INTELLIGENT ULTRASOUND®
for smarter scanning

Unlocking the power of ultrasound

Intelligent Ultrasound Group plc
2021 Annual Report and Accounts

What's in the Report

p2

What We Do
Making ultrasound easier to learn and simpler to use

p14

Chief Executive's Review
Another year of good progress

p38

Financial Review
A positive year

p10

Business Model
Building our 'Classroom To Clinic' business

p18

Environmental, Social and Governance Report
Our first annual ESG Report

Contents

Overview 1-6

Strategic Report 8-41

Governance 42-62

Financial Statements 63-111

Our Vision

To make ultrasound easier to learn and simpler to use by providing 'Classroom to Clinic' training, guidance and real-time support to medical professionals

Financial highlights

Group revenue

£7.6m

Operating loss

£(4.3)m

Net cash used in operations

£(1.8)m

Cash and cash equivalents

£5.0m

For more information visit
intelligentultrasound.com

Operational highlights

- GE Healthcare continued the rollout of the ScanNav Assist AI technology on the Voluson SWIFT ultrasound machine
- ScanNav Anatomy Peripheral Nerve Block (PNB), the Group's second AI product, received CE approval in April and was subsequently launched in the UK market
- NeedleTrainer, the Group's third AI-related product, which incorporates the PNB trainer software to teach ultrasound-guided needling to medical professionals, was soft launched in October
- BabyWorks, our new simulator platform aimed at the global neonate and paediatric markets, was launched in September

Post year end highlights

- The new HeartWorks 3D Echo simulator module was launched in January 2022
- In January 2022 we announced an extension to our existing exclusive women's healthcare AI agreement with GE Healthcare that was signed at the end of December 2021

From classroom ...

We unlock potential

Simulation

We develop, build and sell some of the world's leading ultrasound training simulators. Our guiding principle is to develop world-class ultrasound simulation technologies that will improve the quality and speed of ultrasound scanning in the clinical environment

1350+

Simulators sold to over 650 medical institutions

For more information see pages 14 to 17

Our simulation products

ScanTrainer

A unique self-learning scanning experience in Obstetrics and Gynaecology (OBGYN) and general medicine that replicates being taught one-to-one by an expert

BabyWorks

A realistic baby manikin for training in paediatric and neonatal care

BodyWorks

A hi-fidelity simulator used in critical care, intensive care and emergency medicine

HeartWorks

A highly realistic simulator with all the tools needed to learn echocardiography

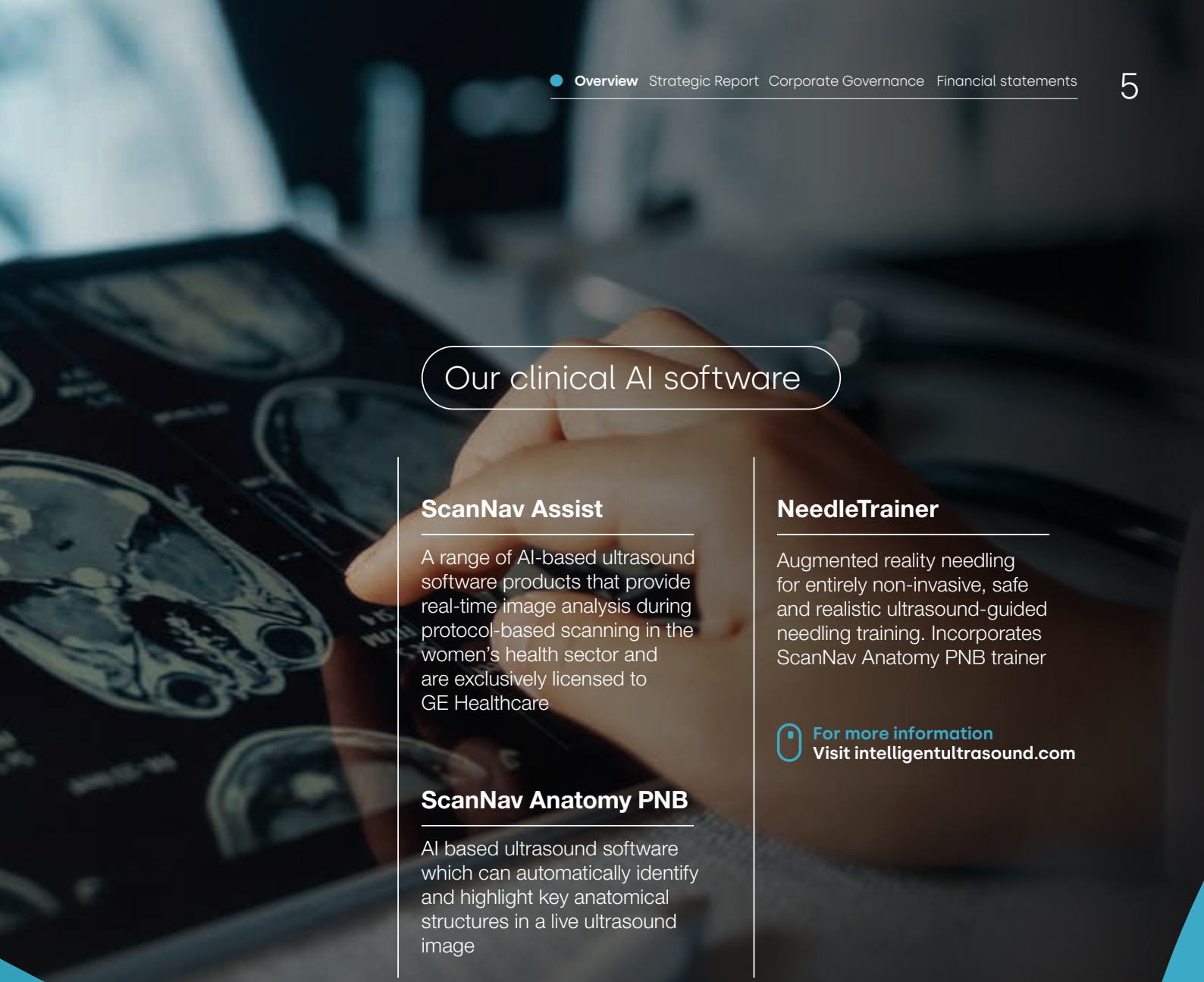
... to clinic

We make ultrasound smarter

Clinical AI

We are harnessing the power of the new generation of AI algorithms to make ultrasound simpler to use, and easier to learn by providing guidance and support to medical professionals, whilst they are scanning

For more information see pages 14 to 17



Our clinical AI software

ScanNav Assist

A range of AI-based ultrasound software products that provide real-time image analysis during protocol-based scanning in the women's health sector and are exclusively licensed to GE Healthcare

ScanNav Anatomy PNB

AI based ultrasound software which can automatically identify and highlight key anatomical structures in a live ultrasound image

NeedleTrainer

Augmented reality needling for entirely non-invasive, safe and realistic ultrasound-guided needling training. Incorporates ScanNav Anatomy PNB trainer

For more information
Visit intelligentultrasound.com

3 AI products

in the market

Our purpose

We leverage our knowledge and experience in medical ultrasound, simulation, image segmentation and machine learning to develop software that can increase the number of medical professionals who can use ultrasound, as well as increasing the speed and quality of scanning itself

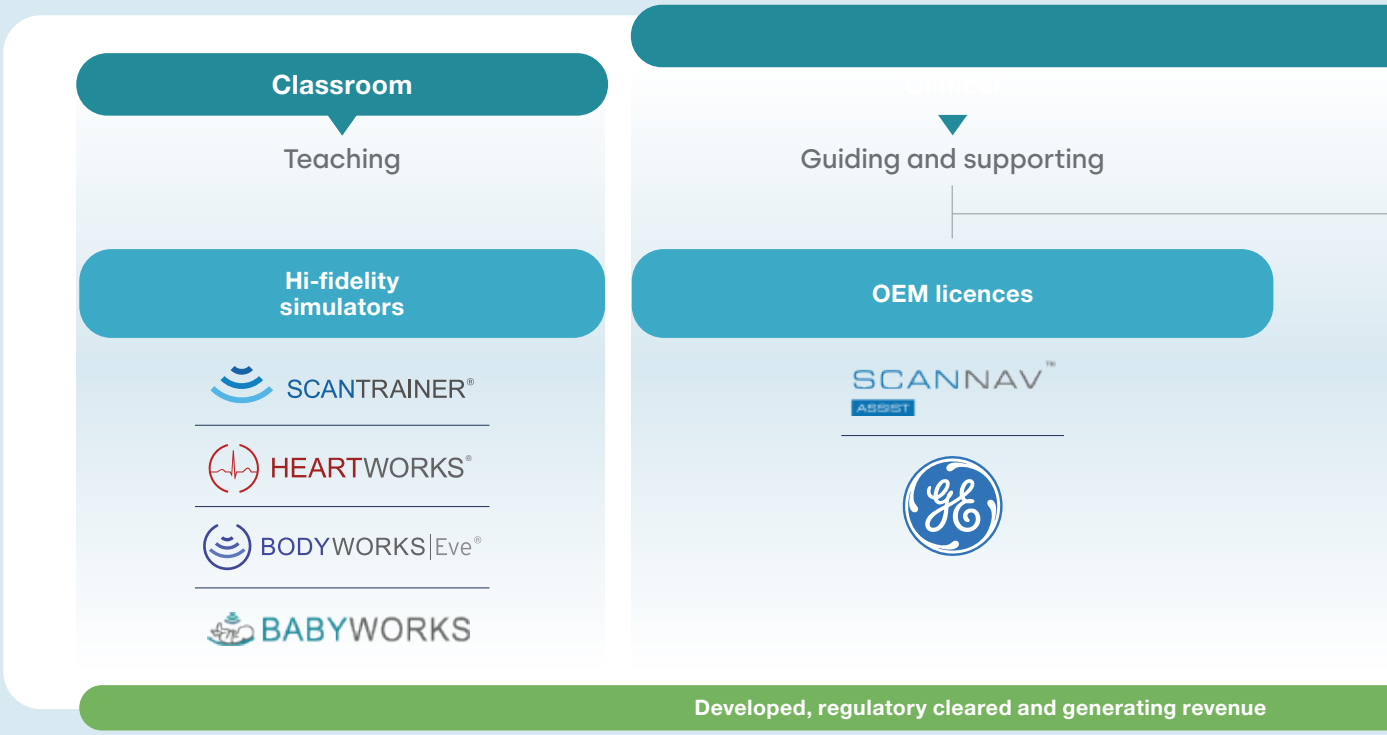
Key 2021 stats

57
Employees

£7.6m
Revenue

3
New products

Building our 'Classroom to Clinic' business



Our global footprint

Consumer

Plug-in devices	Diagnosing: Standalone devices	Reassuring: Handheld devices
SCANNAV ANATOMY Peripheral Nerve Block	SCANNAV DETECT	SCANNAV HEALTHCHECK
NEEDLETRAINER		

Future

Chairman's Statement

Riccardo Pigliucci
Chairman

This has been a year of significant progress across our 'Classroom to Clinic' business. We have increased Group revenue by 47% with the majority of this growth coming from our established ultrasound simulation sales operation, which contributed £4.5m gross profit (2020: £3.2m) towards the Group's overheads.

Year of significant progress

We launched two new artificial intelligence (AI) related products into the real-time clinical ultrasound image analysis market, and have also added to our ultrasound simulation portfolio. In addition, we are building an excellent partnership with GE Healthcare, the world's leading ultrasound company - that has been expanded with a new product extension to the agreement. We slightly reduced our operating loss to £4.3m (2020: £4.5m). All this has been achieved despite the ongoing pandemic that has restricted activities, such as the US based clinical studies required for new product regulatory clearance, as well as the critical face-to-face introduction of new products at shows and medical exhibitions.

Strategy

We continue to progress our 'Classroom to Clinic' ultrasound strategy based on:

- We are one of the world's leading real-time ultrasound simulation companies and are growing the Group's 'classroom' related revenues through sales of our existing simulator platforms; and by expanding our range of ultrasound training simulators into new medical market segments
- This 'classroom' expertise in teaching the hard to learn real-time ultrasound scanning skills has enabled us to develop real-time AI software that aims to make ultrasound scanning in the clinic easier to learn and simpler to use. We are building our 'clinic' related AI revenues through royalty income from ultrasound machine manufacturers, such as our partnership with GE Healthcare, that incorporates our ScanNav AI technology in their latest women's health ultrasound systems; by direct sales of our newly launched proprietary stand-alone AI-driven ScanNav Anatomy and NeedleTrainer systems; and by expanding our AI-based product offerings with new proprietary products for new medical markets

We believe the on-going expansion of all parts of the 'Classroom to Clinic' business confirms our strategic positioning, and we look forward to continuing this growth in 2022.

Board and governance

The Board aims to maintain the highest standards of corporate governance and is successfully transitioning from a typical founder and venture-driven Board to a more mature public entity.

Following an independent review of our Board and meetings with a number of our major shareholders, in 2021 we set ourselves the goal of increasing the diversity and relevant experience of the Directors in the markets we now serve and the technologies we utilise; with the longer-term aim of also reducing the size of the Board.

I'm pleased to say that we are well on the way to achieving this goal:

- During 2021 we appointed two new, highly experienced Non-executive Directors (NEDs) - Ingeborg Øie and Michèle Lesieur
- During 2022 two current NEDs are expected to retire from the Board
- By the end of 2023 we expect to have recruited two new NEDs and to have reduced the Board to seven members

In addition, during 2021, in compliance with ISS recommendation, I stepped down as a Member of the Remuneration and Audit Committees.

People

I would like to thank all our staff for working so hard and performing so well during the year. We had all hoped to see an end to the pandemic in 2021 and although the restrictions had an effect on elements of the business, such as remote regulatory trials and new product roll out, the team responded brilliantly and were able to minimise the negative impact of the pandemic.

Our head office in Cardiff has given us the space to conduct important study trials on site, as well as increased flexibility in the new hybrid work environment. We were also able to welcome some of our larger shareholders to our first in-house technology open day, where we were able to give hands-on demonstrations of both our new AI technology platforms, as well as all our simulation products.

Outlook

With a growing range of both AI and simulation-related products, a scalable operational base and pandemic related restrictions around the world relaxing, we have had a strong start to 2022. We have had a high number of NHS financial year-end orders in the first quarter, and we therefore expect revenue for 2022 to be ahead of current market expectations.

We are focused on growing sales in both the more established simulation market and the newer, potentially higher growth AI imaging market, but will continue to monitor cash and overheads against this anticipated sales growth curve and any future investment of new AI products and expansion of our sales networks. We remain excited about the potential of our 'Classroom to Clinic' business.

Riccardo Pigliucci

Chairman

Business Model

Our inputs

- Financial
- Intellectual
- Leadership
- Clinical
- Employees
- Strong strategic relationships

Corporate Governance
see page 47

Section 172
see page 26

What we do

Classroom simulation

Clinical AI

Teaching

Guiding and supporting

- Hi-fidelity simulators
- OEM licences
- Plug-in devices

Current

How do we generate revenue?

- Develop and sell a range of ultrasound training simulators that meet the needs of the global medical professional training and education market
- Develop and sell a range of AI-clinical ultrasound software tools that enable hospitals to scan more patients by speeding up scanning and helping more clinicians scan
- Develop and sell a range of AI-based clinical ultrasound software tools that enable hospitals and imaging centres to improve ultrasound-based diagnosis

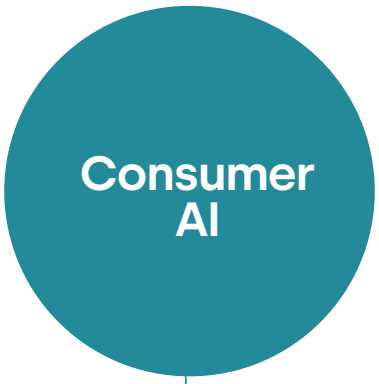
Financial Review
see page 38

Underpinned by our values ...

- Integrity
- Honesty
- Commitment to excellence

and culture ...

- Ambitious
- Supportive
- Dynamic
- Enjoyable
- Open



Diagnosing

- Stand-alone devices

Reassuring

- Handheld devices

Future

- Continue to grow within existing markets
- Explore and exploit the opportunities created by development of new products
- Explore the worldwide market for new products as mass scanning becomes more feasible
- Become the 'go-to' company for AI ultrasound technologies

CEO Review see page 14

How do we add value

Technology

- Make ultrasound easier to learn and simpler to use
- Enable more clinicians to use ultrasound

Financial

- Revenue growth to bring the Group to profitability
- Efficient working capital management
- Continued investment in R&D

Human

- Foster an honest and open culture
- Encourage innovation
- Recruit market-leading experts in all fields of expertise
- Create a rewarding and dynamic working environment

Innovation

- Prioritisation of R&D resource and spend
- Develop software that aims to positively disrupt current markets
- Continually improve clinicians' training experiences
- Maintain a balance between developing new products as well as enhancing existing ones

Responsible

- Deliver products that make a positive impact on the world
- Minimise carbon footprint
- Generate employment opportunities
- Maintain operating licence and legal obligations

Shareholders

- Positive growth
- Path to profitability
- Ethical business practices

Strategy see page 12

to unlock ultrasound for everyone

Our Strategy

We continue to progress our 'Classroom to Clinic' ultrasound strategy

Strategic aims		How we do it
Make ultrasound easier to learn	**Develop and sell a range of hi-fidelity ultrasound training simulators that meet the needs of the global medical professional training and education market**	• Focus on clinical teaching schools where ultrasound scanning performance is important • Continue to develop our simulator range to expand into new ultrasound growth markets • Build on our clinical and simulation synergies to cement our position as the ultrasound experts in the market
Make ultrasound simpler to use	**Develop and sell a range of AI-based clinical ultrasound software tools make ultrasound machines smarter and more accessible to more medical professionals**	• Build and maintain large, curated ultrasound image databases • Develop AI software that meets a medical need and has a viable commercial market • Work with OEMs to integrate our software into their devices • Extend the market for our AI platform device in the retrofit market • Build on our clinical and simulation synergies to cement our position as the ultrasound experts in the market

2021 progress	Key performance indicators	2022 objectives
• Increased sales by 42% from existing products • Launched a new platform simulator - BabyWorks into the neonate and paediatric market in September 2021 • Developed a new 3D Echo add-on module for the HeartWorks simulator that was launched in January 2022	**Revenue** **Research and development** **New products launched**	• Increase sales to £9.4m • Continue to develop new modules for our existing product range • Market new and existing products to drive revenue growth
• First revenues from our new products launched in 2021 • Our image database increased to almost 11m • Continued to build on the GE partnership • Obtained CE approval for Anatomy PNB and launched it in the UK in April 2021 • Launched NeedleTrainer, our third AI-related system • Signed a new product extension to GE partnership agreement	**Revenue** **Research and development** **New products launched** **AI partner agreements**	• Increase sales to £0.6m • Obtain FDA clearance for Anatomy PNB and launch in the US • Continue development of future variants of ScanNav

Key performance indicators see page 36

Risk management see page 30

Chief Executive's Review

Stuart Gall
Chief Executive Officer

Our vision is to harness the power of the new generation of AI algorithms to make ultrasound easier to learn and simpler to use by providing 'Classroom to Clinic' training, guidance and real-time support to medical professionals.

Well positioned for growth

AI remains a key element of our 'Classroom to Clinic' approach to ultrasound as we expand both our simulation and clinical AI revenue streams. The report below details the progress made in 2021 and the key challenges faced during the year.

SIMULATION

Training medical professionals in the specialist skills required to competently scan a patient using the diagnostic capabilities of ultrasound is a key foundation stone of our business. We understand the clinical needs of medical professionals who rely on real-time ultrasound imaging and consider ourselves one of the world's leading companies in this growing market.

We design, develop and sell some of the world's leading real-time, hi-fidelity ultrasound training simulators for teaching ultrasound scanning to medical professionals and medical device companies. Our simulators are, in the main, high value capital equipment sales sold through our direct sales forces in the US and UK, as well as through a network of resellers covering the rest of the world.

During the year ultrasound simulation revenue grew by 43% to £7.4m (2020: £5.2m) and contributed £4.5m (2020: £3.2m) of gross profit towards the Group overheads. Over 650 medical institutions around the world now use our ultrasound simulators.

We also expanded our product range and now operate in the following markets:

- Obstetrics and gynaecology (OBGYN)
- Echocardiography and anaesthesiology (ECHO)
- Emergency medicine and Point-of-Care (PoCUS)
- Critical care and intensive care
- Neonate and paediatric

United Kingdom

The UK had a record year, with spending on our simulators continuing to grow across all product lines. The launch of BabyWorks in the second half of 2021 was well received and combined with the HeartWorks 3D Echo simulator that was launched in January 2022, there continues to be strong purchasing interest in the UK market.

We look forward to continuing the growth of the UK revenues in 2022.

North America

Despite the pandemic impacting access to hospitals in several important US states, sales in North America also grew to a record high. With an established operational base in Alpharetta, Georgia, we are expanding the sales team in 2022 to take advantage of the revenue potential in the North American market.

As with 2020, there were almost no major face-to-face trade exhibitions in the US during the year, but we continued to adapt well to the pressures of operating in a restricted market.

During 2020 and 2021, the pandemic restrictions enabled products to be demonstrated live over the internet, and although it is expected that the medical profession will wish to revert to face-to-face product demonstrations in 2022, we will look to try and increase the use of this cost-effective demonstration tool. As such, during 2022 we will be upgrading the web demonstration facilities in Alpharetta to match the facilities in our head office in Cardiff. As with the UK, the launch of BabyWorks and HeartWorks 3D Echo was well received by the market, and we look forward to growing our North American revenues in 2022.

Research & Development

During the year, we invested £1.2m in simulation R&D (2020: £0.9m). The team focused on developing the new BabyWorks ultrasound simulator platform for neonate and paediatric scanning, the new HeartWorks 3D Echo module, and a number of product upgrades that aim to provide remote eLearning capability for our HeartWorks and BodyWorks simulators, especially important in the current environment.

BabyWorks is an ultra-realistic baby manikin offering medical professionals a safe and effective training tool for Point-of-Care ultrasound (PoCUS) and echocardiography in paediatric and neonatal care. The combination of an anatomically accurate, tactile manikin combined with real patient ultrasound scans provides a high fidelity, precise scanning experience that replicates scanning a real baby. Initial feedback from the launch in the second half of 2021 has been very positive and we look forward to building sales during 2022.

Challenges to our simulation revenue streams

Ultrasound continues to be a growing medical diagnostic tool, with increasing demand for training that can enhance a medical practitioner's scanning skills. However, there have historically always been capital expenditure limitations on medical training budgets for high value simulators within the global healthcare market. As such funds for purchasing departments can be hard to access and revenues difficult to predict, especially during times of government cutbacks, political upheaval or global pandemics, when funds can be diverted from training to front-line care.

During 2022 we expect the restrictions caused by the pandemic to recede in the majority of our markets, but there may be some exceptions that impact sales in countries such as China, where zero tolerance Covid-19 policies are operated and regions can be locked down at short notice, but we would not expect these to materially impact the Group.

The absence of exhibitions and conferences has restricted the growth of the Group's lead pipeline during the pandemic and there is a risk that the leads from our increased number of email campaigns may have a lower sales conversion rate.

The impact of rising inflation causing medical device costs to rise faster than hospital budgets in 2022/23 could potentially reduce future health spending.

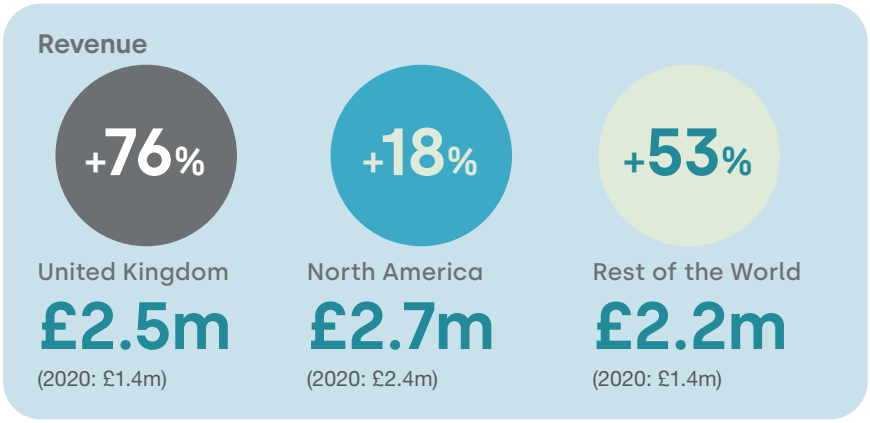
The risk of inflation related interest rate rises pushing countries into recession could also impact on medical training budgets in the longer term.

Although we do not sell to or purchase from the Ukraine, sales to our Russian reseller are currently on hold and we have adjusted our 2022/23 forecasts accordingly. Russia accounted for 2% of our sales in 2021.

The purchasing decisions in the high-fidelity sector of the ultrasound simulation market continue to be based on quality of training and value for money, rather than simply the lowest priced solution.

During the year, we continued to respond well to new competitive products and pricing and margin pressures, by expanding our range of simulators that provide the highest standard of ultrasound training, offering a variety of purchase price points and increasing our eLearning options that can work in tandem with our hands-on training simulators.

2021 saw an increase in key component supply chain pressure and this remains a concern for companies of our size. Costs are increasing across the board and lead times are lengthening. Although we work closely with our suppliers, we have had to increase our key component stockholdings to provide some insurance against potential supply disruption and this is continuing in 2022. Despite the challenges, our current stock combined with our stock order commitments indicate we should be able to deliver all expected orders over the coming 12 months.



Rest of the World

This was a year of recovery for our reseller sales, although revenue is still 18% below our pre-pandemic sales of 2019. Reduced sales in a number of countries, including China and Germany, that continued to be affected by the pandemic, were offset by encouraging sales in Eastern Europe and Japan. In the second half of the year, we initiated a joint sales venture with Skills Meducation, one of our Western Europe resellers, whereby we are jointly investing in a dedicated Intelligent Ultrasound salesperson. The long-term aim is to increase French sales to the equivalent UK level and, if successful, roll out to other reseller markets.

We have continued to provide training and product sales support from our head office web demonstration facilities and have been able to minimise sales and training related travel throughout the year. The BabyWorks new product launch was conducted entirely online and was well received. We do, however, expect sales support and training related costs to increase in 2022.

With the pandemic restrictions easing in the many of our markets, we look forward to growing reseller revenues in 2022 and beyond.

Chief Executive's Review continued

CLINICAL AI

A key part of the company's 'Classroom to Clinic' vision is to follow medical professionals, as they graduate out of the classroom-based simulation training environment, and provide them with access to real-time AI-based clinical software that makes ultrasound easier to use.

This vision became a reality in 2021, with our ScanNav image analysis AI technology, which provides real-time support to clinicians whilst they are scanning, being incorporated into three products in the market:

- GE Healthcare's SonoLyst software which is incorporated in their Voluson SWIFT ultrasound machine, utilises our ScanNav Assist technology
- ScanNav Anatomy PNB (Peripheral Nerve Block) that simplifies ultrasound-guided needling by providing the user with real-time AI-based anatomy highlighting for a range of medical procedures
- NeedleTrainer that teaches real-time ultrasound guided needling and incorporates ScanNav Anatomy PNB

We continue to follow a two-pronged go-to market strategy of:

- Signing royalty-based, 'on-machine' licences for the provision of real-time AI software with the major manufacturers, whose established sales networks can provide faster access to our technology in the new ultrasound machine markets
- Selling proprietary 'plug-in' real-time AI-enabled devices direct to the global pool of existing ultrasound machines, through our own sales network

Clinical AI-related revenue for the year was £0.2m (2020: £0.0m) and reflects the impact of the pandemic in 2021 that limited global new product roll-out, reduced key opinion leader contact and resulted in almost no exhibitions or congress events. As we said at the beginning of 2021, as the pandemic restrictions relax and face-to-face meetings and exhibitions restart, we anticipate 2022 to be the year where we generate more significant sales growth from our AI-based products.

During the year, we invested £2.1m in clinical AI-related R&D (2020: £1.7m).

ScanNav Assist

Our ScanNav Assist AI technology acts like a personal scanning assistant, by comparing the image or view acquired to specific criteria on standard views within a fetal scan, to ensure they contain the required anatomy for the imaging plane. The software aims to provide real-time workflow enhancements, that support faster, more standardised scanning, but importantly also support decision making, so that the stress of scanning is reduced and the 'burn-out' of operators being asked to increase productivity is minimised.

In 2019, we entered a long-term partnership agreement for our ScanNav Assist AI software with GE Healthcare, one of the world's leading ultrasound manufacturers, that provides for the integration of our real-time AI image analysis software into GE Healthcare's full range of Voluson women's health ultrasound machines.

