

Digital Animal Limited

Report and Financial Statements

Year Ended

31 August 2013

Company Number 07757607



Digital Animal Limited

Report and financial statements for the year ended 31 August 2013

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Directors

M C Heath
M S N Kibble (Non-Executive Director)
J A Humphreys
D Allen
N M M Burnell
I Pettifor
E Navarro (Chairman)
M P Dodd (Non-Executive Director)
J Gregory (Non-Executive Director)

Registered office

c/o Pitsec Limited, 47 Castle Street, Reading, Berkshire, RG1 7SR

Company number

07757607

Auditors

BDO LLP, 125 Colmore Row, Birmingham, B3 3SD

Bankers

Barclays Bank Plc, Retail and Business Banking, 48 Regent Street, London, W1B 5RA

HSBC PLC, 9 Penn Road, Beaconsfield, Buckinghamshire, HP 2PT

Solicitors

Pitmans LLP, 1 Crown Court, Cheapside, London, EC2V 6LR

Company secretary

Pitsec Limited, 47 Castle Street, Reading, Berkshire, RG1 7SR

Digital Animal Limited

Report of the Directors for the year ended 31 August 2013

The Directors present their report together with the audited financial statements for the year ended 31 August 2013.

Results and dividends

The profit and loss account is set out on page 11 and shows the loss for the year.

Principal activities and review of business

Digital Animal is a social media marketing technology company. The principal activity of the Company is the provision of SaaS software, social media performance data and metrics and consultancy services. The Company's patented peer-to-peer behaviour tracking software, FanDistribution, puts the end-customer at the centre of B2C focused enterprises' marketing, sales and product development, enabling them to value and leverage their social media interactions to drive revenue growth, develop new products and reduce the cost of acquisition per customer.

Formed in August 2011 by its founder and CEO Martin Heath, a serial entrepreneur and successful music industry executive, Digital Animal is an integrated team of specialists from the performance marketing, technology and insurance industries with the broad range of skills and experience to capitalise on opportunities in the social media space.

Digital Animal is organised around three key business sectors - Retail, Entertainment & Media and Financial Services - which the Directors believe potentially offer the highest returns and dovetail well with the competencies and experience of the team.

Significant progress has been made in the period since formation of the Company to create a robust, fully operational and truly scalable business.

Digital Animal Limited

Report of the Directors for the year ended 31 August 2013 (*continued*)

Future trading and liquidity risk

Whilst the Company has made significant progress to promote and grow the business during the financial year and in the post balance sheet period prior to signing these financial statements, the results of the Company for the year showed a loss of £1.8 million and net liabilities of £2.8 million at the year end. However, as noted the Directors are fully confident in the future profitability of the business.

The Company is privileged to have a supportive shareholder base and staff highly experienced in raising funds from the capital markets. During the financial year the Company successfully raised the targeted £1.5 million of capital in the form of equity capital and preference shares, of which £0.6 million was allotted after the balance sheet date. The Directors are, therefore, confident that the Company can continue to raise additional capital as and when required to meet working capital requirements.

The Directors have prepared profit and cash flow forecasts ("the forecasts") for the period from 1 December 2013 to 31 August 2016 based on current expectations of activity levels. These forecasts show that the Company requires additional funding. Since the reporting period the Company has sought to raise US Dollar 4 million (£2.5 million) from the private placement of shares, predominantly in the United States, to provide both growth capital and the working capital bridge to breakeven. As at the date of signing the financial statements US Dollar 1 million (£0.6 million) of equity has been successfully raised.

Based on discussions with potential investors the Directors consider this fund raising should be fully achievable. General uncertainty over revenue continues to exist as the Company only started trading in 2012 and has recently revised its go-to-market strategy. The additional funding provides the level of funds shown in the forecasts that enable the Company to continue trading for at least the next twelve months from the date of signing these financial statements and includes the ability to accommodate delays in the generation of revenue from product sales.

In dealing with this uncertainty the Directors intend to continue to manage the cash flows of the Company carefully over the forthcoming months and through a range of measures consider that this close management of overheads and payment profiles should enable the Company to continue in a cash positive position through the planned fund raising and subsequent months.

After making enquiries, and considering the uncertainties noted above, the Directors have a reasonable expectation that they will have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts.

Future developments

On 16 September 2013 the Company signed a strategic alliance with Vertafore Inc., a major US insurance software house servicing 20,000 insurance agents in the United States. The outline agreement involves a short term US \$0.5 million licensing deal before progressing to a multi-million US Dollar partnership with exclusive US distribution rights.

