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates before applying the requirements of IAS 12 to recognise and measure current or deferred tax assets or liabilities. The Directors do not expect adoption of this interpretation to have an impact on the Group.	1 January 2018
Annual improvements to IFRSs 2014-2016	The 2016 Annual improvements cycle covered amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 28 Investments in Associated and Joint Ventures. The Directors do not expect adoption of these amendments to have an impact on the Group.	1 January 2018

There are no other IFRSs, IFRIC interpretations or amendments that are not yet effective that would be expected to have a material impact on the Group.

Accounting policies (continued)

Going concern

As part of their going concern review the Directors have followed the guidelines published by the Financial Reporting Council entitled "Guidance on Risk Management and Internal Control and Related Financial and Business Reporting".

The Directors have prepared detailed financial forecasts and cash flows looking beyond 12 months from the date of approval of these consolidated financial statements. In developing these forecasts the Directors have made assumptions based upon their view of the current and future economic conditions that will prevail over the forecast period.

On the basis of the above projections, the Directors are confident that the Group has sufficient working capital to honour all of its obligations to creditors as and when they fall due. In reaching this conclusion, the Directors have considered the forecast cash headroom, the resources available to the Group and the potential impact of changes in forecast growth and other assumptions, including the potential to avoid or defer certain costs and to reduce discretionary spend as mitigating actions in the event of such changes. Accordingly, the Directors continue to adopt the going concern basis in preparing these consolidated financial statements.

Basis of consolidation

The consolidated financial statements consolidate those of the Company and its subsidiary undertakings drawn up to 30 June each year. Subsidiaries are entities where the Company has: power over the entity; exposure, or rights, to variable returns from its involvement with the entity; and the ability to use its power over the entity to affect the amount of its returns. The Group generally obtains and exercises control through voting rights.

The results of subsidiaries acquired are consolidated from the date on which control passed under the acquisition method. This involves the recognition at fair value of the assets, liabilities and contingent liabilities of the subsidiary at the acquisition date. These fair values are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the provision of the Group's services, excluding VAT, and is recognised at the point that the services have been delivered. Revenue is recognised when the amount of revenue can be reliably measured, when it is probable that future economic benefits can flow to the Group and when specific criteria have been met for each of the activities as described below:

Development and set up fees are recognised on a percentage of completion basis using estimates. A development project can take a number of months and where such a project spans a period end, the Group recognises accrued income on the Statement of Financial Position to reflect the service provided on a stage of completion basis.

Subscription fees are recognised on a monthly basis and are invoiced on a monthly, quarterly, bi-annual or annual basis. Where invoices are raised in advance, a portion is recognised in deferred income in the Statement of Financial Position.

Transactional fees are linked to transactional volumes and are recognised as the transactions occur.

The treatment for the recognition of revenue will change upon the adoption of IFRS 15 for the accounting period which began on 1 July 2018. The Director's current view of the likely impact of the adoption of IFRS 15 is set out under New Standards issued but not effective on pages 40 and 41.

Cost of sales

The Group's cost of sales includes costs directly attributable to distinct sales including the cost of sending SMS messages, revenue share agreements and outsourced bespoke development work.

Accounting policies (continued)

Operating loss

Operating loss comprises the Group's revenue for the provision of services, less the costs of providing those services and administrative overheads, including depreciation and amortisation of the Group's non-current assets.

Accounting for joint ventures

Joint ventures are entities which are jointly controlled. Investments in joint ventures are accounted for using the equity method of accounting. Under the equity method, the investment is originally recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit and loss of the investee after the date of acquisition. The Group's investment in joint ventures includes any goodwill to the extent identified on acquisition.

If the ownership interest in a joint venture is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to the income statement where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the joint venture.

The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying amount and recognises the impairment in the income statement.

Property, plant and equipment

Purchased property, plant and equipment is stated at cost less accumulated depreciation and any provision for impairment losses.

Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is charged so as to write off the costs of assets over their estimated useful lives, on the following bases:

Computer equipment	2 to 4 years, straight-line
Office furniture and fittings	3 to 5 years, straight-line

The economic lives of assets are reviewed by the Directors on at least an annual basis and are amended as appropriate.

Intangible assets

Goodwill

Goodwill arising on business combinations represents the difference between the consideration for a business acquisition and the fair value of the net identifiable assets acquired, less any accumulated impairment losses. The consideration for a business acquisition represents the fair value of assets given and equity instruments issued in return for the assets acquired. Goodwill is not amortised but is subject to an impairment review which is performed at least annually.

Accounting policies (continued)

Internally-generated development intangible assets

An internally-generated development intangible asset arising from the Group's product development is recognised if, and only if, the Group can demonstrate all of the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale
- its intention to complete the intangible asset and use or sell it
- its ability to use or sell the intangible asset
- how the intangible asset will generate probable future economic benefits
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset
- its ability to measure reliably the expenditure attributable to the intangible asset during its development

Internally-generated development intangible assets are amortised as an administrative cost on a straight-line basis over their useful lives of 3 years.

Where no internally-generated intangible asset can be recognised, research and development expenditure is recognised as an expense in the period in which it is incurred.

Impairment of tangible and intangible assets

The Group reviews the carrying amounts of its assets annually to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. In the case of a cash-generating unit, any impairment loss is charged first to any goodwill in the cash-generating unit and then pro rata to the other assets of the cash-generating unit.

Financial instruments

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

Accounting policies (continued)

Financial assets

(a) Trade and other receivables

Trade and other receivables are recognised at their fair value. Appropriate provisions for estimated irrecoverable amounts are recognised in the statement of comprehensive income when there is objective evidence that the assets are impaired. Trade and other receivables are shown in note 16 as 'loans and receivables'.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits held on call with banks. Cash and cash equivalents are shown in note 16 as 'loans and receivables'.

Financial liabilities and equity

(c) Trade and other payables

Trade payables are recognised at their fair value. Trade and other payables are shown in note 16 as 'other financial liabilities'.

(d) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of issue costs.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the expected period of the lease.

Employee benefits

The Group operates a defined contribution auto-enrolment pension scheme for employees of the Group. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension costs charged in the income statement are the contributions payable to the scheme in respect of the accounting period.