At the end of September 2020 GE Healthcare launched the Voluson SWIFT, which is the first GE ultrasound system to feature SonoLyst, the new software that utilises our ScanNav Assist real-time image analysis software and is the world's first fully integrated AI tool that recognises the 20 views recommended by the ISUOG mid-trimester practice guidelines for fetal sonography imaging. SonoLyst is an optional add-on and feedback during the year has been encouraging, despite the pandemic-related impact on global roll-out that restricted sales training and key opinion leader contact. As pandemic restrictions relax, we expect to see increased revenue in 2022.

Post year-end we announced we had signed an extension to the GE Healthcare agreement to enable GE Healthcare to utilise the ScanNav Assist AI software in a new women's health segment of automated ultrasound image analysis, that is outside the Group's original agreement. The terms, product sales and the timings of the related product launches are undisclosed.

Future variants of ScanNav Assist that will support additional scanning protocols are in development.

ScanNav Anatomy Peripheral Nerve Block (PNB)

ScanNav Anatomy PNB uses the latest AI technology to automatically highlight the key nerve block anatomical structures on a live ultrasound image and support the performance of healthcare professionals who are suitably qualified, but who perform ultrasound-guided local anaesthesia procedures on a less frequent basis.

This first version of ScanNav Anatomy PNB received CE approval in April 2021 and supports nine common peripheral nerve blocks. It is sold as a stand-alone screen mounted on a portable stand that is plugged into existing ultrasound machines to provide clinicians with continuous feedback from real-time highlighting of their live ultrasound. Users can also re-familiarise themselves with blocks that are carried out less frequently using the systems integrated 3D animations. The cart-based system is sold in the UK through the Group's direct sales team.

ScanNav Anatomy PNB is also available as a training simulator for medical learning on volunteers, prior to patient contact (see NeedleTrainer below).

Increasingly, ultrasound-guided peripheral nerve blocks are being used as a prudent alternative to general anaesthesia, but not all anaesthetists have the specialist knowledge of ultrasound anatomy to perform them. Through the adoption of ScanNav PNB, it is hoped that hospitals will be able to increase the number of ultrasound-guided nerve blocks that they can perform. We continue to progress the product's FDA regulatory filing to enable a version of the product to be sold in the US, as well as seeking to license an integrated version of the product to the major ultrasound manufacturers. The need for an additional US-based Human Factors study delayed the regulatory approval and anticipated launch of the PNB clinical system in the US, but the Group still envisages the PNB system will contribute to revenues in 2022.

Our aim is to develop further variants of ScanNav Anatomy that can be added to the existing ScanNav standalone hardware platform and support ultrasound scanning in both interventional radiology and general radiology, as appropriate.

NeedleTrainer

Launched at the end of 2021, NeedleTrainer was developed by the clinical AI software team as a real-time training version of ScanNav Anatomy PNB. Currently the device is a portable, plug-in system that uses a retractable needle and real-time, virtual image overlays to simulate needling non-invasively on a live volunteer, using the live ultrasound scan. This enables medical professionals to develop hand-eye coordination, optimum positioning and accuracy in ultrasound-guided interventional procedures in a safe, realistic, clinical environment. The system is sold with the trainer version of ScanNav Anatomy PNB integrated into the software.

Future ScanNav AI products

Although during 2021 we focused on developing the partnership with GE Healthcare, commercialising ScanNav Assist, ScanNav Anatomy PNB and NeedleTrainer, the following additional AI-related products are in various early stages of development:

ScanNav Detect

ScanNav Detect aims to facilitate the automatic recognition of abnormalities within a general medical ultrasound scan, confirming that a clinician has correctly scanned the anatomical area of interest, and then flagging any areas of potential abnormality, so the patient can be triaged to a specialist. This could potentially allow more medical practitioners, such as GPs, midwives, paramedics and doctors to use ultrasound imaging for frontline medical diagnostic sonography.

ScanNav HealthCheck

ScanNav HealthCheck remains a proof-of-concept development area that aims to enable ultrasound scans to be performed at home.

Challenges to the Clinical AI revenue streams

AI-based medical imaging software remains an immensely exciting, and potentially hugely significant global market. However, there is considerable competition from both existing ultrasound manufacturers and well-funded independent AI software vendors. The commercial modelling, although embryonic, is as yet unproven.

To respond to these challenges, we remain focused on developing AI software that has both a clinical need and a clear economic rationale for its purchase. The ScanNav Assist software is a good example of how our software aims to speed up scanning yet also support the sonographer so that a faster scan is also less stressful, benefiting the operator, the imaging centre and the patient.

As with the simulation market, funds for purchasing departments can be hard to access and revenues difficult to predict, especially during times of government cutbacks, political upheaval or global pandemics.

During 2022 we expect the restrictions on face-to-face contact caused by the pandemic to recede in the majority of our markets, but there may be some exceptions that impact sales in countries such as China, where zero tolerance Covid-19 policies are operated and cities/regions can be locked down at short notice. The easing of these restrictions will also help with any overseas product trials and studies for regulatory clearance, which proved harder to monitor remotely in 2021 and caused delay to our FDA regulatory process.

Royalty payments from sales related to ultrasound machine vendors can be impacted by product launch delays that are outside our control.

The impact of rising inflation may cause medical device costs to rise faster than hospitals budgets and could potentially reduce future health spending.

Recruitment of high calibre AI software engineers remains a challenge, however during the year we continued to recruit high quality staff by offering attractive, flexible salary packages and expect this to continue in 2022.

The new UK Conformity Assessed (UKCA) medical device approval is due to come into effect from 30 June 2023. Failure to migrate our CE approvals to UKCA (caused by, for example, bottlenecks from limited UK regulatory body capacity) could impact the Group's ability to sell its medical device products in the UK from that point.

Quality Management System

The Group continues to meet the standards of ISO 13485:2016 to ensure the consistent design, development, production, installation and sale of medical devices that are safe for their intended purpose.

Workplace environment

Our larger, more modern and flexible head office space in the centre of Cardiff significantly improved our ability to operate effectively during the variety of pandemic restrictions that were in place during the year.

With restrictions changing monthly, we supported office, at home and hybrid working throughout the year, by continuing to provide employees with the hardware and software to work from home, where appropriate. All Covid-19 related changes were regularly communicated to staff and we continue to hold our weekly all-staff meeting over the internet, with an attendance of over 90%. Health and safety risk assessments were conducted regularly and our anonymous annual staff survey helped us assess the impact of the pandemic on employee welfare and support staff where appropriate. During the pandemic we were pleased that no staff were furloughed.

When restrictions allowed, we held large hands-on trial study days and shareholder technology open days in Cardiff.

The Group's warehouse and technical support operation in Caerphilly, that opened in 2020, has also enabled us to build and ship more systems than ever before, as well as hold the increased stock levels caused by the current market conditions.

As ever, all our staff have been tremendous in another difficult working year and I would also like to convey my thanks to all our stakeholders for being so supportive.

Looking ahead

After a positive 2021 in which we grew revenues to £7.6m and reduced operating losses to £4.3m, we are encouraged by the start to 2022.

We are expanding our US sales team and now have four core simulation products that are expected to continue the growth of our simulation revenues in 2022 and beyond.

We have three clinical AI-related software products in the market and hope to obtain FDA clearance for ScanNav Anatomy PNB during the year. We are building an excellent partnership with the world's leading ultrasound company - GE Healthcare, that was recently expanded with a new product extension to the agreement and as with our simulation revenues, expect to see growth in our clinical AI-related revenues in 2022 and beyond.

With the pandemic restrictions around the world easing and enabling a return to face-to face meetings, a growing range of 'classroom to clinic' ultrasound products in the market, new products in the pipeline, an established operational base, and an encouraging start to the year, we expect the strong revenue performance of 2021 to continue in 2022.

There are a number of potential growth opportunities for the Group relating to new AI product development programmes, as well as increases in the machine learning, direct sales and marketing teams and we therefore continue to monitor closely our cash, investment in R&D and overheads against the anticipated sales growth curve.

We remain excited about the potential of our 'Classroom to Clinic' business.

Stuart Gall
Chief Executive Officer

Message from the CEO

Welcome to our first annual ESG report

Stuart Gall
CEO

> Intelligent Ultrasound aims to build a profitable and sustainable business that delivers our vision of enabling ultrasound for everyone"

We aspire to being a global force for good, empowering people to have access to one of the world's leading imaging modalities, by either teaching them ultrasound skills in the classroom or by providing AI-based software tools that simplify or improve real-time ultrasound scanning in clinical practice.

To achieve these goals, we have adopted three principles that will guide us:

1. Deliver products that fit with our vision and make a positive impact on the world
2. Do the right thing while making an impact
3. Enjoy making an impact

We understand that for our business to be successful we need to recognise, understand and manage the environmental, social and governance (ESG) issues that are important to both our stakeholders and our business.

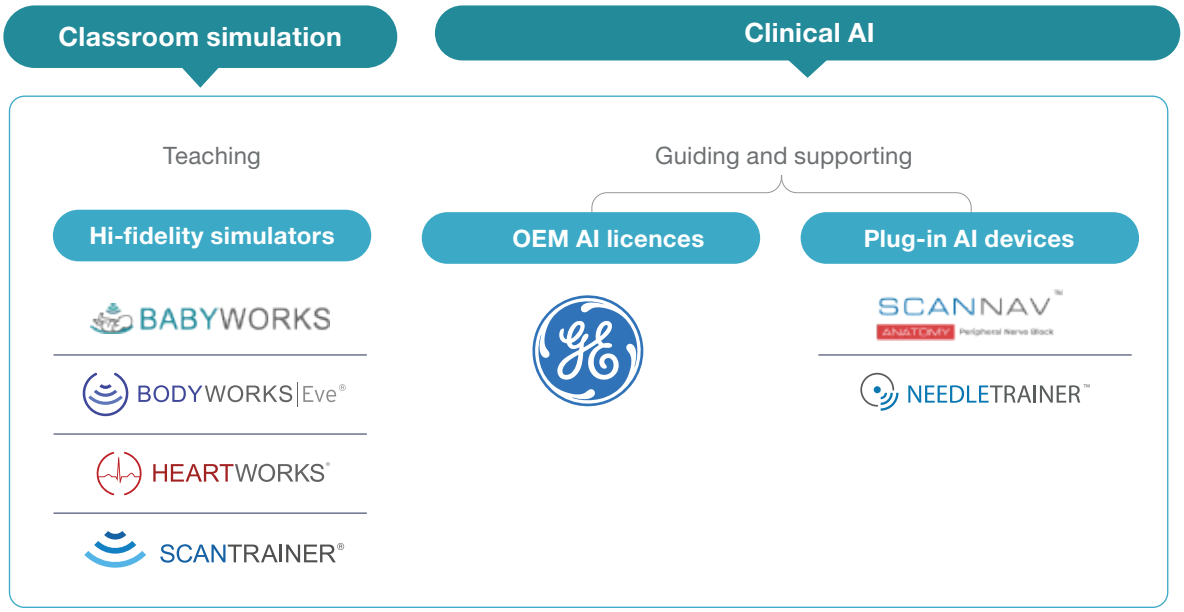
We believe that during 2021 we made a good start on all three principles, but we recognise that this is an ongoing process and that there is always room for improvement.

The report below details ESG at Intelligent Ultrasound, the key initiatives implemented during the year and two case studies that exemplify the positive impact our products have made around the world.

We also set out our aims for the expansion of our ESG review in 2022 and we look forward to reporting back on this next year.

Stuart Gall
Chief Executive Officer

Intelligent Ultrasound at a glance



Our approach to ESG

We have always been a business focused on making a positive impact with our customers, employees and communities. In 2021 we formalised our approach and set up an ESG working group, chaired by the CEO, to:

Develop and implement a formal ESG policy that reflects our goal to build a sustainable and viable, long-term business that will enable ultrasound for everyone

Develop and implement an environmental training/ awareness programme for all employees

Minimise the Group's carbon emissions through incentives such as green travel incentives and offset the Group's 2021 carbon emissions

Develop an ESG dashboard that is reviewed annually and reported to stakeholders

The working group met five times in 2021 to formulate and implement these objectives. The working group includes three members of the executive management team, three employee representatives and two Non-executive Directors. The three employee representatives were elected to the Group after all staff were invited to put their names forward for election, with an ESG manifesto, and the three candidates who received the most votes were elected.

ESG performance dashboard

	2021
Environmental	
Energy consumption (KWh)	**84,424**
Carbon dioxide emissions (tonnes)	**180,484**
Carbon dioxide emissions (tonnes per average no. of employees)	**3,166**
Carbon footprint report	**Yes**
Environmental and Sustainability Policies	**Yes**
Social	
Employee turnover (%)	**10%**
Tax paid (as % of PBT)	**0**
Discrimination Policies	**Yes**
Community Policies	**Yes**
Ethics Policies	**Yes**
Governance	
Female representation on the Board	**27%**
Independent Board members	**45%**
CEO cash compensation (versus UK median earnings)	**6.2x**
Highest to lowest full-time pay ratio	**7.8x**
CEO & Chairperson role split?	**Yes**
Adhere to the QCA Corporate Governance Code?	**Yes**

During 2022 we will review if further metrics should be added to the dashboard.

Environmental

Acknowledging the Group's role in the low-carbon world

The Carbon Trust defines three scopes as the basis for mandatory Greenhouse Gas (GHG) reporting in the UK which are defined as follows:

For 2021 and 2022, we have decided to focus our reporting as follows:

Scope 1	Scope 2	Scope 3	
Covers the emissions we make directly, e.g. our buildings or vehicles	Covers the emissions we make indirectly, e.g. the energy we buy to heat and cool our buildings	Covers all the indirect emissions associated with our value chain	
Direct	Indirect	Indirect	
Emissions (tonnes): 11,312	Emissions (tonnes): 16,962	Emissions (tonnes): 152,210	Emissions (tonnes): N/a
2021 • Gas consumed • Company vehicles	**2021** • Electric used • Heat used	**2021** • Business travel • Employee commuting	**2022** **Upstream (suppliers)** • Waste generated • Purchased goods and services • Transport and distribution **Downstream (customers)** • End-of-life products • Use of sold products • Processing of sold products • Transport and distribution

Impact of climate change

Whilst climate change is not expected to have a material effect on the future of the Group, the company is at the start of its journey to better understand and quantify the impact it has on climate change and potentially how climate change could impact it in the future.

Offsets

Despite the current relatively low direct negative environmental impact of the Group, we have offset 100% of the Group's direct 2021 CO_2 equivalent greenhouse gas emissions through a programme of supporting the clean cookstoves project in Rwanda and the UK afforestation project, both certified carbon offset projects through Climate Partner.

Carbon neutral Company
ClimatePartner.com/18319-2203-1001

The two programmes were selected for the following reasons:

- The clean cookstoves project was selected because Intelligent Ultrasound's AI image analysis algorithms were used in The Household Air Pollution Intervention Network (HAPIN) Trial that aimed to assess the impact of a liquified petroleum gas (LPG) cooking stove and fuel intervention on the health of pregnant women.
- The UK reforestation project was selected by the employee representatives as it was the closest UK impact programme that fitted with the employee's desire to support local reafforestation projects. We aim to combine this with local woodland charity support in Wales.

However, there are some areas where it may be possible to reduce our environmental impact even further.

In 2022 we plan to:

- Introduce a new employee commuting scheme to incentivise low-carbon travel
- Review our sales demonstration processes to promote web-based demonstrations and web-based reseller training, where possible
- Review international travel and conference attendance, although it should be stressed that these remain a key generator of sales leads and product awareness for the Group
- Review supplier and distribution environmental impact areas and identify areas of positive change
- Review material customer-related environmental impact areas

Social

Aligning our people with our purpose

Our success depends upon the quality of our people across a wide range of disciplines. Many members of our team have joined the Company because they seek to make a difference in the world, and we want the culture of the Company to build on this. We want a working environment that enables us to attract, engage and retain the best people. Working for us should be both challenging, purposeful and enjoyable.

Employee engagement

The move to virtual Teams meetings over the last two years has inevitably decreased face-to-face meetings. This had the potential to reduce the bonds and relationships that tie a company's employees together as a team. We have therefore worked hard to make sure our team is engaged and fully aware of how we are progressing towards fulfilling the Company's vision.

- The CEO holds a weekly all staff 'Breakfast Club' meeting on Teams, giving updates on all aspects of the business performance and any relevant issues that the team wish to discuss
- An annual anonymous staff survey is conducted that aims to assess staff happiness and concerns. All results and relevant actions and changes are presented back to the staff and Board
- Individual teams and departments are encouraged to hold regular social events
- An annual offsite awayday will be organised as soon as the Covid-19 restrictions allow

Building skills

In 2021 we took the decision to improve our internal training opportunities and implemented the Intelligent Ultrasound Synergise management programme comprising externally run courses on leadership skills, building and managing teams, presenting and communication skills, conflict management, performance and monitoring skills, and financial skills for managers. This six-month course, which started in 2021 for 16 employees, will continue in 2022.

All staff participate in our cyber security and GDPR training online courses.

Retention

We were pleased to see that only 10% of staff left the Company in 2021, an encouragingly high level of staff retention.

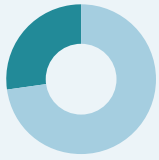
Diversity and inclusion

We are committed to building a diverse and inclusive working environment at Intelligent Ultrasound. Equal opportunities in both recruitment and development are central to our culture. We believe businesses are more likely to succeed when they have a broad range of characters, experiences and backgrounds.

Gender split as at Dec 2021

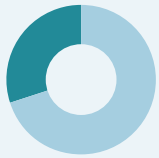
Board

- Female: 27%
- Male: 73%



Management

- Female: 30%
- Male: 70%



All Company

- Female: 38%
- Male: 62%

Covid-19

Over the last two years we have prioritised the health and well-being of all our employees, whilst ensuring that our day-to-day operations remained open. Regular health and safety assessments were conducted, home working was supported, and all offices worked to the relevant local Covid-19 operational guidelines.

As we transition to a post-Covid world, we will be introducing a new flexible working policy to all our UK employees, that emphasises that although we believe that we generally work at our best as a team in an office environment, there are clear benefits to working from home for many of our employees and we therefore want to find the right balance of home/office working that maximises output, whilst allowing individual choice and maintaining a working environment that attracts and keeps staff.

Local community engagement

Despite the global nature of our business, we recognise the importance of being a Company that supports local employment, local community engagement and where possible local purchasing.

In 2022 we plan to:

- Set up a local academic engagement group to increase employee and company engagement with universities in South Wales and Bristol
- Set up a Cardiff schools engagement group to increase employee and company engagement in STEM ambassador roles
- Enable local charity payroll giving for staff
- Review green pension fund options for staff
- Encourage local purchasing options where possible
- Implement a flexible work policy post Covid-19

Governance

Honest, transparent and responsible

We seek to conduct all of our operating and business activities in an honest, ethical and socially responsible manner and these values underpin our business model and strategy.

We are committed to acting professionally, fairly and with integrity with all of our stakeholders, including commercial partners, customers, suppliers, employees and investors/shareholders.

The ESG working group is chaired by the CEO and reports to the Board.

Policies

Copies of the Group's policies in relation to anti-corruption and bribery, anti-slavery, modern slavery, environmental, equal opportunities and diversity, data protection and health and safety can be found in the ESG section of the Group's website: www.intelligentultrasound.com.

Cyber security

The Group obtained the IASME Governance certification in 2020 which is renewed annually to ensure that best practice continues to be followed. IASME Governance is risk based and includes key aspects of security such as incident response, staff training, planning and operations. IASME Governance incorporates Cyber Essentials assessment and an assessment against the General Data Protection Regulation (GDPR). The Group takes the threat of a cyber incident very seriously and endeavours to mitigate the risk wherever possible, although it recognised by the Board and management that it will never be possible to fully mitigate cyber risk.

KPIs

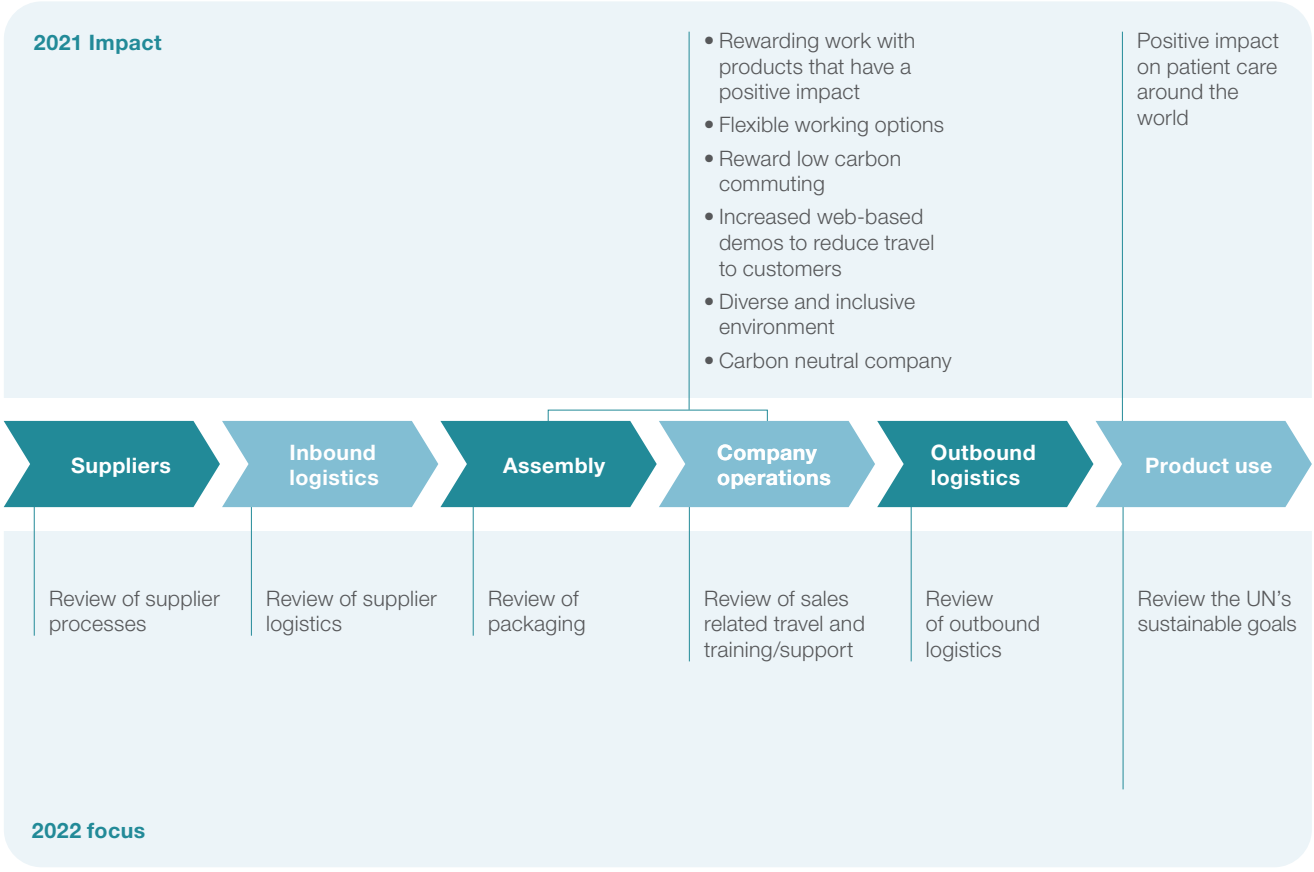
An internal audit of Group KPIs was conducted at the end of 2021 and a new framework for KPIs and reporting at both management, executive and Board levels was implemented at the start of 2022.

In 2022 we plan to:

- Monitor the new framework of KPIs across the Group
- Review the UN's sustainable development goals to determine which of the 17 present the greatest opportunity for IU to make a positive impact as a global citizen

Corporate Governance
see page 47

Impact Summary



IMPACT CASE STUDY

Covid-19 training module for BodyWorks

At the start of the pandemic in early 2020, our simulation R&D team resources were diverted to focus on the development of a Covid-19 version of our BodyWorks Point-of-Care simulator, designed to train frontline healthcare providers to use lung ultrasonography.

Ultrasound has major utility for patient monitoring of respiratory-related Covid-19 due to its safety, repeatability, absence of radiation, low cost and Point-of-Care use. Our Covid-19 upgrade module was made available globally and free of charge, to all our existing customers and enabled rapid and effective training of many healthcare professionals working in the front line. Examples include the UK Nightingale hospitals, New York's Harbour Healthcare hospitals and Ohio State University system, to name but a few.

For more information visit:
https://www.intelligentultrasound.com/wp-content/uploads/2021/02/BodyWorks-Eve-COVID-19-module-used-to-train-front-line-clinicians-in-NYC.pdf

IMPACT CASE STUDY

Saving Babies' Lives module for ScanTrainer

ScanTrainer is one of the world's leading obstetrics and gynaecology ultrasound training simulators that uses real patient scans and curriculum-based teaching to train and assess medical professionals at all levels of ultrasound scanning.

Launched in 2010, it's a perfect training tool for someone who is picking up the probe for the very first time, for an expert learning advanced sonography skills, or for everyone in between. Importantly, ScanTrainer automatically marks performance based on our expert metrics, so trainees can self-learn in their own time, at their own pace.

In 2019 NHS England published a new version of the Saving Babies Lives Care Bundle, as part of its ongoing drive to reduce the rates of stillbirths, neonatal deaths, maternal death and brain injuries and keep babies as safe as possible during pregnancy.

To support this initiative our R&D team produced an advanced obstetrics module for the ScanTrainer simulator that teaches a number of the key skills in the Saving Babies' Lives Care initiative, including spectral doppler in obstetrics, fetal presentation and placenta localisation.

This module is now sold around the world, helping medical professionals learn the key skills to keeping babies as safe as possible during pregnancy.

Section 172 statement

Engaging and maintaining strong relationships with stakeholders is a key factor in determining the long-term success and sustainability of Intelligent Ultrasound – not only in delivering the Group's strategy, vision and values, but also in directly benefiting employees, partners, suppliers, customers, consumers and shareholders alike

The Board is proactive in ensuring that dialogue and engagement with stakeholders takes place and that feedback is taken into account in the Board's decision making.

The Directors are required by law to act in good faith to promote success of the Company for the benefit of the shareholders as a whole. The following table describes how the Board has had regard to the matters set out in section 172 of the Companies Act 2006 as amended by the Companies (Miscellaneous Reporting) Regulations 2018. Please also refer to the following disclosures throughout the Annual Report.

S172 Statement

Section 172 factor	Read more
The likely consequences of any decision in the long-term	• Our purpose (page 6) • Our business model (page 10) • Our strategy (page 12)
The interests of the Company's employees	• Covered in the Section 172 report
The need to foster the Company's business relationships with suppliers, customers and other	• Covered in the Section 172 report
The impact of the Company's operations on the community and the environment	• See the Environmental section within our ESG Report (page 21)
The desirability of the Company maintaining a reputation for high standards of business conduct	• Governance (page 49) • Risk management (page 30) • Our business model (page 10)
The need to act fairly between members of the Company	• Corporate Governance Report (page 47)

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

(i) Regular information flow from the Executive Directors
The Executive Directors are directly involved in day-to-day business operations. The Non-executive Directors receive regular written and verbal business updates from the executive Directors via monthly reports, face-to-face at regular board meetings or between board meetings as required.

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

Identifying our stakeholders

The Company's stakeholders are the people who use our products and those who which have an interest in our vision, purpose and strategy or who may otherwise be affected by decisions made by its Board. The views and feedback of healthcare professionals, our partners, our customers, our suppliers, our people and investors are all taken into account in considering the long-term consequences of the Board's decision making.

For each of our key stakeholders, the following disclosure sets out the material issues, how the Board engages and how the engagement has influenced Board decisions.

The people who use our products

Healthcare professionals

We engage with the healthcare professionals who use our products to ensure the products meet their needs

Material issues

- Products continue to support the needs of the healthcare professional

How we engage

- Clinical dialogue to agree the product specification at the development stage of new product and upgrades to existing product
- Ongoing clinical and commercial dialogue collated, circulated, and discussed at regular product development meetings
- Targeted research to determine market changes
- Key opinion leader meetings held on a regular basis to understand future market changes

Outcomes

- The Board and management take into account the opinions of healthcare professional in planning and design of new product development, as well as product upgrades, to ensure new product platforms meet new segments of the market and upgrades meet the needs of clinical professionals

Customers

We stay close to our current and potential customers, building long-term relationships

Material issues

- Manage key customer relationships through our direct and reseller sales network
- Meet project development milestones
- Customer satisfaction
- Product innovation

How we engage

- Exhibitions to showcase our products and obtain market feedback
- Regional account management structure across the world to encourage meaningful, consistent and ongoing engagement with customers and collation of feedback that is then discussed at regular product development meetings and fed into the healthcare professional feedback and product development described above
- Product roadmaps to give customers increased clarity improvements to the provision of support and service

Outcomes

- A greater understanding of both customer pain points and future requirements from strategic to end-user level

Impact on decisions made in 2021

Some examples of how the Board has considered and responded to stakeholder needs in 2021 are as follows:

1) BabyWorks

In 2021 as part of the strategy to grow the simulation revenue stream, we launched our new paediatric and neonate simulator BabyWorks to market, expanding our simulation platform to four systems. During the research phase we consulted with customers and healthcare professionals to determining the market need. Feedback from these stakeholders convinced management that BabyWorks could be sold to departments and institutions in the US and UK, as well as a number of resellers around the world. Development of the product was complex and a decision was made, based on market feedback, to include certain modules to include as a priority at launch and other modules, which would be added as future add-ons in 2022 to 2024. BabyWorks was launched in H2 2021 and is expected to contribute to the growth in simulation revenue in 2022.