The Company is in discussion with a number of UK insurance software houses regarding comparable deals for the UK market.

Digital Animal Limited

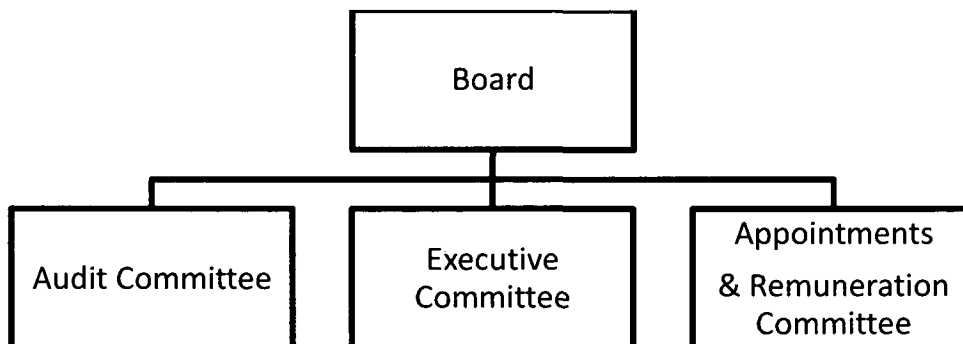
Report of the Directors for the year ended 31 August 2013 (continued)

Risk management

The Board sets the overall risk appetite and philosophy of the Company. The board establishes the parameters for risk appetite through setting strategic direction, contributing to and approving annual business plans for the Company, and reviewing and monitoring performance in relation to risk through ad hoc reports.

Risk appetite is defined in both qualitative and quantitative terms and is an expression of the maximum level of residual risk that the Company is prepared to accept in order to deliver its business objectives and is assessed on an ad hoc basis.

The following executive sub-committees support the Board in the risk management process:



The Audit Committee, which comprises D Allen (Chairman), NMM Burnell, JA Humphreys and MSN Kibble, is a sub-committee of the Board whose purpose is to assist the Board in the effective discharge of its responsibilities for corporate governance, including financial reporting and accounting policies, risk assessment and internal control. The Committee reviews the annual financial statements, internal control matters and the scope and effectiveness of the external audit. The Audit Committee has only recently been convened but aims to meet formally at least quarterly. The Chief Financial Officer and other representatives of senior management and the external auditors normally attend meetings, though attendance is at the invitation of the Committee. The external auditors have unrestricted access to the Committee.

The Appointments & Remuneration Committee, which comprises E Navarro (Chairman), NMM Burnell, MC Heath and I Pettifor, is a sub-committee of the Board with full power and authority (a) to conduct the formal selection of candidates and to propose to the Board new appointments at both the executive and non-executive director level, and (b) to determine the Company's policy on the remuneration of the Chairman, Directors and other senior executives and to determine specific remuneration packages (including pension rights) and compensation packages on employment or termination of office for each of the Directors of the Company and other senior executives. With regard to risk management, the role of the Appointments & Remuneration Committee is to ensure (a) that the Company identifies, evaluates and subsequently selects for appointment directors and other senior executives possessing the requisite skills and experience to ensure that the Company continues to operate effectively following the replacement of the in situ incumbent, and (b) that the remuneration of the Directors and other senior executives attracts, motivates and retains high-calibre personnel, rewarding them for enhancing shareholder value, and ensures that contractual terms on termination are equitable to the individual and the Company and that failure is not rewarded. The Committee meets formally on a monthly basis to approve new hires and out-of-cycle pay awards, as well as to consider succession planning and all material elements of the Company's remuneration policy. The Committee invites Directors and other senior executives and external advisers to attend meetings at its discretion.

The Executive Committee is an executive sub-committee set up by the Chief Executive ("CEO") to assist him in discharging his responsibilities to the Board for the running of the Company's business. The Executive Committee consists of the CEO, who is Chairman of the Committee, the Chief Operating Officer, the Chief Financial Officer, the Chief Information Officer, and the Director of Sales & Media, together with such other senior executives as the CEO chooses to appoint.

Through its activities the Company is exposed to a number of financial and non-financial risks. The Company

Digital Animal Limited

Report of the Directors for the year ended 31 August 2013 (*continued*)

does not use derivative financial instruments and has nominal exposure to these risks.

Principal risks and uncertainties

The Directors believe that, in addition to the entry of new competitors, the principal risks and uncertainties for the Company are changes in one or more of the following: technology, data protection legislation and financial services regulation.

