

Registration number: 06458458

Location Sciences Group PLC
(formerly known as Proxima PLC)

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2018

Location Sciences Group PLC

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Location Sciences Group PLC

Company Information

Directors	B Chilcott K Harrison D Rae M Slade
Registered office	20 Eastbourne Terrace Paddington London W2 6LG
Company Secretary	BPE Secretaries Limited BPE Solicitor LLP 1st Floor St James' House St James' Square Cheltenham GL50 3PR
Auditors	Hazlewoods LLP Windsor House Bayshill Road Cheltenham GL50 3AT
Bankers	Natwest 21 Gentleman's Walk Norwich NR2 1NA
Nominated Advisor and Broker	Stockdale Securities 7th Floor 100 Wood Street London EC2V 7AN

Location Sciences Group PLC

Chairman's Report for the Year Ended 31 December 2018

2018 - A Landmark year

2018 was a landmark year for Location Sciences Group PLC ("Location Sciences" or the "Company") as it completed its transformation from a digital payments and proximity marketing business into a location intelligence specialist and with the launch of Verify carving a crucial role in the rapidly growing \$106 billion global advertising market (Source: Zenith 2017).

Last year saw the Company evolve enormously. It started with the name change to Location Sciences Group PLC in February 2018, setting our new focus and direction, and ended with us welcoming some new and key investors to our share register while securing the backing of existing shareholders through an open offer. Critically, we have also added new proven leaders to the team and new platform innovation.

Following the name change, the Company launched Verify, the world's first independent location verification product. With the global location intelligence market anticipated to reach \$25.25 billion by 2025ⁱ, the business took the opportunity to establish a presence in North America, which remains the largest advertising market globallyⁱⁱ and a key pillar of growth for the Company.

Location Sciences' new focus and direction led to the following key milestones in 2018:

- The UK launch of Verify in May, helping customers to detect location ad-fraud and verify the authenticity of location data;
- The hiring of Warren Zenna from Havas Media as president of the Americas in late 2018 to lead Location Sciences' market entrance, strategy, partnerships and growth in North America; and
- The signing of new core customers, including CACI and Talon Outdoor Limited.

The Company has been backed by strong support from new and existing shareholders:

- A June placing raised £412,272 (before expenses) to launch Verify in the UK; &
- A November placing and open offer raised £2.95 million (before expenses) with funds being used to launch Verify in North America.

In addition to the support from existing shareholders in the open offer, we welcomed some important institutional investors in 2018. These included Canaccord Genuity Group Inc and Herald Investment Management.

The new funding has already resulted in increasing sales and recurring revenues, delivering value for investors. Having exceeded all published KPIs in 2018, the Board is now committed to delivering new KPIs for 2019, updated to reflect the changes in the business namely:

1. The number of brands which had adopted Verify at the end of 2018 was nine. The Board has set a target for 2019 for 50 new brands.
2. The number of verified ad impressions by year end was 53,658,939. The Board has set a target of 250 million verified ad impressions for the first six months of 2019 and 1 billion by the year end.
3. At least six major suppliers (demand or supply side platforms used to facilitate programmatic advertising) to become Verify accredited during 2019. "Verify Supply" is a significant new product currently being developed by our engineers for customers seeking a hallmark of quality as a differentiator in the location based advertising market.

The Board believes that completion of these targets will deliver significant value to shareholders.

Location Sciences Group PLC

Chairman's Report for the Year Ended 31 December 2018

Huge Market Opportunity

According to Zenith, the global advertising market was worth \$106 billion in 2017 and it continues to grow at pace. Mobile is at the heart of this, with ad spend surpassing TV in 2018ⁱⁱⁱ.

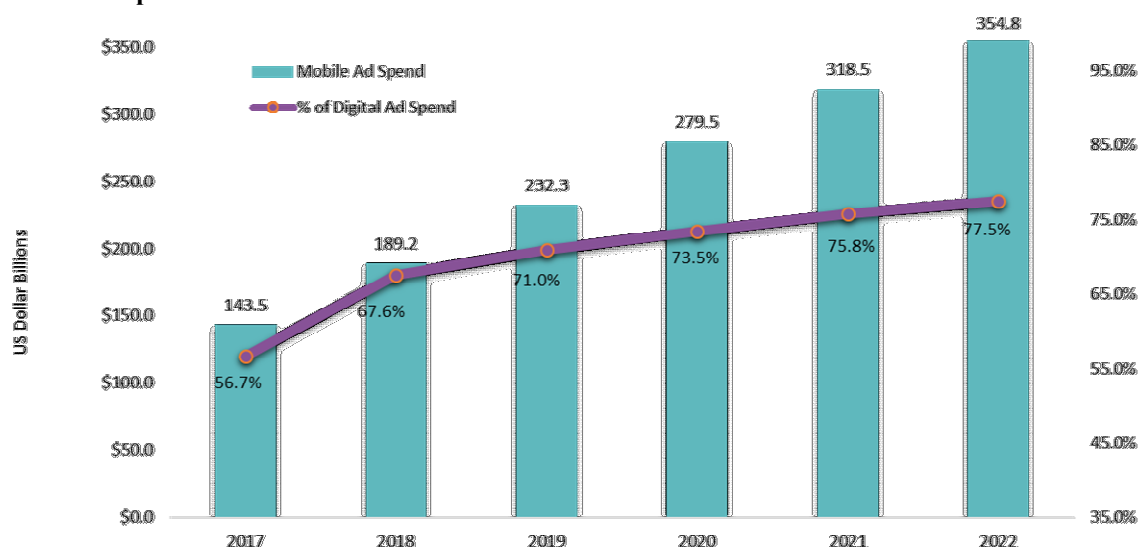
With location targeted advertising estimated to be 43% of mobile advertising spend^{iv}, spotting inaccurate or fraudulent location data is a huge priority for brands and agencies.