2) ScanNav Anatomy PNB

In 2021 we launched ScanNav Anatomy PNB in the UK, our first direct to market AI device in line with our two-pillar strategy of 'on-machine' and 'off-machine' software products to enable IU to be leader in the ultrasound AI market and grow revenue for the Clinical AI business. During the research phase to determine the market need we consulted with customers and healthcare professionals to determining the market need which concluded that just 5% of UK anaesthetists conducted almost 85% of all PNBs in the UK and that this was primarily due to a lack of confidence in ultrasound scanning. The development took longer than anticipated due to delays in obtaining FDA clearance, with regulatory studies being difficult to complete during the pandemic. However CE approval was granted in April 2021 and the product launched in the UK. FDA clearance in the UK is expected to contribute to revenue in 2022.

Section 172 statement continued

Direct enablers who help us deliver

Our People

Our people are our most valuable asset. We rely on their skills, experience, knowledge and diversity to deliver our vision

Our people are a highly skilled and technical workforce. They are an essential component of the Group's ability to stay ahead in a fast-paced competitive environment

Material issues

- Employee care and value
- Retention and talent
- Remuneration and benefits package
- Diversity and inclusion
- Workforce engagement
- Day-to-day engagement from executive team

How we engage

- Weekly 'all staff' meeting with dialogue between the CEO and all employees
- Annual full UK employee engagement event (Covid-19 restrictions permitting)
- Annual 'all staff' survey to understand our people's views on all aspects of the company, including engagement, communication, environment and ESG
- A commitment to ensure that the training, career development and promotion of all employees is non-discriminatory
- IU Synergise management development programme introduced for all managers within the group
- Regular employee updates to increase understanding of vision, strategy, performance and priorities

Outcomes

- In 2021 the Board agreed the appointment of a new HR manager to
  - improve employee engagement and feedback, refresh the employee appraisal system
  - Review of staff benefits package
- As part of the new ESG working group, the Board recognised the importance to include three employee representatives
- Introduced a new all employee survey to understand the views of employees on culture, hybrid working and company communication. Feedback was reported to the Board. One outcome was the creation of a new post-Covid-19 hybrid working policy

Shareholders

All Board decisions are made to promote the long-term success of the Group for the benefit of our shareholders

We aim to attract shareholders who are interested in a long-term holding in our Company

Material issues

- Our vision and strategy
- Financial performance
- Path to profitability
- Communicating our strategic priorities and ambition
- Responsible business practices

How we engage

- A wide range of communication styles is used to suit investor and potential investor preferences to engage and enable them to gather the information they need, from in person meetings, videos, podcasts and hard copy material online
- Regular meetings between members of the Board, the Company's major shareholders, analysts and corporate broker
- Participation in sector relevant investor conferences
- Publishing Annual Report and Accounts to share with shareholders and the subsequent Annual General Meeting
- Results statements, trading updates and press releases
- Videos and presentations on the company website from investor relations events
  - Investor roadshows and technology open days
- Consultation with some of our larger shareholders on matters of executive benefits, to ensure that these are aligned with the expectations of the market

Outcomes

- Two technology open days for new and existing investors in 2021 to demonstrate face to face all our products
- Feedback received from investors following investor roadshows is reviewed by the Board

Suppliers

Our relationship with our suppliers is integral to the delivery of quality products to our customers and the operational success of our business

Material issues

- Potential disruption of supply chain
- Competitiveness of component pricing
- Research and development investment to resolve any component problems
- Approval of large purchase order requests in line with requisition approval limits

How we engage

- Strong, collaborative long-term relationships
- Regular meetings and conversations with key suppliers to ensure uninterrupted supply chain
- Annual key component tenders, as and when appropriate
- Dialogue between the R&D and manufacturing teams to determine component issue solutions

Outcomes

- Reasonable payment terms agreed
- Minimise component price increases
- Minimise component supply issues

Partners

Includes our resellers who market and sell our products outside the UK and the US; as well as our clinical AI ultrasound vendor partners

Material issues

- Effective, competitively priced products
- Fair pricing and commercial terms.
- Accessible training
- Continuity of supply

How we engage

- Clear and understandable product positioning and pricing
- Meetings with vendors scheduled throughout the year with key decision makers and key implementors
- Continual commercial dialogue with partners
- Ongoing reseller product training
- Regular meetings to review performance and feedback from the market

Outcomes

- Increased reseller access to product information
- In 2021 the Board decided to introduce new contracts with resellers in order to:
  - revise our reseller pricing to incentive volume sales.
  - Formalise annual reviews and quarterly updates with each reseller
- In 2021, the Board decided to build a web-based training room in Cardiff head office, to be made available to all resellers on demand

Community & environment

Intelligent Ultrasound aims to build a profitable and sustainable business that delivers our vision of enabling ultrasound for everyone

Material issues

- Minimise any negative impacts on the environment, including our carbon footprint
- Have a positive influence on local and international communities

How we engage

- Support local employment
- Local community engagement
- Local purchasing where possible

Outcomes

- In 2021, we created a new ESG Working Group consisting of five directors and three employees
- Set up a local academic engagement group to increase employee and company engagement with universities in South Wales and Bristol
- Set up a Cardiff schools engagement group to increase employee and company engagement in STEM ambassador roles
- Enable local charity payroll giving for staff
- See our first ESG report on page 18

Other stakeholders

The Group considers that the above groups are its key stakeholders. However, it is important that the Board engages with and considers the interest of any other stakeholders who may be interested in the Company's business or otherwise be impacted by its decisions. The Board therefore considers any other stakeholders who may have a particular interest in a principal decision made by the Board.

Examples of other stakeholders include research partners, academic institutions, professional advisers, analysts, governance bodies, which include proxy advisors and regulators.

In addition to the methods of engagement as set out above, the interests of the Company's stakeholders are considered by the Board through a combination of:

- regular reports and presentations including operational reports and updates on investor relations, health and safety, employees and corporate governance;
- a strategy review attended by the Board that considered the purpose of the Group and its strategy, which is supported by a budget for the following year and a medium-term financial plan;
- formal consideration of R&D projects; and the risk management process.

Managing risk

The Board

Sets the tone on risk management culture

Reviews the principal risks and ensures they are aligned with overall goals and strategic objectives

Executive Committee

Reviews and identifies risks across the business

Oversees execution and implementation of controls to manage risks

Audit Committee

Reviews the effectiveness of risk management and internal control systems

From 2022 will support the Board in the detailed monitoring of risk exposures

Organisational culture, policies and procedures

Risk monitoring and reporting

Visibility of Group risks is delivered through our risk register.

The Group identifies and assesses each risk based on the impact and likelihood, and then applies mitigating actions appropriately. Each risk is categorised by risk area and scaled, based on the likelihood of occurrence and severity of impact with risks graded as high, medium or low accordingly, with high risk areas receiving the most attention. The risk register is reviewed and updated to capture and identify any new risks and opportunities, and to improve the mitigating actions. Each of our risks are owned by an Executive Director.

The Executive committee is responsible for identifying, assessing and mitigating risk under the direction of the Board (in 2022 this will move under the direction of the Audit and Risk Committee). A detailed risk assessment is performed bi-annually as outlined below:

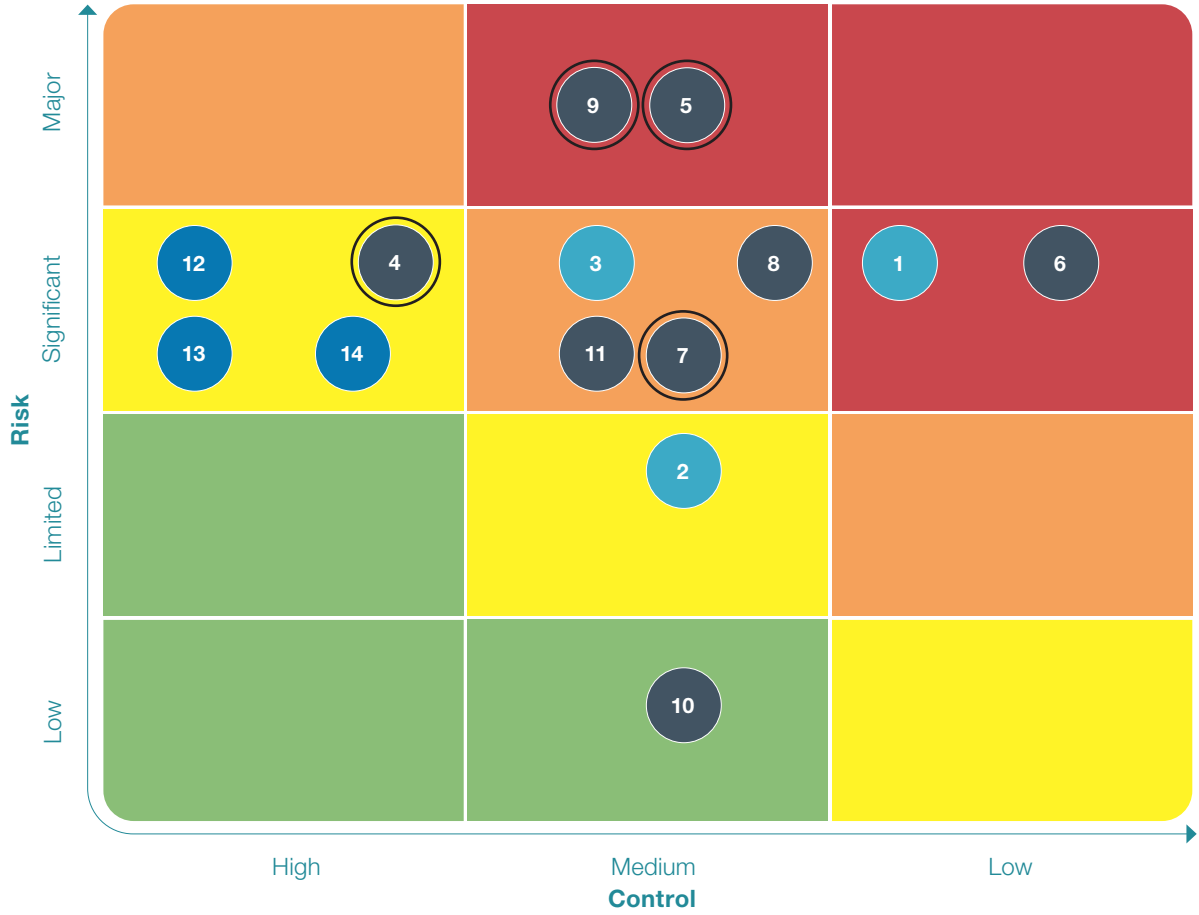
- Review existing risks: A review of the existing significant risks by category to assess whether the risk profile has changed since the previous review
- Identify new risks: Discuss whether there are any new or emerging risks and agree the risk rating status
- Review the mitigating controls: Consider and review the processes currently in place and identify the controls, which mitigate each risk
- Review and document mitigating controls: The mitigating controls and any further actions are documented
- The significant risks are mapped onto a heat map and alongside the risk register presented to the Board

Change key

(+) Increased (−) Decreased (=) No change

Heat map

Our risk map identifies the key risks at 31 December 2021 and are those that we consider most impact our business model and delivery of our strategy.



Risk status

- Major residual risk
- Significant residual risk
- Limited residual risk
- Low residual risk

Risk status change

- Increased risk

Risk category

- Strategic
- Commercial and operational
- Legal and regulatory risks

Risk - a combination of impact and probability

Increased risk

- 4 New AI products fail to obtain regulatory clearance or are significantly delayed
- 5 Covid related lock-downs
- 7 Supply chain interruptions
- 9 Liquidity

Decreased risk

- 2 We fail to sign additional OEM contracts
- 8 Recruitment/retention of expertise

No change

- 1 Our Clinical AI products take longer than expected to build sales traction
- 3 Development of new products takes longer than anticipated
- 6 Negative perception of AI
- 10 Foreign exchange
- 11 Economic and political conditions
- 12 Compliance with regulatory requirements for medical devices
- 13 Cyber security and GDPR
- 14 Legal and compliance

Risk Management continued

Risk	Impact	Mitigating actions	Change from 2020	Link to strategy
Strategic risks				
1. Our Clinical AI products take longer than expected to build sales traction	Slower than anticipated revenue growth.	Regular meetings with strategic partner to assess market feedback and sales. Dedicated salespeople in UK and US for direct to market product. Quarterly review of sales forecasting.	=	
2. We fail to sign additional OEM contracts	Longer term AI revenue growth potentially reduced.	Contractual discussions with OEMs. Launched our own direct-to-market products.	−	
3. Development of new products takes longer than anticipated	Growth in revenues will depend on our ability to continue to develop new products. These products may take longer to develop than planned, require more resources or may pose technical challenges that we cannot solve.	New product development is a key focus area for the Group. In 2021 we have continued to strengthen the Clinical AI and simulation R&D teams.	=	
Commercial and operational risks				
4. New AI products fail to obtain regulatory clearance or are significantly delayed	Failure to achieve regulatory approval of new products as well as changes in regulation may require us to reapply for approval or prevent the further use of those products. This could have an impact on sales. The requirements of regulators continue to evolve and potentially may increase the regulatory burden for our products.	We manage this risk by employing experienced professionals combined with external advisers who consult with regulatory authorities on the design of any products or programmes that may be required.	+	
5. Covid related lock-downs	Impacting the effectiveness of external development/clinical trials where IU staff are unable to travel to oversee the trials. Impacts ability to visit customers and attend exhibitions and conferences to demonstrate products.	Use in-country specialist clinical trial consultancy to conduct trials on our behalf. Installation of web demonstration rooms in both the UK and US offices.	+	
6. Negative perception of AI by clinicians	Potential for negative perception and mistrust of AI products impacting acceptance of our products for use in the clinical environment.	On-going education of key opinion leaders on the performance and benefits of AI, supported by independently verified study data.	=	

Risk	Impact	Mitigating actions	Change from 2020	Link to strategy
7. Supply chain interruptions	Potential impact areas include: (1) Increased price (2) Increased lead times (3) Delays in shipments, including delays at the borders and ports (4) A general shortage of computer chips is impacting many businesses in the supply of electronic components	Regular discussions with suppliers to ensure we are aware of current lead times and adjust order frequency or quantity to minimise risk of not having sufficient stock to complete orders. Adjust order frequency or quantity to minimise risk of not having sufficient stock to complete orders.	+	
8. Recruitment and retention of expertise	Recruitment of expertise in relation to machine-learning, industrial software development experience and product management continues to be highly competitive. Our ability to attract, develop and retain a diverse range of skilled people is critical if we are to compete and grow effectively. This is especially true in our key emerging markets where there can be a high level of competition for a limited talent pool.	The Group tries to ensure it can offer a competitive remuneration package. We aim to retain our employees with: • Competitive salary and regular benchmarking • Provision of online training and development • Annual learning and development budgets • Flexible working arrangements • Wellness focus through Vitality private health insurance • Leadership workshops for all managers in the business • Annual performance reviews	−	
9. Liquidity	Insufficient cash resources would require further fund raises.	Group cash balances are monitored on a monthly basis to ensure that the Group has sufficient funds to meet its current needs. As part of the annual budget process management review the balance of cash against planned R&D investment. See the going concern statement on page 78.	+	

Change key

+ Increased − Decreased = No change

Link to strategic pillars

 Make ultrasound easier to learn

 Make ultrasound simpler to use

Risk Management continued

Risk	Impact	Mitigating actions	Change from 2020	Link to strategy
10. Foreign exchange	The Group has transactional currency exposures. The Group has a US subsidiary, it makes purchases of inventory and incurs other costs in foreign currencies and makes sales denominated in sterling, US dollars and euro.	Fluctuations in exchange rates between the Group's presentational currency of sterling and the currency of transactions could adversely impact the financial results. The US dollar costs incurred by the US subsidiary are hedged by revenues invoiced in US dollars. The Group has, when necessary, utilised foreign currency hedging instruments to mitigate the impact of unhedged currency fluctuations.	=	
11. Economic and political conditions	We operate in multiple countries and are exposed to the effects of political and economic risks, changes in the regulatory and competitive landscape, trade policies, political upheaval, changes in government policy regarding healthcare priorities and budgets.	The Group seeks to mitigate this risk by conducting operations on a broad geographic basis and by introducing new technologies into new market segments. Although this may reduce some risk but does not reduce the risk arising from geopolitical conditions.	=	
Legal and regulatory risks				
12. Compliance with regulatory requirements for medical devices	Global regulatory bodies continue to increase their expectations of manufacturers and distributors of medical devices. We need to comply with ongoing regulatory requirements, such as to maintain a quality management system (QMS), for which we are subject to periodic inspections (scheduled and unscheduled), restrictions in relation to promotional materials and post-market safety surveillance programmes. Losing the ISO13485 accreditation would impact regulatory approval.	Our regulatory team is focused on the development of quality documentation for the QMS. All documentation is stored and available should any resubmission be necessary, and our quality systems are designed to be sufficiently robust to withstand any necessary scrutiny. We will take necessary actions to register products in any alternative UK-based system as and when required.	=	

Risk	Impact	Mitigating actions	Change from 2020	Link to strategy
13. Cyber security and GDPR	The Group stores anonymised patient scans for use in its software development projects and its cloud-based simulation systems also store customer data on servers managed by a third party. We depend on a wide variety of information systems, programmes and technology to manage our business. Our systems may be vulnerable to a cyber attack, malicious intrusion, data privacy breaches or other significant disruption. We have a layered security approach in place to prevent, detect and respond, to minimise the risk and disruption of any intrusions and to monitor our systems on an ongoing basis for current or potential threats.	Compliance with the General Data Protection Regulation (GDPR) is managed on an ongoing basis. Our third-party server manager, which is a major player in the information technology sector, has confirmed its compliance with GDPR. IASME Governance certificate. Continued security awareness activities including email communications and email phishing training activities. Multi-factor authentication tools to reduce the likelihood of remote attacks. Regular penetration testing and frequent vulnerability scanning undertaken. Endpoint protection and intrusion detection/ prevention implemented.	=	
14. Legal and compliance	Operating across the legal and compliance environment, which includes regulations on IP breaches, bribery, corruption and privacy, increases the risk of fines, penalties and reputational damage.	Legal and compliance policies, procedures, training and practices designed to prevent and detect violations of laws and regulations. The Group continues to mitigate the risk of litigation by reviewing its IP position against all its competitors and conducting annual reviews of its freedom to operate in its target markets.	=	

Change key

\+ Increased − Decreased = No change

Link to strategic pillars

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Key Performance Indicators

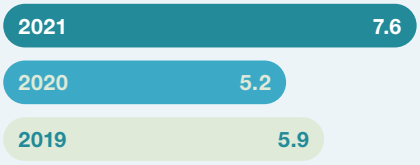
We assess Group operational and strategic progress against key performance indicators, or KPIs. These provide a clear direction as to how we should achieve our goals. Importantly, these measures are reflected in management targets and are aligned with our growth objectives and our purpose, strategy and vision

Financial

Revenue

£7.6m

2021: Increase of 47%

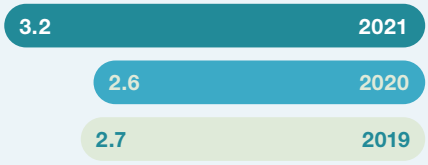


Revenue from sales of simulation and clinical AI products

Research and development

£3.2m

2021: Increase of 19%



Total R&D expenditure including capitalised development costs

Cash used in operations

£(1.8)m

2021: Improvement of 20%

Cash used in operations

Cash and cash equivalents

£5.0m

2021: Reduction of 43%

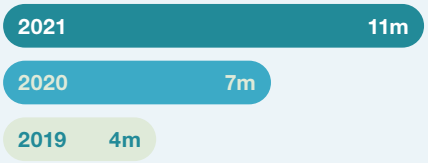
Cash resources available

Operational

AI image database (million)

11m

2021: Increase of 4m

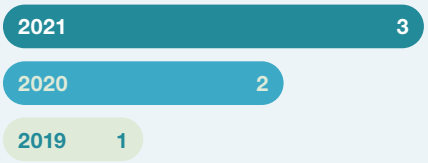


Total number of AI database ultrasound images

New products launched

3

2021: 3 new products launched

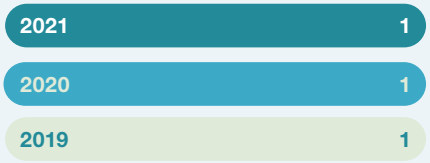


ScanNav Anatomy PNB (UK), NeedleTrainer and BabyWorks

AI partner agreements

1

2021: Extension to GE partnership agreement signed



Signed partner agreements

Link to strategic pillars

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Business Model see page 10

Risk Management see page 30

Financial Review

Helen Jones
Chief Financial Officer

A year of good recovery

Summary financial performance

£m (unless otherwise stated)	2021	2020
Revenue	**7.60**	5.17
Gross profit	**4.66**	3.17
Gross profit margin (%)	**61%**	61%
Total R&D spend	**(3.23)**	(2.56)
Administrative expenses (excluding expensed R&D)	**(7.02)**	(5.87)
Operating loss	**(4.33)**	(4.48)
Loss after taxation	**(3.61)**	(3.31)
Net cash used in operating activities	**(1.82)**	(2.26)
Cash and cash equivalents	**4.95**	8.77

Income statement

Revenue

2021 was a year of strong sales growth despite the continued challenges of Covid-19 ongoing throughout the year. The Group achieved total revenue of £7.60m (2020: £5.17m) representing an increase of 47% on 2020.

Simulation

Simulation revenue grew 43% year-on-year with growth across all regions and products compared to 2020 despite pandemic restrictions continuing for a second year. In particular, the UK market achieved its highest revenue to date, benefiting from NHS budgets for ultrasound simulation products. Performance by region has been discussed in more detail in the CEO review.

£m	2021	2020	Change
UK	**2.51**	1.42	76%
North America	**2.73**	2.32	18%
Rest of the World	**2.15**	1.41	53%
	7.39	5.15	43%

Clinical AI

Clinical AI revenue for 2021 was £0.21m (2020: £0.02m). Revenue growth was impacted by the pandemic that delayed new product roll-outs, reduced key opinion leader contact and resulted in almost no exhibitions or congress events taking place to demonstrate new products.

Gross profit

With higher revenue, gross profit increased to £4.66m (2020: £3.17m) achieving a stable average gross margin of 61% (2020: 61%).

Other income

Other income in 2020 included an advance of £0.12m relating to the US Government's Paycheck Protection Program which allowed US small businesses to apply for forgivable loans to pay for their payroll and certain other costs during the pandemic. This support was not available to the US business in 2021.

R&D expenditure credit (RDEC) of £0.08m was received in 2020 in relation to R&D projects which have been previously in receipt of grant funding which cannot be claimed under the R&D SME regime. RDEC was recognised as taxable income within other income. In 2021 there were no grant funded R&D projects and as a result no RDEC was received.

Administrative expenses

£m	2021	2020	Change
Selling and distribution	**2.44**	1.75	0.69
Other general and administrative	**2.64**	2.51	0.13
Insurance	**0.22**	0.12	0.10
Other non-cash costs:			
Share based payment charges	**0.53**	0.15	0.38
Depreciation and amortisation	**1.19**	1.34	(0.15)
	7.02	5.87	1.15

Administrative expenses, excluding expensed R&D costs, increased by 20% to £7.02m (2020: £5.87m) largely relating to higher performance-based remuneration expenses including sales commissions and bonuses, as well as higher distribution costs. Within other general and administrative expenses, the Group incurred higher IT related costs and recruitment fees as well as spend relating to additional finance support staff. Insurance costs, in particular for Directors' and Officers' liability insurance, also increased in 2021. As a result of company wide LTIP share options issued in December 2020, share based payment charges increased to £0.53m in 2021 (2020: £0.15m).

Operating loss

The 47% improvement in gross profit in 2021 from £3.17m to £4.66m was, in the main, offset by a combination of no Covid-19 grants from the US business in 2021 and a 20% increase in administrative expenses (detailed above) resulting in only a small improvement in the operating loss of £4.33m (2020: £4.48m).

Research and development (R&D) costs

£m	2021	2020	Change
R&D			
– Expensed	**1.96**	1.99	(0.03)
– Capitalised	**1.27**	0.57	0.70
	3.23	2.56	0.67
Simulation	**1.15**	0.87	0.28
Clinical AI	**2.08**	1.69	0.39

Total R&D spend increased in 2021 to £3.23m (2020: £2.56m). The Simulation R&D team was largely focused on completing the development of the new BabyWorks platform and HeartWorks 3D Echo products as well as the new online E-learning modules. The Clinical AI R&D costs related to the ongoing development of the ScanNav Anatomy PNB product, in particular in relation to progressing the products through US FDA regulatory clearance as well as NeedleTrainer and the progression of other variants of ScanNav Assist.

Taxation

The total tax credit in 2021 was £0.76m (2020: credit of £1.18m). The credit in 2021 relates to the estimated R&D tax credit claim for 2021 R&D investment (2020: £0.7m with an additional £0.2m in respect of 2019). The Group claims each year for R&D tax credits and, since it is loss-making, elects to surrender these tax credits for a cash rebate.

Included within the tax credit of £1.18m in 2020 is a deferred tax credit of £0.3m (2021: nil), which represents the movement in the consolidated deferred tax liability as well as the recognition of an equivalent deferred tax asset in relation to the intangible fixed assets acquired on acquisition of Intelligent Ultrasound Limited (IUL) and Inventive Medical Limited (IML) representing the view that the intangible fixed assets have value which will lead to the accumulated trading losses being utilised in the future.

As at 31 December 2021, the Group had cumulative gross UK tax losses of approximately £17.3m (31 December 2020: £15.7m) for which no deferred tax asset has been recognised due to the uncertainty over the timing of future recoverability.

Balance sheet

Net assets reduced to £9.72m as at 31 December 2021 (31 December 2020: £12.69m) with lower total assets and higher total liabilities compared to the previous period.

The largest movement in current assets in the period related to cash and cash equivalents which decreased by £3.82m to £4.95m (31 December 2020: £8.77m). The Group has no other sources of finance/debt.

Included within trade and other receivables of £2.65m are trade receivables of £1.89m (31 December 2020: £1.64m, increasing with higher trading in the last quarter of the period. Prepayments also increased by £0.37m from £0.18m to £0.50m arising from higher prepaid inventory and insurance balances.

Financial Review continued

Inventory of £1.20m (31 December 2020: £1.05m) increased by £0.15m due to higher stockholding of certain key components as insurance against potential supply chain disruption, although this has not resulted in any increased obsolescence. Included within current assets is the R&D tax credit receivable of £0.96m (31 December 2020: £0.67m). This is £0.28m higher than as at 31 December 2020 due to increased R&D costs in 2021; and the balance including £0.2m of the 2020 receivable, which was received post year end.

The decreases in current assets were offset by an increase in non-current assets of £0.68m. During the year £1.27m (2020: £0.57m) of development costs were capitalised within intangible assets. The criteria for capitalisation of development costs relating to ScanNav Anatomy PNB and NeedleTrainer were met during the period resulting in £0.46m of cost being capitalised in 2021.

Current liabilities increased by £0.99m to £3.21m (31 December 2020: £2.22m), with higher trade payables of £1.35m (2020: £0.84m) and an increase in accruals for sales-based royalties payable, sales commissions and annual bonuses. Lease liabilities of £0.67m (31 December 2020: £0.77m), relating to offices, the manufacturing facility and company cars, reduced by £0.1m in 2021 with ongoing lease payments. The only new lease in the year related to the IUNA office lease renewal.

Total deferred income of £0.53m (31 December 2020: £0.42m), relating to extended warranties and technical support, increased with higher trading levels in the year.

On 19 July 2021 following a receipt of a notice for the exercise of a share warrant certificate, the Company issued 1,256,693 new ordinary shares with a nominal value of £0.01 each at a subscription price of £0.01 per ordinary shares. The share warrant liability of £0.06m and the share warrant reserve of £0.13m were both extinguished directly through equity resulting in a new undistributable reserve of £0.17m. The fair value movements since initial recognition of the liability of £0.02m were transferred directly to retained earnings.

The share based payment reserve increased by £0.53m to £1.37m (31 December 2020: £0.84m) in line with the share based payment charge for the period.