Current and deferred income tax

Current tax

The tax currently payable is based on taxable profit or loss for the year in each territory. Taxable profit or loss differs from the profit or loss for the financial year as reported in the statement of total comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Accounting policies (continued)

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the reporting date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Share-based payments

The Company issues equity-settled share-based payments to certain employees as consideration for services. Equity-settled share-based payments are measured at fair value at the date of grant by reference to the fair value of the equity instruments granted. The fair value determined at the grant date of equity-settled share-based payments is recognised as an expense over the vesting period on a straight-line basis, based on the Group's estimate of the number of instruments that will eventually vest with a corresponding adjustment to equity. The expected life used in the valuation is adjusted, based on the Directors' best estimate, for the effect of non-transferability, exercise restrictions, and behavioural considerations.

Non-vesting and market vesting conditions are taken into account when estimating the fair value of the options at grant date. Service and non-market vesting conditions are taken into account by adjusting the number of options expected to vest at each reporting date.

When the options are exercised the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

Equity

Equity comprises the following:

- Share capital, representing the nominal value of shares of the Company;
- Share premium, representing the excess over the nominal value of the fair value of consideration received for shares, net of expenses of the share issue;
- Merger reserve, representing the excess of the Company's investment over the nominal value of Eagle Eye Solutions Limited's shares acquired using the principles of merger accounting;
- Share option reserve, representing the cost of equity-settled share-based payments until such share options are exercised or lapse; and
- Retained losses.

2 Critical accounting estimates and judgements

The preparation of these consolidated financial statements requires the Directors to make judgements and estimates that affect the reported amounts of assets and liabilities at each reporting date and the reported amounts of revenue during the reporting periods. 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. Actual results could differ from these estimates. Information about such judgements and estimations are contained in individual accounting policies. The key judgements and sources of estimation uncertainty that could cause an adjustment to be required to the carrying amount of assets or liabilities within the next accounting period are outlined below:

Capitalisation of internally-generated intangible assets

Careful judgement by the Directors is applied when deciding whether the recognition requirements as defined within IAS 38 Intangible Assets for development costs have been met. This is necessary as the economic success of any product development is uncertain until such time as technical viability has been proven and commercial supply agreements are likely to be achieved. Judgements are based on the information available at each reporting date which includes contracts signed, pipeline conversations and results of QA testing. In addition, all internal activities related to research and development of new products are continuously monitored by the Directors through the Product Board. The Board exercises judgement in determining the costs to be capitalised and will use estimates to determine the useful economic life to be applied to the asset.

Impairment of internally-generated intangible assets

The Group reviews the carrying value of its assets annually to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists a review of the recoverable value of the asset is performed. This review involves the use of judgement to consider the future projected income streams that will result from the aforementioned costs. The expected future cash flows are modelled and discounted over the expected life of the assets in order to test for impairment. In the years represented in these consolidated financial statements no impairment charge was recognised as a result of these reviews.

Impairment of goodwill

The Group determines whether goodwill arising on acquisitions is impaired at least on an annual basis. This requires an estimation of the 'value in use' of the cash-generating units to which the goodwill is allocated. Estimating a value in use amount requires the directors to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

The Group's patented, proprietary technology and service offering are unique and there are therefore no direct competitors against whom forecast growth and discount rates can be compared. Therefore the growth and discount rates are selected based on comparison with those of the Group's partners and those companies that the Group is compared with by City analysts and investors.

The actual cash flows may be different from the directors' estimates, which could impact the carrying value of the goodwill and therefore operating results negatively. The value of goodwill at 30 June 2018 is £2.7 million (2017: £2.7 million).

Revenue recognition

Where the Group is providing material development services, development fees are recognised in line with percentage completion of work performed towards milestones. Percentage completion is determined based on completion of individual deliverables within the entire project or relevant milestone as appropriate on the basis of planned work associated with that deliverable. Milestones and the Directors' estimate of percentage completion may differ, which could impact operating results positively or negatively. At 30 June 2018, unbilled but contracted revenue of £639,000 (2017: £148,000) has been recognised for development fees recognised on a percentage completion basis.

Critical accounting estimates and judgements (continued)

In certain circumstances the Group undertakes activities where it identifies and contracts with certain of its redemption partners on behalf of an issuance partner to allow them to run campaigns across the Group's network of redemption partners. In these circumstances the Group will receive transactional issuance and redemption fees as normal but will also be responsible for reimbursing the cost of the issuance partner's offer to the redemption partners (the "Offer Price"). Each relationship with each individual redemption partner is reviewed and the Directors must use their judgement to assess whether the Group is acting as agent or principal in that particular relationship. The range of factors assessed in coming to this judgement include the role played by the Group in the provision of services, the Group's involvement in setting prices and the credit risk of the transactions. During the year ended 30 June 2018, the total Offer Price to redemption partners was £549,000 (2017: £nil).

Share-based payment charge

The Group issues share options to certain employees. The Black Scholes model is used to calculate the appropriate charge for these options. The choice and use of this model to calculate a charge involves using a number of estimates and judgements to establish the appropriate inputs to be entered into the model, covering areas such as the use of an appropriate interest rate and dividend rate, exercise restrictions and behavioural considerations. A significant element of judgement is therefore involved in the calculation of the charge. In addition, the Directors estimate the percentage of options that are expected to vest considering the likelihood of achieving performance targets and employee churn rates. Should more options vest than estimated the charge would increase.

The total charge recognised in the year to 30 June 2018 is £1,204,000 (2017: £431,000). Further information on share options can be found in note 18.

Deferred tax asset recognition

The Directors' judgement is required to determine the amount of tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. The carrying value of the unrecognised tax losses at 30 June 2018 was £19.0 million (2017: £22.6 million). Although the tax losses brought forward are not expected to expire, given the Group's history of recent losses and continued investment for growth, recovery of any element of this asset is expected to be at least two years from the date of these financial statements and therefore in the judgement of the Directors the tax losses carried forward do not meet the 'probable' definition criteria for an asset within IAS 12. The value of the deferred tax asset not recognised at 30 June 2018 was £3.6 million (2017: £4.3 million) Further information on the Group's deferred tax position can be found in Note 15.