Verify is the solution to this growing problem. The Location Sciences platform verifies the authenticity and quality of location signals, enabling brands and agencies to deliver more impactful advertising campaigns and drive better results.

Location Sciences is the first company to bring an independent and media-agnostic location verification product to the market. Our impartiality is key as we can never be accused of 'marking our own homework'.

The opportunity is for Location Sciences to become the kitemark for location-based advertising and a key player in the large and growing ecosystem.

Mobile Ad Spend Worldwide

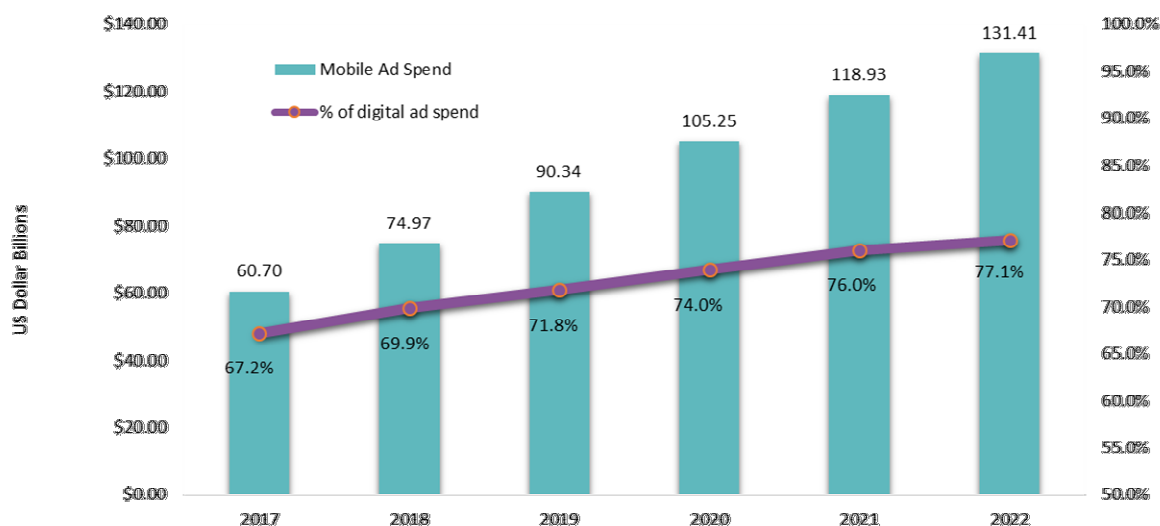


Sources: IAB internet advertising revenue report 2017

Location Sciences Group PLC

Chairman's Report for the Year Ended 31 December 2018

US Mobile Ad Spend



Source: eMarketer US Mobile Ad Spending 2017-2022

Expansion of the Leadership Team

During the course of 2018 and subsequently, the following changes were made to the Board to strengthen various areas of expertise:-

In February 2018, David Rae joined the Board as Chief Financial Officer (CFO) on a part-time basis. He enhanced the Board's financial and strategic capabilities and brought experience in delivering rapid growth for ambitious companies. Since his appointment, David has become full time and taken on the role of Chief Operating Officer (COO), allowing the business to utilise his full set of skills and experience.

In March 2018, Benjamin Chilcott was appointed as a non-executive director. Benjamin co-founded the management consultancy Concise Consultants Limited, which was acquired by Iris Worldwide, the integrated marketing agency, in 2008. Following this, Benjamin became CEO of Iris Concise Limited, the strategy and consulting arm, and served on the board of Iris Worldwide. Benjamin is also non-executive chairman of the electronic receipts company, yReceipts Limited.

In late January 2019, non-executive director Shaun Gregory resigned from the Board with immediate effect. The appointment of a replacement is expected to be announced in the first half of this year.

Dan Francis, who played a key role in the transformation of the business as Executive Director, left the Company in June 2018.

The Board would like to thank these individuals as well our superb sales, technical and operations teams for their important contribution in building Location Sciences to this stage.

Location Sciences Group PLC

Chairman's Report for the Year Ended 31 December 2018

Delivering on the Global Potential of Verify

By exceeding its 2018 KPIs, Location Sciences demonstrated significant commercial traction and evidenced the transformation from a failed venture in digital payments. I am also encouraged by the speed of adoption of Verify, demonstrating a growing awareness of ad-fraud and an urgent need for full transparency across location-based advertising campaigns.

In 2019, Location Sciences will continue to invest in its team and its products to help brands and agencies make the most of the opportunities of location-based mobile advertising.

This will be an exciting year for the Group and its management team. With new markets and new products there will always be challenges to overcome. However, the rewards will be significant if Location Sciences delivers on the early enthusiasm seen for Verify.

I looked back at my report in last year's financial statements and noted that "the Company was in its strongest position yet (at the end of 2017), strategically, financially, operationally and in terms of its market position". I am pleased to advise that we have further enhanced our position since then and look to the future with cautious optimism.

The opportunity for Location Sciences is significant. However, execution is key and I believe that we have assembled a high-performance team to deliver a successful outcome for all stakeholders.

.....
Kelvin Harrison, Chairman

Date:.....

Sources:

[https://www.prnewswire.com/news-releases/global-location-intelligence-market-report-2015-2025](https://www.prnewswire.com/news-releases/global-location-intelligence-market-report-2015-2025---market-is-anticipated-to-reach-usd-25-25-billion-300743014.html)

[---market-is-anticipated-to-reach-usd-25-25-billion-300743014.html](https://www.prnewswire.com/news-releases/global-location-intelligence-market-report-2015-2025---market-is-anticipated-to-reach-usd-25-25-billion-300743014.html)

<https://www.emarketer.com/content/emarketer-total-media-ad-spending-worldwide-will-rise-7-4-in-2018>

<https://www.emarketer.com/content/mobile-advertising-is-expected-to-surpass-tv-ad-spending>

Posterscope, 2017

Location Sciences Group PLC

Chief Executive's Review for the Year Ended 31 December 2018

Many significant milestones were achieved in 2018, demonstrating traction and interest in Location Sciences' disruptive technology. This included signing our first significant multi-year contracts and launching Verify, a product with true global potential.