Cash flow

The Group reported cash and cash equivalents of £4.95m at 31 December 2021 (31 December 2020: £8.77m).

Operating cash outflows before working capital movements of £2.61m (2020: £2.94m) improved by £0.33m in 2021 due to the higher trading levels in the year offset partly by increases in administrative expenses. Movements in working capital of £0.32m (2020: £0.31m) and higher R&D tax credits received in the year of £0.48m (2020: £0.36m) resulted in the net cash used in operating activities reducing to £1.82m (2020: £2.26m).

The net cash outflow arising from investing activities was £1.78m (2020: inflow of £4.58m) relating to capitalised R&D expenditure of £1.28m (2020: 0.57m) and £0.50m (2020: £0.37m) of purchases of property, plant and equipment. In the prior year, the cash inflow from investing activities was primarily impacted by the maturity of £5.50m of cash held on short term deposit.

The net cash outflow from financing activities was £0.22m (2020: £4.72m inflow), principally relating to lease payments and the receipt of gross proceeds of £0.01m in relation to shares issued as a result of the exercise of the share warrant certificate. The Group did not complete any fundraises during 2021. In 2020 the Company placed 49,400,000 newly issued shares of 1 pence each in the capital of the Company at a price of 10.5 pence per share resulting in a cash receipt of £5.19m with share issue costs of £0.39m.

Going concern

In undertaking a going concern review, the Directors have reviewed three financial projections to 31 December 2024 based on the existing base budget; a flexed, more conservative version of the base budget; and a projection based on latest trading, all of which include estimates and assumptions regarding the product development projects, sales pipeline, future revenues and costs and timing and quantum of investments in the R&D programmes. Although the projection based on latest trading indicates that the Group will not need to raise money within the next 12 months, the flexed more conservative budget projections indicate that the Group would need to raise further funds within the next 12 months to support the Group's growth plans in the absence of mitigating actions to control cash outflows such as deferring development expenditure. The flexed more conservative budget reflects a 20% revenue reduction on the existing base budget and therefore the Directors have concluded that this range of projections represents a material uncertainty related to events or conditions which may cast significant doubt on the Group's ability to continue as a going concern and, therefore, it may be unable to realise its assets or discharge its liabilities in the normal course of business. Although there is no guarantee, the Directors have a reasonable expectation that the Group will be able to raise further financing to support its ongoing development and commercialisation activities and continue in operational existence for the next 12 months. On this basis, the Directors continue to apply the going concern basis in preparing these accounts. Accordingly, these accounts do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

The Directors continue to explore additional sources of income and finance available to the Group to continue the development of its 'Classroom to Clinic' business.

The Company is required by the Companies Act 2006 to include a Strategic Report in its Annual Report. The information that fulfils this requirement can be found from pages 1 to 40.

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

This Strategic Report was approved by the Board on 27 May 2022 and signed on its behalf by:

Stuart Gall
Chief Executive Officer

Board of Directors

A Board with a broad range of skill and experience

Riccardo Pigliucci
Non-executive Chairman

Appointed
2012

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

Stuart Gall
Chief Executive Officer

Appointed
2009: part-time 2014: full-time

Experience
Stuart was a joint founder and executive director of Fusion IP plc, an AIM-listed university IP commercialisation company, before its purchase by IP Group plc for £103m in 2014. Stuart has a sales, marketing and general management background with over 25 years' experience in starting small technology-led companies, fund raising for and managing SMEs and acting as an executive director for a number of public companies. Stuart is an engaging and motivational leader with an energetic management style and the drive and enthusiasm to 'tell the Intelligent Ultrasound story'. He also leads an active life outside work, taking part in running and cycling races throughout the year. In addition to Fusion IP, he has previously worked at British Airways plc, The Promotions Partnership Limited, Anvil Limited and Toad Group plc. Up until June 2021 Stuart was an NED with i2L Ltd. Attends regular external courses during the year to keeps his skills up to date and relevant.

Ian Whittaker
Chief Operating Officer

Appointed
2016

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

Independent
Yes

Committees
Nomination (CHAIR)

Nicholas Sleep
Chief Technology Officer

Appointed
2012

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

Helen Jones
Chief Financial Officer

Appointed
2020

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

Board of Directors continued

Non-executive Directors

Professor Nazar Amso
Non-executive Director

Appointed
2004

Experience
One of the founders of the Group, Nazar is an Emeritus Professor at Cardiff University. He has been a Fellow of the Royal College of Obstetricians and Gynaecologists since 1999 and Founding Fellow of the Higher Education Academy. Nazar has more than 30 years' experience in ultrasound education. At Cardiff University, Nazar pioneered integration of simulation into the ultrasound Masters' programme curriculum. Nazar is passionate about introducing ultrasound simulation into the undergraduate curriculum and has continuously championed that cause around the world. Nazar has been and remains on a number of national and international committees defining and setting standards in ultrasound practise. He is a recognised expert in the field of ultrasound, Chairs the Board's Medical Advisory Committee and brings a wealth of medical and training experience to the Board.

Independent
No

Committees
Remuneration
Nomination

Professor Nick Avis
Non-executive Director

Appointed
2006

Experience
Nick was the Scientific Director for the Group in its formative years. Nick's research interests include: interactive and real-time visualisation and virtual/augmented reality systems; computational steering; application acceleration using many-core devices, remote rendering; interactive grid middleware and visual analytics of social media data. Nick has conducted many successful projects with both academic and industrial partners including Electronics Visualization Lab, University of Chicago, Wuhan Technical University and Toyota Motor Corporation (Japan). In 2013 he joined the University of Chester to establish the first new Faculty of Science and Engineering and in 2018 was appointed Pro-Vice-Chancellor for Research and Knowledge Transfer. In January 2021 he left the University of Chester to head up Clean Power Ltd. Nick is a member of the Engineering and Physical Sciences (EPSRC) peer review college and was previously a lay member of the Postgraduate Medical Education and Training Board (PMETB) and the General Medical Council (GMC). Nick has completed the Entrepreneurial University Leadership Programme.

Independent
No

Committees
Audit
Nomination

David Baynes
Non-executive Director

Appointed
2010

Experience
David is currently the joint CFO/COO of IP Group plc. David was the joint founder and CEO of Fusion IP plc before its purchase by IP Group plc for £103m in 2014. David has previously worked at Celsis International plc, Toad Group plc, which he co-founded, and Codemasters Limited.

David's association with IP Group, which is a major shareholder in the Company, means that he does not qualify as an independent director, but he is a very welcome member of the Board who makes an invaluable contribution, bringing a wealth of corporate finance experience backed by clear strategic thinking and no shortage of common sense.

Independent
No

Committees
Audit (CHAIR)
Remuneration
Nomination

Andrew Barker
Non-executive Director

Appointed
2017

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

Independent
Yes

Committees
Remuneration (CHAIR)
Nomination

Ingeborg Øie
Non-executive Director

Appointed
19 May 2021

Experience
Ingeborg has outstanding financial, corporate governance and investor relations experience, having been a medical devices and healthcare services analyst at Goldman Sachs and Jefferies, CFO of next-generation surgical robotics company, CMR Surgical. Ingeborg is currently Chief Strategy Officer of digital health company Huma. She was also a non-executive Director of Georgia Healthcare Group, the largest healthcare services provider in Georgia, that prior to its acquisition by Georgia Capital Plc in 2020, was listed on the London Stock Exchange.

Independent
Yes

Committees
Audit
Nomination

Michèle Lesieur
Non-executive Director

Appointed
20 Sept 2021

Experience
Michèle has significant experience in the medical imaging industry as well as corporate governance, and investor relations having been CEO of Philips France and General Manager of Philips Healthcare France and most recently CEO of Euronext listed Supersonic Imagine and Non-executive Director of EOS Imaging, a formerly listed software medtech company. Michèle remains chairman of the board of Intrasense, a listed software medtech company and Non-executive Director of Prodways Group, a listed 3D printing company.

Independent
Yes

Committees
Remuneration
Audit
Nomination

Chairman's Introduction

Riccardo Pigliucci
Chairman

I am pleased to present the governance section of our Annual Report, which includes details about the Board and an explanation of our individual roles and responsibilities. I also summarise the activities of the Board and the Chair of each Board Committee discusses the activities of that Committee during the past year.

Changes to the Board in 2021 and 2022

- We appointed two new highly experienced NEDs - Ingeborg Øie and Michèle Lesieur
- In compliance with ISS recommendation, I stepped down as Member of the Remuneration and Audit Committees
- During 2022 and 2023 we expect to continue our search for two new NEDs and start to reduce the overall size of the Board
- In 2022 two current NEDs will retire from the Board

Strong corporate governance to support our growth

The Board continues to be committed to supporting high standards of corporate governance, and in this section of the Annual Report we set out our governance framework and describe the work we have done to ensure good corporate governance throughout the Company and its subsidiaries (the Group). As Chair, my primary responsibility is to lead the Board effectively and ensure that the Group's corporate governance is appropriate and adopted across all our business activities. I am also responsible for ensuring our Board agenda ensures that we examine all the key operational and financial issues affecting our strategy.

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

Riccardo Pigliucci
Chair of the Board

27 May 2022

Corporate Governance Report

The QCA Code

The QCA Code sets out ten corporate governance principles and how to apply these principles, including a set of specific disclosures required in the Company's Annual report and Accounts or on its website.

The Company's disclosures on its website (the Website Disclosures) can be found at:
https://www.intelligentultrasound.com/aim-rule-26/

Statement of compliance with the QCA Corporate Governance Code

Principle	Commentary	Further information
1 Establishing a strategy and business model to promote long-term value for shareholders	The Group's business model and strategy to deliver shareholder value in the medium to long-term is discussed in the Strategic Report. The section Risk Management includes a discussion of the key challenges facing the Group and how these will be addressed.	Business model: page 10. Strategy: page 12.
2 Seeking to understand and meet shareholder needs and expectations	Responsibility for shareholder liaison rests principally with our CEO supported by our CFO and Chairman, alongside our advisers Cenkos and Walbrook PR. However, all our Board members attach a high degree of importance to providing shareholders with clear and transparent information on the Group's activities, strategy and financial position. The Board holds meetings with institutional investors and other large shareholders following the release of the interim and financial results. We provide the market and shareholders with the results of AGM and GM voting via RNS and other communication channels including the Group's website. We also participate from time-to-time in investor shows offering smaller and private investors insight into our business and also access to our management team.	Details of all shareholder communications are provided on our website. See the Shareholders section of the Section 172 report on page 28.
3 Taking into account wider stakeholder and social responsibilities and their implications for long-term success	The Board recognises its responsibility under UK law to promote the success of the Group for the benefit of its stakeholders and understands that the business has a responsibility towards its stakeholders including shareholders, employees, customers, partners, suppliers and to the local community. The Board sets standards across the Group and monitors these at regular board meetings of all Group companies. The Board is very conscious that the tone and culture it sets impacts all aspects of the Group and the way employees behave and operate. The Board encourages open dialogue and commitment to providing the best service possible to the Group's stakeholder. The Company monitors feedback from all its stakeholders and the Board uses this to develop future policy and make decisions.	See the Section 172 report which details our key stakeholders. See the Business model on page 10.
4 Embedding effective risk management, considering both opportunities and threats throughout the organisation	Our Executive Directors are closely involved in the day-to-day operations of the Group and report to the Board in detail at monthly intervals. Relevant papers are distributed to members of the Board in advance of Board and Committee meetings. Detailed financial reports of the Group's financial performance are also provided on a regular basis. The Board reviews a matrix of the key risks which sets out how these are managed and mitigated through internal and other controls and processes.	Our Risk Management process is explained on page 30.
5 Maintaining the Board as a well-functioning, balanced team led by the Chairman	The Board comprises the Non-executive Chairman, four executive Directors and six Non-executive Directors. The Board considers that Andrew Barker, Michèle Lesieur and Ingeborg Øie are independent Non-executive Directors. Currently no Senior Independent Director has been appointed, but the Board continues to evaluate a possible appointment. To ensure the Board functions well, the Board meets at least 11 times each year and it is the responsibility of the Company Secretary (supported by reports submitted by the Executive Directors) to provide the Board with high quality information in a timely manner to facilitate the proper assessment of the matters requiring a decision or insight. We also hold an annual strategy meeting at which Directors' attendance is mandatory. Each Non-executive Director continues to demonstrate that they have sufficient time to devote to our business. To support the Board we have put in place Audit, Remuneration and Nomination Committees all of which have agreed formal terms of reference. The Board has recently undertaken a review of its balance and composition to ensure it has a sufficiently wide range of skills and experience to enable the Group to pursue its strategic goals.	Biographies of the Directors: page 42. Key corporate governance changes in the year: page 46. See: Audit Committee report: page 52. Nomination report: page 58. Remuneration report: page 54.

Corporate Governance Report continued

Principle	Commentary	Further information
6 Ensuring that between them the Directors have the necessary up-to-date experience, skills and capabilities	The Board is satisfied that, between the Directors, it has an effective and appropriate balance of skills and experience, including in the areas of innovation, software development, the use of medical ultrasound, finance, marketing, international trade and corporate acquisitions. The Board includes some diversity in terms of the background and ethnicity of each Director and there are now three female Board members. The Nomination Committee reviews the balance and composition of the Board and its Committees taking into account the skills and experience of each Board member. Each new Director undertakes a formal induction programme to strengthen their understanding of the business.	Nomination Committee report: page 58. Biographies of the Directors: page 42.
7 Evaluating Board performance based on clear and relevant objectives, seeking continuous improvement	The Chairman regularly assesses the performance of each of the Directors (including by way of one-to-one meetings) to ensure that they remain committed to the business, that their individual contributions are relevant and effective and where relevant, they have maintained their independence. Agreed objectives and targets are set each year for the Executive Directors and performance measured against these metrics. In 2020 an external formal Board evaluation process was performed led by an independent consultant. Further information on the changes to the Board as a result of the Board evaluation are discussed on page 46.	Key corporate governance changes in the year: page 46.
8 Promoting a corporate culture based on ethical values and behaviours	The Board has an ethics policy which forms part of the Staff Handbook and a breach of the policy by any member of staff would result in disciplinary action to ensure that the Company's ethical values and behaviours and recognised and respected. A summary of the policy is set out below: *It is the policy of Intelligent Ultrasound to conduct its business at all times and throughout the world with honesty and integrity and the Company will continue to be an ethical and responsible company. This policy is embedded within the Staff Handbook which is given to all Group employees when they join the business and is updated and refreshed regularly. The Company recognises it has a responsibility for all the actions of its employees in connection with the activities of the organisation. In view of this, the Company believes that the ethics demonstrated by our employees should give all customers, shareholders, suppliers, colleagues, business partners and regulators' confidence that the Company operates in a way that avoids any suggestion of improper or personal motives or actions. Therefore, all employees are expected to conduct themselves in accordance with the Company's Code of Ethics at all times.* *The Company has a clear set of values and purpose which are communicated to the organisation regularly by the Board. The Board principally monitors and assesses corporate culture through annual staff surveys.*	See Section 172: page 26. Business model: page 10.

Principle	Commentary	Further information
9 Maintaining governance structures and processes that are fit for purpose and support good decision-making by the Board	The Board has established three Committees to discharge its roles and responsibilities: an Audit Committee, a Remuneration Committee and a Nomination Committee. Each Committee is governed by its own terms of reference which are created and reviewed by the Board to ensure they are appropriate to support the Board and to ensure good decision making. The CEO is responsible for the day-to-day leadership of the Group, the management team and its employees. The CEO is responsible, in conjunction with the Executive Directors and senior management, for the execution of the Company's strategy approved by the Board and the implementation of Board decisions.	Audit Committee report: page 52. Remuneration Committee report: page 54. Nomination Committee report: page 58.
10 Communicating how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	We maintain a regular dialogue with our shareholders through investor presentations for our annual and interim reports, investor conferences, shareholder meetings, podcasts, technology open days and through our broker Cenkos.	See the Section 172 report which details our engagement with shareholders: page 26. See: Audit Committee report: page 52. Nomination Committee report: page 58. Remuneration Committee report: page 54.

Corporate Governance Report continued

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

Understanding shareholder needs and expectations

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

That the Company Secretary should not be an Executive Director

The Board members have significant external Board Director experience and are aware that they may seek independent professional advice at the Company's expense to discharge their duties. The roles of CFO and Company Secretary have been combined in the interests of efficiency and cost, however the separation of the roles is reviewed annually.

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

For the period 1 January 2021 until the appointment of Ingeborg Øie on 19 May 2021, out of the five Non-executive Directors, including the Chairman, only Andrew Barker and Riccardo Pigliucci were considered independent.

- Nazar Amso and Nick Avis are not considered independent on the grounds of tenure, both having served on the Board for over 15 years.
- David Baynes is not considered independent as he is COO/CFO of IP Group plc, which owns 21% of the Company's issued share capital.

Although Nick Avis, Nazar Amso, Andrew Barker and Riccardo Pigliucci hold a small number of share options in the Company, these are not considered to affect their independence on the basis they are historical, one-off share options and the value is not significant relative to their respective personal financial position. The remaining unlapsed options vest after set time periods with no dependence on any Company performance measure. Two-thirds of the share options held by Nick Avis and Nazar Amso lapsed in March 2021.

Following the appointment of Ingeborg Øie and Michèle Lesieur, both of whom are considered independent, the Board now has four independent Non-executive Directors.

Review of the performance of the Board as a whole and committees

During the year a review of the effectiveness of the individual directors was performed. However, the QCA Code requires that a regular review for effectiveness is also carried out for the board as a whole and for individual committees. Whilst an external board evaluation was performed in 2020, there was no such review in 2021 for either the board or the individual committees. Such reviews will be performed within the next 12 months.

Key governance-related matters that have occurred during the year

The Board welcomed Ingeborg Øie as a Non-executive director of the Company on 19 May 2021. Ingeborg brings to the Company outstanding experience in the Financial world having been a medical devices and healthcare services analyst at Goldman Sachs and Jefferies, CFO of surgical robotics unicorn, CMR Surgical and is currently Chief Strategy Officer digital health company Huma.

Michèle Lesieur also joined the Board on 20 September 2021. Michèle brings to the Company outstanding industry, corporate governance, and investor relations experience, having been CEO of Philips France and General Manager of Philips Healthcare France and most recently CEO of Euronext listed Supersonic Imagine, that was sold to Hologic in 2019 and Non-executive director of EOS Imaging, a listed software medtech company, sold to Nasdaq listed Alphatec Holdings, Inc in 2021. Michèle remains Chairman of the Board of Intra-sense, a listed software medtech company and Non-executive director of Prodways Group, a listed 3D printing company.

These appointments strengthen the number of independent NEDs on the Board to four.

The role of the Board

The Board is responsible for leading and controlling the Company and has overall authority for the management and conduct of its business, strategy and development. The Board is also responsible for approving strategic plans, financial statements, acquisitions, major contracts and projects. The Board is focused on ensuring the long-term sustainable success of the Company and the continuous creation of value for its shareholders and stakeholders.

The Non-executive Directors communicate directly with Executive Directors between formal Board meetings as required.

The composition of the Board

The skills and experience of the Board are included in the Directors' biographical details on pages 42 to 45. The Board currently comprises 11 Directors, four of whom are Executive Directors, seven of whom are Non-executive Directors of which four are independent.

Key activities for the Board in 2021

Strategy and risk management	• Reviewed the Group risk register twice in the year • The whole Board participated in a two-day strategy meeting • Approved the Group's new ESG strategy including the creation of the ESG Working Group
Board appointments	• Appointed Ingeborg Øie and Michèle Lesieur as Non-executive Directors
Financial performance	• Approved the Company's financial statements for the year ended 31 December 2021 and the review of the period ended 30 June 2021 • Approved the 2022/23 budget
Corporate governance	• Approved the expansion of the terms of reference of the Audit committee to include risk management from 2022 onwards • Approved amendments to the Terms of Reference for Remuneration and Nomination Committees

Board committees

The Board has established Audit, Remuneration and Nomination Committees with formally delegated duties and responsibilities. The Audit Committee comprises David Baynes as Chair along with Professor Nick Avis, Michèle Lesieur and Ingeborg Øie. The Remuneration Committee comprises Andrew Barker as Chair along with Nazar Amso, David Baynes and Michèle Lesieur. The Nomination Committee is chaired by Riccardo Pigliucci and also comprises all of the Non-executive Directors.

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

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

In 2020, the Company established a Nomination Committee to lead its process for appointments and oversee the development of a diverse pipeline for succession.

The Executive Directors are employed full-time by the Group.

Nick Avis, Andrew Barker, Ingeborg Øie and Michèle Lesieur are contracted to work for the Company for 20 days per annum and David Baynes and Nazar Amso are contracted to work for the Company for 12 days per annum.

Attendance at Board and Committee meetings during 2021

	Board meeting	Board call	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings in 2021	**6**	**6**	**3**	**3**	**2**
Chairperson	**RP**	**RP**	**DB**	**AB**	**RP**
Riccardo Pigliucci (RP)	6	6	n/a	n/a	2
Stuart Gall	6	6	n/a	n/a	n/a
Helen Jones	6	6	n/a	n/a	n/a
Ian Whittaker	6	6	n/a	n/a	n/a
Nicholas Sleep	6	6	n/a	n/a	n/a
Nazar Amso	6	6	n/a	3	2
Andrew Barker (AB)	6	6	n/a	3	2
Nick Avis	6	6	3	n/a	2
David Baynes (DB)	6	6	3	3	2
Ingeborg Øie	4/4	4/4	3	n/a	0/0
Michèle Lesieur	2/2	2/2	2/2	1/1	0/0

Riccardo Pigliucci
Chair of the Board
27 May 2022

Audit Committee Report

David Baynes
Chair of the Audit Committee

Composition of the Committee

- David Baynes – Chair
- Nick Avis
- Ingeborg Øie – appointed 19 May 2021
- Michèle Lesieur – appointed 20 September 2021
- *Riccardo Pigliucci and Andrew Barker stepped down from the Committee on 22 June 2021*

Dear Shareholder,

On behalf of the Audit Committee, I am pleased to present the report of the Audit Committee for the year end 31 December 2021 and in the period up to the approval of the 2021 Annual Report and Accounts (together, the 'period').

Role of the Committee

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

During the period, the role of the Audit Committee was extended to include oversight of the Group's risk management framework and mitigating actions and will be known as the Audit and Risk Committee going forwards.

The Committee also has responsibility for oversight of the annual audit and its effectiveness, including the objectivity and independence of the external auditor.

The Committee is governed by its Terms of Reference, a copy of which can be found on the Company's website at:

https://www.intelligentultrasound.com/wp-content/uploads/2020/12/Audit-Committee-Terms-of-Reference-1.pdf

The Group's external auditor

The Audit Committee monitors the relationship with the external auditor, Deloitte LLP, to ensure that auditor independence and objectivity are maintained. Deloitte were appointed as the Group's auditor in 2020 following a competitive tender. Going forward the Committee will continue to monitor the performance of the auditor and will keep under review the need for external tender if required. A summary of remuneration paid to the external auditor is provided in note 7 of the financial statements. Having reviewed the auditor's independence and performance, the Audit Committee has concluded that these are effective and recommends that Deloitte LLP be re-appointed for an additional year as the Group's auditor at the 2022 AGM.

Internal audit

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

Member	Committee member since	Attendance at full meetings held since publication of the prior year Report and Accounts
David Baynes (Chair)	14 August 2014	3
Nick Avis	14 August 2014	3
Ingeborg Øie	19 May 2021	3
Michèle Lesieur	20 September 2021	2/2

Audit Committee meetings

In addition to numerous meetings during the year the Committee has held two full meetings since the publication of the 2020 Report and Accounts. In addition to this, audit-related matters are discussed by the full Board at most meetings.

The membership of the Audit Committee, together with appointment dates and attendance at meetings is set out in the table.

The meetings of the Committee are designed to facilitate and encourage communication among the Committee, the Company, and the external auditor. The Committee discussed with the external auditor the overall scope and plans for their audit and the key audit risks identified at the audit planning stage at a meeting held in December 2021. The Committee subsequently met with the external auditor on 21 April 2022 to discuss the Preliminary announcement, results of their audit to that date, their evaluation of the Company's internal control and the overall quality of the Company's financial reporting.

The Committee also reviewed and discussed together with management and the external auditor the effectiveness of the Group's internal control over financial reporting and the auditor's audit of internal control over financial reporting. Both management and the external auditors acknowledged the significant overall improvement in the monitoring controls and processes in 2021 since the prior year. Although noted that a review of controls in relation to the impairment review process and assessment of going concern will take place in 2022 in response to the findings identified by Deloitte (Audit report page 63).

The Chair of the Audit Committee also had several conversations with the partner responsible for the 2021 audit during the planning stage and during the audit. These included discussions about planning and ensuring the importance of the Group achieving its proposed reporting dates. Fees were also discussed on several occasions as were changes in staff allocated to the assignment.

Financial reporting

The Committee has reviewed, with both management and the external auditor, where the more significant judgements have been made and the quality and appropriateness of the Group's accounting policies.

i) Going concern assessment

As part of the process of preparing the Going Concern statement, a thorough review is carried out on the Group's budgets and cashflow projections, taking account of possible changes in trading performance under three scenarios:

- existing base budget;
- a flexed, more conservative version of the base budget; and
- a projection based on latest trading

All of the above forecasts include estimates and assumptions regarding the product development projects, sales pipeline, future revenues and costs and timing and quantum of investments in the R&D programmes. Following detailed review, the Committee agreed that the range of projections represents a material uncertainty regarding the likelihood of the Company needing to raise money in the next 12 months. The Board has adopted the going concern basis in preparing these financial statements on the basis that there is a reasonable expectation that the Group will be able to raise further financing if required.

ii) Intangible asset impairment

The Committee considered the carrying value of intangible assets in the 2021 financial statements together with the recoverability of the carrying value through future cash flows. For the purposes of its annual impairment testing process, the Group assesses the recoverable amount of each of the Group's cash generating units (CGUs) based on the calculation of the value-in-use. The Committee reviewed the impairment methodology and specifically assessed the key assumptions used to estimate the recoverable amount of each CGU, including future cash flows and discount rates applied in the calculation of the value-in-use, along with the sensitivity analysis performed.

iii) Classification and valuation of intangible assets

The Committee considered the appropriateness of the capitalisation of the Clinical AI development costs in relation to ScanNav Anatomy PNB and NeedleTrainer and were satisfied that these costs had met the criteria set out in IAS 38.

Approval of the financial statements

The Audit Committee has concluded that it has acted in accordance with its Terms of Reference. At the meeting on 19 May 2022 the Audit Committee considered each section of the Annual Report and the document as a whole, as proposed by the Company and subsequent to a review of the final draft of the report and accounts; it reached the conclusion and advised the Board that it considered the 2021 Annual Report and Accounts to be fair, balanced and understandable and, combined with the QCA Code Website Disclosures, provided the information necessary to assess the Group's business plan and strategy.

It is proposed that I will stand down from the Chair role at that time and pass the responsibility on to Ingeborg Øie, who is very well qualified to adopt the role and will be taking on the responsibility after that time.

Approval

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

David Baynes

Chair of the Audit Committee

27 May 2022

Remuneration Committee Report

Andrew Barker
Chair of the Remuneration Committee

Composition of the Committee

- Andrew Barker - Chair
- Nazar Amso
- David Baynes
- Michèle Lesieur - appointed 20 September 2021
- *Nick Avis and Riccardo Pigliucci stepped down from the Committee on 22 June 2021*

Dear Shareholder,

On behalf of the Board, I am pleased to present the report of the Remuneration Committee for the year ended 31 December 2021.

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

Membership

Although only members of the Committee have the right to attend meetings, other individuals, such as external advisers, the Chair of the Board and the CEO, may be invited to attend for all or part of any meeting.

Role of the Committee

The Committee meets at least two times per year and is responsible for determining the policy for Directors' remuneration and setting remuneration for the Company's Chair and Executive Directors, and other senior management who report to the CEO. The objective of the remuneration policy is to ensure that the executive team are provided with appropriate incentive to encourage enhanced performance and in a fair and responsible manner, are rewarded for their individual contributions to the success of the Group. We also determine the measures and targets for the Annual Incentive Scheme for the Executive Directors as well as long-term incentive plans and awards.

Terms of Reference

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

https://www.intelligentultrasound.com/wp-content/uploads/2020/12/Remuneration-Committee-Terms-of-Reference-1.pdf

Basis of preparation

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

The information is unaudited except where stated.

Director's remuneration

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

- be competitive and to attract, retain and motivate executives of a high calibre
- be appropriate to the scale of their responsibility
- provide for a significant element of at-risk performance-related pay
- ensure Directors identify with the interests of shareholders and
- are fairly remunerated in the light of their own personal performance and their contribution to the Group's overall performance

The remuneration package for Executive Directors comprises:

- **basic salary:** Salary and benefits are reviewed annually by the Committee and benchmarked against comparable roles in the sector and general market conditions.
- **pension allowance:** Each Executive Director receives a pension allowance equivalent to 10% of their basic salary.
- **performance-related pay:** The Annual Incentive Scheme is payable to each Executive Director according to the achievement of a number of measurable objectives and growth targets.
- **share-based incentives:** The Company operates a share option scheme for Executive Directors and permanent employees. Share options are normally granted to Directors on appointment and to employees after one year's service.
- Other benefits in kind including life insurance and health insurance.