A number of potential competitors already operate in the social media marketing space. These firms could extend their current offerings to compete more aggressively with the Company. Whilst there may be limited barriers to entry to the social media marketing technology market, when it comes to the application of that technology to specific sectors, a thorough understanding of the market place and leverageable business contacts become essential. The Directors believe that the Company is uniquely positioned in its chosen sectors on account of the strength and depth of its market knowledge and the relationships maintained by its senior employees with "C Suite" industry personnel.

The European Data Protection Directive 1995 is currently being updated in response to the quantum leap in technology since its introduction and to achieve greater consistency across the European member states. Changes to EU privacy laws could result in the banning of first party cookies, severely restricting the ability to target returning customers. The technology employed by the Company uses unique URLs to track users, and proprietary tracking code, and is not reliant on cookies. The Company's lawyers have been requested to keep a watching brief on the evolution of legislation in the areas of data protection, social media and financial services so as to enable the Company to respond quickly to legislative changes in both its business model and the design of products, rendering them more innovative and cutting edge.

On the technology front, social media platforms, for example Facebook, could change their terms and conditions for access, restricting the Company's ability to operate in a particular social network and to use existing APIs. However, many social networks are currently moving in the opposite direction, liberalising their policies towards third party applications. In addition, the Company uses links and URLs in news feeds and notifications, obviating the requirement for API integration.

In order to mitigate the risk of the Company losing the ability to operate under licence any code developed by third parties or patented by former employees, the Company has built and owns all its own code and employees surrender their intellectual property rights to the Company via their employment or consulting agreements.

Digital Animal Limited

Report of the Directors for the year ended 31 August 2013 (*continued*)

Financial risks

The principal financial risks that the Company seeks to manage are as follows:

Credit risk

Credit risk is the risk that the Company will incur losses as a result of the failure of clients and counterparties to meet their obligations and arises from holdings of cash and cash equivalents.

Such losses are minimised by providing services to clients that satisfy credit worthiness procedures, performing a credit assessment on new clients as appropriate, and where possible by having new clients pay for contracted services in advance.

Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its cash obligations as they fall due.

The Company monitors its liquidity risk by monitoring short term and long term cash flow forecasts which identify significant future cash flow requirements and inflows. The Company aims to mitigate liquidity risk by maintaining a mixture of short-term and long-term facilities to ensure that it has sufficient available funds to satisfy daily requirements.

Foreign exchange risk

Foreign exchange risk is the risk of adverse changes in currency exchange rates.

The Company, which has as its functional currency Sterling, is exposed to depreciation of Sterling relative to the US Dollar because an element of the issued long-term preference share capital is US Dollar denominated.

The Company is also exposed to a modest level of operational foreign exchange risk as its turnover is primarily denominated in Sterling and US Dollars whilst its material expenditure is predominantly denominated in Sterling.

The Directors are of the opinion that such risk is currently at acceptable levels and will implement an appropriate hedging program as and when appropriate.

Digital Animal Limited

Report of the Directors for the year ended 31 August 2013 (*continued*)

Non-financial risks

The principal non-financial risks that the Company seeks to manage are as follows:

Operational risk

Operational risk is the risk of loss of earnings and/or value resulting from inadequate or failed internal processes, people and systems or from external events. It is inherent within all of the financial risk categories above. Operational risks encompass customer treatment, product development risk, processes and systems risk, change risk, people risk, theft, fraud, legal and regulatory risks and corporate governance risk.

As “people businesses” whose key asset is their people, technology and financial services companies are particularly exposed to the loss of key staff. Although the Company is not an exception to this rule, a number of the key IT engineers have longstanding relationships with the Founder, having worked together for a number of years on a number of different initiatives. To further mitigate this risk, an Enterprise Management Incentive share scheme is to be established for key staff and the Directors to provide an incentive and to help “lock them in”. The Company also proposes to use an element of the funds raised from a forthcoming private placement to hire additional staff to increase its bench strength.

Reputational risk

Reputational risk is the risk of damage to the Company’s trading name, brands and/or corporate identity arising from perceived or actual instances of unethical or disreputable business behaviour.

The Directors recognise that the success of the Company within the sectors it serves is heavily dependent upon demonstrating and maintaining consistently high ethical standards in all business dealings and delivering a high quality, hassle free service to clients. The Directors believe that the Company’s performance driven service ethos helps engender a passion for delivering a high quality service.