3 Segmental analysis

The Group is organised into one principal operating division for management purposes. Therefore the Group has only one operating segment and segmental information is not required to be disclosed. Revenue is analysed as follows:

	2018	2017
	£000	£000
Development and set up fees	**3,387**	3,512
Subscription and transaction fees	**11,368**	7,546
	14,755	11,058

	2018	2017
	£000	£000
AIR revenue	**13,064**	9,426
Messaging revenue	**1,691**	1,632
	14,755	11,058

Segmental analysis (continued)

In the year to 30 June 2018, revenue from two of the Group's customers represented more than 10% of the Group's revenue. Revenue related to those customers was £3,943,000 and £3,379,000 respectively. In the year to 30 June 2017, revenue from two of the Group's customers represented more than 10% of the Group's revenue. Revenue related to those customers was £2,627,000 and £2,554,000 respectively.

All revenues are from external customers. Continuing revenues can be attributed to the following geographical locations, based on the customers' location, as follows:

	2018 £000	2017 £000
United Kingdom	**9,778**	8,249
North America	**3,943**	2,557
Rest of Europe	**1,008**	149
Asia Pacific	**26**	103
	14,755	11,058

All non-current assets are held in the United Kingdom.

4 Operating loss

Operating loss is stated after charging to administrative costs:

	2018 £000	2017 £000
Depreciation of owned tangible assets	**132**	104
Amortisation of intangible assets	**1,284**	1,539
Employee costs (see note 5)	**9,626**	7,114
IT infrastructure costs	**2,714**	1,428
Operating lease rentals	**278**	251
Auditor's remuneration		
Audit of parent and consolidated accounts	**16**	15
Audit of the Company's subsidiaries	**20**	19
Non-audit services		
Other non-audit services [1]	**14**	30
Research and development	**502**	542

[1] Other non-audit services includes tax services of £12,000 (2017: £29,000).

5 Particulars of staff

The average number of persons employed by the Group, including executive directors, during the year was:

	2018 No	2017 No
Product development	**48**	43
Operations	**46**	29
Sales and administration	**36**	28
	130	100

Particulars of staff (continued)

The aggregate payroll costs of these persons were:

	2018 £000	2017 £000
Wages and salaries	**8,946**	7,038
Share-based payment charge	**1,204**	431
Social security costs	**1,032**	830
Pension costs- defined contribution plan	**184**	146
	11,366	8,445
Less: amounts capitalised as intellectual property	**(1,740)**	(1,331)
	9,626	7,114

Key management remuneration
Remuneration of the key management team, including directors, during the year was as follows:

	2018 £000	2017 £000
Aggregate emoluments including short-term employee benefits	**1,526**	1,444
Share-based payment charge	**1,062**	307
Pension costs- defined contribution plan	**20**	20
Social security costs	**223**	182
	2,831	1,953

Directors' remuneration
Remuneration of directors during the year was as follows:

	2018 £000	2017 £000
Aggregate emoluments including short-term employee benefits	**1,025**	1,169
Pension costs- defined contribution plan	**10**	13
	1,035	1,182

The remuneration of the highest paid director during the year was:

	2018 £000	2017 £000
Aggregate emoluments including short-term employee benefits	**426**	369

The remuneration of individual directors is disclosed in the Remuneration Report on page 29. Retirement benefits are accruing to two (2017: two) directors. No share options have been exercised by directors during the year (2017: nil).

6 Finance expense

	2018 £000	2017 £000
Interest payable on revolving credit facility	**22**	67

7 Taxation

	2018 £000	2017 £000
Current tax		
UK Corporation tax at 19.00% (2017: 19.75%)	**(302)**	-
Overseas tax	**4**	1
Adjustments in respect of prior years [1]	**(415)**	(346)
	(713)	(345)
Deferred tax		
In respect of current year	**(925)**	(868)
In respect of prior years	**751**	822
	(174)	(46)
Tax on loss on ordinary activities	**(887)**	(391)

Tax reconciliation

Loss before tax	**(4,656)**	(3,910)
Tax using UK corporation tax rate of 19.00% (2017: 19.75%)	**(885)**	(772)
Non-deductible expenses	**5**	4
Employee share acquisition relief	**(40)**	(191)
Share-based payments	**229**	85
Temporary timing differences	**16**	17
Unrelieved tax losses	**505**	822
Effect of changes in tax rates	**-**	(10)
Research and development tax credit claim [1]	**(717)**	(346)
Tax on loss on ordinary activities	**(887)**	(391)

[1] The result for 2018 includes the research and development tax credit claims made for 2017 and expected to be made for 2018, reflecting the Group's history of successfully making research and development tax credit claims to HMRC.

8 Loss per share

The calculation of basic and diluted loss per share is based on the result attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the year. The weighted average number of shares for the purpose of calculating the basic and diluted measures is the same. This is because the outstanding share options would have the effect of reducing the loss per ordinary share and therefore would be anti-dilutive. Basic and diluted loss per share from continuing operations is calculated as follows:

			2018			2017
	Loss per share pence	**Loss £000**	**Weighted average number of ordinary shares**	Loss per share pence	Loss £000	Weighted average number of ordinary shares
Basic and diluted loss per share	**(14.83)**	**(3,769)**	**25,420,567**	(15.73)	(3,519)	22,373,645

9 Intangible assets

	Goodwill £000	**Intellectual property £000**	**Total £000**
Cost			
At 1 July 2016	2,664	5,732	8,396
Additions	-	1,539	1,539
At 30 June 2017	**2,664**	**7,271**	**9,935**
Additions	-	1,952	1,952
At 30 June 2018	**2,664**	**9,223**	**11,887**
Amortisation			
At 1 July 2016	-	3,558	3,558
Charge for the year	-	1,539	1,539
At 30 June 2017	**-**	**5,097**	**5,097**
Charge for the year	-	1,284	1,284
At 30 June 2018	**-**	**6,381**	**6,381**
Net book value			
At 30 June 2018	**2,664**	**2,842**	**5,506**
At 30 June 2017	2,664	2,174	4,838
At 1 July 2016	2,664	2,174	4,838

The Group's intellectual property relates to its internally developed AIR platform and the acquired intellectual property of 2ergo Limited which consisted of a then stand-alone messaging platform and an app and customer interface loyalty solution, both of which have now been integrated within the AIR platform.