At the same time, we avoided legislative pitfalls which tripped up some of our competitors and successfully re-structured the business, reducing costs without reducing our ability to deliver on the ambitious targets set at the beginning of the year.

This was all achieved thanks to our highly dedicated and experienced team. With our smaller and more focused management team, 2018 was the year Location Sciences established itself as the pre-eminent location specialist in the UK and launched the world's first independent location verification product.

Insights Driving Success

Location Sciences officially launched in September 2017 and now has two core platform products.

The first is the UK Insights platform which draws upon Location Sciences' data lake of more than 40 billion data points, our world class big data infrastructure and the team's location data science expertise. This self-service client dashboard allows clients to query the data, in an aggregated and anonymised way, to gain insights relevant to them and their customers.

Clients are able to use the Insights dashboard for a variety of purposes, including:

1. Transportation: in 2018, Location Sciences designed features to enable a demand-led transportation system, giving the ability to improve the quality of public transport systems.
2. Attribution: this is the measurement and analysis of out-of-home and digital advertising on driving store visits.
3. Competitor analysis: clients can understand the competition through enhanced location insights. This helps them to plan marketing strategies in a more focused and meaningful way.
4. Location planning: the dashboard provides footfall analysis, allowing clients to plan the next location, whether that is a retail unit, bar or restaurant.
5. Audience analysis: clients can create audiences based on locations visited and obtain insights into the behaviour of these audiences.
6. Mergers and acquisitions: the platform can provide insights related to a wide range of corporate activity. For example, if two supermarkets are planning a merger, the M&A team can understand the overall level of customer overlap per region and per store.

The Launch of Verify

Verify is the world's first independent location verification product. This global cloud-based client dashboard is designed to tackle location ad-fraud and provide advertisers with true transparency on their location based advertising campaigns. Ad-fraud cost advertisers \$19 billion in 2018 and is a growing issue which Verify has been developed to solve. The £3.36 million raised, in aggregate, by the Company in 2018 was, in large part, raised to develop and grow this product.

Seizing the Market Opportunity

According to the Location Based Marketing Association (LBMA) in 2017 *"96 per cent. of marketers say they consider location data to be important"*. This same report also highlights the growing problem of ad-fraud, stating that *"65% of marketers have also expressed concern around the quality of location data available in the market and it is widely perceived that up to 80% may be imprecise or fraudulent."*

Industry recognition is building, making it the right time for Location Sciences to address this emerging issue. Until Verify was brought to market, there were no companies offering the independent verification of location signals. This first mover advantage is something we are proud of and are seeking to capitalise on for the benefit of our shareholders.

Location Sciences Group PLC

Chief Executive's Review for the Year Ended 31 December 2018

The Science Behind Location Verification

Verify uses machine learning and distribution analysis to identify location ad-fraud and provide advertisers with full transparency throughout ad campaign delivery.

The team's technologists implant a small amount of code into each ad impression served during a digital ad campaign. This code delivers key data to Location Sciences during the campaign. Location Sciences is then able to detect location ad-fraud and inaccuracies in ad campaign delivery.

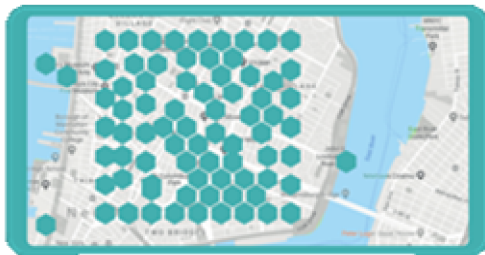
The Verify platform shows advertisers the real-time performance of their campaign, allowing them to improve the effectiveness of their advertising, in real-time, as well as to cut waste from their digital advertising budgets.

Below are some visuals of fraudulent patterns detected by Verify. These are computer-generated location patterns designed to defraud the advertiser by pretending to be real location signals.

There is high demand for premium location data to increase the effectiveness of advertising campaigns. However, the economics, and a lack of policing, has resulted in inaccurate and fraudulent location data being poured into the market by bad actors.

Verify does not simply detect fraud, it delivers full transparency of the quality of location signals to the advertiser.

Fraudulent Location Patterns



Uniform Distribution



Linear



Gaussian



Centroid

Location Sciences Group PLC

Chief Executive's Review for the Year Ended 31 December 2018

Understanding Location Data

Broadly speaking, you can divide location sources into two categories: GPS data and IP data. GPS data is the latitude/longitude coordinate data from a GPS enabled mobile device. IP-based geo information is derived by taking the internet IP address and using it to infer a location. GPS and IP data have varying degrees of accuracy and different challenges.

Whilst IP targeting is a legitimate form of location advertising, it is inherently less accurate than GPS targeting. If you are an advertiser targeting at a store level - or anything that requires an accuracy under one kilometre - then IP targeting will introduce invalid traffic. An advertiser will be paying for this if they are unaware of what is happening.

The biggest problem with GPS data is that it is open to abuse. Good quality GPS data is only available where the user has consented to share their location with the publisher app. This makes it scarce from an advertising inventory point of view. Due to the value of good quality location data in advertising, location availability is highly valuable to publisher apps.

An additional challenge with GPS data, when it comes to programmatic bidstream data, is the level of data accuracy inherent in the signal. The table below shows the correlation between the number of decimal places received and the targeting accuracy possible. Whilst it is understood that Geo-to-IP location data typically has a signal accurate to one to two decimal places, there is a belief that GPS data is far more accurate. This can be true when the signal has more than four decimal places, however verified bidstream inventory at this level is scarce.