Employment of disabled persons

The Company is committed to a policy of recruitment and promotion on the basis of aptitude and ability without discrimination of any kind. Management is sensitive to both the employment of disabled persons whenever a suitable vacancy arises and the continued employment and retraining of employees who might become disabled whilst employed by the Company.

Employee involvement

The Company is committed to involving all its employees in the performance and development of the Company. Its approach to employee development offers continual challenges in the job, learning opportunities and personal development.

The Company encourages all its employees to participate fully in the business through open dialogue. Employees receive news of the Company through senior management presentations, frequent email notices, internal notices and Board statements. The Company maintains a strong communications network and employees are encouraged, through its open-door policy, to discuss with management matters of interest to the employee and subjects affecting day to day operations of the Company.

Qualifying third party indemnity provisions

The current Articles of Association of the Company contain an indemnity in favour of the Directors of the Company which indemnifies them in respect of any liability incurred by them in defending any proceedings (whether civil or criminal) in which judgement is given in their favour and costs that they might incur in the execution of their duties as Directors. Copies of the relevant extract from the Articles of Association are available for inspection at the registered office of the Company during normal business hours.

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Report of the Directors for the year ended 31 August 2013 (*continued*)

Post balance sheet events

Details of significant events since the balance sheet date are disclosed in note 17 to the financial statements

Directors

The current Directors are listed on the contents page. The following changes have occurred since the beginning of the financial year.

	Date of Appointment	Date of Resignation
M S N Kibble (Non-Executive Director)	10 September 2012	
G F Hirschfield	4 October 2012	7 May 2013
J A Humphreys	4 October 2012	31 May 2013
P J Middleton (Chairman)	4 October 2012	15 March 2014
B K Pedersen	11 February 2013	24 June 2013
J A Humphreys	17 June 2013	
D Allen	19 August 2013	
P M Donovan (Non-Executive Director)	19 August 2013	17 January 2014
N M M Burnell	19 August 2013	
I Pettifor	19 August 2013	
E Navarro (Chairman)	20 January 2014	
M P Dodd (Non-Executive Director)	24 April 2014	
J Gregory (Non-Executive Director)	27 May 2014	

Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Digital Animal Limited

Report of the directors
for the year ended 31 August 2013 (*continued*)

Auditors

All of the current Directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The Directors are not aware of any relevant audit information of which the auditors are unaware.

BDO LLP were appointed as auditors during the year and have expressed their willingness to continue in office. A resolution to re-appoint them will be proposed at the annual general meeting.

On behalf of the Board



M C Heath

Director

30 MAY 2014

Digital Animal Limited

Independent auditor's report

To the members of Digital Animal Limited

We have audited the financial statements of Digital Animal Limited for the year ended 31 August 2013 which comprise the profit and loss account, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 August 2013 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter - Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in Note 1 to the financial statements concerning the ability of the Company to continue as a going concern. The company requires additional long term funding to meet its liabilities as they fall due for the foreseeable future. Although the directors are in advanced stages of negotiation with potential investors and expect to conclude funding arrangements on acceptable terms in the near future, to date the level of funding raised has not met the target required. Should these negotiations not be successfully concluded the directors would have to seek alternative sources of finance in order to continue in operation. These conditions indicate the existence of material uncertainties which may cast doubt over the company's ability to continue as a going concern.

The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Digital Animal Limited

Independent auditor's report (*continued*)

Matters on which we are required to report by exception

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

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

BDO LLP

Stephen Wara (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Birmingham
United Kingdom

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

30 May 2014

Digital Animal Limited

Profit and loss account for the year ended 31 August 2013

	Note	2013 £	2012 £
Turnover	2	75,617	90,727
Cost of sales		23,292	652,865
		<u> </u>	<u> </u>
Gross profit/(loss)		52,325	(562,138)
Administrative expenses		1,927,094	1,135,969
		<u> </u>	<u> </u>
Operating loss	3	(1,874,769)	(1,698,107)
Interest payable and similar charges	6	(28,615)	-
		<u> </u>	<u> </u>
Loss on ordinary activities before taxation		(1,903,384)	(1,698,107)
Taxation on loss on ordinary activities	7	112,534	76,972
		<u> </u>	<u> </u>
Loss on ordinary activities after taxation		(1,790,850)	(1,621,135)
		<u> </u>	<u> </u>

All amounts relate to continuing activities.

All recognised gains and losses in the current and prior year are included in the profit and loss account.