Directors' service contracts

All Executive Directors are employed under service contracts. The services of all Executive Directors may be terminated by the Company or individual giving six months' notice.

Directors remuneration (audited)

The Directors' remuneration for the year ended 31 December 2021 was:

	Salaries & fees £'000	Accrued bonus £'000	Pension £'000	Travel & car allowance £'000	Other benefits £'000	Total 2021 £'000	Total 2020 £'000
Nazar Amso	22	–	–	–	–	**22**	20
Nick Avis	21	–	–	–	–	**21**	20
Andrew Barker	25	–	–	–	–	**25**	20
David Baynes	20	–	–	–	–	**20**	20
Stuart Gall	195	44	19	14	2	**274**	251
Helen Jones	120	28	1	–	1	**150**	145
Michèle Lesieur[2]	7	–	–	–	–	**7**	–
Ingeborg Øie[1]	16	–	–	–	–	**16**	–
Riccardo Pigliucci	56	–	–	–	–	**56**	54
Nicholas Sleep	185	37	18	–	–	**240**	228
Ian Whittaker	147	43	15	–	5	**210**	178
Total	814	152	53	14	8	**1,041**	937

1 Appointed 19 May 2021

2 Appointed 20 September 2021

David Baynes holds an interest in IP Group plc, the largest shareholder of the Company. Fees of £20,000 (2020: £20,000) were paid to IP Group plc in respect of the services provided by Mr Baynes.

Basic salary

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

Pensions

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

Performance-related pay

i) 2021 Annual Incentive Scheme

Each Executive Director can earn up to a maximum of 30% of their base salary on the successful achievement of the following:

- 10% based on hitting Group revenue, cash, and operations, targets; and
- 20% based on the achievement of individual performance-based targets for each Director.

The Committee may exercise its discretion over up to half of the potential scheme payment.

ii) 2022 Annual Incentive Scheme

The Chief Executive can earn up to a maximum of 35% of his base salary and each other Executive Director can earn up to a maximum of 30% of their base salary on the successful achievement of Group revenue and operations targets, and on the achievement of individual performance-based targets.

The Committee may exercise its discretion over up to half of the potential scheme payment.

Key performance indicators
see page 36

Remuneration Committee Report continued

Directors and their interests

The Directors' interests in the shares of the Company (audited) are detailed below:

	At 31 December 2021 No.	% of issued Ordinary share capital	At 31 December 2020 No.	% of issued Ordinary share capital
Nazar Amso	**1,134,000**	**0.42%**	1,134,000	0.42%
Stuart Gall	**923,474**	**0.34%**	923,474	0.34%
Ian Whittaker	**451,172**	**0.17%**	451,172	0.17%
Nicholas Sleep	**421,709**	**0.16%**	421,709	0.16%
Andrew Barker	**317,992**	**0.12%**	317,992	0.12%
Nick Avis	**272,619**	**0.10%**	272,619	0.10%
Riccardo Pigliucci	**117,648**	**0.04%**	117,648	0.04%
Helen Jones	**95,238**	**0.04%**	95,238	0.04%
David Baynes	**–**	**–**	–	–
Ingeborg Øie	**–**	**–**	–	–
Michèle Lesieur	**–**	**–**	–	–

In addition to the above, Professor Nazar Amso is the beneficial holder of 180,000 shares representing 0.07% (2020: 0.07%) of the issued share capital through The Amso Trust and Professor Amso's spouse holds 120,000 shares representing 0.04% (2020: 0.04%) of the issued share capital.

Parties related to Professor Nick Avis hold 141,177 shares representing 0.05% (2020: 0.05%) of the issued share capital.

Directors' interests in share options

At 31 December 2021 the following options had been granted to the Directors and remain current and unexercised:

	Option exercise price (pence)	At 1 January 2021 No.	Lapsed during year No.	At 31 December 2021 No.	Expiry date
Executive Directors					
Stuart Gall	19.00	268,000	–	**268,000**	1 May 2023
Stuart Gall	42.50	324,000	–	**324,000**	30 June 2024
Stuart Gall	11.25	2,437,000	–	**2,437,000**	29 May 2028
Stuart Gall	15.00	1,087,498	–	**1,087,498**	21 Dec 2030
Nicholas Sleep	19.00	268,000	–	**268,000**	1 May 2023
Nicholas Sleep	42.50	260,000	–	**260,000**	30 June 2024
Nicholas Sleep	11.25	1,605,000	–	**1,605,000**	29 May 2028
Nicholas Sleep	15.00	1,033,711	–	**1,033,711**	21 Dec 2030
Ian Whittaker	20.50	200,000	–	**200,000**	4 April 2027
Ian Whittaker	11.25	1,000,000	–	**1,000,000**	29 May 2028
Ian Whittaker	15.00	824,790	–	**824,790**	21 Dec 2030
Helen Jones	12.00	1,000,000	–	**1,000,000**	24 April 2030
Helen Jones	15.00	662,266	–	**662,266**	21 Dec 2030
Non–executive Directors					
Nazar Amso	16.51	84,000	(84,000)	**–**	16 March 2021
Nazar Amso	19.00	80,000	–	**80,000**	1 May 2023
Nazar Amso	42.50	150,000	–	**150,000**	30 June 2024
Nick Avis	16.51	84,000	(84,000)	**–**	16 March 2021
Nick Avis	42.50	40,000	–	**40,000**	30 June 2024
Andrew Barker	16.22	135,000	–	**135,000**	6 October 2027
Riccardo Pigliucci	19.00	216,000	–	**216,000**	1 May 2023
Riccardo Pigliucci	42.50	80,000	–	**80,000**	30 June 2024
		11,839,265	**(168,000)**	**11,671,265**	

The vesting conditions are detailed in note 26 of the financial statements.

M&A bonus arrangement

The Remuneration Committee provides incentive for senior management to realise reward for growth with the Long-term Incentive Plan, through share price appreciation of awarded stock options, however, the Remuneration Committee also recognises the need to provide management with an incentive in the form of a cash award that will be payable upon the completion of a potential exit event through an M&A Bonus. To provide a dual incentive structure, the M&A Bonus is underpinned by the Long-term Incentive Option which can be exercised in accordance with its own terms.

The maximum amount of cash payable to each participant under the M&A Bonus will be based on a multiple of 50% of each Executive Director's remuneration if the price per share to be paid by an acquirer is £0.18 or more and will increase with any increase in the price per share paid by an acquirer above £0.18. The total M&A bonus pool for all participants is capped at 2.9% of the eventual sale price of the Company. The actual amount of cash payable under the M&A Bonus will be calculated after deduction of any gain in the Long-Term Incentive Option.

Non-executive Directors

The salary of the Chair is determined by the Committee excluding the Chair and the salaries of the Non-executive Directors are determined by the Board excluding the Non-executive Directors following a recommendation from the Chair of the Remuneration Committee, after consultation with independent advisers and published data. The Non-executive Directors, other than David Baynes, each receive fees of £25,000 per annum, with an additional £5,000 per annum for each committee chaired. The Remuneration Committee plans to recommend that these fees are kept in line with those of comparable similar size companies in the sector, and general market conditions. Prior to 2018, the Non-executive Directors, other than David Baynes, have been awarded a small number of share options in previous years and no further options will be issued.

The Chair of the Committee will be available at the 2022 AGM to answer any questions about the Group's senior management remuneration policies and practices.

Approval

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

Andrew Barker

Chair of the Remuneration Committee

27 May 2022

Nomination Committee Report

Riccardo Pigliucci
Chair of the Nomination Committee

Composition of the Committee

- Riccardo Pigliucci - Chair
- Andrew Barker
- Nick Avis
- David Baynes
- Nazar Amso
- Ingeborg Øie – appointed 19 May 2021
- Michèle Lesieur – appointed 20 September 2021

Dear Shareholder,

During 2021, the Nomination Committee focused on strengthening the Board with the appointment of two new independent Non-executive Directors who bring considerable experience across a number of relevant industries that reflect the Group's broad long-term ambitions.

Membership

Although only members of the Committee have the right to attend meetings, other individuals, such as external advisers and the CEO, may be invited to attend all or part of any meeting. Currently, all Non-executive Directors are members of the Nomination Committee. Ingeborg Øie and Michèle Lesieur joined the Committee on appointment to the Board.

Responsibilities

The main responsibilities are set out in its terms of reference, which are available on the Group's website:

https://www.intelligentultrasound.com/wp-content/uploads/2020/12/ICSA-nomination-committee-terms-of-reference-JAN201.pdf

The terms of reference for the Committee are based on the ICSA guidelines.

The purpose of the Committee is to ensure an orderly succession of candidates for Executive Directors and Non-executive Directors (NEDs), and to advise the Board on matters of corporate governance relating to the appointment and re-appointment of Directors. In fulfilling this purpose, the Committee is required to:

- identify, evaluate and nominate candidates to fill Board vacancies
- make recommendations to the Board regarding the annual re-election of Directors
- ensure an appropriate succession plan is in place for the Chair and all Directors
- ensure an orderly succession plan is in place for senior executives and
- advise on matters of governance such as Board diversity

Diversity

The Committee recognises the importance of a diverse Board and is mindful of the issue of Board diversity in its succession plans. It also acknowledges the importance of ensuring that the selection of Directors should be based upon a range of factors including skills, experience, qualifications, background and values. Accordingly, all vacancies are filled taking into account these wider factors and are not based to a disproportionate extent on any one factor such as gender or ethnicity.

Principal activities during the year

The Committee met formally by video conference twice during the year. The Committee focused on its role to search for and appoint new independent NEDs. The Nomination Committee recognised that, during the past few years, the Company has significantly expanded its portfolio of product offerings and the way it takes them to market. From an original focus on the 'classroom' by teaching ultrasound skills with simulation products sold directly to end users, to the entry into the 'regulated clinic' market with AI-driven solutions sometimes integrated into the ultrasound equipment itself and sold through agreements with large Original Equipment Manufacturers (OEM) such as GE.

In response to these developments, the Nomination Committee developed a set of requirements for new NEDs who would ultimately provide the skill mix required to assist the Company in this expanded strategy.

In 2020, an external consultant was appointed as adviser to the Board to conduct the search for these appointments. Subsequently, on 19 May 2021, Ingeborg Øie was appointed to the Board to serve as an Independent NED and member of the Audit and Nomination Committees.

Ingeborg brings to the Board outstanding financial, corporate governance and investor relations experience, having been a medical devices and healthcare services analyst at Goldman Sachs and Jefferies, CFO of next-generation surgical robotics company CMR Surgical and currently Chief Strategy Officer at Huma.

On 20 September 2021, Michèle Lesieur was appointed to the Board to serve as an independent NED and member of the Audit, Remuneration and Nomination Committees.

Michèle brings to the Board outstanding experience in the medical imaging industry as well as corporate governance, and investor relations having been CEO of Philips France and general manager of Philips Healthcare France and most recently CEO of Euronext listed Supersonic Imagine and NED of EOS Imaging.

Michèle remains chairman of the board of Intrasense, a listed software medtech company and NED of Prodways Group, a listed 3D printing company.

Currently the Committee is conducting a search for an additional independent NED to be appointed in 2022.

Following these appointments, and a period of overlap, it is expected that several current Directors will not stand for re-election at the 2022 AGM in order to reduce the size of the Board.

Induction of new directors

New directors are taken through a comprehensive induction programme which is tailored to their individual needs and understanding of the technologies, markets and issues facing the Company.

Riccardo Pigliucci

Chair of the Nomination Committee

27 May 2022

Directors' Report

The Directors present their report and audited consolidated financial statements of Intelligent Ultrasound Group plc (the Company or the Group) for the year ended 31 December 2021.

General Information

The Company is incorporated as a public limited company and is registered in England and Wales with registered number 09028611. Its registered office is at Floor 6A Hodge House, 114-116 St Mary Street, Cardiff, CF10 1DY.

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

Information included in the Strategic Report

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

- performance of the business
- financial review
- principal risks and uncertainties
- important events which have occurred post period end and
- likely future developments

Dividends

The Directors do not recommend the payment of a dividend (2020: £nil).

Research and development

The Group's research and development activity plays an important role in the operational and financial success of the business. The Group spent £3.23m (2020: £2.56m) on research and development activities of which £1.96m (2020: £1.99m) was expensed and £1.27m (2020: £0.57m) was capitalised as an intangible asset.

Going concern

In undertaking a going concern review, the Directors have reviewed three financial projections to 31 December 2024 based on the existing base budget; a flexed, more conservative version of the base budget; and a projection based on latest trading, all of which include estimates and assumptions regarding the product development projects, sales pipeline, future revenues and costs and timing and quantum of investments in the R&D programmes. Although the projection based on latest trading indicates that the Group will not need to raise money within the next 12 months, the flexed more conservative budget projections indicate that the Group would need to raise further funds within the next 12 months to support the Group's growth plans in the absence of mitigating actions to control cash outflows such as deferring development expenditure.

The flexed more conservative budget reflects a 20% revenue reduction on the existing base budget and therefore the Directors have concluded that this range of projections represents a material uncertainty related to events or conditions which may cast significant doubt on the Group's ability to continue as a going concern and, therefore, it may be unable to realise its assets or discharge its liabilities in the normal course of business. Although there is no guarantee, the Directors have a reasonable expectation that the Group will be able to raise further financing to support its ongoing development and commercialisation activities and continue in operational existence for the next 12 months. On this basis, the Directors continue to apply the going concern basis in preparing these accounts. Accordingly, these accounts do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

Financial instruments

A description of the Group's financial risk management objectives and policies, as well as disclosure of exposure to price risk, credit risk, liquidity risk and cash flow risk is included in note 25 to the financial statements.

Directors and their interests

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

Nazar Amso
Nicholas Avis
Andrew Barker
David Baynes
Stuart Gall
Helen Jones
Riccardo Pigliucci
Nicholas Sleep
Ian Whittaker
Ingeborg Øie
(appointed 19 May 2021)
Michèle Lesieur
(appointed 20 September 2021)

Substantial shareholdings

The following shareholders held 3% or more of the issued share capital of the Company as at 30 April 2022:

Shareholder	Number of shares	% of issued capital (as at date of notification)
IP Group	56,740,641	20.96
Parkwalk Advisors	35,965,600	13.29
Octopus Investments	29,983,500	11.07
Polar Capital	25,405,236	9.39
Amati Global Investors	15,869,000	5.86
Herald Investment Management	9,481,900	3.50
Canaccord Genuity Wealth Management	9,444,400	3.49
Walker Crips Investment Management	9,164,461	3.39
Rathbones	8,154,564	3.01

The Directors' interest in shares, share options and their remuneration is set out in the Remuneration Report. There have been no changes to Directors' interests between the end of the period under review and one month prior to the notice of the AGM.

Insurance

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

Corporate governance

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

Statement as to Disclosure of Information to the Auditor

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

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

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditors

The auditors, Deloitte LLP, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed at the Annual General Meeting.

By order of the Board

Helen Jones

Chief Financial Officer and Company Secretary

27 May 2022

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group and Company financial statements in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period.

In preparing the Group and Company financial statements, the Directors are required to:

- properly select and apply accounting policies
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- provide additional disclosures when compliance with the specific requirements in IFRS Standards are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance and
- make an assessment of entity's ability to continue as a going concern

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

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

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 27 May 2022 and is signed on its behalf by:

Helen Jones

Chief Financial Officer and Company Secretary

27 May 2022

Independent Auditor's Report

to the members of Intelligent Ultrasound Group plc

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Intelligent Ultrasound Group plc (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Group statement of profit and loss and other comprehensive income;
- the Group and Company statements of financial position;
- the Group statement of changes in equity;
- the Company statement of changes in equity;
- the Group and Company statements of cash flow; and
- the related notes 1 to 27.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing 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 Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Material uncertainty related to going concern

We draw attention to note 3 in the financial statements, which indicates that, although the projection based on latest trading indicates that the Group will not need to raise money within the next 12 months, the flexed more conservative budget projections indicate that the Group would need to raise further funds within the next 12 months to support the Group's growth plans.

As stated in note 3, these events or conditions, along with the other matters as set forth in note 3, indicate that a material uncertainty exists that may cast significant doubt on the Group's and parent company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- Reviewing and challenging management's forecasts and budgets for the going concern period, evaluating the financial results and key cash flows of the business over this period focussing on profitability, liquidity and forecast cash burn;
- Assessing post year end performance including revenues recognised and cash burn compared to budget;
- Assessing the historical accuracy of forecasts prepared by management compared to actual results in the year;
- Assessing any funding raised or secured post year end compared to management's going concern assessment;
- Validating forecasts are consistent with those used to support the valuation of intangible assets and investment in subsidiaries and intercompany receivables; and
- Assessing the appropriateness of the disclosure in the financial statements relating to the going concern position of the group, including consideration of the material uncertainty identified.

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

Independent Auditor's Report continued

to the members of Intelligent Ultrasound Group plc

4. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Going concern (see material uncertainty related to going concern section) • Completeness and accuracy of deferred income; • Classification and valuation of intangible assets; and • Valuation of investments in subsidiaries and intercompany receivables (Parent company only)
Materiality	The materiality that we used for the Group financial statements was £150,000 which was determined with reference to 2% of Group revenue. Given the loss-making performance of the Group, revenue was considered the most appropriate benchmark on which to determine materiality.
Scoping	We have performed full scope audit procedures on all trading components.
Significant changes in our approach	The audit approach and key audit matters identified in the current year have remained largely consistent with the prior year, due to the business operations and group structure remaining consistent. We have however identified classification of intangible assets as an additional key audit matter in the current year as this is the first year in which development costs have been capitalised in respect of the Clinical AI division. This is due to significant management judgement being required to determine the appropriate capitalisation date of development costs incurred, in line with IAS 38.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included 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. In addition to the matter described in the material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

5.1. Completeness and accuracy of deferred income

Key audit matter description	Deferred income relates to extended warranty and support packages on sales of hardware products and revenue is released over time as the performance obligation is fulfilled. Deferred income recognised as a liability as at 31 December 2021 totals £0.527m (2020: £0.417m) with previously deferred revenues of £0.312m (2020: £0.226m) released to the income statement in the financial year to 31 December 2021. The completeness and accuracy of deferred income has been identified as a key audit matter as manual intervention is made by management in both the calculation of revenues to defer and the posting of deferred income adjustments. Where an extended warranty or support package is purchased at the point of initial product sale it is necessary to delay revenue recognition until the end of the standard warranty and support service included in the initial purchase. The revenue recognition accounting policy is disclosed in Note 3 to the financial statements. Revenue disclosure is included in Note 5 to the financial statements and deferred income disclosure is included in Note 19 to the financial statements.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the revenue deferral process. We obtained management's breakdown and calculation of deferred revenues and on a sample basis assessed whether: • it is appropriate for revenues to be deferred based on the performance obligations of the contract, and the performance obligations have been correctly identified through assessment of the underlying services being provided; • the transaction price has been appropriately determined and correctly included in the calculation of deferred income; • revenue is recognised appropriately on a straight-line basis over the period of service; • the amount recognised is recoverable by assessing cash received or obtaining customer confirmations; and • the revenue recognised in the year to 31 December 2021 and the revenue deferred as at 31 December 2021 had been correctly recognised or deferred by completing an independent recalculation. As part of the recalculation we obtained evidence in relation to the start date for the service being provided and the length of time the service was being provided over, and assessed whether revenues had only been recognised from the identified start date and over the corresponding period of service.
Key observations	We have not identified any significant control deficiencies or misstatements in the current year and we consider the completeness and accuracy of deferred income to be appropriate.

5.2. Classification and valuation of intangible assets

Key audit matter description	As at 31 December 2021 the group has £2.558m (2020: £1.963m) of intangible assets, comprising intellectual property of £0.798m (2020: £1.129m) relating to the Clinical AI and Simulation divisions, and development costs of £1.76m (2020: £0.819m) relating to the Clinical AI and Simulation divisions. Intellectual property has arisen on the acquisitions of Intelligent Ultrasound Limited and Inventive Medical Limited in previous periods. Development costs capitalised relate to development expenditure; additions to development costs in 2021 total £1.275m (2020: £0.568m). Two separate cash generating units (CGUs) have been identified by management in the group, being the Clinical AI division and the Simulation division. **Classification of intangible assets** There is significant management judgement required to determine the appropriate capitalisation date of development costs incurred, in line with the requirements of IAS 38 specifically around the product being technically and commercially feasible. This is the first year in which development costs have been capitalised in respect of Clinical AI division products, including the Anatomy PNB product for the amount of £0.29m. **Valuation of intangible assets** The intangible assets have been assessed by management for impairment as required under IAS 36 Impairment of Assets where indicators of impairment exist. No impairment has been recognised in 2021 however an impairment review has been performed in the year due to losses incurred which increases the risk the assets may not be recoverable. There is a risk that the key assumptions such as revenue growth, terminal growth rate, variability of costs and discount rates used in the impairment review model are not appropriate. Note 3 to the financial statements sets out the group's accounting policy for intangible assets acquired as part of a business combination, other intangible assets, and impairment of assets. Note 4 to the financial statements provides details of the critical accounting judgements and key sources of estimation uncertainty in respect of intangible assets. Note 12 to the financial statements outlines the key assumptions involved in the intangible asset impairment assessment. The Audit Committee Report also considers the quality and appropriateness of the groups accounting policy in respect of intangible asset impairment assessment, as detailed on page 52.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the classification and impairment assessment process for intangible assets. **Classification of intangible assets** We reviewed management's assessment that supported the capitalisation of the development costs in the year. We challenged the rationale and management's judgements against the requirements of IAS 38 specifically around the product being technically and commercially feasible, and sought evidence as to whether the criteria had been met. We tested the additions to intangible assets this year to ensure they are capitalised in line with the requirements of IAS 38. **Valuation of intangible assets** We obtained cash flow forecasts prepared by management and challenged key management estimates included in the forecast, such as revenue growth, terminal growth rates and discount rates. We validated the mathematical accuracy of the models prepared by management and also compared them against other forecasting models to identify if there were inconsistencies. We compared the net present value of the forecast cash flows to the carrying value of the CGUs identified. We considered indicators of impairment including with reference to historical performance, external market data and assessment of the group's future strategy and budgets. We assessed the accuracy of management's historical forecasts, including where management made adjustments to forecast performance for the impact of Covid-19; where there were discrepancies, we evaluated the impact of these on the current year forecasts. We involved our internal valuations specialists to estimate an appropriate discount rate with reference to market data and compared that to the rate used by management. We applied sensitivities to calculations prepared by management to assess the impact on headroom of reasonably possible changes in assumptions. We tested the adequacy of management's disclosures relating to intangible assets, and capitalisation of development costs included in note 4 and note 12.

Key observations	**Classification of intangible assets** Based on our work performed, we concluded that the classification of intangible assets is appropriate. **Valuation of intangible assets** Based on our work performed, we concluded that the carrying value of intangible assets is not impaired. However, the impairment model prepared by management in relation to the Clinical AI division is sensitive to a reduction in revenue growth rates, whereby not achieving budgeted revenue targets could result in an impairment of the full carrying value, as disclosed in note 4. The discount rates used in the impairment model were also at the higher end or slightly above our independently determined reasonable range, although this did not have a material impact on the conclusion of the impairment assessment completed by management. We also identified a control deficiency with respect to management's review controls in relation to the impairment model, as there was insufficient detailed documented evidence to support the secondary review of the impairment model produced by management. We consider our audit procedures appropriately responded to the control deficiencies identified. Refer to the Audit Committee report on page 53 of the Annual Report for discussion of the control environment.

5.3. Valuation of investment in subsidiaries and intercompany receivables (parent company only)

Key audit matter description	**Impairment of investment in subsidiaries** The parent company holds significant investment in subsidiary balances that are not supported by the net asset balance of the invested company, but rather the value in use assessment. An assessment using value in use to support the valuation of investment in subsidiaries is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows of the investee companies. The result of management's impairment assessment in the current year identifies there is a lower amount of headroom in Clinical AI division in comparison to the Simulation division. The carrying value of the investment in subsidiaries held by the parent company of £5.951m (2020: £5.459m) and has been assessed for impairment by management with reference to IAS 36 Impairment of Assets. No impairment has been recognised in 2021 or 2020. Note 3 to the financial statements sets out the Group's accounting policy for investments in subsidiaries and impairment of assets. Note 4 to the financial statements provides details of the critical accounting judgements and key sources of estimation uncertainty. Note 14 to the financial statements outlines the key assumptions involved in the investment in subsidiaries impairment assessment. **Impairment of intercompany receivables** Under IFRS 9 Financial Instruments, management is required to consider all expected credit losses based on historical, current and forward-looking information, including intercompany loans from the perspective of the lender. As at 31 December 2021 the carrying value of the parent company's intercompany receivables was £14.881m (2020: £12.526m). In assessing the expected credit losses of intercompany receivables as at 31 December 2021, management determined that the amounts due from its subsidiary undertakings at 31 December 2021 totalling £6.974m were credit impaired (2019: £5.348m). A reversal of previous impairment losses of £0.015m has been recognised in addition to an increase of £1.641m during the year to 31 December 2021. Note 3 to the financial statements sets out the Group's accounting policy for amounts owed by subsidiary undertakings. Note 4 to the financial statements provides details of the critical accounting judgements and key sources of estimation uncertainty. Note 16 to the financial statements outlines the key assumptions involved in the intercompany receivables impairment assessment.

How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the valuation of investment in subsidiaries and intercompany receivables. We obtained cash flow forecasts prepared by management and challenged key assumptions included in the forecast, such as revenue growth, terminal growth rates, and discount rate. We validated the mathematical accuracy of the models prepared by management and also compared them against other forecasting models prepared by management to identify if there were inconsistencies. The net present value of the forecast cash flows was compared to the carrying value of the individual investment in subsidiary balances. We considered indicators of impairment including reference to historical performance, external market data including market capitalisation, and assessment of the Group's future strategy and budgets. We evaluated whether the expected credit loss model adopted by management is consistent with the requirements of IFRS 9. We assessed the accuracy of management's historical forecasts, and where there were discrepancies, we evaluated the impact of these on the current year forecasts. We involved our internal valuations specialists to estimate an appropriate discount rate with reference to market data and compared that to the rate used by management. We applied sensitivities to calculations prepared by management to assess the impact on headroom of reasonably possible changes to assumptions. We tested the adequacy of management's disclosures relating to the key sources of estimation uncertainty as disclosed in note 4 and also note 14 and note 16 in relation to impairment of investment in subsidiaries and intercompany receivables respectively.
Key observations	**Impairment of investment in subsidiaries** Based on our work performed, we concluded that the carrying value of the investment in subsidiaries including provision for impairment is reasonable. However, the impairment model in relation to the Clinical AI division is highly sensitive to movements in the underlying assumptions, whereby not achieving budgeted revenue could lead to an impairment against the full carrying value as disclosed in note 4. We identified a control deficiency with respect to management's review controls in relation to the impairment model, as there was insufficient documented evidence to support the detailed secondary review of the impairment model produced by management. We consider our audit procedures appropriately responded to the control deficiency identified. **Impairment of intercompany receivables** Based on our work performed, we concluded that the impairment allowance recognised in line with IFRS 9 as at 31 December 2021 of £6.974m is appropriate and that reasonably possible change have been appropriately disclosed within Note 16 of the financial statements. We identified a control deficiency with respect to management's review controls in relation to the impairment of intercompany receivables, as there was sufficient documented evidence to support the secondary review of the impairment model produced by management. We consider our audit procedures appropriately responded to the control deficiency identified. Refer to the Audit Committee report on page 53 of the Annual Report for discussion of the control environment.