The table below from Maxmind shows how the distance accuracy changes with the number of decimal places present in the latitude/longitude.

Decimal Place	Degrees	Distance
0	1	111km
1	0.1	11.1km
2	0.01	1.11km
3	0.001	111m
4	0.0001	11.1m
5	0.00001	1.11m

As demonstrated here, location data is not straightforward, and the quality of the location signals is paramount to the advertiser to optimise the effectiveness of their ad campaign. This ensures advertising budgets are deployed wisely.

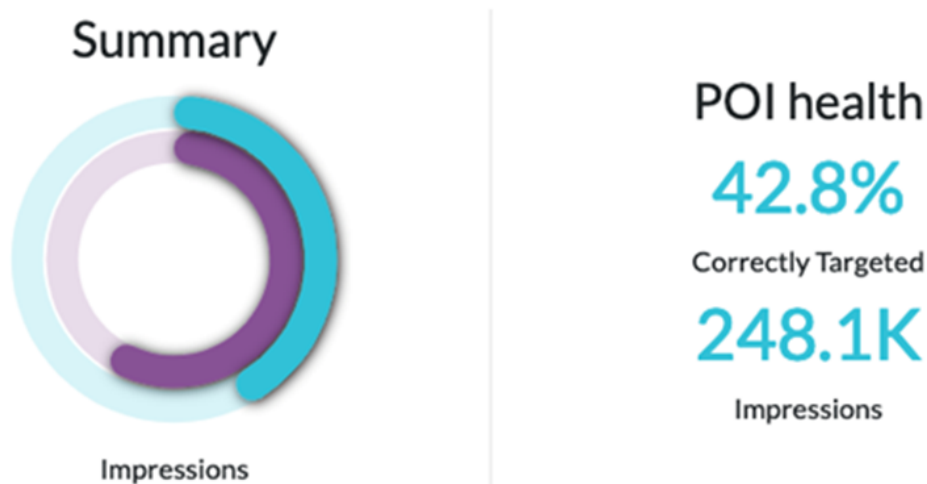
Location Sciences Group PLC

Chief Executive's Review for the Year Ended 31 December 2018

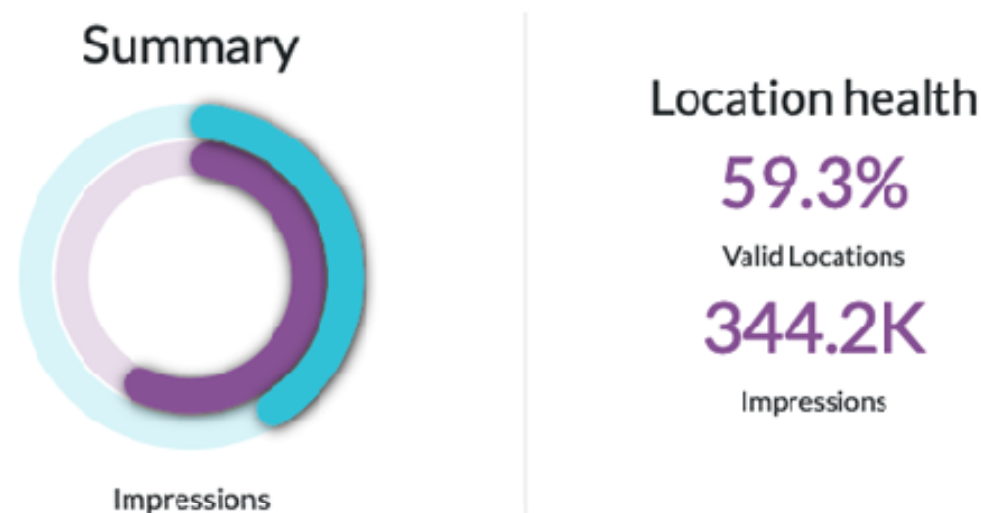
Tackling ad-fraud and inaccuracy

Verify is the world's first independent global location verification product. It provides advertisers, agencies and suppliers complete transparency on the quality and authenticity of location signals during a digital ad campaign. Results are shown in an intuitive and easy to understand format.

Verify shows the advertiser a point of interest ("POI") health score, combined with the number of ad impressions which were correctly targeted. The graphic below is from the Verify dashboard and shows that 42.8% of the ad impressions served were correctly targeted during the campaign.



In addition, Verify visualises a simple location health score. This is the number of impressions which were real and not fraudulent (i.e. computer generated). The graphic below is from the Verify dashboard and shows at a glance that 59.3% of the ad impressions served were not fraudulent.