The notes on pages 13 to 24 form part of these financial statements.

Digital Animal Limited

Balance sheet at 31 August 2013

<i>Company number 07757607</i>	Note	2013 £	2013 £	2012 £	2012 £
Called up share capital not paid			-		70
Fixed assets					
Tangible assets	8		15,214		6,448
			<u>15,214</u>		<u>6,518</u>
Current assets					
Debtors	9	233,398		147,144	
Cash at bank and in hand		49,829		14,320	
		<u>283,227</u>		<u>161,464</u>	
Creditors: amounts falling due within one year	10	<u>1,319,557</u>		<u>1,276,047</u>	
Net current liabilities			<u>(1,036,330)</u>		<u>(1,114,583)</u>
Total assets less current liabilities			<u>(1,021,116)</u>		<u>(1,108,065)</u>
Creditors: amounts falling due after more than one year	11		<u>1,813,003</u>		<u>513,000</u>
			<u>(2,834,119)</u>		<u>(1,621,065)</u>
Capital and reserves					
Called up share capital	12		140		70
Share premium account	13		577,726		-
Profit and loss account	13		<u>(3,411,985)</u>		<u>(1,621,135)</u>
Shareholders' deficit	14		<u>(2,834,119)</u>		<u>(1,621,065)</u>

The financial statements were approved by the board of Directors and authorised for issue on 30 MAY 2014



Director

The notes on pages 13 to 24 form part of these financial statements.

Digital Animal Limited

Notes forming part of the financial statements for the year ended 31 August 2013

1 Accounting policies

The financial statements have been prepared under the historical cost convention.

The following principal accounting policies have been applied:

Going concern

Notwithstanding the loss in the year of £1.8 million and net liabilities of £2.8 million as at the year end the Directors have prepared the accounts on the going concern basis. The Directors have prepared profit and cash flow forecasts ("the forecasts") for the period from 1 December 2013 to 31 August 2016 based on current expectations of activity levels. These forecasts show that the Company requires additional funding. Since the reporting period the Company has sought to raise £2.5 million from the private placement of shares in both the United Kingdom and the United States, to provide both growth capital and the working capital bridge to breakeven. As at the balance sheet date £0.6 million of equity has been successfully raised, and as at the date of signing a further £0.24 million has been successfully secured.

Based on discussions with potential investors the Directors consider this fund raising should be fully achievable. General uncertainty over revenue continues to exist as the Company only started trading in 2012 and has recently revised its go-to-market strategy. The additional funding provides the level of funds shown in the forecasts that enable the Company to continue trading for at least the next twelve months from the date of signing these financial statements and includes the ability to accommodate delays in the generation of revenue from product sales.

In dealing with this uncertainty the Directors intend to continue to manage the cash flows of the Company carefully over the forthcoming months and through a range of measures consider that this close management of overheads and payment profiles should enable the Company to continue in a cash positive position through the planned fund raising and subsequent months. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

After making enquiries, and considering the uncertainties noted above, the Directors have a reasonable expectation that they will have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts.

Digital Animal Limited

Notes forming part of the financial statements for the year ended 31 August 2013 (*continued*)

1 Accounting policies (*continued*)

Turnover

Turnover represents sales to external customers at invoiced amounts less value added tax.

The Company's primary sources of revenue are as follows:

- (a) Software as a Service ("SaaS") subscription fees – fees payable for subscription to the Company's FanDIST social media marketing platform.
- (b) Commissions – a share of the incremental sales achieved by customers through the Company's FanDistribution social media marketing platform.
- (c) Consultancy fees – fees charged either at a fixed rate or on a per diem basis for bespoke social distribution audit, research, strategy development and delivery.
- (d) Contribution to development costs – contributions towards costs incurred by the Company in the development and integration of the Company's FanDIST and associated technology with third-party applications.

Fees, commissions and other income receivable are recognised in the period to which they relate. Income is brought into account at the point of invoicing (when the service has been performed) rather than when signed contracts are exchanged. In the case of consultancy fees and contributions to development costs, where there is an expectation of future servicing requirements, a proportionate element of the income is deferred to cover the associated contractual obligations.

Cash at bank and in hand

Cash at bank and in hand comprise cash, demand deposits and other short-term highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value

Tangible fixed assets depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets evenly over their expected useful lives. It is calculated at the following rates:

Office equipment - 33% straight line

Foreign currency

Foreign currency transactions are translated into sterling at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Any differences are taken to the profit and loss account.