The Group's goodwill relates to its acquisition of 2ergo Limited on 16 April 2014. Following the successful integration of the acquired 2ergo business, the Group has one identifiable cash generating unit in the UK. An annual impairment review of the goodwill arising on the 2ergo acquisition has therefore been performed for the UK cash generating unit. The recoverable value of the unit has been based on its value in use. The cash flow projections, which were based on 3 year forecasts approved by the Directors and then extended to cover a 5 year period with a terminal value assumed, supported the carrying value of goodwill and the Group's intellectual property with no impairment required.

Intangible assets (continued)

2018

Cash generating unit	Carrying value of goodwill £000	Period over which cash flows have been projected	Growth rate beyond management approved forecasts	Discount rate for cashflow projections
UK	2,664	5 years	2.5%	12%

2017

Cash generating unit	Carrying value of goodwill £000	Period over which cash flows have been projected	Growth rate beyond management approved forecasts	Discount rate for cashflow projections
UK	2,664	5 years	2.5%	15%

As the acquired 2ergo business is fully integrated, the smallest cash generating unit which the goodwill relates to is the UK cash generating unit.

The key assumptions underlying the forecast are the continued success in winning new business and the discount rate applied. These assumptions are based on management's experience, the current pipeline and the historical success of the cash-generating unit. As the Group's SaaS AIR platform is a unique solution in the marketplace there are no directly comparable companies to compare against when estimating the discount and growth rates to be applied. The rates chosen are estimated considering those used by the Group's partners, other entities that the Group is compared with by City analysts and investors and other entities with similar characteristics to the Group.

The forecast for the unit provides sufficient headroom over the value of goodwill and intangible assets attributed to the cash-generating unit. The Group has no intangible assets with indefinite useful lives other than goodwill.

10 Property, plant and equipment

	Computer equipment £000	Office furniture and fittings £000	Total £000
Cost			
At 1 July 2016	188	241	429
Additions	85	22	107
At 30 June 2017	**273**	**263**	**536**
Additions	110	-	110
Disposals	(24)	-	(24)
At 30 June 2018	**359**	**263**	**622**
Depreciation			
At 1 July 2016	145	41	186
Charge for the year	51	53	104
At 30 June 2017	**196**	**94**	**290**
Charge for the year	76	56	132
Disposals	(24)	-	(24)
At 30 June 2018	**248**	**150**	**398**
Net book value			
At 30 June 2018	**111**	**113**	**224**
At 30 June 2017	77	169	246
At 1 July 2016	43	200	243

11 Investments

Investment in joint ventures

During the year, the Group held an interest in the ordinary share capital of Australian company Eagle Eye Solutions (Asia Pacific) Pty Limited of 51%, which was disposed of for A$1 on 27 August 2018. The company was established in order to sell the Eagle Eye AIR platform in the Asia Pacific market and was granted a licence by Eagle Eye Solutions Limited in order to sell the platform in these territories, under which an income stream based on sales was due to Eagle Eye Solutions Limited. The Group has not provided any funding to Eagle Eye Solutions (Asia Pacific) Pty Limited since its original investment in the share capital of £51 and due to the losses made, has not invoiced the company for revenue due to it under the terms of the licence agreement. As the Group is not required to fund any losses made by Eagle Eye Solutions (Asia Pacific) Pty Limited the Directors believe that they are unable to evidence that they have the power over the entity, nor have rights or exposure to variable returns from the entity nor have the ability to use power over the entity to affect the amount of returns. As such and in accordance with IFRS 11: Joint Arrangements, the Directors have treated this investment as a joint venture and have accounted for this interest as a jointly controlled entity using the principles of equity accounting as set out below:

Investments (continued)

Summarised statement of financial position for Eagle Eye Solutions (Asia Pacific) Pty Limited

	2018 £000	2017 £000
Non-current assets		
Property, plant and equipment	-	-
Current assets		
Trade and other receivables	23	24
Cash and cash equivalents	17	18
	40	42
Total assets	40	42
Current liabilities		
Trade and other payables	(3)	(3)
Net assets	37	39

Summarised statement of total comprehensive income for Eagle Eye Solutions (Asia Pacific) Pty Limited

	2018 £000	2017 £000
Profit before tax	(1)	(1)
Income tax	-	-
Profit after tax	(1)	(1)

The statement of financial position for Eagle Eye Solutions (Asia Pacific) Pty Limited has been translated to Sterling at the exchange rate at each period end. The performance in the income statement has been translated at the average exchange rate during each period.

In the year ended 30 June 2012, the Directors reviewed the losses made and determined that the investment in Eagle Eye Solutions (Asia Pacific) Pty Limited was impaired, writing it down to £nil. Having reviewed the performance of Eagle Eye Solutions (Asia Pacific) Pty Limited the Directors have determined that this treatment remains appropriate.

12 Trade and other receivables

	2018 £000	2017 £000
Trade receivables	2,098	2,678
Less: Provision for impairment of trade receivables	(22)	(18)
	2,076	2,660
Prepayments	541	553
Accrued income	1,369	338
Other receivables	73	25
	4,059	3,576

Trade and other receivables (continued)

The ageing of trade receivables that were not impaired at 30 June 2018 was:

	2018 £000	2017 £000
Not past due	**1,608**	1,938
Up to 3 months past due	**450**	714
More than 3 months past due	**15**	4
	2,073	2,656

Accrued income and other receivables are not past due (2017: not past due).