Independent Auditor's Report continued

to the members of Intelligent Ultrasound Group plc

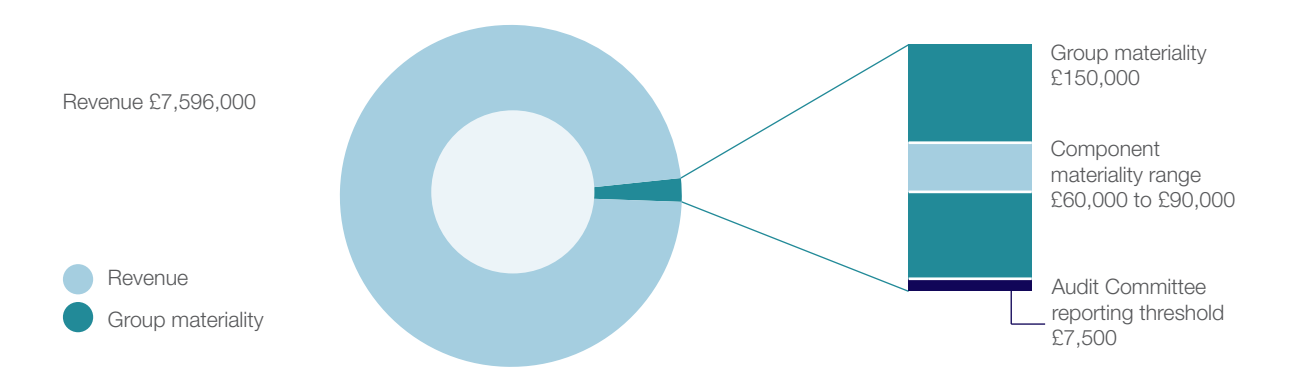
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£150,000 (2020: £100,000)	£75,000 (2020: £50,000)
Basis for determining materiality	2% of revenue (2020: 1.9%)	2% of net assets (2020: 2%) Parent company materiality has been capped at £75,000, being 50% of Group materiality.
Rationale for the benchmark applied	In our professional judgement we consider that revenue is the most appropriate benchmark to determine materiality as it is reflective of the size and scale of the Group which is currently loss making.	In our professional judgement our we consider net assets as the most appropriate measure given the parent company is primarily a holding company for the Group.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	60% (2020: 60%) of Group materiality	60% (2020: 60%) of parent company materiality
Basis and rationale for determining performance materiality	We set performance materiality at a lower level than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 60% of Group materiality for the 2021 audit. In determining performance materiality we considered the following factors: • our risk assessment, including our assessment of the Group's overall control environment; and • the nature, volume and size of misstatements (corrected and uncorrected) in the previous audit.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £7,500 (2020: £5,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1 Identification and scoping of components

Intelligent Ultrasound Group plc is incorporated in England and Wales and holds investment in subsidiaries in MedaPhor Limited, Intelligent Ultrasound Limited, Intelligent Ultrasound North America Incorporated, IML Finance Limited, Inventive Medical Limited, MedaPhor International Limited and Intelligent Ultrasound Innovations Limited. All components are incorporated in England and Wales with the exception of Intelligent Ultrasound North America Incorporated which is incorporated in the USA.

Our audit was scoped by obtaining an understanding of the nature of the Group and its environment and assessing the risks of material misstatement at the Group level.

Based on this assessment we focused our Group audit scope on the four main trading companies being Intelligent Ultrasound Group plc, Intelligent Ultrasound Limited, MedaPhor Limited, and Intelligent Ultrasound North America Incorporated.

The four main trading companies make up 100% (2020: 100%) of group revenues, 100% (2020: 100%) of group loss before tax, and 100% (2020: 100%) of group net assets. Our audit work for these entities was executed at levels of materiality applicable to each individual entity which were lower than group materiality and ranged from £60,000 to £90,000 (2020: £50,000 to £70,000).

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

All audit work for the purpose of expressing an opinion on the Group's financial statements is performed by the Group engagement team as the accounting records are held centrally.

7.2. Our consideration of the control environment

The 2021 audit was planned without the expectation of placing reliance on the controls operated by the Group. This plan acknowledges the evolving nature of the current finance function and the current control environment. In gaining an understanding of the current control environment deficiencies were identified in relation to the controls relating to the impairment review process, as noted in section 5.2 and 5.3 above. We also identified control deficiencies in relation to the robustness of management's appraisal of going concern and we considered these control deficiencies as part of our procedures in the Going Concern section of our report. Refer to the Audit Committee report on page 52 of the Annual Report for consideration of the control environment.

7.3 Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the Group's business and its financial statements. The Group continues to develop its assessment of the potential impacts of environmental, social and governance ("ESG") related risks, including climate change, as outlined on page 21. As a part of our audit, we held discussions to understand the process of identifying climate-related risks, the determination of mitigating actions and the impact on the Group's financial statements. We performed our own qualitative risk assessment of the potential impact of climate change on the Group's account balances and classes of transactions and did not identify any additional risks of material misstatement.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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.

10. 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 FRC's website at: www.frc.org.uk/auditors responsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas:

- completeness and accuracy of deferred income; and
- classification and valuation of intangible assets.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the AIM rules, UK Companies Act, and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the Group's ability to obtain the relevant approval for the sale of medical devices.

11.2. Audit response to risks identified

As a result of performing the above, we identified completeness and accuracy of deferred income and classification and valuation of intangible assets as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and correspondence with HMRC;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. 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.

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 any material misstatements in the strategic report or the directors' report.

13. Opinion on other matter prescribed by our engagement letter

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006 that would have applied were the Company a quoted company.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

15. 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.

Andrew Wright, FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
Bristol, United Kingdom

27 May 2022

Group Statement of Profit and Loss and Other Comprehensive Income

For the year ended 31 December 2021

Continuing operations	Note	2021 £'000	2020 £'000
Revenue	5	**7,596**	5,170
Cost of sales		**(2,937)**	(1,999)
Gross profit		**4,659**	3,171
Other income	6	**2**	207
Administrative expenses		**(8,993)**	(7,859)
Operating loss	7	**(4,332)**	(4,481)
Finance income	8	**1**	17
Finance costs	8	**(37)**	(17)
Loss before taxation		**(4,368)**	(4,481)
Taxation	9	**758**	1,175
Loss attributable to the equity shareholders of the Parent		**(3,610)**	(3,306)
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Exchange gain/(loss) arising on translation of foreign operations		**33**	(77)
Other comprehensive gain/(loss) for the period		**33**	(77)
Total comprehensive loss attributable to the equity shareholders of the Parent		**(3,577)**	(3,383)
Loss per Ordinary share attributable to the equity shareholders of the Parent			
Basic and diluted (pence)	11	**(1.34)**	(1.30)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Group and Company Statements of Financial Position

As at 31 December 2021

	Note	Group 2021 £'000	Group 2020 £'000	Company 2021 £'000	Company 2020 £'000
Non-current assets					
Intangible assets	12	**2,558**	1,963	**–**	–
Property, plant and equipment	13	**1,400**	1,313	**532**	675
Investments in subsidiaries	14	**–**	–	**5,951**	5,459
Trade and other receivables	16	**61**	61	**14,942**	12,587
		4,019	3,337	**21,425**	18,721
Current assets					
Inventories	15	**1,196**	1,048	**–**	–
Trade and other receivables	16	**2,650**	2,025	**232**	116
Current tax assets		**954**	671	**–**	–
Cash and cash equivalents	17	**4,950**	8,774	**1,507**	6,175
		9,750	12,518	**1,739**	6,291
Total assets		**13,769**	15,855	**23,164**	25,012
Current liabilities					
Trade and other payables	18	**(2,767)**	(1,901)	**(345)**	(296)
Deferred income	19	**(206)**	(142)	**–**	–
Lease liabilities	13	**(213)**	(170)	**(138)**	(123)
Provisions	20	**(22)**	(10)	**–**	–
		(3,208)	(2,223)	**(483)**	(419)
Non-current liabilities					
Deferred income	19	**(320)**	(275)	**–**	–
Lease liabilities	13	**(457)**	(603)	**(381)**	(518)
Other payables	18	**(65)**	(65)	**(65)**	(65)
		(842)	(943)	**(446)**	(583)
Total liabilities		**(4,050)**	(3,166)	**(929)**	(1,002)
Net assets		**9,719**	12,689	**22,235**	24,010
Equity					
Share capital	22	**2,707**	2,694	**2,707**	2,694
Share premium	22	**25,959**	25,959	**25,959**	25,959
Share warrants	22	**–**	126	**–**	126
Accumulated losses		**(26,967)**	(23,381)	**(12,435)**	(10,077)
Share-based payment reserve		**1,373**	842	**1,291**	760
Merger reserve		**6,538**	6,538	**4,548**	4,548
Foreign exchange reserve		**(56)**	(89)	**–**	–
Other reserves		**165**	–	**165**	–
Total equity		**9,719**	12,689	**22,235**	24,010

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

The Company has elected to take the exemption under Section 408 of the Companies Act 2006 to not present the statement of comprehensive income for the Company. The result for the Company for the year was a loss of £2.38m (2020: profit of £4.28m).

These financial statements were approved and authorised for issue by the Board of Directors on 27 May 2022 and were signed on its behalf by:

Helen Jones
Chief Financial Officer

Stuart Gall
Chief Executive Officer

Company number: 09028611

Group Statement of Changes in Equity

For the year ended 31 December 2021

	Note	Share capital £'000	Share premium £'000	Share warrants £'000	Accumulated losses £'000	Share-based payment reserve £'000	Merger reserve £'000	Foreign exchange reserve £'000	Other reserves £'000	Total equity £'000
As at 31 December 2019		2,200	21,653	126	(20,075)	688	6,538	(12)	–	11,118
Loss for the year		–	–	–	(3,306)	–	–	–	–	(3,306)
Other comprehensive loss		–	–	–	–	–	–	(77)	–	(77)
Total comprehensive loss for the year		–	–	–	(3,306)	–	–	(77)	–	(3,383)
Transactions with owners, recorded directly in equity										
Issue of share capital	22	494	4,693	–	–	–	–	–	–	5,187
Cost of raising finance	22	–	(387)	–	–	–	–	–	–	(387)
Cost of share-based awards	23	–	–	–	–	154	–	–	–	154
As at 31 December 2020		2,694	25,959	126	(23,381)	842	6,538	(89)	–	12,689
Loss for the year		–	–	–	(3,610)	–	–	–	–	(3,610)
Other comprehensive income		–	–	–	–	–	–	33	–	33
Total comprehensive loss for the year		–	–	–	(3,610)	–	–	33	–	(3,577)
Transactions with owners, recorded directly in equity										
Issue of share capital	22	13	–	–	–	–	–	–	–	13
Exercise of share warrants	22	–	–	(126)	24	–	–	–	165	63
Cost of share-based awards	23	–	–	–	–	531	–	–	–	531
As at 31 December 2021		**2,707**	**25,959**	–	**(26,967)**	**1,373**	**6,538**	**(56)**	**165**	**9,719**

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

Parent Company Statement of Changes in Equity

For the year ended 31 December 2021

	Note	Share capital £'000	Share premium £'000	Share warrants £'000	Accumulated losses £'000	Share-based payment reserve £'000	Merger reserve £'000	Other reserves £'000	Total equity £'000
As at 31 December 2019		2,200	21,653	126	(14,360)	606	4,548	–	14,773
Profit and total comprehensive income for the year		–	–	–	4,283	–	–	–	4,283
Transactions with owners, recorded directly in equity									
Shares issued for cash	22	494	4,693	–	–	–	–	–	5,187
Cost of raising finance	22	–	(387)	–	–	–	–	–	(387)
Cost of share-based awards	23	–	–	–	–	154	–	–	154
As at 31 December 2020		2,694	25,959	126	(10,077)	760	4,548	–	24,010
Loss for the year		–	–	–	(2,382)	–	–	–	(2,382)
Total comprehensive loss for the year		–	–	–	(2,382)	–	–	–	(2,382)
Transactions with owners, recorded directly in equity									
Issue of share capital	22	13	–	–	–	–	–	–	13
Exercise of share warrants	22	–	–	(126)	24	–	–	165	63
Cost of share-based awards	23	–	–	–	–	531	–	–	531
As at 31 December 2021		**2,707**	**25,959**	**–**	**(12,435)**	**1,291**	**4,548**	**165**	**22,235**

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

Group and Company Statement of Cash Flows

For the year ended 31 December 2021

	Note	Group 2021 £'000	Group 2020 £'000	Company 2021 £'000	Company 2020 £'000
Cash flows from operating activities					
(Loss)/profit before taxation		**(4,368)**	(4,481)	**(2,382)**	4,283
Depreciation	7	**508**	406	**143**	41
Amortisation of intangible assets	7	**680**	937	**–**	–
Credit loss allowance/(reversal) on intercompany receivables		**–**	–	**1,623**	(4,784)
Loss on disposal of property, plant and equipment		**–**	26	**–**	–
Fair value adjustment to share warrants		**3**	21	**3**	21
Finance costs/(income)	8	**36**	–	**29**	(7)
Share-based payment charge	10	**530**	154	**37**	6
Operating cash flows before movement in working capital		**(2,611)**	(2,937)	**(547)**	(440)
Movement in inventories	16	**(149)**	(389)	**–**	–
Movement in trade and other receivables		**(592)**	590	**(115)**	(76)
Movement in trade and other payables		**1,045**	199	**110**	64
Movement in provisions	21	**12**	(85)	**–**	–
Cash used in operations		**(2,295)**	(2,622)	**(550)**	(452)
Income taxes received	9	**476**	362	**–**	–
Net cash used in operating activities		**(1,819)**	(2,260)	**(550)**	(452)
Cash flows from investing activities					
Purchase of property, plant and equipment		**(503)**	(371)	**–**	–
(Increase) in intercompany loans		**–**	**–**	**(3,978)**	(3,729)
Increase in short-term deposits		**–**	**5,500**	**–**	5,500
Internally generated intangible assets	12	**(1,275)**	(568)	**–**	–
Interest received	8	**1**	17	**–**	17
Net cash (used in)/generated by investing activities		**(1,777)**	4,578	**(3,979)**	1,788
Cash flows from financing activities					
Proceeds from issue of new shares	22	**13**	5,187	**13**	5,187
Share issue costs	22	**–**	(387)	**–**	(387)
Principal elements of lease payments	13	**(195)**	(62)	**(123)**	(11)
Interest paid	8	**(37)**	(17)	**(29)**	(11)
Net cash (used in)/generated by financing activities		**(219)**	4,721	**(139)**	4,778
Net (decrease)/increase in cash and cash equivalents		**(3,815)**	7,039	**(4,668)**	6,114
Cash and cash equivalents at beginning of year	17	**8,774**	1,790	**6,175**	61
Exchange losses on cash and cash equivalents		**(9)**	(55)	**–**	–
Cash and cash equivalents at end of year	17	**4,950**	8,774	**1,507**	6,175

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

Notes to the Financial Statements

For the year ended 31 December 2021

1. General information

Intelligent Ultrasound Group plc (the Company) is a public company limited by shares and incorporated and domiciled in the United Kingdom whose shares are traded on AIM, a market operated by the London Stock Exchange. The Company's registration number is 09028611 and its registered office address is Floor 6A Hodge House, 114–116 St Mary Street, Cardiff, CF10 1DY.

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

The Company is the parent entity and the ultimate parent company of the Group

2. New and amended Standards adopted by the Group

Impact of the initial application of other new and amended IFRS Standards that are effective for the current year

In the current year, the Group applied the following new and revised IFRS Standards:

- Covid-19-Related Rent Concessions (Amendment to IFRS 16)
- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The Standards did not have any impact on the financial statements of the Group.

New and revised IFRS Standards in issue but not yet effective

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

• Amendments to IFRS 4	Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'
• Amendments to IFRS 4	Extension of the Temporary Exemption from Applying IFRS 9
• Amendment to IAS 1	'Classification of Liabilities as Current or Non-current — Deferral of Effective Date'
• Amendment to IFRS 17	Initial Application of IFRS 17 and IFRS 9 — Comparative Information
• IFRS 17 (including the June 2020 Amendments to IFRS 17)	Insurance Contracts
• Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
• Amendments to IAS 1	Classification of Liabilities as Current or Non-current
• Amendments to IFRS 3	Reference to the Conceptual Framework
• Amendments to IAS 16	Property, Plant and Equipment–Proceeds before Intended Use
• Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
• Annual Improvements to IFRS Standards 2018–2020 Cycle	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 L Leases, and IAS 41 Agriculture
• Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
• Amendments to IAS 8	Definition of Accounting Estimates
• Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

Notes to the Financial Statements continued

For the year ended 31 December 2021

3. Significant accounting policies

Basis of preparation

Compliance with IFRS

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK adopted international accounting standards, with future changes being subject to endorsement by the UK Endorsement Board. The Group transitioned to UK adopted international accounting standards in its consolidated financial statements on 1 January 2021. There was no impact or changes in accounting policies from the transition.

The Group and Company financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Historical cost convention

The financial statements have been prepared on historical cost basis except certain financial assets and liabilities are measured at fair value at the end of each reporting period.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value-in-use in IAS 36.

The accounting policies set out in this note have been applied consistently to all periods presented in these financial statements.

Foreign currency translation

i) Functional and presentation currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group Company are expressed in sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

ii) Transactions and balances

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

In preparing the financial statements of the Group entities, foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates, are generally recognised in profit or loss. They are deferred in equity if they are attributable to part of the net investment in a foreign operation.

Non-monetary items carried at historical cost are reported using the exchange rate at the date of the transaction. Non-monetary items carried at fair value are reported at the rate that existed when the fair values were determined.

iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

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

On consolidation, exchange differences arising from the translation of any net investment in foreign entities at the closing rate are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. Exchange differences are recognised on other comprehensive income.

Going concern

In undertaking a going concern review, the Directors have reviewed three financial projections to 31 December 2024 based on the existing base budget; a flexed, more conservative version of the base budget; and a projection based on latest trading, all of which include estimates and assumptions regarding the product development projects, sales pipeline, future revenues and costs and timing and quantum of investments in the R&D programmes. Although the projection based on latest trading indicates that the Group will not need to raise money within the next 12 months, the flexed more conservative budget projections indicate that the Group would need to raise further funds within the next 12 months to support the Group's growth plans in the absence of mitigating actions to control cash outflows such as deferring development expenditure. The flexed more conservative budget reflects a 20% revenue reduction on the existing base budget and therefore the Directors have concluded that this range of projections represents a material uncertainty related to events or conditions which may cast

significant doubt on the Group's ability to continue as a going concern and, therefore, it may be unable to realise its assets or discharge its liabilities in the normal course of business. Although there is no guarantee, the Directors have a reasonable expectation that the Group will be able to raise further financing to support its ongoing development and commercialisation activities and continue in operational existence for the next 12 months. On this basis, the Directors continue to apply the going concern basis in preparing these accounts. Accordingly, these accounts do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

The Directors continue to explore additional sources of income and finance available to the Group to continue the development of its 'Classroom to Clinic' business.

Basis of consolidation

Where the Company has control over an investee, it is classified as a subsidiary. The Company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever the facts and circumstance indicate that there may be a change in any of these elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation. The consolidated financial statements incorporate the results of the Company and its subsidiary undertakings. The Company was incorporated on 7 May 2014.

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

Revenue recognition

In accordance with IFRS 15 'Revenues from Contracts with Customers', revenue is measured by reference to the fair value of consideration received or receivable by the Group, excluding value added tax (or similar local sales tax), in exchange for transferring the promised goods or services to the customer. Revenue excludes value added tax or similar local sales tax. The consideration is allocated to each separate performance obligation that is identified in a sales contract, based on stand-alone selling prices.

i) Simulation

Performance obligations and timing of revenue recognition

The majority of the Group's revenue is derived from selling goods (principally simulation systems including related software licences) with revenue recognised at a point in time when control of the goods has transferred to the customer. This is generally when the goods are delivered to the customer or collected by the customer's agents from the Group's premises. The licence is integral to the functionality of the simulation system and is not considered a separate performance obligation applying the guidance in IFRS 15:B54. As no software updates are made throughout the period of ownership, the licence represents the right for the customer to use the Group's IP. Revenue from resellers (outside the UK and North America) is recognised based on "ship to order" with control passing when the goods have been delivered to the reseller. There is no returns policy.

The customer may elect to purchase installation and training services in relation to the goods supplied by the Group. The revenue from these services is recognised once the installation and training have been provided. The delivery of the systems and related software licence coincides with the provision of installation services and the delivery of training. Consequently, the sale is treated as if it was one single performance obligation recognised at a point in time.

The price of the goods supplied by the Group usually includes 12 months' technical support and a first year warranty. The technical support is accounted for as a separate performance obligation, with revenue recognised pro-rata to an estimate of the typical profile of the time spent on delivering the support required by customers in the first year (with 60% of the time spent in the first 3 months and the remaining balance spent on a straight line basis over the remaining 9 months). First year warranties are not accounted for as separate performance obligations as they relate to 'assurance-type' warranties (i.e. assurance that the product will function as intended) rather than 'service-type' warranties. No revenue is allocated to these warranties but instead a provision is made for the costs of satisfying the warranties in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. When an extended warranty (see below) is purchased a portion of the transaction price is allocated to that separate performance obligation.

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

First-year warranties are not accounted for as separate performance obligations as they relate to 'assurance-type' warranties (i.e. assurance that the product will function as intended) rather than 'service-type' warranties. When an extended warranty is purchased a portion of the transaction price is allocated.

Determining the transaction price

The Group's revenue is almost entirely derived from fixed price contracts and therefore, the amount of revenue to be earned from each contract is determined by reference to those fixed prices. In certain situations, discounts may be given (for example, for larger orders or sales to key opinion leader customers).

Notes to the Financial Statements continued

For the year ended 31 December 2021

3. Significant accounting policies continued

Allocating amounts to performance obligations

For the vast majority of contracts there is a fixed unit price (considered to be the stand-alone selling price) for each product or service sold (including installation and training, extended warranties, Cloud access, on-going support and software upgrades).For all contracts, any reductions are given at a specific time – when the contract is agreed. Discounts are allocated to the specific performance obligations in the contract on a pro-rata basis based upon the stand-alone selling prices. The amount of revenue relating to first year technical support is estimated using a cost-plus model recognised by reference to the typical profile of the time spent in providing support in the first year.

Costs of obtaining contracts and costs of fulfilling contracts

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

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

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

Significant payment terms

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

Practical expedients

The Group has taken advantage of the practical expedient not to account for significant financing components where the time difference between receiving consideration and transferring control of goods (or services) to its customer is one year or less. As noted above, the group has also taken the practical expedient in IFRS 15.94 allowing for non-capitalisation of the costs of obtaining a contract.

ii) Clinical AI – royalty income

Revenue is recognised for licences of intellectual property in exchange for sales-based royalties when the customer's subsequent sales and activation occurs. When the royalty relates to a right-to-use licence, it is recognised at a point in time when the final sales to the end customer occurs.

Share-based payments

The Company issues equity-settled share-based payments to certain employees and Directors of group companies. Equity-settled share-based payments are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 23.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of equity instruments that will eventually vest. At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share based payment reserves.

Financial instruments

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

Trade receivables

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

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. Any recoveries made are recognised in profit or loss.

Amounts owed by subsidiary undertakings (Company only)

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

Financial liabilities and equity

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

Trade payables

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

Deferred consideration

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

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 and IAS 19 respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 are measured in accordance with that Standard.

Goodwill

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

Other intangible assets

An intangible asset, which is an identifiable non-monetary asset without physical substance, is recognised to the extent that it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its cost can be measured reliably. Subsequent to initial recognition, internally generated intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Internally generated Intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Development cost expenditure is incurred at the later stage of the project and the probability of success should be more apparent. Once the feasibility of the project can be verified and all elements of the recognition criteria is satisfied, any future costs will be classed as development. Any expenditure that was incurred and expensed during the research phase cannot subsequently be capitalised.

Development expenditure is capitalised as an intangible asset only if the following conditions can be demonstrated:

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

The probability of future economic benefits must be based on reasonable and supportable assumptions about conditions which will exist over the life of the asset and that there is the existence of a market for the intangible asset.

Technical feasibility is generally considered to be the formal process of assessing whether it is technically possible to develop/manufacture a product. An appropriate point may be when the entity has completed all the planning, design and testing activities that are necessary to establish that an asset can be produced to meet its design specifications, including functions, features and technical performance requirements.

If the Group is unable demonstrate the commercial feasibility of the project, then all costs must be expensed under the scope of the research phase.

Notes to the Financial Statements continued

For the year ended 31 December 2021

3. Significant accounting policies continued

Medical device product development capitalisation

Regulatory requirements are an important factor in restricting the ability of an entity to meet the recognition criteria in certain industries.

A strong indication that an entity has met all of the above criteria for capitalisation arises when it obtains regulatory clearance. It is the clearest point at which the technical feasibility of completing the asset is proven and this is the most difficult criterion to demonstrate.

Obtaining regulatory clearance is also sometimes considered as the point at which all relevant criteria, including technical feasibility, are considered to be met. For the Group, this is CE marking in the EU and FDA clearance in the US. If clearance is received in one market but not in another, provided that the entity considers regulatory clearance in a secondary market is a formality and it is considered highly probable that clearance will be granted, then capitalisation can commence after clearance in the first market. If the Company has judged that registration is probable, and there are likely to be low barriers to obtaining regulatory clearance, it is likely to be technically feasible.

Providing that regulatory clearance from one major marketplace is achieved, clearance in other markets is considered highly probable and the remaining recognition criteria can be demonstrated, the development phase commencement date will be the noted date of regulatory clearance, either CE or FDA.

Subsequent measurement

IAS 38 states that an entity must choose either the cost model or the revaluation model for each class of intangible assets. The Group have elected to follow the cost model based on no active market existing for internally developed intangible assets at the end of their useful life. Intangible assets will be carried in the financial statements at cost less accumulated amortisation and impairment losses.

It is assumed that all internally developed intangible assets have a finite life (a limited period of benefit to the Group). An impairment test must be carried out on any intangible asset if there is an indication to do so. The residual value (RV) of a finite life intangible asset is assumed to be zero, unless an active market exists at the end of the useful life of the asset to provide a reliable measurement of RV. For prudence, the Group assumes that the RV of all internally developed intangible assets to be zero.

Amortisation of intangible assets

Development expenditure thus capitalised is amortised on a straight-line basis over its useful life. Amortisation commences when the project is available for commercial sale.

The Group will assess the estimated useful life of each project on an individual basis by considering the guidance stated in the standard, including:

- Expected usage by the entity of the asset and whether it could be managed efficiently by another management team.
- The typical product life cycle for the asset and published information about useful lives of similar assets that are used in a similar way.
- Technical, technological, commercial or other types of obsolescence.
- The stability of the industry in which the asset operates, and changes in market demand for the products or services from or related to the asset.
- Expected actions by actual or potential competitors.
- The level of maintenance required to maintain the asset's operating capability, and whether management intends to perform that level of maintenance.
- The period for which the entity has control of the asset and any legal or similar limits on the asset's use.
- Whether the asset's useful life is dependent on the useful life of other assets of the entity.

Amortisation is charged so as to write off the costs of intangible assets over their estimated useful lives, on the following basis:

Development costs	20%	Straight line
Software licences	33%	Straight line

Subsequent expenditure

Subsequent expenditure can be capitalised if capital in nature i.e. improves the capacity of an asset from its existing condition and provides additional functionality. This includes module upgrades or enhancements but excludes software repairs and fixes.

Subsequent expenditure that needs regulatory approval

Expenditure incurred to add new functionality should not be capitalised if the new functionality will require filing for new regulatory approval. This requirement implies that technical feasibility of the modified device has not been achieved. This does not apply to expenditure on additional filings in other countries provided that approval in other countries is considered highly probable.

Derecognition

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Intangible assets acquired as part of a business combination

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

Intellectual property	5 to 10 years
Brands	5 years

Impairment of assets

The Group assesses annually whether there is any indication that any of its assets have been impaired. If such indication exists, the asset's recoverable amount is estimated and compared to its carrying value. Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the smallest cash-generating unit to which the asset is allocated. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount an impairment loss is recognised immediately in the statement of comprehensive income.

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

Property, plant and equipment

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

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

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leases

The Group leases various property and motor vehicles. Rental contracts are typically made for fixed periods of 3 to 5 years and may include extension and termination options. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations, The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

i) Right-of-use assets

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

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

The right-of-use assets are also subject to impairment and are considered in the light of the losses of the Group and where impairment indicators are identified for other assets.

Notes to the Financial Statements continued

For the year ended 31 December 2021

3. Significant accounting policies continued

ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate based on average lending rates at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset. No such modifications have occurred during the period.

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

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value, based upon IASB guidance of approximately £5,000. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Impairment of Property, plant and equipment and Intangible assets excluding goodwill

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated 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. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with an indefinite useful life are tested for impairment at least annually and whenever there is an indication at the end of a reporting period that the asset may be impaired. Intangible assets still in development are also tested for impairment annually.

Recoverable amount is the higher of fair value less costs of disposal 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. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease and to the extent that the impairment loss is greater than the related revaluation surplus, the excess impairment loss is recognised in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss to the extent that it eliminates the impairment loss which has been recognised for the asset in prior years. Any increase in excess of this amount is treated as a revaluation increase.

Investments in subsidiaries

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

Cash and cash equivalents

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

Short-term investments

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

Inventories

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

Income tax

The income tax credit for the period is the tax receivable on the current period's taxable loss, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax credit is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

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

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

Deferred tax liabilities are not recognised for taxable temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future. Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

UK Research and Development Tax Incentive regimes

The Group accounts for amounts claimed under the SME scheme as tax credits and amounts claimed under the RDEC scheme as Other income.

Pension costs

Pension allowances, contributions to defined contribution pension schemes and contributions to personal pension schemes are charged to the statement of comprehensive income in the year to which they relate.