Digital Animal Limited

Notes forming part of the financial statements for the year ended 31 August 2013 (continued)

1 Accounting policies (continued)

Current taxation

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the financial statements because it excludes items of income or expenditure that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates and law that have been enacted or substantially enacted by the balance sheet date

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except that the recognition of deferred tax assets is limited to the extent that the Company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

Operating assets

Annual rentals for operating leases are charged to the profit and loss account on a straight-line basis over the term of the lease.

2 Turnover

Turnover is wholly attributable to the principal activity of the Company and arises solely within the United Kingdom.

3 Operating loss

	2013 £	2012 £
This is arrived at after charging:		
Depreciation of tangible fixed assets	5,836	3,176
Hire of other assets - operating leases	90,524	54,829
Fees payable to the Company's auditor or an associate of the Company's auditor for the auditing of the company's annual accounts	6,750	3,500

Digital Animal Limited

Notes forming part of the financial statements for the year ended 31 August 2013 (continued)

4 Employees

Staff costs (including Directors) consist of:

	2013 £	2012 £
Wages and salaries	931,183	507,102
Social security costs	71,522	32,899
Compensation for loss of office	37,940	-
	<u>1,040,645</u>	<u>540,001</u>

The average number of employees (including directors) during the year was 14 (2012 - 9).

5 Directors' remuneration

	2013 £	2012 £
Directors' emoluments	381,068	204,000
Compensation for loss of office	25,300	-
	<u>406,368</u>	<u>204,000</u>

The total amount payable to the highest paid director in respect of emoluments was £108,000 (2012 - £114,000).

6 Interest payable and similar charges

	2013 £	2012 £
Interest on loans from associated undertakings	20,050	-
Interest on loans from related parties	1,865	-
Other interest	1,700	-
Facility fee	5,000	-
	<u>28,615</u>	<u>-</u>

Interest on loans from associated undertakings includes accrued interest of £20,050 (2012 - £nil) on working capital finance provided throughout the year by the related party Lizard King Media Limited.

Interest on loans from related parties comprises £1,865 (2012 - £nil) paid to the director, PJ Middleton, for the provision of £100,000 of short-term liquidity finance.

The facility fees of £5,000 (2012 - £nil) were charged by the related party, Lizard King Media Limited, on the provision of additional short-term liquidity loans.

Digital Animal Limited

Notes forming part of the financial statements for the year ended 31 August 2013 (continued)

7 Taxation on loss on ordinary activities

	2013 £	2012 £
<i>UK Corporation tax</i>		
Current tax on profits of the year	(113,821)	(76,972)
Adjustment in respect of previous periods	1,287	-
Total current tax	(112,534)	(76,972)

The tax assessed for the year is lower than the standard rate of corporation tax in the UK applied to the loss before tax. The differences are explained below:

	2013 £	2012 £
Loss on ordinary activities before tax	(1,903,384)	(1,698,107)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 23.58% (2012 - 25.16%)	(448,833)	(427,244)
Effect of:		
Expenses not deductible for tax purposes	25,042	21,793
Capital allowances for period in excess of depreciation	(2,067)	(1,623)
Adjustment to tax charge in respect of previous periods	1,287	-
Additional R&D deductions	(135,556)	(85,906)
Losses carried forward	317,414	329,273
Losses surrendered for R&D tax credit	244,000	163,707
Tax credits on R&D expenditure	(113,821)	(76,972)
Current tax credit for the year	(112,534)	(76,972)

The company has unutilised tax losses of £317,414 (2011: £329,273) and has not recognised a deferred tax asset in the financial statements due to the unpredictability of future profits

8 Tangible fixed assets

	Office equipment £
<i>Cost</i>	
At 1 September 2012	9,624
Additions	14,602
At 31 August 2013	24,226

Digital Animal Limited

Notes forming part of the financial statements
for the year ended 31 August 2013 (*continued*)

8 Tangible fixed assets (*continued*)

	Office equipment £
<i>Depreciation</i>	
At 1 September 2012	3,176
Provided for the year	5,836
At 31 August 2013	9,012
<i>Net book value</i>	
At 31 August 2013	15,214
At 31 August 2012	6,448

9 Debtors

	2013 £	2012 £
Trade debtors	15,605	15,237
Amounts owed by associated undertakings	569	7,066
Directors' loan accounts	361	-
Corporation tax recoverable	113,821	76,972
Other debtors	87,162	35,031
Prepayments and accrued income	15,880	12,838
	233,398	147,144

All amounts shown under debtors fall due for payment within one year.