The Group trades only with recognised, credit-worthy third parties. Receivable balances are monitored on an ongoing basis with the aim of minimising the Group's exposure to bad debts. The Group has reviewed in detail all items comprising the above not past due and overdue but not impaired trade receivables to ensure that no impairment exists. As at 30 June 2018, trade receivables of £25,000 (2017: £22,000) were impaired and provided for, all of which were more than 3 months old (2017: more than 2 months old). The amount of the provision was £22,000 as at 30 June 2018 (2017: £18,000). Movements on the provision for impairment of trade receivables are as follows:

	2018 £000	2017 £000
At 1 July	**18**	26
Provision for impairment of receivables charged/(released)	**5**	(4)
Receivables written off during the year	**(1)**	(4)
At 30 June	**22**	18

The other classes within trade and other receivables do not contain impaired assets. The maximum exposure to credit risk for trade and other receivables at the reporting date is the carrying value of each class of receivable disclosed above.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2018 £000	2017 £000
Sterling	**3,088**	2,701
Canadian Dollars	**971**	875
	4,059	3,576

13 Trade and other payables

	2018 £000	2017 £000
Current		
Trade payables	**1,148**	739
Accruals	**1,481**	1,416
Deferred income	**616**	520
Overseas corporate tax	**3**	-
Other payables	**841**	673
	4,089	3,348

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	2018 £000	2017 £000
Sterling	**3,725**	2,861
Canadian Dollars	**364**	487
	4,089	3,348

14 Financial liabilities

	2018 £000	2017 £000
Short-term borrowings	**1,100**	-

The £5.0m revolving credit facility from Barclays Bank PLC expires on 30 June 2020. As security for the facility, Barclays Bank PLC holds fixed and floating charges over the assets of the Group, including the intellectual property and trade debtors of the Group.

15 Deferred tax liability

The elements of deferred taxation are as follows:

	2018 £000	2017 £000
Accelerated capital allowances and intellectual property	**246**	174
Tax losses	**(246)**	-
	-	174

Deferred tax liability (continued)

Movement in deferred tax:

	Accelerated capital allowances and intellectual property £000
At 1 July 2016	220
Credited to income statement	(46)
At 30 June 2017	**174**
Credited to income statement	(174)
At 30 June 2018	**-**

No deferred tax asset is recognised for unused tax losses and deferred taxation arising on share options across the Group of £19.0 million *(2017: £22.6 million) due to uncertainty over the timing of their recovery.*

16 Financial instruments and financial risk management

The Group is exposed to a variety of financial risks that arise from its use of financial instruments: credit risk, liquidity risk, foreign exchange risk and capital risk.

Principal financial instruments
The principal financial instruments used by the Group from which financial instrument risk arises are as follows:

- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables

	2018 £000	2017 £000
Financial assets		
Loans and receivables		
Trade and other receivables	**3,445**	2,998
Cash and cash equivalents	**1,472**	3,724
	4,917	6,722
Financial liabilities		
Other financial liabilities		
Trade and other payables	**3,470**	2,828
Financial liabilities	**1,100**	-
	4,570	2,828

Disclosures in respect of the Group's financial risks are set out below:

Financial risk management
The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Financial instruments and financial risk management (continued)

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 obligations, and arises principally from trade receivables from customers and cash deposits with financial institutions. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Credit checks are performed on new and potential customers and receivable balances are monitored on an ongoing basis with the aim of minimising the Group's exposure to bad debt. The Directors consider the above measures to be sufficient to control the credit risk exposure.

The Group gives careful consideration to which organisations it uses for its banking services in order to minimise credit risk. At the reporting date, the Group's cash held on short-term deposit with Barclays Bank plc in the United Kingdom was £197,000 (2017: £3,717,000), with HSBC Bank plc in the United Kingdom was £1,175,000 (2017: £7,000) and with HSBC Bank Canada in Canada was £100,000 (2017: £nil).

The carrying amount of financial assets recorded in the consolidated financial statements represents the Group's maximum exposure to credit risk without taking into account the value of any collateral obtained. In the Directors' opinion there have been no impairments of financial assets in the period, other than in relation to trade receivables written off of £1,000 (2017: £4,000).

Liquidity risk
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages its cash flows to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or damage to the Group's reputation.

During the year the Group extended its revolving loan facility with Barclays Bank plc to £5.0 million (2017: £3.0 million) and its expiry date to 30 June 2020, secured on the Group's assets. At 30 June 2018, £1.1m of this facility had been utilised (2017: £nil), leaving headroom of £5.4m (2017: £6.7m).

The Directors manage liquidity risk by regularly reviewing the Group's cash requirements by reference to short-term cash flow forecasts and medium-term working capital projections prepared by management.

Foreign exchange risk
The vast majority of the Group's revenues and costs are in Sterling (the Company's functional currency) and involve no currency risk. Activities in currencies other than Sterling are funded as much as possible through operating cash flows, mitigating foreign exchange risk. Funds held in foreign currencies and not required for operating expenses in the local currency are converted to Sterling on a prompt basis taking into consideration prevailing foreign exchange rates at the time of receipt. The Group has the following cash and cash equivalent deposits:

	2018	2017
	£000	£000
Sterling	**231**	3,674
Canadian Dollars	**1,241**	50
	1,472	3,724

The cash and cash equivalent deposits held in Canadian Dollars were particularly high at 30 June 2018 due to a significant Canadian Dollar receipt in the final week of the year.

The gross value of receivables and payables by currency is disclosed in notes 12 and 13 respectively. The Group has the following net other financial instruments:

	2018	2017
	£000	£000
Sterling	**(1,599)**	(131)
Canadian Dollars	**776**	301
	(823)	170

Financial instruments and financial risk management (continued)

A 5% change in the currency translation rate between Sterling and Canadian Dollars would have the following effect on the Group's net assets and loss before tax:

	2018	2017
	£000	£000
Net assets	**38**	21
Loss before tax	**65**	48

Maturity of financial assets and liabilities
All of the Group's financial assets and financial liabilities at each reporting date are either receivable or payable within one year.

Capital management
The Group's capital structure is comprised of shareholders' equity and debt raised through the revolving credit facility with Barclays Bank plc. The objective of the Group when managing capital is to maintain adequate financial flexibility to preserve its ability to meet financial obligations, both current and long term. The capital structure is managed and adjusted to reflect changes in economic conditions. The Group funds its expenditures on commitments from existing cash and cash equivalent balances, primarily received from operating cash flows, issuances of shareholders' equity and from the revolving credit facility with Barclays. There are no externally imposed capital requirements. Financing decisions are made by the Directors based on forecasts of the expected timing and level of capital and operating expenditure required to meet the Group's commitments and development plans.