Warranty claims

Provision is made for liabilities arising in respect of expected assurance type warranty claims (i.e. 12 months) based upon management's best estimate of the Group's liability for remedial work and warranties granted on products sold.

Government grants

R&D expenditure credits are recognised as income over the periods necessary to match them with the related costs and are included within Other income.

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Amounts claimed under the US Paycheck Protection Program are recognised on a gross basis in accordance with IAS 20. Proceeds are recognised in Other income on a systematic basis that corresponds with the manner in which the business entity recognises the underlying expenses for which the government grant is intended to compensate.

Equity

Ordinary share capital represents the nominal value of equity shares. Share premium represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.

The merger reserve is the non-statutory premium arising on shares issued as consideration for acquisitions of subsidiaries where merger relief under the relevant section of the Companies Act applies.

The foreign exchange reserve represents the differences arising on translating the foreign operations into the sterling presentation currency, for the purposes of preparing the consolidated financial statements of the Group. It also includes foreign exchange differences arising on intercompany loans that form part of the net investment in the subsidiary.

The share based payment reserve comprises the grant date fair value of share options granted to employees and Directors which are yet to be exercised. The share based payment reserve is used to record the credit to equity over the vesting period in an equity settled SBP arrangement. On exercise of the warrant, the share warrant reserve is extinguished directly through equity resulting in a new undistributable other reserve.

Notes to the Financial Statements continued

For the year ended 31 December 2021

4. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies. This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions being revised. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

i) Critical accounting judgements

In preparing the 2021 financial statements, management has made various judgements in the process of applying the entity's accounting policies. The following represents those judgments, apart from those involvement estimation uncertainty (see (ii)), made by management which have the most significant effect on the amounts recognised in the financial statements.

Going concern

As described on page 78 the going concern assessment includes the review of three financial projections to 31 December 2024 based on the existing base budget; a flexed, more conservative version of the base budget; and a projection based on latest trading, all of which include estimates and assumptions regarding the product development projects, sales pipeline, future revenues and costs and timing and quantum of investments in the R&D programmes. Significant judgement has been applied by the Directors in determining whether a material uncertainty exists relating to events or conditions which may cast significant doubt on the Group's ability to continue as a going concern.

Capitalisation of internally generated intangible assets - Clinical AI only

The Group follows the guidance of IAS 38 to determine when internally generated intangible assets should be capitalised. The determination requires judgement. In making this judgement, management assesses each project against each of the capitalisation criteria. If one of the conditions is not met, then the costs attributable to the project would not be capitalised. The capitalisation criteria which requires the most judgement is the project achieving technical feasibility of completion so that it will be available for use or sale, it is common practice within the regulated medical device sector that technical feasibility with respect to Clinical AI software products is not achieved until regulatory approval to use and sell to the market is obtained. The Directors applied this judgement with respect to research and development costs for Anatomy PNB, which is the first Clinical AI product the Group has taken through regulatory clearance. CE approval was obtained in April 2021, after which development costs relating to the UK version of the product were capitalised.

There are a number of potential points during the development of a Clinical product after which the costs can be capitalised. We have made the judgement that the point at which the IAS 38 criteria have been met to be the point of CE approval.

ii) Key sources of estimation uncertainty

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

Intangible assets – impact of possible changes in key assumptions (IUL intangible assets only)

For the intangible assets that have a finite life, the Directors considered the need to impair the carrying value of intangible assets by performing an assessment of indicators of impairment. The review of the indicators of impairment concluded that indicators of impairment existed with respect to the intangible asset of £0.8m in relation to the intellectual property acquired as part of the Intelligent Ultrasound Limited (IUL) acquisition in 2017 of £0.8m. These intangible assets were required to be tested for impairment following a review of impairment indicators. The recoverable amount of the asset was determined based on value-in-use calculations which require the use of assumptions. The calculations use five-year cash flow projections based on financial budgets approved by management covering a two-year period. Cash flows for periods three to five are extrapolated using estimated growth rates and growth rates beyond five years are consistent with forecasts specific to the sector in which the CGU operates.

A 9.0% reduction in the budgeted revenue used in the value-in-use calculation for the IUL acquired intangible assets would result in full impairment of the carrying value of the asset by £0.8m.

A 7.5% reduction in the budgeted revenue used in the value in use calculation for the IUL acquired intangible assets would result in a material impairment of the carrying value of the asset of £0.24m.

Recoverability of amounts due from subsidiary undertakings (Company only)

The Company has applied the IFRS 9 general approach to measure expected credit losses arising from amounts owed by its subsidiary undertakings. This required the Directors to make judgements to arrive at a weighted average expected credit loss based on a number of forecast cash flow scenarios and the assignment of probability factors to each scenario. Amounts owed by subsidiary undertakings is £14.9m (2020: £12.5m) – see Note 16.

Investment in subsidiaries impairment (Company only)

The Directors perform an annual impairment assessment for the investments held in subsidiaries by the Company. If indicators of impairment exist, the recoverable amount of the investment is determined based on value-in-use calculations which require the use of assumptions. The calculations use five-year discounted cash flow (DCF) projections based on financial budgets approved by management covering a two year period. Cashflows for periods four to five are extrapolated using estimated growth rates and growth rates beyond five years are consistent with forecasts specific to the sector in which the subsidiary operates. The review of the indicators of impairment concluded that indicators of impairment existed with respect to the investment in IUL. The Directors consider that there is no reasonably possible change in assumptions that could lead to a material change in the carrying value of the investment in other subsidiaries within the next 12 months.

The DCF model is sensitive to expected future cash inflows. If the budgeted revenue used in the value-in-use calculation for the investment in IUL had been 9.0% lower than management estimates in all years, the Company would have had to recognise an impairment against the full carrying value of the investment.

If the budgeted revenue used in the value in use calculation for the investment in IUL had been 0.3% lower than management estimates in all years, the Company would have had to recognise a material impairment against the carrying value of the investment of £0.08m (£81k).

5. Segmental operations

The Group identifies reportable operating segments based on internal management reporting that is regularly reviewed by the chief operating decision maker (CODM). The CODM is the Board of Directors.

The format of revenue reporting is based on the Group's management and internal reporting (including reports to the CODM) of the segments below which carry different risks and rewards and are used to make strategic decisions. The Group has two operating segments: Simulation and Clinical AI. Other Group costs, assets and liabilities that cannot be allocated to an operating segment are shown within 'Central' below, including head office costs.

- Simulation: sales of ultrasound simulation systems and related services.
- Clinical AI: sales of AI-related ultrasound image analysis software products.

2021	Simulation £'000	Clinical AI £'000	Central £'000	Total £'000
Revenue	**7,390**	**206**	**–**	**7,596**
Cost of sales	**(2,883)**	**(54)**	**–**	**(2,937)**
Gross profit	**4,507**	**152**	**–**	**4,659**
Other income	**2**	**–**	**–**	**2**
Administrative expenses	**(5,125)**	**(2,433)**	**(1,435)**	**(8,993)**
Operating loss	**(616)**	**(2,281)**	**(1,435)**	**(4,332)**
Finance income	**1**	**–**	**–**	**1**
Finance costs	**(8)**	**–**	**(29)**	**(37)**
Loss before taxation	**(623)**	**(2,281)**	**(1,464)**	**(4,368)**
Taxation	**222**	**536**	**–**	**758**
Loss attributable to the equity shareholders of the Parent	**(401)**	**(1,745)**	**(1,464)**	**(3,610)**

2020	Simulation £'000	Clinical AI £'000	Central £'000	Total £'000
Revenue	5,153	17	–	5,170
Cost of sales	(1,999)	–	–	(1,999)
Gross profit	3,154	17	–	3,171
Other income	207	–	–	207
Administrative expenses	(4,703)	(2,239)	(917)	(7,859)
Operating loss	(1,342)	(2,222)	(917)	(4,481)
Finance income	–	–	17	17
Finance costs	(6)	–	(11)	(17)
Loss before taxation	(1,348)	(2,222)	(911)	(4,481)
Taxation	488	687	–	1,175
Loss attributable to the equity shareholders of the Parent	(860)	(1,535)	(911)	(3,306)

Notes to the Financial Statements continued

For the year ended 31 December 2021

5. Segmental operations continued

Revenue by destination of external customer

Year ended 31 December 2021	Simulation £'000	Clinical AI £'000	Total £'000
United Kingdom	**2,503**	**50**	**2,553**
North America (USA & Canada)	**2,733**	**–**	**2,733**
Rest of the World	**2,154**	**156**	**2,310**
	7,390	**206**	**7,596**
Timing of revenue recognition:			
At a point in time	**7,078**	**206**	**7,284**
Over time	**312**	**–**	**312**

Year ended 31 December 2020	Simulation £'000	Clinical AI £'000	Total £'000
United Kingdom	1,419	–	1,419
North America (USA & Canada)	2,324	–	2,324
Rest of the World	1,410	17	1,427
	5,153	17	5,170
Timing of revenue recognition:			
At a point in time	4,907	17	4,924
Over time	246	–	246

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

	2021 £'000	2020 £'000
USA	**2,426**	2,036

The Group had no customers who accounted for more than 10% of the Group revenue for the year ended 31 December 2021 or 2020.

Other segment information

	Depreciation and amortisation		Additions to non-current assets	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Simulation	**843**	1,156	**1,334**	1,049
Clinical AI	**202**	145	**535**	–
Central	**143**	42	**–**	717
	1,188	1,343	**1,869**	1,766

Assets and liabilities by segment

	Assets		Liabilities	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Simulation	**9,296**	7,324	**(2,743)**	(1,906)
Clinical AI	**2,133**	1,578	**(392)**	(258)
Central	**2,340**	6,953	**(915)**	(1,002)
	13,769	15,855	**(4,050)**	(3,166)

Non-current assets based outside the UK

Right-of-use assets include leased offices for Intelligent Ultrasound North America Inc (IUNA), based in Georgia. The net book value as of 31 December 2021 was £0.07m (2020: £0.02m).

6. Other income

	2021 £'000	2020 £'000
US Government grant income	–	124
UK grant income	**2**	–
R&D expenditure credit (RDEC)	–	83
	2	207

In the prior year, IUNA received an advance of £0.124m under the US Government's Paycheck Protection Program (PPP) which allowed US small businesses to apply for forgivable loans to pay for their payroll and certain other costs. The programme was designed to provide a direct incentive for small businesses to keep their workers on payroll instead of furlough during the pandemic. The amount of a PPP loan available was approximately equal to 2.5 times the average monthly payroll costs. The loan was formally forgiven on 18 December 2020. The advance has been recognised as Other income in accordance with IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance'. No advance was received in 2021.

In 2020 RDEC to the amount of £0.83m was received by MedaPhor in relation to R&D projects which have been previously in receipt of grant funding which cannot be claimed under the R&D SME regime. RDEC is recognised as taxable income within Other income. No RDEC was received in 2021.

7. Operating loss

	2021 £'000	2020 £'000
Operating loss is stated after charging/(crediting):		
Raw materials and consumables used	**2,512**	1,605
Depreciation		
Right-of-use assets	**218**	111
Other assets	**290**	295
Amortisation of intangible assets	**680**	937
Staff costs (note 10)	**5,530**	4,736
Exchange loss	**31**	9
Auditor's remuneration		
Audit of Group financial statements	**81**	69
Audit of Company and subsidiaries	**18**	17
Review of interim accounts	**5**	–
R&D cost		
– Expensed (including £1.28m staff costs included above)	**1,957**	1,990
– Amortised	**334**	441

Staff and other development costs not included in the operating loss of £1.27m have been capitalised as intangible assets during the year (2020: £0.57m).

8. Finance income and costs

	2021 £'000	2020 £'000
Finance income		
Interest income from bank deposits	**(1)**	(17)
Finance costs		
Interest on lease liabilities	**37**	17
	36	–

Notes to the Financial Statements continued

For the year ended 31 December 2021

9. Taxation

i) Analysis of income tax credit in the year

	2021 £'000	2020 £'000
Current tax		
R&D tax credit	**(769)**	(673)
R&D tax credit relating to prior periods	**11**	(214)
	(758)	(887)
Deferred tax		
Origination and reversal of timing differences	**–**	(300)
Effect of tax rate change on opening balance	**–**	12
	–	(288)
Income tax credit	**(758)**	(1,175)

ii) Factors affecting the tax credit

The Group has made a taxable loss for the year (2020: loss) and therefore has not recognised all of the deferred tax asset arising due to uncertainty over the timing of future profit.

	2021 £'000	2020 £'000
Loss before taxation	**(4,368)**	(4,481)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2020: 19%)	**(830)**	(851)
Effects of:		
Fixed asset differences	**(26)**	1
Expenses not deductible/income not taxable	**158**	24
Differences between R&D expenditure credit and capitalised revenue expenditure	**(337)**	(290)
Adjustments in respect of prior periods	**4**	(214)
Remeasurement of deferred tax for changes in tax rates	**(912)**	(262)
Difference in US tax rate	**(35)**	**–**
Deferred tax not recognised	**1,220**	417
Income tax credit	**(758)**	(1,175)

In the Spring Budget 2020, the UK Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). The government made a number of budget announcements on 3 March 2021. These include confirming that the rate of corporation tax will increase to 25% from 1 April 2023. This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

In 2020 the R&D tax credit was recognised through the income statement upon cash receipt of the 2019 claim. In 2021 an asset has been recognised for the best estimate of the 2021 R&D tax claim based on the track record of previous successful claims in addition to the 2020 tax claim on receipt.

iii) Deferred tax

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

	Unrecognised		Recognised	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Accelerated capital allowances	**–**	–	**(190)**	(110)
Capitalised development costs	**–**	–	**–**	(91)
Intangible assets	**–**	–	**(554)**	(218)
Provisions	**–**	–	**3**	–
Tax losses	**4,322**	2,991	**741**	419
Total asset/(liability)	**4,322**	2,991	**–**	–

The movement in each temporary difference is shown in the reconciliation below, including the amounts charged/(credited to the income statement.

	Accelerated capital allowances £'000	Intangible assets £'000	Provisions £'000	Tax losses £'000	Total £'000
At 1 January	**110**	309	**–**	(419)	**–**
Charged/(credited) to income statement	**80**	245	**(3)**	(322)	**–**
As at 31 December	**190**	554	**(3)**	(741)	**–**

Where a deferred tax liability arises, an equal amount of trade losses has been recognised so that the net position at entity level is nil. The deferred tax liabilities relate to accelerated capital allowances mainly due to claims for annual investment allowances (AIA) with respect to eligible fixed asset additions, R&D claims in MedaPhor where development costs are capitalised and R&D claims are made under s.1308 CTA 2009, reducing the tax base of these assets and intangible assets acquired with IML and IUL.

iv) Tax losses

The Group have significant trade losses carried forward which are currently not being recognised due to uncertainty of when these losses will be utilised. This includes losses arising in IUNA of c.$3.9m / £2.9m.

	2021 £'000	2020 £'000
Unused tax losses for which no deferred tax asset has been recognised	**17,289**	15,742
Potential tax benefit @25% (2020: 19%)	**4,322**	2,991

Deferred tax balances have been recognised at the rate expected to apply when the deferred tax attribute is forecast to be utilised based on substantively enacted rates at the balance sheet date. The rate of UK corporation tax will increase to 25% from April 2023.

v) Uncertainty over income tax treatments

MedaPhor is currently appealing various penalty notices received by the Inland Revenue Service (IRS) totalling $55k for late filing of historical tax returns in the US. The Company has appealed these penalties and it is the view of the Company, supported by the Group's tax advisers, that these appeals will be successful. The penalty appeal remains outstanding due to significant delays within the IRS.

10. Employees

	2021 No.	2020 No.
The average monthly number of persons (including Executive Directors) employed by the Group was:		
Research and development	**28**	32
Sales, marketing and distribution	**12**	11
Management and administration	**17**	15
	57	58

The Company has no other employees and the only staff costs incurred by the Company relate to fees paid to Non-executive Directors (see the Remuneration Report for details).

	2021 No.	2020 No.
The average monthly number of Non-executive Directors employed by the Company was:	**7**	5

Notes to the Financial Statements continued

For the year ended 31 December 2021

10. Employees continued

Staff costs for the employees and Executive Directors of the Group (included under administrative expenses and in staff costs capitalised under development costs):

	2021 £'000	2020 £'000
Wages and salaries	**4,995**	3,854
Social security costs	**374**	324
Pensions	**128**	180
Share-based payments	**530**	154
Total employed staff costs	**6,027**	4,512
Contractors and freelancers	**262**	475
Staff costs capitalised	**(759)**	(251)
Staff costs included under administrative expenses	**5,530**	4,736

Key management for the Group is considered to be the Board of Directors of the Group:

	2021 £'000	2020 £'000
Short-term employee benefits	**988**	873
Post employment benefits	**53**	63
Share-based payments	**338**	87
	1,379	1,023

In 2020 short-term employee benefits have been restated by £0.13m to include those of the Non-executive Directors.

Directors' remuneration comprises the following:

	2021 £'000	2020 £'000
Salaries and fees (including estimated value of other benefits)	**968**	854
Fees paid to third parties in respect of services provided by Directors	**20**	20
Directors' pension costs	**53**	63

No Directors are accruing benefits under Company defined contribution pension schemes (2020: None). Each Executive Director is entitled to a 10% pension allowance.

	2021 £'000	2020 £'000
This remuneration includes the following amounts in respect of the highest paid Director:		
Salaries and fees (including estimated value of other benefits)	**255**	232
Pension costs	**19**	19

The highest paid Director held 923,474 (2020: 923,474) shares at the year end and share options in the Company totalling 4,116,498 (2020: 4,116,498). None of the Directors exercised any of their share options during the year (2020: None).

Further details of Directors' fees and salaries, bonuses, pensions and share options are given in pages 54 to 57 in the Remuneration Report, which forms part of these financial statements.

11. Loss per Ordinary share

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

	2021 £'000	2020 £'000
Loss after taxation	**(3,610)**	(3,306)

Number of Ordinary shares of 1p each	2021 No.	2020 No.
Basic and diluted weighted average number of Ordinary shares	**269,964,886**	254,915,148
Basic and diluted loss pence per share	**(1.34)**	(1.30)

At 31 December 2021 and 2020 there were share options outstanding (see note 24) which could potentially have a dilutive impact but were anti-dilutive in both years.

12. Intangible assets

	Arising from business combinations			Other intangibles		
	Goodwill £'000	Intellectual property £'000	Brand £'000	Capitalised development costs £'000	Software licences £'000	Total £'000
Cost						
At 1 January 2020	3,328	3,038	133	2,949	25	9,473
Additions	–	–	–	568	–	568
At 31 December 2020	3,328	3,038	133	3,517	25	10,041
Additions	–	–	–	1,275	–	1,275
At 31 December 2021	**3,328**	**3,038**	**133**	**4,792**	**25**	**11,316**
Amortisation/impairment						
At 1 January 2020	3,328	1,440	91	2,257	25	7,141
Charge for year	–	469	27	441	–	937
At 31 December 2020	3,328	1,909	118	2,698	25	8,078
Charge for year	–	331	15	334	–	680
At 31 December 2021	**3,328**	**2,240**	**133**	**3,032**	**25**	**8,758**
Net book value						
At 31 December 2021	**–**	**798**	**–**	**1,760**	**–**	**2,558**
At 31 December 2020	–	1,129	15	819	–	1,963
At 1 January 2020	–	1,598	42	692	–	2,332

i) Intellectual property

Intellectual property (IP) was acquired as part of the acquisition of IML and IUL and is amortised over their estimated useful lives of five and 10 years respectively. The IP acquired from IML relates to the HeartWorks echocardiology simulator software and associated trademarks. The IP acquired from IUL relates to the ScanNav Assist software and ultrasound scan images.

Material individual intangible assets within IP are as follows:

- £Nil (2020: £0.21m) in relation to the acquisition of IML as at 31 December 2021; and
- £0.80m (2020: £0.94m) in relation to the acquisition of IUL with a remaining amortisation period of 5.75 years as at 31 December 2021.

ii) Capitalised development costs

Amortisation is charged on a straight-line basis over their estimated useful lives, on the following basis:

Development costs	20%
Software licences	33%

Notes to the Financial Statements continued

For the year ended 31 December 2021

12. Intangible assets continued

In 2021, the Group has revised the estimated useful life of the internally developed intangible assets from three years to five years, based on an updated view of the expected technical obsolescence of such assets. However, the actual useful life might be shorter or longer than five years, depending on technical innovations and competitor actions. This change in accounting estimate in 2021 has been accounted for prospectively.

This impact of the change in estimate resulted in a reduction in the amortisation charge of £0.18m

iii) Impairment tests

For the intangible assets that have a finite life, the Directors considered the need to impair the carrying value of all intangible assets by performing an assessment of indicators of impairment at a CGU level. The Group intangible assets include intellectual property (IP) acquired as part of the Intelligent Ultrasound Limited (IUL) acquisition in 2017 of £0.8m. These intangible assets were required to be tested for impairment following a review of impairment indicators. The recoverable amount of the asset was determined based on value-in-use calculations. The calculations used five year discounted cash flow projections based on financial budgets approved by management covering a two year period. Cashflows for periods four to five are extrapolated using estimated growth rates of 5% and growth rates beyond five years of 2%, which are consistent with forecasts specific to the sector in which the CGU operates. The impairment review concluded that no impairment was required.

The calculation of the value-in-use is most sensitive to the following assumption:

- Estimates in revenue growth

See page 86 for the sensitivity of this intangible asset to reasonably possible changes in assumptions.

13. Property, plant & equipment

i) Group

	Leasehold improvements £'000	Furniture & fixtures £'000	Plant & equipment £'000	Right-of-use assets £'000	Total £'000
Cost					
At 1 January 2020	–	91	929	109	1,129
Additions	63	14	276	845	1,198
Disposals	–	(77)	(212)	–	(289)
Foreign exchange	–	–	–	(3)	(3)
At 31 December 2020	63	28	993	951	2,035
Additions	7	15	479	93	594
Disposals	–	–	–	(10)	(10)
Foreign exchange	–	–	–	2	2
At 31 December 2021	**70**	**43**	**1,472**	**1,036**	**2,621**
Depreciation					
At 1 January 2020	–	59	488	35	582
Charge for year	10	14	271	111	406
Disposals	–	(65)	(198)	–	(263)
Foreign exchange	–	–	–	(3)	(3)
At 31 December 2020	10	8	561	143	722
Charge for year	17	10	263	218	508
Disposals	–	–	–	(10)	(10)
Foreign exchange	–	–	–	1	1
At 31 December 2021	**27**	**18**	**824**	**352**	**1,221**
Net book value					
At 31 December 2021	**43**	**25**	**648**	**684**	**1,400**
At 31 December 2020	53	20	432	808	1,313
At 1 January 2020	–	32	441	74	547

Total depreciation expense of £0.51m (2020: £0.41m) has been charged to administrative expenses in the income statement.

The addition of £0.09m to the right-of-use assets relate to a fair value adjustment arising from the renewal of the IUNA office lease.

The disposal of the right-to-use asset in 2021 relates to a non-cash disposal of a leased vehicle.

ii) Company

	Right-of-use assets £'000
Cost	
At 1 January 2020	–
Additions	718
As at 31 December 2020 and 31 December 2021	**718**
Depreciation	
At 1 January 2020	–
Charge for year	43
At 31 December 2020	43
Charge for year	143
At 31 December 2021	**186**
Net book value	
At 31 December 2021	**532**
At 31 December 2020	675
At 1 January 2020	–

iii) Leases

The balance sheet shows the following amounts relating to leases:

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Right-of-use assets				
Premises	**669**	776	**532**	675
Vehicles	**14**	32	**–**	–
	683	808	**532**	675

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Year 1	**241**	204	**160**	152
Year 2	**186**	191	**133**	160
Year 3	**185**	164	**160**	133
Year 4	**116**	185	**114**	160
Year 5	**–**	117	**–**	113
	728	861	**567**	718
Less: unearned interest	**(58)**	(88)	**(48)**	(77)
	670	773	**519**	641
Analysed as:				
Current	**213**	170	**138**	123
Non-current	**457**	603	**381**	518
	670	773	**519**	641

Notes to the Financial Statements continued

For the year ended 31 December 2021

13. Property, plant & equipment continued

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

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
At 1 January	**773**	73	**641**	–
Non-cash changes				
New leases	**92**	762	**–**	641
Interest on lease liability	**37**	17	**(30)**	11
Cash changes				
Interest paid	**(37)**	(17)	**(29)**	(11)
Principal repaid	**(195)**	(62)	**(123)**	–
At 31 December	**670**	773	**519**	641

Leases are the only liability arising from financing activities.

The following amounts relating to leases are recognised in profit and loss in the year to 31 December 2021:

	2021 £'000	2020 £'000
Short-term or low-value lease expense	**2**	47
Depreciation expense on right-of-use assets – property	**209**	101
Depreciation expense on right-of-use assets – vehicles	**9**	10
Interest expense on lease liabilities	**37**	17
	257	175

Cash outflows from short-term or low-value leases are £nil (2020: £0.047m).

14. Investments in subsidiaries

	Company	
	2021 £'000	2020 £'000
At 1 January	**5,459**	5,310
Equity settled share options granted to employees of subsidiaries	**492**	149
At 31 December	**5,951**	5,459

The movement in the year represents the capital contribution made by the Company to its subsidiaries for the cost of remunerating the subsidiary's employees under share-based payment arrangements which will be settled in the Company's own shares. The movement is equal to the share-based payment expense recognised in the subsidiaries. An equal credit to equity has been reflected in the statement of changes in equity.

The Company's subsidiary undertakings are as follows:

Name of undertaking	Company number	Incorporated in	Interest in Ordinary share capital
MedaPhor Limited (Med)	05176992	England & Wales	100%
Intelligent Ultrasound North America Incorporated (IUNA)	–	USA	100%
Intelligent Ultrasound Limited (IUL)	08107443	England & Wales	100%
IML Finance Limited (dormant)	10289063	England & Wales	100%
Inventive Medical Limited (dormant)	06468381	England & Wales	100%
MedaPhor International Limited (dormant)	08838635	England & Wales	100%
Intelligent Ultrasound Innovations Limited (dormant)	13772674	England & Wales	100%

The registered office for the undertakings incorporated in England & Wales is Floor 6A Hodge House, 114–116 St Mary Street, Cardiff, CF10 1DY. IUNA's registered office address 12600 Deerfield Parkway, Suite 100, Alpharetta, GA 30004.

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

The principal activity of IUL is the sale and development of AI-based medical imaging software.

MedaPhor International Limited, IML Finance Limited and Intelligent Ultrasound Innovations Limited are dormant companies.

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

The Directors perform an annual impairment assessment for the investments held in subsidiaries by the Company. If indicators of impairment exist, the recoverable amount of the investment is determined based on value-in-use calculations which require the use of assumptions. The calculations use five-year discounted cash flow (DCF) projections based on financial budgets approved by management covering a two year period. Cashflows for periods three to five are extrapolated using estimated growth rates and growth rates beyond five years are consistent with forecasts specific to the sector in which the subsidiary operates.

The net present value of the DCF has been calculated using a pre-tax discount rate of 12.98% (2020: 13.20%) and a growth rate of 2.00% (2020: 2.00%) was used to determine the terminal value. The conclusion of this impairment review was that no further impairment was required in 2021 (2020: £nil).

15. Inventories

	Group	
	2021 £'000	**2020 £'000**
Raw materials	**617**	869
Work in progress	**510**	172
Finished goods	**69**	6
	1,196	1,047

The costs of individual items of inventory are determined using weighted average cost. Inventories recognised as an expense during the year ended 31 December 2021 amounted to £2.51m (2020: £1.61m). These were included in 'cost of sales'. The above figures include a provision for obsolete stock of £nil (2020: £0.35m).

Inventory written off in the year, included within 'cost of sales', totalled £0.05m (2020: £0.07m).

Inventories of £1.2m (2020: £1.0m) are expected to be recovered within 12 months.

16. Trade and other receivables

i) Included within non-current assets

	Group		Company	
	2021 £'000	**2020 £'000**	**2021 £'000**	**2020 £'000**
Financial assets at amortised cost	**61**	61	**61**	61
Amounts owed by subsidiary undertakings	**–**	–	**14,881**	12,526
	61	61	**14,942**	12,587

The financial assets at amortised cost represent refundable deposits paid to the landlord of the UK head office. Its value recorded in the balance sheet is considered to be a reasonable approximation of fair value.

Amounts owed by subsidiary undertakings relate to Med, IUL and IUNA.

ii) Included within current assets

	Group		Company	
	2021 £'000	**2020 £'000**	**2021 £'000**	**2020 £'000**
Trade receivables	**1,882**	1,639	**–**	–
Other receivables	**67**	7	**–**	–
VAT and other sales taxes	**175**	199	**28**	38
Prepayments	**526**	180	**204**	78
	2,650	2,025	**232**	116

The carrying value of trade and other receivables approximates fair value.