Digital Animal Limited

Notes forming part of the financial statements
for the year ended 31 August 2013 (continued)

10 Creditors: amounts falling due within one year

	2013 £	2012 £
Loans from associated undertakings	143,000	100,000
Trade creditors	304,030	146,655
Taxation and social security	42,143	19,182
Amounts owed to associated undertakings	2,814	-
Subscription monies awaiting allocation	431,311	882,416
Other creditors	46,671	-
Accruals and deferred income	349,588	127,794
	<u>1,319,557</u>	<u>1,276,047</u>

11 Creditors: amounts falling due after more than one year

	2013 £	2012 £
Preference shares	1,300,003	-
Loans from associated undertakings	513,000	513,000
	<u>1,813,003</u>	<u>513,000</u>

Maturity of debt:

	Loans 2013 £	Loans 2012 £	Preference shares 2013 £	Preference shares 2012 £
In one year or less, or on demand	<u>143,000</u>	<u>100,000</u>	<u>-</u>	<u>-</u>
In more than two years but not more than five years	510,000	510,000	1,300,003	-
In more than five years	3,000	3,000	-	-
	<u>513,000</u>	<u>513,000</u>	<u>1,300,003</u>	<u>-</u>

Digital Animal Limited

Notes forming part of the financial statements for the year ended 31 August 2013 (continued)

11 Creditors: amounts falling due after more than one year (continued)

The preference shares are Preferred Ordinary Shares of £0.001 each in the capital of the Company and carry an entitlement, in the event of a distribution of profits or a return of capital, to the non-discretionary payment of a first dividend equal to the original subscription price paid by the Preferred Ordinary Shareholders, following which there is no further entitlement.

The Preferred Ordinary Shares are not redeemable by the Company and automatically convert into Deferred Shares upon repayment to the Preferred Ordinary Shareholders of an amount equal to the original subscription price. Deferred Shares may be redeemed by the Company at its sole discretion for £1.00 in aggregate.

The Company has granted investors who are holders of both Preferred Ordinary Shares and C Shares a put option, exercisable between 1 January 2016 and 1 April 2016, which requires the Company to purchase all the Preferred Ordinary Shares and C Shares issued to the investor. The price to be paid for the shares shall be determined on the basis of the open market value of the shares as at the date of exercise of the option, assuming a willing buyer and seller and that the Company is carrying on business as a going concern. The put option may only be exercised if at the time of exercise the Company has sufficient distributable reserves to purchase the shares.

Although the preference shares carry no voting rights the Preferred Ordinary Shareholders have the right to attend and speak at meetings whilst the shares are outstanding.

The preference shares enjoy standard "Drag and Tag" rights on the acquisition of 67.5 per cent of the A Ordinary Shares, C Shares and D Shares in aggregate.

The loan due over five years is interest-free.

12 Share capital

	2013 £	2012 £
<i>Allotted, called up and fully paid</i>		
Nil (2012 - 7,000) A Ordinary shares of £0.01 each	-	70
57,365 (2012 - Nil) A Ordinary shares of £0.001 each	57	-
24,885 (2012 - Nil) B Ordinary shares of £0.001 each	25	-
31,187 (2012 - Nil) C Ordinary shares of £0.001 each	31	-
13,515 (2012 - Nil) Deferred shares of £0.001 each	14	-
13,016 (2012 - Nil) D Ordinary shares of £0.001 each	13	-
	140	70

On 10 September 2012 the Company redenominated its share capital and created additional share classes to attract equity investment from new investors. The 7,000 issued A Ordinary Shares of £0.01 each were converted into 57,365 A Ordinary Shares and 12,635 Deferred Shares, both of £0.001 each, and 22,302 B Shares together with 21,752 C Shares, both also of £0.001 each, were issued.

On 21 November 2012 7,766 C Shares of £0.001 each and 3,463 B Shares of £0.001 each were issued at par.

On 30 November 2012 880 B Shares were forfeited by an employee classified as a "Bad Leaver" and immediately converted into Deferred Shares in accordance with the provisions of the Company's articles.

Digital Animal Limited

Notes forming part of the financial statements for the year ended 31 August 2013 (continued)

12 Share capital (continued)

On 25 March 2013 13,016 D Shares of £0.001 each were issued at £44.3861 per share and 1,669 C Shares of £0.001 each were issued at par.