17 Share capital and reserves

The authorised share capital of the Company is 25,444,127 ordinary shares of 1p each.

	Number of shares issued and fully paid	**Share capital £000**	**Share premium £000**
At 1 July 2016	**22,158,286**	**222**	**10,991**
Issue of share capital	3,178,041	31	6,257
Issue costs		-	(240)
At 30 June 2017	**25,336,327**	**253**	**17,008**
Issue of share capital	107,800	1	47
At 30 June 2018	**25,444,127**	**254**	**17,055**

On 31 July 2017 and 9 February 2018, the Company issued 1p ordinary shares pursuant to the exercise of employee share options. The total number of shares issued on these dates was 107,800.

Merger reserve
The acquisition of its principal subsidiary, Eagle Eye Solutions Limited, by the Group in 2014 did not meet the definition of a business combination and therefore fell outside the scope of IFRS 3. The acquisition was therefore accounted for in accordance with the principles of merger accounting as set out in Financial Reporting Standard 6- Acquisitions and Mergers.

The consideration paid to the shareholders of Eagle Eye Solutions Limited was 13,641,384 ordinary shares of 1p each. A merger reserve arises on consolidation being the difference between the nominal value of the shares issued on acquisition and the net assets acquired.

18 Share option schemes

The Company has a share option scheme for certain employees and directors of the Group. Options are generally exercisable at a price equal to the market price of the Company's shares on the day immediately prior to the date of grant. Options are forfeited if the employee or director leaves the Group before the options vest. The service and performance criteria relating to the options are the continuing employment of the holder and the achievement of certain earnings based performance criteria and in the case of the LTIP Share Option Scheme, may include the performance of the Company's share price (as set out on pages 27 and 28). This reflects changes made to the LTIP performance targets made after 30 June 2018.

	2018 Number of share options	**2018 Weighted average exercise price £**	2017 Number of share options	2017 Weighted average exercise price £
Outstanding at the beginning of the year	**2,541,385**	**0.65**	2,507,824	0.73
Granted during the year	**663,964**	**0.61**	1,005,377	0.58
Exercised in the year	**(107,800)**	**(0.51)**	(511,374)	(0.56)
Lapsed in the year	**(279,837)**	**(0.64)**	(460,442)	(1.00)
Outstanding at the end of the year	**2,817,712**	**0.65**	2,541,385	0.65
Exercisable at the end of the year	**926,424**	**0.86**	960,416	0.73

In the year ended 30 June 2018, options were granted on 9 November 2017. The aggregate of the estimated fair value of the options granted on that date was £1,170,000 and the share price on that date was £2.33.

In the year ended 30 June 2017, options were granted on 21 September 2016, 18 November 2016 and 12 June 2017. The aggregate of the estimated fair value of the options granted on those dates was £675,000 and the weighted average share price on those dates was £1.26.

In the year ended 30 June 2018, options were exercised on 31 July 2017 and 9 February 2018. The weighted average share price on those dates was £2.52.

In the year ended 30 June 2017, options were exercised on 9 February 2017, 7 April 2017, 30 May 2017, 1 June 2017, 6 June 2017, 20 June 2017 and 30 June 2017. The weighted average share price on those dates was £2.39.

Options outstanding under the Company's share option schemes at 30 June 2018 were as follows:

Name of scheme	**2018 No of options**	**2017 No of options**	**Calendar year of grant**	**Exercise period**	**Exercise price per share**
EMI Share Option Scheme	422,857	530,657	2014	2014-2024	£0.51
EMI Share Option Scheme	200,000	200,000	2014	2014-2024	£1.55
EMI Share Option Scheme	73,808	73,808	2015	2015-2025	£2.07
EMI Share Option Scheme	96,472	96,472	2015	2015-2025	£2.23
EMI Share Option Scheme	105,000	110,000	2016	2016-2026	£1.32
EMI Share Option Scheme	65,000	226,509	2016	2016-2026	£1.06
EMI Share Option Scheme	70,693	70,693	2017	2017-2027	£2.69
EMI Share Option Scheme	172,500	-	2017	2017-2027	£2.33
LTIP Share Option Scheme	937,686	1,003,487	2016	2016-2026	£0.01
LTIP Share Option Scheme	443,937	-	2017	2017-2027	£0.01
Unapproved Share Option Scheme	229,759	229,759	2014	2014-2024	£0.51

Share option schemes (continued)

The weighted average remaining contractual life of these options is 8.2 years (2017: 8.1 years).

The fair value of the employees' services received in exchange for the grant of share options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options granted. Fair value is determined by reference to the Black-Scholes option pricing model.

The inputs into the option pricing model are as follows:

	2018	2017
Weighted average exercise price	**£0.65**	£0.68
Expected volatility	**25.3%-42.2%**	25.3%-42.2%
Expected life	**5-6 years**	5 years
Risk free interest rate	**0.2%-1.9%**	0.2%-1.9%
Expected dividends	**Nil**	Nil

The volatility of the Company's share price on each date of grant is calculated as the average of the annualised standard deviations of daily continuously compounded returns on the Company's stock.

The Group recognised a charge of £1,204,000 (2017: £431,000) related to equity-settled share-based payment transactions in the year.

19 Operating lease commitments

At 30 June 2018, the Group had aggregate minimum lease payments under non-cancellable operating leases for office and other sites as follows:

	2018 £000	2017 £000
Due within 1 year	**254**	271
Due within 2-5 years	**383**	344
Due in more than 5 years	**23**	-
	660	615

The Group's Guildford office lease agreement can be cancelled after 5 years of its initial 10 year term, which commenced in July 2015. The lease for the Group's Manchester office can be cancelled at the end of its initial 10 year term, which commenced in December 2013.

20 Related party transactions

The remuneration of the Directors and key management personnel is disclosed in note 5.

During the year the Group acquired sub-contractor technical development services to the value of £97,000 (2017: £119,000) from Eagle Eye Technology Limited, a company in which Stephen Rothwell, a director of the Company, holds an interest. At 30 June 2018, £48,000 (2017: £14,000) was outstanding in respect of these services.