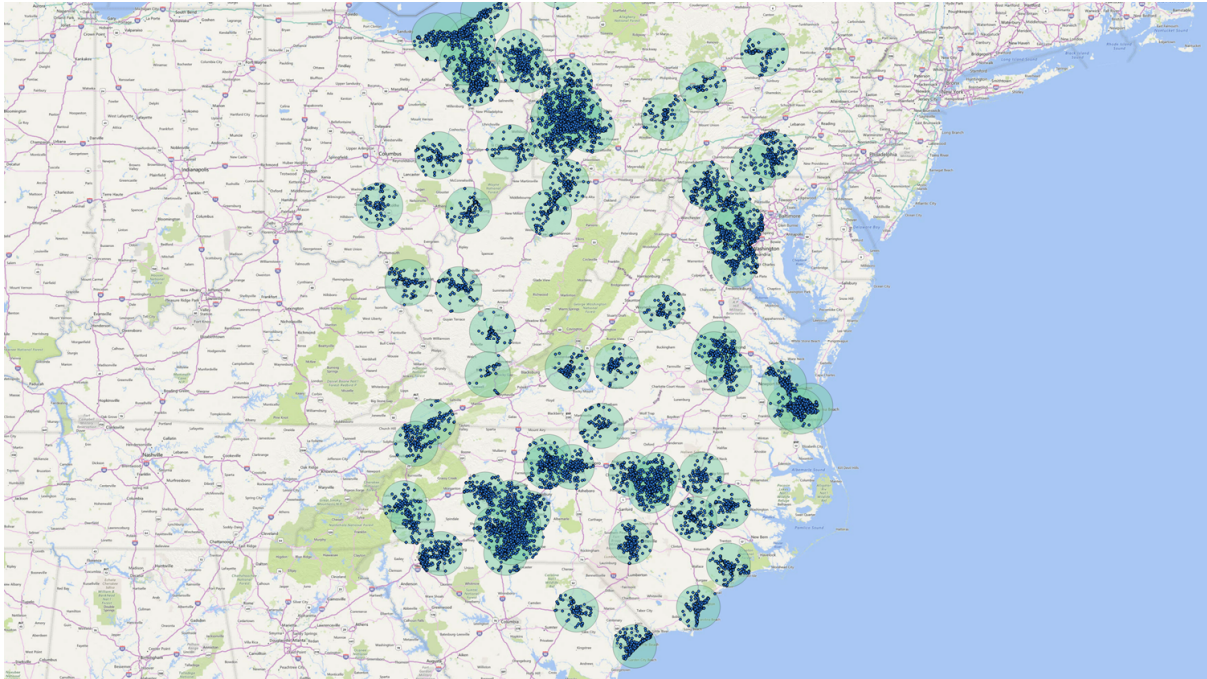


The dashboard also maps impressions and POIs, allowing the advertiser to drill down per POI. This gives a clear picture on performance at a glance.

The accuracy of the location signals are displayed in a clear and informative manner, allowing the advertiser and media agency to analyse them in detail optimising the advertising campaign whilst minimising waste.

Location Sciences Group PLC

Chief Executive's Review for the Year Ended 31 December 2018



In summary, Location Sciences provides the tools for advertisers and agencies to succeed in an unregulated and un-monitored location data marketplace.

Becoming a Kitemark for Location Based Advertising

Location Sciences' key differentiators have set the foundations for it to seize a huge market opportunity in the next few years.

The fact that the Company is independent is extremely important as we strive to become the default choice for location-based ad campaign authentication. Being a highly talented relatively small team means that we can react to our customers' requirements rapidly and always deliver client-oriented outcomes.

We are also media-agnostic, meaning that we do not sell media or own any media assets. For our customers, this means there is no conflict of interest. Our only purpose is to provide verification services to our clients. We are uniquely positioned to be the kitemark in the location based advertising industry, bringing back trust, integrity and transparency to brands.

It is our intention to use Verify to make significant waves in the ad-tech market and deliver value to our shareholders.

All these things combined give me confidence in our future and I look forward to an exciting year ahead.

.....
Mark Slade, Chief Executive Officer

Date:.....

Location Sciences Group PLC

Chief Financial Officer's Review for the Year Ended 31 December 2018

Introduction

2018 was a year of significant progress for the Company. Raising more than £3.1 million in new funds (after expenses) has considerably strengthened the Company's financial position while the launch of Verify, to address the \$19 billion ad-fraud market, gives us global market potential.

The launch of Verify in the US in January 2019 has already resulted in commercial test requests from several top brands, agencies and location intelligence data providers. The key to our success will be turning these paid trials into "always-on" contracts, which would significantly increase our recurring revenues. Based on our experience in the UK, we expect trial participants to convert into "always-on" customers in a three to nine-month period. Consequently, the Board anticipates accelerating growth throughout 2019 as more and more Verify customers move to "always-on".

Financial Performance

In 2018, revenue increased to £751,853 (2017: £471,993) with location data and insights delivering £697,931 (2017: £144,813) and Verify £53,922 (2017: £Nil), representing approximately five times increase in like-for-like revenues year-on-year.

The Group received £157,927 of grant income in 2018 (2017: £283,361) and the expectation is for grant income in 2019 to be reduced further with the Group's shift towards commercial sales.

Reflecting the rationalisation of the costs base during the year, administrative costs for continuing operations reduced by 56% to £2,160,468 (2017: £4,893,319).

The Group also experienced one-off exceptional restructuring costs during the year of £99,801, compared to one-off income relating to the write-off of debt in 2017 of £637,006.

The business delivered a loss before exceptional items, amortisation and depreciation of £1,178,576 (2017: £3,743,438), an operating loss of £1,732,762 (2017: £3,660,000) and a loss after taxation of £1,487,534 (2017: £5,374,380).

Loss per share from continuing operations was significantly reduced from 4.92p in 2017 to 0.98p in 2018, a reduction of 80.1%.

Restructuring Impact

Bringing costs under control during the year led to some one-off exceptional costs of £99,801 which were predominantly related to staff changes made to refocus the business on sales and product delivery for our two core products.

No restructuring costs are expected in 2019, with the emphasis being on building momentum in the US for Verify and delivering sales growth.

Fundraisings

The Group completed two funding rounds in 2018, raising combined gross funds of approximately £3.36 million (£3.08 million net of expenses).

On 14 June 2018, Location Sciences completed a fundraising of £412,372 (before expenses) by way of an equity placing. On 26 November 2018, the Company completed a second equity placing raising approximately £2.76 million (before expenses) and a further £188,748 (before expenses) in an Open Offer which was very well supported by shareholders.

The funds are being used to commercialise Verify and, in particular, to penetrate the US market, where a significant investment is being made in business development.

Location Sciences Group PLC

Chief Financial Officer's Review for the Year Ended 31 December 2018

Costs Under Control

At the beginning of the year, the task for the Board was to bring the cost base fully under control. This involved a comprehensive rationalisation of resources in every department and led to our headcount being reduced to 14 at the end of 2018 compared to 23 at the end of 2017.

Excluding amortisation and depreciation and non-recurring items, administrative costs were reduced by 60.6% to £1,706,083 (2017: £4,333,073).