13 Reserves

	Share premium account £	Profit and loss account £
At 1 September 2012	-	(1,621,135)
Premium on shares issued during the year	577,716	-
Loss for the year	-	(1,790,850)
Premium on put option over own shares written during the year	10	-
At 31 August 2013	577,726	(3,411,985)

On 10 September 2012 the Company granted to each of ten investors who were holders of both Preferred Ordinary Shares and C Shares a £1 premium put option providing the investors with the right to sell all their shares to the Company.

On 25 March 2013 13,016 D Shares of £0.001 each were issued at £44.3861 per share, a premium of £577,716.

14 Reconciliation of movements in shareholders' deficit

	2013 £	2012 £
Loss for the year	(1,790,850)	(1,621,135)
Issue of shares	70	70
Premium on shares issued during the year	577,716	-
Premium on put option over own shares written during the year	10	-
Net deductions from shareholders' deficit	(1,213,054)	(1,621,065)
Opening shareholders' deficit	(1,621,065)	-
Closing shareholders' deficit	(2,834,119)	(1,621,065)

Digital Animal Limited

Notes forming part of the financial statements
for the year ended 31 August 2013 *(continued)*

15 Commitments under operating leases

The Company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings 2013 £	Land and buildings 2012 £
Operating leases which expire:		
Within one year	14,214	53,991
In two to five years	58,583	13,200
	72,797	67,191

Digital Animal Limited

Notes forming part of the financial statements
for the year ended 31 August 2013 (continued)

16 Related party disclosures

Related party transactions and balances

	Interest and similar charges £	Amounts owed by related parties £	Amounts owed to related parties £
Related party			
D A Recordings Limited	-	-	512,814
Lizard King Media Limited	20,050	-	143,000
Alignmark Limited	-	-	3,000
Lizard King Records Limited	-	569	-
P J Middleton	1,865	-	-
M C Heath	-	361	-
2012			
D A Recordings Limited	-	7,066	510,000
Lizard King Media Limited	-	-	100,000
Alignmark Limited	-	-	3,000
Lizard King Records Limited	-	-	-
P J Middleton	-	-	-
M C Heath	-	-	-

The loan from D A Recordings Limited is interest-free. D A Recordings Limited has first profits rights and together with the Preferred Ordinary Shareholders is entitled to pro rata payments on a dividend or sale to repay the loan.

P J Middleton was a director of the Company.

M C Heath is a director and shareholder of D A Recordings Limited, Lizard King Media Limited, Lizard King Records Limited and Alignmark Limited.

The aggregate value of the loans extended by Lizard King Media ranged from a minimum of £75,000 to a maximum of £260,000 during the financial year. Prior to 1 January 2013 interest was charged at 10% on amounts outstanding up to £150,000, 12.5% on the next £100,000 and 15% on amounts in excess of £250,000. After that date interest was charged at a 15% on all amounts outstanding.

Digital Animal Limited

Notes forming part of the financial statements for the year ended 31 August 2013 (*continued*)

17 Post balance sheet events

On 16 September 2013 the Company signed a strategic alliance with Vertafore Inc., a major US insurance software house servicing 20,000 insurance agents in the United States. The outline agreement involves a short term US \$0.5 million licensing deal before progressing to a multi-million US Dollar partnership with exclusive US distribution rights.

On 14 October 2013 7,784 D Shares of £0.001 each together with 4,807 C Shares and 4,807 Preferred Ordinary Shares, both of £0.001 each, were issued capitalising the £431,311 of subscription monies awaiting allocation at the balance sheet date, included within creditors due within one year, together with a further £127,559 of subscription monies received after that date. The D Shares and Preferred Ordinary Shares were issued at £44.3861 each and the C Shares at par.

On 10 December 2013 the institutional investor Cap-Meridian Ventures Ltd provided US \$0.5 million of working capital finance in the form of a 15% coupon, secured, convertible promissory note together with a covered warrant.

On 20 January 2014 563 D Shares of £0.001 each were issued at £44.3861 per share, a premium of £24,989.

In the period 24 March 2014 to 9 April 2014 the Company received £240,084 of subscription monies from new and existing investors which awaits the allotment of 5,409 D Shares. The Company subsequently received commitments from new and existing investors to subscribe for a further 5,746 D shares of £0.001 each, representing a further investment in the new equity of the Company of £255,042. Shareholder approval has been sought to increase the quantum of the existing seed capital round which was fully subscribed following receipt of the £240,084 of subscriptions in early April 2014. On receipt of this approval shares will be allotted in fulfilment of all subscriptions monies then received.