During the year the Group provided services to the value of £500 (2017: £15,000) to Purple Wifi Limited, a subsidiary of So Purple Group Limited, a company in which Tim Mason and Terry Leahy, directors of the Company, are directors. At 30 June 2018, £nil (2017: £nil) was outstanding in respect of these services.

At 30 June 2018, directors' emoluments of £nil were outstanding to Sir Terry Leahy (2017: £1,000), who was paid in arrears in the year ended 30 June 2017.

Related party transactions (continued)

Save as disclosed above, none of the key management personnel of the Group owe any amounts to any company within the Group (2017: £nil), nor are any amounts due from any company in the Group to any of the key management personnel (2017: £nil).

There have been no transactions with Eagle Eye Solutions (Asia Pacific) Pty Limited during the year or the prior year.

21 Ultimate controlling party

The Directors do not consider there to be an ultimate controlling party due to no individual party owning a majority share in the Company. See page 19 for information on percentage shareholdings.

Company statement of financial position
as at 30 June 2018

	Note	**2018 £000**	2017 £000
Non-current assets			
Investments in subsidiaries	4	**6,824**	5,697
		6,824	5,697
Current assets			
Trade and other receivables	5	**11,971**	8,004
Cash and cash equivalents		**85**	3,341
		12,056	11,345
Total assets		**18,880**	17,042
Current liabilities			
Trade and other payables	6	**(1,323)**	(125)
Net assets		**17,557**	16,917
Equity attributable to owners of the parent			
Share capital	7	**254**	253
Share premium	7	**17,055**	17,008
Share option reserve		**2,430**	1,303
Retained losses		**(2,182)**	(1,647)
Total equity		**17,557**	16,917

The Company has not presented its own income statement as permitted by section 408 (4) of the Companies Act 2006. The loss for the financial year dealt with in the accounts of the Company is £535,000 (2017: £490,000).

These financial statements were approved by the Board on 17 September 2018 and signed on its behalf by:

L Sharman-Munday

L Sharman-Munday
Director

T Mason
Director

Company statement of changes in equity
for the year ended 30 June 2018

	Share capital £000	Share premium £000	Share option reserve £000	Retained losses £000	Total £000
Balance at 1 July 2016	**222**	**10,991**	**1,230**	**(1,157)**	**11,286**
Loss for the financial year	-	-	-	(490)	(490)
Transactions with owners recognised in equity					
Issue of share capital	27	5,973	-	-	6,000
Issue costs	-	(240)	-	-	(240)
Exercise of share options	4	284	-	-	288
Fair value of share options exercised in the year	-	-	(319)	-	(319)
Fair options of share values lapsed in the year	-	-	(39)	-	(39)
Share-based payment charge	-	-	431	-	431
	31	**6,017**	**73**	**-**	**6,121**
Balance at 30 June 2017	**253**	**17,008**	**1,303**	**(1,647)**	**16,917**
Loss for the financial year	-	-	-	(535)	(535)
Transactions with owners recognised in equity					
Exercise of share options	1	54	-	-	55
Issue costs	-	(7)	-	-	(7)
Fair value of share options exercised in the year	-	-	(77)	-	(77)
Share-based payment charge	-	-	1,204	-	1,204
	1	**47**	**1,127**	**-**	**1,175**
Balance at 30 June 2018	**254**	**17,055**	**2,430**	**(2,182)**	**17,557**

Notes to the company financial statements

1 Accounting policies

Basis of preparation

These financial statements have been prepared on a going concern basis under the historical cost convention, and in accordance with the Companies Act 2006 and applicable United Kingdom accounting standards. These financial statements conform to FRS 102.

The preparation of financial statements requires management to exercise its judgement in the process of applying accounting policies. The areas involving a higher degree of judgement, or areas where assumptions and estimates are significant to the Financial Information, are disclosed in note 2.

In accordance with FRS 102, the Company has taken advantage of the exemptions from the following disclosure requirements;

- Section 7 'Statement of Cash Flows' – Presentation of a Statement of Cash Flow and related notes and disclosures
- Section 11 'Basic Financial Instruments' & Section 12 'Other Financial Instrument Issues' – Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument; basis of determining fair values; details of collateral, loan defaults or breaches, details of hedges, hedging fair value changes recognised in profit or loss and in other comprehensive income.
- Section 26 'Share-based Payment" – Sections 26.18(b), 26.18 and 26.23
- Section 33 'Related Party Disclosures' – Compensation for key management personnel

The presentational and functional currency of the Company is Sterling. Results in these financial statements have been prepared to the nearest £1,000.

Going concern

As part of their going concern review the Directors have followed the guidelines published by the Financial Reporting Council entitled "Guidance on Risk Management and Internal Control and Related Financial and Business Reporting".

The Directors have prepared detailed financial forecasts and cash flows looking beyond 12 months from the date of approval of these consolidated financial statements. In developing these forecasts the Directors have made assumptions based upon their view of the current and future economic conditions that will prevail over the forecast period.

On the basis of the above projections, the Directors are confident that the Company has sufficient working capital to honour all of its obligations to creditors as and when they fall due. In reaching this conclusion, the Directors have considered the forecast cash headroom, the resources available to the Company and the potential impact of changes in forecast growth and other assumptions, including the potential to avoid or defer certain costs and to reduce discretionary spend as mitigating actions in the event of such changes. Accordingly, the Directors continue to adopt the going concern basis in preparing these financial statements.

Investments

Investments held by the Company are stated at cost less any provision for impairment in the Company's financial statements.

Accounting policies (continued)

Impairment of investments

The Company reviews the carrying values of its investments annually to determine whether there is any indication that those investments have suffered an impairment loss. If any such indication exists, the recoverable amount of the investment is estimated in order to determine the extent of the impairment loss (if any). Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the investment for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an investment is estimated to be less than its carrying amount, the carrying amount of the investment is reduced to its recoverable amount.

Financial instruments

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

Financial assets

(a) Trade and other receivables

Trade and other receivables are recognised at their fair value. Appropriate provisions for estimated irrecoverable amounts are recognised in the statement of comprehensive income when there is objective evidence that the assets are impaired.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits held on call with banks.