With the investment into Verify and, in particular, the spend on new business development in the US market, the Board expects administrative costs to increase during 2019. There will also be an increase in product development costs during the year to ensure the Group maintains its first mover advantage in the location verification market place.

The Board expects the investment in the US and in the Company's products to realise significant sales during the year, with meaningful cash flow generation and long-term contracts.

Statement of Financial Position

Following the cost base rationalisation and the funding rounds during the year, the financial position of the Group has significantly improved.

As at 31 December 2018, the Group's net assets were £4,187,730 (2017: £2,551,731) of which £2,615,455 (2017: £1,140,239) were cash and cash equivalents.

Net current assets were £2,839,916 as at 31 December 2018, compared to net current liabilities of £1,155,979 as at 31 December 2017. The main impact on net current assets was the new funding secured by the Group.

Group borrowings were £152 (representing finance lease agreements) as at 31 December 2018 (2017: £4,756).

The Group's improved financial position is a reflection of its new management team and strategy.

Enhancing Shareholder Value

The Board's aim is to deliver increasing and sustainable shareholder value. As such we have focused the resources of the Group into the areas which the Board believes will give the Group its greatest chance of success.

.....
David Rae, Chief Financial Officer

Date:.....

Location Sciences Group PLC

Strategic Report for the Year Ended 31 December 2018

The directors present their strategic report for the year ended 31 December 2018.

Fair review of the business

The fair review of the business is set out in the Chief Executive Officer's and Chief Financial Officer's reports, which describe in detail the financial results, placing and open offer, overhead run rate and future plans for Location Sciences.

The Board monitors progress on the overall Group strategy and the individual strategic elements by reference to KPIs. The primary measures are revenue, costs, EBITDA before exceptional items and working capital levels.

Reporting on the KPI targets set for 2018 the Board is pleased to inform shareholders that all targets were exceeded, specifically:

1. Verify launched in May 2018 and the combined Verify and attribution platform went live in the UK in the second half;
2. The Company exceeded its target of 10 million consumers, reaching 13 million consumers by year end; and
3. The Company's data lake was in excess of 36 billion data points at the end of the year, exceeding the 30 billion data point target set for 2018.

Given the speed of growth of the Group and rapid roll-out of Verify, the Board has updated its secondary measures to provide shareholders with improved leading indicators to delivering the primary measures. These include the number of brands which have adopted Verify; the total number of verified ad impressions; and the total number of supplier certifications. The Board is now committed to delivering new KPIs for 2019, updated to reflect the changes in the business namely:

1. The number of brands which had adopted Verify at the end of 2018 was nine. The Board has set a target for 2019 for 50 new brands.
2. The number of verified ad impressions by year end was 53,658,939. The Board has set a target of 250 million verified ad impressions for the first six months of 2019, and a target of 1 billion by year end.
3. At least six major suppliers (demand or supply side platforms used to facilitate programmatic advertising) to become Verify accredited during 2019. "Verify Supply" is a significant new product currently being developed by our engineers for customers seeking a hallmark of quality as a differentiator in the location based advertising market.

The Group achieved more than five times growth in like-for-like sales in 2018 compared to 2017. Going forward the Board believes that completion of these new KPI targets will deliver significant value to shareholders.

Principal risks and uncertainties

The principle and commercial risks to the Group are as follows:

Description	The Group does not achieve sufficient commercial success before existing competitors or new entrants enter the market.
Impact	The current plans of the Group may not be realised, and the Group may have to re-evaluate its business plan.
Mitigation	The Board considers the know-how, existing products and customer relationships to be already in place. This creates a significant barrier to entry for new competitors, and for existing competitors to threaten the Group's market position.
Description	Location Sciences Group PLC continues to be in a cash consumption phase.

Location Sciences Group PLC

Strategic Report for the Year Ended 31 December 2018 (continued)

Impact	There is a risk that the Group may face working capital and cash flow challenges if the business plan is not delivered as expected. Going concern has been carefully considered and details are provided in the Corporate Governance report and in [note 2] the Group financial statements.
Mitigation	The Group is debt free and raised £3.4 million in new funds during 2018, welcoming new institutional shareholders in the process. Notwithstanding the actions already taken, there are a number of options available to the Group, which include structuring sales contracts beneficially, and requiring payment up-front, as well as making cost reductions, if required. Historically, Location Sciences Group PLC has continued to meet obligations through debt and equity fund raises.
Description	Changes in regulation negatively impact the Group's market.
Impact	The Group may find the demand for their products reduced and / or the Group may be forced to change or stop selling one or more of its products.
Mitigation	The Board seeks to be led by commentators and industrial bodies as to the direction of policy change. The Group has also diversified its product range, reducing any potential legislative impact on the business going forward. Currently, the Board sees the new Privacy regulations as an opportunity for Locations Sciences to grow, especially through its Verify product as awareness of publisher bad practice grows amongst media agencies and advertisers.

The Board meets regularly to review specific and general risks that face the Group. The Board strives to position the Group in a way that any risks can be minimised and met, should the need arise.

The Group's performance is dependent on its products and solutions keeping pace with market. This includes technological developments, frequent introduction of new services and products and evolving industry standards. Advances in technology may result in changing customer preferences for products and services and delivery formats. Any such change in preferences may be rapid.

The Group manages this risk by a commitment to research and development, combined with ongoing dialogue with key industry players and engagement with the regulatory landscape. This includes monitoring requirements and compliance for privacy regulations.

Strategic risks

In 2018 the Group has responded to the global market opportunity and broadened its product offering. The UK Insight's platform has established a core customer base and has significant potential for further growth in 2019. The launch of Verify introduces new opportunities with an expanded customer base, namely brands and media agencies.

This report, in conjunction with the Chief Executive Officer's Report on pages [5] to [10], form the Strategic Report for the purposes of s414A of the Companies Act 2006.