Group

Trade receivables are initially recognised at their transaction price and subsequently measured at their amortised cost using the effective interest method less any loss allowance. The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and ageing. Customers are assigned one of four credit risk profiles (A to D) with A being the lowest credit risk profile (institutional customers such as hospitals and medical schools) and D the highest (non-institutional customers with a poor credit history). The expected loss probability rates are based on management's experience of historical credit losses for each group of trade receivables. The resultant provision matrix is then adjusted for current and forward-looking information based upon management's knowledge of the customer concerned and the prospects of recovery. The allowance that has been made for estimated irrecoverable trade receivables is £0.024m (2020: £0.11m). The movement in the impairment allowance is included in Administrative Expenses in profit and loss.

Notes to the Financial Statements continued

For the year ended 31 December 2021

16. Trade and other receivables continued

At 31 December 2021 the lifetime expected loss allowance for trade receivables is as follows:

Expected loss rate	Current	1–30 days past due	31–60 days past due	61–90 days past due	More than 90 days past due
Customer profile A	0%	0%	0%	10%	15%
Customer profile B	0%	0%	5%	15%	20%
Customer profile C	0.5%	5%	10%	20%	25%
Customer profile D	5%	10%	15%	25%	30%

Trade receivables	Current £'000	1–30 days past due £'000	31–60 days past due £'000	61–90 days past due £'000	More than 90 days past due £'000	Total 2021 £'000
Gross carrying amount	943	340	73	325	225	1,906
Loss allowance	–	–	(1)	–	(23)	(24)
Trade receivables – net	**943**	**340**	**72**	**325**	**202**	**1,882**

At 31 December 2020 the lifetime expected loss allowance for trade receivables was as follows:

Expected loss rate	Current	1–30 days past due	31–60 days past due	61–90 days past due	More than 90 days past due
Customer profile A	0%	0%	0%	5%	10%
Customer profile B	0%	0%	5%	10%	15%
Customer profile C	0.5%	5%	10%	15%	20%
Customer profile D	5%	10%	15%	20%	36%

Trade receivables	Current £'000	1–30 days past due £'000	31–60 days past due £'000	61–90 days past due £'000	More than 90 days past due £'000	Total 2020 £'000
Gross carrying amount	1,041	207	14	241	248	1,751
Loss allowance	(7)	–	–	(33)	(72)	(112)
Trade receivables – net	1,034	207	14	208	176	1,639

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

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

	Group	
	2021 £'000	2020 £'000
At 1 January	**112**	92
(Decrease)/increase in loss allowance during the year	**(88)**	20
At 31 December	**24**	112

There are no trade receivables within the Company.

Company

Impairment allowance in respect of receivables from subsidiary undertakings

	Company	
	2021 £'000	2020 £'000
At 1 January	**5,348**	10,132
Increase in loss allowance during the year	**1,641**	15
Reversal of loss allowance	**(15)**	(4,799)
At 31 December	**6,974**	5,348

The gross carrying values for the Company upon which the loss allowance is based is as follows:

		2021			2020		
	Risk category	Carrying value £'000	Loss allowance £'000	Net £'000	Carrying value £'000	Loss allowance £'000	Net £'000
Med	In default	**18,469**	**(5,194)**	**13,275**	15,399	(5,119)	10,280
IUNA	In default	**–**	**–**	**–**	15	(15)	–
IUL	In default	**3,383**	**(1,777)**	**1,606**	2,460	(214)	2,246
At 31 December		**21,866**	**(6,971)**	**14,881**	17,874	(5,348)	12,526

The intercompany loans are interest free and repayable on demand. Under IFRS 9, these amounts fall under the definition of 'Hold to Collect' receivables and meet the SPPI test and consequently these amounts should be included at Amortised Cost and the General ECL model should be adopted.

An intercompany receivable is considered to be in default when there is evidence that the borrower will have insufficient liquid assets to repay the amount due on demand. The assessment of whether a receivable is credit impaired focuses on events that have already taken place which provide evidence of impairment. In the case of the amounts due from Med Ltd and IUL:

- There is no history of repayment.
- The indebtedness has increased year-on-year.
- The subsidiaries would be insolvent without funding from PLC.
- The subsidiaries would have no prospect of repayment of the amounts if demanded by PLC (or their fellow subsidiary to whom they owe the amount) (and would not be able to borrow from a third party to make the repayment).

The amounts due to the Company are therefore considered credit impaired and so are at Stage 3 = Life-time ECL, interest on a net basis.

The loss allowances for intercompany receivables are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history and existing market conditions, as well as forward-looking estimates at the end of each reporting period.

The estimation technique used to measure the expected credit loss was based upon a weighted average assessment of six different scenarios impacting cash flows as follows:

Scenario	Scenario description
1	Performs to budget
2	As scenario 1 and sold* for 5 x EBITDA in year 5
3	Exceeds budget by 20%
4	As scenario 3 and sold for 5 x EBITDA in year 5
5	Underperforms against budget by 20%
6	As scenario 5 and sold for 5 x EBITDA in year 5

* *sold refers to the disposal of the investment in the entity.*

There has been no change in the estimation techniques or significant assumptions made during the current reporting period. There are no financial instruments for which credit risk has increased significantly since initial recognition.

Sensitivity analysis

Amounts due from Med

i) If the probability of Med:

- performing to budget reduces from 40% to 30%
- exceeding budget by 20% reduces from 5% to 0%
- underperforming budget by 20% increases from 10% to 25%

The loss allowance recognised would increase by £1.65m.

ii) If the probability of Med:

- performing to budget reduces from 40% to 39.5%
- underperforming budget by 20% increases from 10% to 11.5%

The loss allowance recognised would increase by £0.17m.

Notes to the Financial Statements continued

For the year ended 31 December 2021

16. Trade and other receivables continued

Amounts due from IUL

i) If the probability of IUL:

- performing to budget reduces from 30% to 20%
- exceeding budget by 20% reduces from 15% to 0%
- underperforming budget by 20% increased from 5% to 30%

The loss allowance recognised would increase by £0.53m.

ii) If the probability of IUL:

- performing to budget reduces from 30% to 25%
- underperforming budget by 20% increased from 5% to 10%

The loss allowance recognised would increase by £0.17m.

17. Cash and cash equivalents

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Cash at bank and on hand	**4,950**	8,774	**1,507**	6,175

18. Trade and other payables

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Current liabilities				
Trade payables	**1,353**	842	**259**	172
Taxation and social security	**179**	169	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**14**	–
Accruals	**1,235**	829	**72**	63
Share warrants	**–**	61	**–**	61
	2,767	1,901	**345**	296
Non-current liabilities				
Other payables	**65**	65	**65**	65
	2,832	1,966	**410**	361

The Directors consider that the carrying amount of current and non-current liabilities approximates their fair value.

Amounts owed to Group undertakings relate to Intelligent Ultrasound North America Inc and is considered to approximate it's fair value.

The share warrants are explained in note 22.

Other payables relate to a dilapidation liability payable at the end of the UK office lease in 2026.

19. Deferred income

	Group	
	2021 £'000	2020 £'000
Deferred income expected to be recognised		
Within one year – included in current liabilities	**206**	142
In the second to fifth years inclusive – included in non-current liabilities	**320**	275
	526	417

Deferred revenue released to the income statement in 2021 is £0.312m (2020: £0.246m).

The vast majority of the Group's contracts are for delivery of goods and services within the next 12 months. However, certain support and extended warranty contracts have been entered into which extend beyond 12 months and the value of these contracts is included in deferred income within current and non-current liabilities.

20. Provisions

Remedial and warranty provision

	Group	
	2021 £'000	2020 £'000
At 1 January	**10**	95
Provision made in the year	**12**	–
Utilised in the year	**–**	(10)
Released in the year	**–**	(75)
At 31 December	**22**	10

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

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

21. Non-current liabilities – deferred taxation

	Group	
	2021 £'000	2020 £'000
At 1 January	**–**	288
Released	**–**	(288)
At 31 December	**–**	–

Where a deferred tax liability arises in Med and IUL, an equal amount of trade losses has been recognised so the net position at entity level is nil. The deferred tax liabilities relate to accelerated capital allowances mainly due to claims for annual investment allowances (AIA) with respect to eligible fixed asset additions and R&D claims in Med where development costs are capitalised and R&D claims are made under s.1308 CTA 2009, reducing the tax base of these assets.

22. Share capital and share warrants

	2021		2020	
Authorised, allotted, issued and fully paid	**Number**	**£'000**	**Number**	**£'000**
Ordinary shares of 1p each				
Balance at 1 January	**269,396,792**	**2,694**	219,996,792	2,200
Shares issued for cash	**1,256,693**	**13**	49,400,000	494
At 31 December	**270,653,485**	**2,707**	269,396,792	2,694

The nominal values and the premium arising on shares issued in 2021 and 2020 are as follows:

Date	Number of shares	Nominal value £'000	Premium £'000
4 May 2020	49,400,000	494	4,693
19 July 2021	1,256,693	13	–

Notes to the Financial Statements continued

For the year ended 31 December 2021

22. Share capital and share warrants continued

On 4 May 2020 the Company placed 49,400,000 newly issued shares of 1 pence each in the capital of the Company at a price of 10.5 pence per share. Share issue costs of £387k have been netted off against the share premium arising on the new share issue.

On 7 July 2021 pursuant to a receipt of notice for the exercise of warrants, the Company issued 1,256,693 new Ordinary shares with a nominal value of £0.01 each at a subscription price of £0.01 per Ordinary share. The Company has received gross proceeds of £12,566.93.

Ordinary shares have a par value of 1 pence. They entitle the holder to participate in dividends, and to share in the proceeds of winding up the company in proportion to the number of and amounts paid on the shares held. On a show of hands, every holder of ordinary shares present at a meeting, in person or by proxy, is entitled to one vote; and, on a poll, each share is entitled to one vote. Ordinary shares have equal rights, preferences and no restrictions on distributions of dividends nor the repayment of capital.

The Company does not have a limited amount of authorised capital.

Share warrants

The consideration for the acquisition of IUL on 6 October 2017 included 837,795 share warrants with a fair value of £125,669 which were issued on completion. The terms of the warrant instrument agreement allow the holder to subscribe for a fixed number of shares in the Company at any time until 10 July 2021 for a fixed subscription price. In accordance with IAS 32 'Financial Instruments: Presentation', a contract that will be settled by the entity delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset is an equity instrument.

One third of the consideration payable in respect of the acquisition of IUL in 2017 was deferred for 12 months from completion with the actual number of deferred shares and warrants to be issued dependent on any vendor warranty or indemnity breaches (as specified in the Sale and Purchase Agreement) arising during that 12-month period. The Company was not aware of any vendor warranty or indemnity breaches and so the 418,897 deferred consideration warrants were issued at their fair value. These warrants remained as a financial liability and measured at fair value through the income statement until their exercise in 2021.

The fair value of share warrants is based upon a level 1 hierarchy according to IFRS 13. All warrants were exercised on 7 July 2021, therefore their values as at 31 December 2021 was £nil (2020: £0.126m).

The share warrant liability of £0.06m and the share warrant reserve of £0.13m were both extinguished directly through equity resulting in a new undistributable reserve of £0.17m. The fair value movements since initial recognition of the liability of £0.02m were transferred directly to retained earnings.

23. Share-based payments

Share options

The Company has issued options under the Intelligent Ultrasound Group plc EMI Approved Share Option Scheme and several individual unapproved share option schemes to subscribe for Ordinary shares of 1 pence each in the Company. The purpose of the share option schemes is to retain and motivate eligible employees and Directors.

Group

The movement in share options outstanding is summarised in the following table:

	2021		2020	
	Number of options	Weighted average exercise price (pence)	Number of options	Weighted average exercise price (pence)
At 1 January	**23,699,323**	**15.21**	14,071,944	15.56
Granted	**1,105,000**	**16.51**	10,645,039	14.78
Forfeited/lapsed	**(968,000)**	**(14.93)**	(1,017,660)	(15.51)
At 31 December	**23,836,323**	**15.28**	23,699,323	15.21
Vested and exercisable at 31 December	**5,299,082**	**17.66**	3,108,402	23.20

No share options were exercised in the year.

968,000 options expired during the periods covered by the above table as detailed below.

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

Option exercise price (pence)	Grant date	2020	Granted	Forfeited/ lapsed	2021	Expiry (years)	Risk-free rate of return %	Expected volatility %	Vested	Notes
Unapproved schemes										
16.51	15/08/14	168,000	–	(168,000)	**–**	10	3.690	40.0	–	Fully vested
19.00	15/08/14	296,000	–	–	**296,000**	10	1.790	35.0	296,000	Fully vested
42.50	30/06/14	350,000	–	–	**350,000**	10	2.815	35.0	350,000	Fully vested
16.22	06/10/17	268,920	–	–	**268,920**	10	1.410	35.0	268,920	Fully vested
12.75	06/10/17	500,000	–	–	**500,000**	10	1.410	35.0	301,593	Fully vested
12.50	19/01/18	600,000	–	–	**600,000**	10	1.409	37.0	–	(iv)
11.25	29/05/18	2,709,040	–	–	**2,709,040**	10	1.339	38.9	2,709,040	Fully vested
7.75	20/12/18	150,000	–	–	**150,000**	10	1.285	58.0	150,000	Fully vested
8.00	18/01/19	150,000	–	–	**150,000**	10	1.380	46.6	–	(vi)
11.00	09/08/19	150,000	–	–	**150,000**	10	0.540	61.9	–	(vi)
15.00	24/10/20	–	–	–	**–**	10	0.330	76.4	–	(vi)
15.00	21/12/20	3,054,292	–	–	**3,054,292**	10	0.240	75.3	–	(vii)
EMI schemes										
16.51	15/08/14	644,000	–	–	**644,000**	10	1.790	35.0	644,000	Fully vested
42.50	30/06/14	904,000	–	–	**904,000**	10	2.815	35.0	376,000	(i)
50.00	15/08/14	23,529	–	–	**23,529**	10	2.508	35.0	23,529	Fully vested
51.50	01/01/16	20,000	–	–	**20,000**	10	2.009	17.0	20,000	Fully vested
42.50	18/08/16	20,000	–	–	**20,000**	10	0.687	22.0	20,000	Fully vested
29.00	21/12/16	80,000	–	–	**80,000**	10	1.440	32.0	80,000	Fully vested
20.50	04/04/17	200,000	–	–	**200,000**	10	1.071	32.0	60,000	(ii)
0.240	06/10/17	317,835	–	–	**317,835**	10	1.410	35.0	–	(iii)
12.50	19/01/18	1,950,000	–	–	**1,950,000**	10	1.408	37.0	–	(iv)
11.25	29/05/18	3,332,960	–	–	**3,332,960**	10	1.339	38.9	–	(v)
8.00	18/01/19	220,000	–	–	**220,000**	10	1.380	46.6	–	(vi)
11.00	09/08/19	50,000	–	–	**50,000**	10	0.540	61.9	–	(vi)
12.00	24/04/20	1,450,000	–	(150,000)	**1,300,000**	10	0.300	75.7	–	(v)
15.00	23/10/20	1,013,529	–	(150,000)	**863,629**	10	0.330	76.4	–	(vi)
15.25	21/12/20	5,077,218	–	(500,000)	**4,577,218**	10	0.240	75.3	–	(vii)
16.51	02/12/21		1,105,000	–	**1,105,000**	10	0.800	69.2	–	(viii)
Total		**23,699,323**	**1,105,000**	**(968,000)**	**23,836,333**					

Notes to the Financial Statements continued

For the year ended 31 December 2021

23. Share-based payments continued

The weighted average exercise price for options granted in the year is equivalent to the weighted average fair value of the options at the measurement date.

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

The Group charged £0.53m to the statement of comprehensive income in respect of share-based payments for the financial year ended 31 December 2021 (2020: £0.15m).

The weighted average remaining life of all share options outstanding at 31 December 2021 is seven years and two months (2020: eight years and 0 months).

Vesting conditions:

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

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

(iii) 301,593 of these options vested on 31 December 2020 and the remainder vest in equal instalments until May 2021.

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

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

(vi) These options vest three years from grant date.

(vii) For 3,608,265 of these options, 1/36 vest 12 months from grant date. After the initial 12 months, 1/36 vest per month for the remaining 24 months. 4,523,245 of these options vest three years from grant date.

(viii) 1,105,000 of these options vest two years from the grant date.

Company

The movement in share options outstanding is summarised in the following table:

	2021		2020	
	Number of options	Weighted average exercise price (pence)	Number of options	Weighted average exercise price (pence)
At 1 January	**1,849,000**	**19.98**	1,732,920	20.30
Granted	**–**	**–**	116,080	15.00
Lapsed	**(168,000)**	**16.51**	–	–
At 31 December	**1,681,000**	**20.33**	1,849,000	19.98
Vested and exercisable at 31 December	**1,366,513**	**21.86**	1,534,513	21.27

The share options in the Company relate to historical options granted to Non-executive Directors and internal consultants.

No share options were exercised in the year. The weighted average exercise price for options granted in the year is equivalent to the weighted average fair value of the options at the measurement date.

168,000 options expired during the periods covered by the above table as detailed below.

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

Option exercise price (pence)	Grant date	2020	Lapsed	2021	Expiry (years)	Risk-free rate of return %	Expected volatility %	Vested	Notes
EMI schemes									
16.22	06/10/17	135,000	–	**135,000**	10	1,410	35.0	133,920	Fully vested
Unapproved schemes									
16.51	15/08/14	168,000	(168,000)	**–**	10	3.690	40.0	–	Fully vested
19.00	15/08/14	296,000	–	**296,000**	10	1.790	35.0	296,000	Fully vested
42.50	30/06/14	350,000	–	**350,000**	10	2.815	35.0	350,000	Fully vested
16.22	06/10/17	133,920	–	**133,920**	10	1.410	35.0	133,920	Fully vested
12.75	06/10/17	500,000	–	**500,000**	10	1.410	35.0	301,593	Fully vested
7.75	20/12/18	150,000	–	**150,000**	10	1.285	58.0	150,000	Fully vested
15.00	21/12/20	116,080	–	**116,080**	10	0.24	75.3	–	(i)
Total		**1,849,000**	**(168,000)**	**1,681,000**					

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

The Company charged £0.038m to the statement of comprehensive income in respect of share-based payments for the financial year ended 31 December 2021 (2020: £0.006m (£60k)).

The weighted average remaining life of all share options outstanding at 31 December 2021 is four years and ten months (2020: five years and seven months).

Vesting conditions

(i) These options vest three years from the grant date.

24. Related party transactions

i) Key management personnel compensation

Details of the remuneration and share transactions of the Directors, who are the key management personnel of the Group, are disclosed in the Remuneration Report and in note 10.

ii) Transactions with related parties

Med, IUNA, IML and IUL are related parties by virtue of being subsidiary companies of the Company. During the year working capital funding was provided by the Company to Med and IUL. The gross amounts outstanding from subsidiary undertakings to the Company at 31 December 2021 totalled £21.855m (2020: £17.874m). The gross amounts owed by the Company at 31 December 2021 totalled £0.014m (2020: £Nil).

Notes to the Financial Statements continued

For the year ended 31 December 2021

24. Related party transactions continued

The company incurs an obligation to settle share based payment arrangements relating to employees of subsidiary companies (IUL, Med, IUNA). The cost is reflected in the movement in the cost of investment in note 14.

IP Group plc (IPG) is a related party by virtue of their significant shareholdings in the Company. David Baynes and Stuart Gall held an interest in IPG during the year. David Baynes is a Director of IPG and Stuart Gall, until April 2020, undertook consultancy work on retainer for IPG. The value of the expenses (which exclude Directors' fees noted above) paid to IPG are disclosed below.

Professor Nazar Amso is a Director of the Company and also a Director and shareholder of Advanced Medical Simulation Online Limited ("AMSOL"). The value of the goods and services sold to AMSOL are disclosed below.

Company	2021 £'000	2020 £'000
Med (working capital)	**3,500**	3,300
Med (recharges, e.g. Director fees, VAT and insurance refunds)	**(430)**	(426)
IUNA (working capital)	**–**	15
IUNA (expenses)	**(15)**	–
IUL (working capital)	**880**	840
IUL (expenses)	**43**	–
IPG (expenses)	**50**	64

Group	2021 £'000	2020 £'000
AMSOL (goods and services sold)	**–**	(6)
IPG (expenses)	**50**	64

iii) Outstanding balances arising from sales and purchases of goods and services

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

Company	2021 £'000	2020 £'000
Med	**13,275**	10,280
IUL	**1,606**	2,246
IUNA	**(14)**	–
Net amount owed by subsidiaries (after credit losses)	**14,867**	12,526
IPG	**–**	(16)

Group	2021 £'000	2020 £'000
AMSOL	**–**	4
IPG	**–**	(16)

25. Financial instruments

i) Financial risk factors – Group and Company

The Group and Company has exposure to liquidity, credit and market risks from its use of financial instruments. This note sets out the Group's key policies and processes for managing these risks.

Liquidity risk

Liquidity risk is that the Group and Company might be unable to meet its obligations and arises from trade and other payables. The Group manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecasts and actual cash flows.

Capital risk management

The Company's objectives when managing capital, which comprises all components of equity, are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Company reviews the recoverable amount of each trade debt on individual basis at the end of each reporting period to ensure that adequate loss allowance is made for irrecoverable amount. In order to maintain or adjust the capital structure, the Company may, issue new shares or sell assets.

Credit risk

The Group and Company's principal financial assets are bank balances and trade and other receivables. The credit risk is primarily attributable to its trade receivables and the Group and Company attaches considerable importance to the collection and management of trade receivables. Standard credit terms are net 30 days from date of invoice. Overdue trade receivables are managed through a phased escalation culminating in legal action but in general credit risk is considered very low. Please refer to note 16 for more detail on the expected credit loss.

The credit risk associated with bank balances is considered as limited because the counterparties are banks with A-rated credit scores assigned by international credit-rating agencies such as Moody's and Standard & Poors.

Foreign currency risk

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. The Group's main exposure is to the US dollar (USD) and the Euro (EUR).

Amounts owed by and investments in subsidiary undertakings (Company only)

In addition to the financial risk factors facing the Group described above, the Company also provides working capital funding for its trading subsidiaries; Med, IUNA and IUL which are included within the intercompany loan balance although repayable on demand is not expected to be repaid in the next 12 months. The funding provided is supported by annual budgets including monthly cash flows which are approved at the start of each year by the Board. The recoverability of the amounts owed to the Company by its subsidiary undertakings and the Company's investments in its subsidiary undertakings are dependent on the ability of the subsidiary undertaking businesses to grow in line with the longer term forecasts of the Group. The Board monitors the performance of the Company's subsidiary undertakings by monthly reviews of management accounts including the sales order pipeline and cash flows compared to budget. The Company has determined that the amounts due from its subsidiary undertakings at 31 December 2021 totalling £6.97m (2020: £5.35m) were credit impaired. See note 16 for the movement in the expected credit loss in the year.

ii) Financial instruments by category – Group

Financial assets

	2021 £'000	2020 £'000
Financial assets measured at amortised cost		
Trade and other receivables: non-current	**61**	61
Trade and other receivables: current	**1,949**	1,784
	2,010	1,845
Cash and cash equivalents	**4,950**	8,774
Total financial assets	**6,960**	10,619

Financial liabilities

	2021 £'000	2020 £'000
Financial liabilities measured at amortised cost		
Trade payables	**1,353**	842
Accruals	**704**	554
Non-current liabilities – other payables	**65**	65
Lease liabilities: current	**213**	170
Lease liabilities: non-current	**457**	603
Financial liabilities measured at fair value through profit and loss		
Share warrants	**–**	61
Total financial liabilities	**2,792**	2,295

Notes to the Financial Statements continued

For the year ended 31 December 2021

25. Financial instruments continued

iii) Financial instruments by category – Company

Financial assets

	2021 £'000	2020 £'000
Financial assets measured at amortised cost		
Trade and other receivables: non-current	**61**	61
Trade and other receivables: current	**–**	–
Amounts owed by subsidiary undertakings	**14,881**	12,526
	14,942	12,587
Cash and cash equivalents	**1,507**	6,175
Total financial assets	**16,449**	18,762

Financial liabilities

	2021 £'000	2020 £'000
Financial liabilities measured at amortised cost		
Trade payables	**259**	172
Amounts owed to subsidiary undertakings	**14**	–
Accruals	**72**	63
Other payables: non-current	**65**	65
Lease liabilities: current	**138**	123
Lease liabilities: non-current	**381**	518
Financial liabilities measured at fair value through profit and loss		
Share warrants	**–**	61
Total financial liabilities	**929**	1,002

Group and Company

Trade payables and receivables generally have a remaining life of less than one year so their value recorded in the balance sheet is considered to be a reasonable approximation of fair value. Other receivables relate to a refundable deposit paid to the landlord of the UK Head Office on expiration of the lease term in September 2026. Amounts owed by subsidiary undertakings are repayable on demand but are not expected to be repaid within the next 12 months.

Other payables relate to a dilapidation liability owed to the landlord of the UK head office payable on expiration of the lease term in 2026. The share warrants original expiry date was 10 July 2021. These were exercised on 7 July 2021.

The value of the amounts owed by subsidiary undertakings is considered to approximate fair value.

Please refer to note 13 for the maturity analysis of lease liabilities.

iv) Currency denomination

Financial assets and liabilities are denominated in the following currencies:

Financial assets

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Trade and other receivables				
Sterling	**937**	951	**14,942**	12,587
US Dollar	**647**	753	**–**	–
Canadian Dollar	**308**	16	**–**	–
Euro	**118**	125	**–**	–
	2,010	1,845	**14,942**	12,587
Cash and cash equivalents				
Sterling	**2,080**	6,726	**1,505**	6,175
US Dollar	**2,236**	1,554	**2**	–
Canadian Dollar	**57**	200	**–**	–
Euro	**577**	294	**–**	–
	4,950	**8,774**	**1,507**	6,175
Total financial assets	**6,960**	10,619	**16,449**	18,762

Financial liabilities

	Group		Company	
	2021 £'000	**2020 £'000**	**2021 £'000**	**2020 £'000**
Trade payables:				
Sterling	**2,049**	2,129	**929**	1,002
US Dollar	**429**	127	**–**	–
Euro	**117**	39	**–**	–
Swiss Franc	**197**	–	**–**	–
Total financial liabilities	**2,792**	2,295	**929**	1,002

v) Currency fluctuations

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

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

	Group	
	2021 £'000	**2020 £'000**
US Dollar	**277**	263
Canadian Dollar	**41**	22
Euro	**68**	38
Swiss Franc	**(24)**	–

26. Events after the reporting period

There are no events after the reporting period.

27. Ultimate parent and controlling party

The ultimate parent company is Intelligent Ultrasound Group plc.

There was no overall controlling party as at 31 December 2021 or 31 December 2020.

Glossary of Terms

Term	Description
OBGYN	Obstetrics & Gynaecology
PNB Trainer	Peripheral Nerve Block Trainer
PACS	Picture Archiving and Communication System
ECHO	Echocardiogram
PoCUS	Point-of-Care Ultrasound
TTE	Transthoracic echocardiogram
TEE	Transoesophageal echocardiogram
ISUOG	International Society of Ultrasound in Obstetrics and Gynaecology
NED	Non-Executive Director
ESG	Environmental Social and Governance
GHG	Greenhouse Gas
IU	Intelligent Ultrasound
OEM	Original Equipment Manufacturer
QMS	Quality Management System
RDEC	Research and Development Expenditure Credit
IUL	Intelligent Ultrasound Limited
MED	Medaphor Limited
IML	Inventive Medical Limited
CGU	Cash Generating Unit
ECL	Expected Credit Losses

Corporate Directory

Board of directors
Nazar Amso
Nicholas Avis
Andrew Barker
David Baynes
Stuart Gall
Helen Jones
Riccardo Pigliucci
Nicholas Sleep
Ian Whittaker
Ingeborg Øie
Michèle Lesieur

Company secretary and registered office
Helen Jones
Floor 6A Hodge House
114–116 St Mary Street
Cardiff
CF10 1DY, United Kingdom

Auditor
Deloitte LLP
3 Rivergate
Bristol
BS1 6GD, United Kingdom

Registrar and receiving agents
Link Group
10th Floor
Central Square
29 Wellington Street
Leeds
LS1 4DL, United Kingdom

Nominated adviser and broker
Cenkos Securities Plc
6–8 Tokenhouse Yard
London
EC2R 7AS, United Kingdom

Public/investor relations
Walbrook PR Ltd
4 Lombard Street
London
EC3V 9HD, United Kingdom

Lawyers
Memery Crystal LLP
165 Fleet Street
London
EC4A 2DY, United Kingdom

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Intelligent Ultrasound Group plc
Registered office:

Floor 6A Hodge House

114-116 St Mary Street

Cardiff, CF10 1DY

www.intelligentultrasound.com

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