Financial liabilities and equity

(c) Trade and other payables

Trade payables are recognised at their fair value.

(d) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of issue costs.

Current income tax

The tax currently payable is based on taxable loss for the year. Taxable loss differs from the loss for the financial year as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Accounting policies (continued)

Share-based payments

The Company issues equity-settled share-based payments to certain employees of the Group as consideration for services. Equity-settled share-based payments are measured at fair value at the date of grant by reference to the fair value of the equity instruments granted. The fair value determined at the grant date of equity-settled share-based payments is recognised as an expense for employees of the Company, or as an investment in the subsidiary entity employing the relevant employees otherwise, over the vesting period on a straight-line basis, based on the Directors' estimate of the number of instruments that will eventually vest with a corresponding adjustment to equity. The expected life used in the valuation is adjusted, based on the Directors' best estimate, for the effect of non-transferability, exercise restrictions, and behavioural considerations.

Non-vesting and market vesting conditions are taken into account when estimating the fair value of the options at grant date. Service and non-market vesting conditions are taken into account by adjusting the number of options expected to vest at each reporting date.

When the options are exercised the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

Equity
Equity comprises the following:

- Share capital, representing the nominal value of shares of the Company;
- Share premium, representing the excess over the nominal value of the fair value of consideration received for shares, net of expenses of the share issue;
- Share option reserve, representing the cost of equity-settled share-based payments until such share options are exercised or lapse; and
- Retained losses.

2 Critical accounting estimates and judgements

The preparation of these financial statements requires the Directors to make judgements and estimates that affect the reported amounts of assets and liabilities at each reporting date. 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. Actual results could differ from these estimates. Information about such judgements and estimations are contained in individual accounting policies. The key judgements and sources of estimation uncertainty that could cause an adjustment to be required to the carrying amount of assets or liabilities within the next accounting period are outlined below:

Impairment of investments

An impairment review of the Company's investments in its subsidiaries is undertaken at least annually. This review involves the use of judgement to consider the future projected income streams that will result from those investments. The expected future cash flows are modelled and discounted over the expected life of the investments in order to test for impairment. In the years represented in these financial statements no impairment charge was recognised as a result of these reviews.

Critical accounting estimates and judgements (continued)

Share-based payment charge

The Company issues share options to certain employees of the Group. The Black Scholes and Binomial models are used to calculate the appropriate charge for these options. The use of these models to calculate a charge involves using a number of estimates and judgements to establish the appropriate inputs to be entered into the model, covering areas such as the use of an appropriate interest rate and dividend rate, exercise restrictions and behavioural considerations. A significant element of judgement is therefore involved in the calculation of the charge. In addition, the Directors estimate the percentage of options that are expected to vest considering the likelihood of achieving performance targets and employee churn rates. Should more options vest than estimated the charge would increase.

The total charge recognised by the Company in the year to 30 June 2018 is £nil (2017: £43,000) with a capital contribution in a subsidiary company of £1,204,000 (2017: £388,000). Further information on share options can be found in note 18 to the consolidated financial statements.

3 Particulars of staff

The Company had no staff during the year or the prior year, other than Directors. Details of Directors' remuneration are contained in note 5 to the consolidated financial statements.

4 Investments

Investments in subsidiaries and joint ventures

	£000
Cost and net book value	
At 1 July 2016	5,667
Fair value of options exercised in the year	(319)
Fair value of options lapsed in the year	(39)
Share-based payment charge	388
At 30 June 2017	**5,697**
Fair value of options exercised in the year	(77)
Share-based payment charge	1,204
At 30 June 2018	**6,824**

Investment	**Principal activity**	**Country of incorporation**	**Class and percentage of shares held and voting rights**
Eagle Eye Solutions Limited [1]	Digital loyalty services	England & Wales	Ordinary 100%
Eagle Eye Solutions (North) Limited [1]	Dormant	England & Wales	Ordinary 100%
Eagle Eye Solutions Canada Limited [2]	Digital loyalty services	Canada	Ordinary 100%
Eagle Eye Solutions (Asia Pacific) Pty Limited* [3]	Digital loyalty services	Australia	Ordinary 51%

* held indirectly

[1] The registered office address of this entity is 5 New Street Square, London, EC3A 4TW, UK
[2] The registered office address of this entity is 400-725 Granville Street, Vancouver, BC, V7Y 1G5, Canada
[3] The registered office address of this entity is Suite 401, 54 Miller Street, Sydney, NSW, 2060, Australia

5 Trade and other receivables

	2018 £000	2017 £000
Amounts due from group undertakings	**11,948**	7,969
Prepayments and accrued income	**19**	18
Other receivables	**4**	17
	11,971	8,004

The Company's receivables do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable disclosed above. All of the Company's receivables are denominated in Sterling.

6 Trade and other payables

	2018 £000	2017 £000
Current		
Trade payables	**91**	85
Accruals and deferred income	**132**	40
Short-term borrowings	**1,100**	-
	1,323	125

7 Share capital

The authorised share capital of the Company is 25,444,127 ordinary shares of 1p each.

	Number of shares issued and fully paid	Share capital £000	Share premium £000
At 1 July 2016	22,158,286	222	10,991
Issue of share capital	3,178,041	31	6,257
Issue costs		-	(240)
At 30 June 2017	**25,336,327**	**253**	**17,008**
Issue of share capital	107,800	1	47
At 30 June 2018	**25,444,127**	**254**	**17,055**

On 31 July 2017 and 9 February 2018, the Company issued 1p ordinary shares pursuant to the exercise of employee share options. The total number of shares issued on these dates was 107,800.

8 Related party transactions

The remuneration of the Directors is disclosed in note 5 to the consolidated financial statements.

At 30 June 2018, directors' emoluments of £nil were outstanding to Sir Terry Leahy (2017: £1,000), who was paid in arrears in the year ended 30 June 2017.

9 Ultimate controlling party

The Directors do not consider there to be an ultimate controlling party due to no individual party owning a majority share in the Company. See page 19 for information on percentage shareholdings.