This report, in conjunction with the Chief Executive Officer's Report on pages X to X form the Strategic Report for the purposes of s414A of the Companies Act 2006.

.....
David Rae, Chief Financial Officer

Date:.....

Location Sciences Group PLC

Corporate Governance

The application of the UK Corporate Governance Code (“Code”) and corporate governance during the period 01 January 2018 to 31 December 2018 (“Year”).

The Board recognises the importance of good corporate governance in order to protect and build upon the substantial investments made by our diverse shareholder base. We have chosen to apply the Quoted Companies Alliance Corporate Governance Code (the ‘QCA Code’), which was developed by the QCA in consultation with a number of significant institutional small company investors, as an alternative corporate governance code applicable to AIM companies. The underlying principle of the QCA Code is that “the purpose of good corporate governance is to ensure that the company is managed in an efficient, effective and entrepreneurial manner for the benefit of all shareholders over the longer term”. The Board anticipates that whilst the Company will continue to comply with the QCA Code, given the Group’s size and plans for the future, it will also endeavour to have regard to the provisions of the UK Corporate Governance Code as best practice guidance to the extent appropriate for a company of its size and nature.

An explanation of how these principles have been applied is set out both below and in the Directors’ remuneration, Audit Committee and internal control sections of this report.

Certain information required under the QCA code is included within the Strategic report and the Directors Remuneration Report.

Name	Date Appointed	Role	Committees
Kelvin Harrison	15/02/2017	Chairman	Remuneration, Nomination, Audit
Mark Slade	24/07/2017	CEO	-
Daniel Francis	24/07/2017	CSO	-
(Resigned 27 June 2018)			
Shaun Gregory	09/06/2014	Non-Executive Director	Remuneration, Nomination, Audit
(Resigned 31 January 2019)			
Benjamin Chilcott	21/03/2018	Non-Executive Director	Remuneration, Nomination, Audit
David Rae	12/02/2018	CFO/COO	

The Board is responsible to the shareholders for the proper management of the Group through setting the overall strategy of the business and to review the people, performance, policies and budgets of the Group. The board typically meets bi-monthly and also meets for any other extraordinary matters as they may arise. Detailed information on matters to be discussed during the meetings are circulated in advance of the meeting to ensure non-executive directors can contribute in an educated manner.

Independence of Chairman and Chief Executive Officer

The roles of the Chairman, Kelvin Harrison, and the Chief Executive Officer, Mark Slade, have a formal division. The Chairman is responsible for overseeing the Board and ensuring no individual or group takes control of the Board’s decision making and that all non-executive directors are fully briefed on matters and their responsibilities. The Chief Executive Officer has the responsibility of executing the strategy of the board and running the day-to-day activities of the business.

Location Sciences Group PLC

Corporate Governance (continued)

Board Balance

A minimum of fifty percent of the Board will always consist of non-executive directors including the Chairman. All non-executive directors are independent of the management team and are not involved in any other business or relationship, both as an executive or non-executive, which may impair their independent nature and judgement.

Nomination Committee

The Group's nomination committee is responsible for reviewing and making proposals to the Board on the appointment of Directors and meets as necessary. The Group's nomination committee consists of Kelvin Harrison, who acts as Non-Executive Chairman of the committee, and Benjamin Chilcott.

Performance Evaluation and Re-election

The Board has carried out informal evaluations in the past and is now moving to a formal performance appraisal process annually, taking into account the Financial Reporting Council's Guidance on Board Effectiveness. All Directors undergo a performance evaluation before being proposed for re-election to ensure that their performance is, and continues to be, effective, that where appropriate they maintain their independence and that they are demonstrating continued commitment to the role. The Directors are evaluated internally based on their responsibilities to the board. New Directors resign and stand for re-election at the Group's first AGM following their appointment. One-third of continuing Directors stand for re-election on an annual basis.

The Directors carry out continued professional development throughout the year where appropriate and each Director keeps up to date with market changes through the use of market articles and industry contacts.

Remuneration Committee

The Group's remuneration committee is responsible for the specific remuneration and incentive packages for each of the company's executive directors, senior executives and managers. The Group's Remuneration Committee consists of Benjamin Chilcott and Kelvin Harrison, who acts as Non-Executive Chairman of the committee. Further details of the Committee's remit are contained in the Directors' Remuneration Report on pages 19 to 20.

Relations With Shareholders

The Group encourages two-way communication with both its institutional and private investors and responds promptly to all queries received. The CEO and CFO communicate regularly with the Group's institutional shareholders and ensure that their views are communicated fully to the Board. The Board recognises the Group's AGM as an important opportunity to meet with the Group's private shareholders. The Directors are available to listen to the views of shareholders informally immediately following the AGM. The Directors have also organised various events throughout the year (presentations, seminars, webinars) for existing and potential shareholders to gain a greater understanding of the Group's strategy, products and market.

Annual General Meeting

The Annual General Meeting of the Group provides shareholders with the opportunity to be updated on the Group's progress and to ask questions of the Board.

Location Sciences Group PLC

Corporate Governance (continued)

Financial Reporting and Internal Control

The Company has established policies covering the key areas of internal financial control and the appropriate procedures, controls, authority levels and reporting requirements which must be applied throughout the Group. The key procedures that have been established in respect of internal financial control are:

- An annual budget set by the Board
- Monthly management accounts with comparisons to budget
- Monthly forecast updates with comparisons to budget
- Monthly cashflow forecasts with comparisons to budget
- Dual bank signatories and separation of creation and approval of online bank payments
- Weekly meetings of the Executive Directors and Senior Management to review priorities and issues
- Restriction of user access to systems, including but not limited to Financial, HR and Technology.

The above controls have been established to support the growth of the business and to protect against future risks.

Corporate Culture

It is the Board's view that the Group's corporate culture is consistent with its objectives, strategy and business model. The Board is aware that the culture set by the Board will greatly impact all aspects of the Group and the way that employees behave. The Board invites employees to provide feedback on their peers and management. Quarterly one-to-ones are held between managers to gather feedback and to review current performance against their objectives. Quarterly staff events are undertaken for management to feedback on the overall progress of the business and to assess the culture of the Group.

Consolidated Accounts

The aforementioned Financial Reporting and Internal Controls apply to all subsidiaries. The accounts of all subsidiaries are combined with those of the Company to form consolidated accounts each month. The Chief Financial Officer is responsible for producing the consolidated accounts, including the elimination of intercompany transactions and balances.

Audit Committee

The Group's audit committee is responsible for ensuring the financial performance of The Group is properly monitored and reported on, the effectiveness of accounting systems and financial reporting procedures. The Group's Audit Committee consists of Benjamin Chilcott and Kelvin Harrison, who acts as Non-Executive Chairman of the committee.

The Committee considers all proposals for non-audit services and ensures that these do not impact on the objectivity and independence of the auditor. The Audit Committee reviews, with the external auditor, the safeguards and procedures developed by the auditor to counter threats or perceived threats to their objectivity and independence. Non-audit services performed by the external auditor are assessed for threats to objectivity and independence on a case-by-case basis.

Location Sciences Group PLC

Corporate Governance (continued)

Board and Committee Attendance

Name	Main Board	Audit Committee	Remuneration Committee	Nomination Committee
Kelvin Harrison	10/10	2/2	3/3	1/1
Mark Slade	10/10	-	-	-
David Rae	10/10	-	-	-
Daniel Francis	4/4	-	-	-
(Resigned 24 July 2018)				
Shaun Gregory	3/10	2/2	-	-
(Resigned 31 January 2019)				
Benjamin Chilcott	5/10	-	3/3	1/1
(Appointed 21 March 2018)				

Going concern

The directors have taken a view of the Group as a whole.

The Group made significant strides forward during the year, including nearly quintupling Location Data and Insights sales and more than halving administrative costs compared to 2017. The launch of Verify was also a significant milestone for the Group, opening up the global ad-fraud verification market. However, the Group continued to operate with a trading loss during the year and the same is expected throughout 2019. The Group raised an additional £3.36 million in new investment during the year, which will be utilised for the growth of Verify and for working capital purposes. The Group also remains debt free.

Notwithstanding the positive progress in 2018, there remains a sensitivity to the timing and forecast pipeline of sales. Consequently, near term cash resources will continue to be closely monitored and controlled due to the associated working capital requirements of the Group in delivering its growing order pipeline and winning new business. To deliver its growth plans, the Board may also consider raising additional capital in 2019.

Based on the current status, after making enquiries and considering the progress of the Group during 2018, the directors have a reasonable expectation that the Group will be able to execute its plans in the medium term such that the Group will have adequate resources to continue in operational existence for the foreseeable future. This provides the directors assurance on the Group's ability to continue as a going concern, and therefore adopt the going concern basis of accounting in preparing the annual financial statements.

On behalf of the Board

.....
Kelvin Harrison, Chairman

Date:.....

Location Sciences Group PLC

Directors' Remuneration Report

As a Company listed on AIM, Location Sciences Group PLC is not required to present a directors' remuneration report, however, a number of voluntary disclosures have been made. The Company has complied with the disclosure requirements set out in the AIM Rules for Companies.

Remuneration Committee

The Remuneration Committee, consisting of the chairman Kelvin Harrison, and Benjamin Chilcott determines the Group's policy for executive remuneration and the individual remuneration packages for executive directors. In setting the Group's remuneration policy, the committee considers a number of factors including:

- salaries and benefits available to executive directors of comparable companies;
- the need to both attract and retain executives of appropriate calibre; and
- the continued commitment of executives to the Group's development through appropriate incentive schemes (including the award of share options).

Remuneration of executive directors

Consistent with this policy, benefit packages awarded to executive directors comprise a mix of basic salary and performance-related remuneration that is designed as an incentive. The remuneration packages can comprise the following elements:

- base salary: The Remuneration Committee sets the base salaries to reflect responsibilities and the skills, knowledge and experience of the individual;
- bonus scheme: the executive directors are eligible to receive a bonus dependent on both individual and Group performance as determined by the Remuneration Committee;
- equity: share options; and
- various other add on benefits such as private medical insurance.

The executive directors are engaged under separate contracts which require a notice period of six or three months given at any time by the individual.

Remuneration of non-executive directors

The fees and equity awarded to non-executive directors are determined by the Board. The non-executive directors do not receive any other forms of benefit such as private medical insurance.

Year to 31 December 2018

Director	Salary and fees	Bonus	Pension	Benefits	Share based payments	Total
M Slade (Executive)	131,250	116,473	701	677	7,423	256,524
K Harrison (Non-executive)	30,833	-	264	-	276	31,373
S Gregory (Non-executive)	6,000	-	-	-	-	6,000
D Francis (Executive)	104,773	-	432	1,085	-	106,290
D Rae (Executive)	64,577	-	603	-	8,288	73,468
B Chilcott (Non-executive)	20,000	-	304	-	-	20,304
	<u>357,433</u>	<u>116,473</u>	<u>2,304</u>	<u>1,762</u>	<u>15,987</u>	<u>493,959</u>

Location Sciences Group PLC

Directors' Remuneration Report (continued)

Year to 31 December 2017

Director	Salary and fees	Bonus	Pension	Benefits	Share based payments	Total
M Slade (Executive)	69,554	-	98	-	1,576	71,228
K Harrison (Non-executive)	61,005	-	-	-	85	61,090
S Gregory (Non-executive)	24,000	-	-	-	-	24,000
D Francis (Executive)	48,125	-	163	945	224	49,457
J Kennedy (Executive)	125,000	55,000	-	1,280	-	181,280
M Woods (Executive)	63,700	-	158	-	-	63,858
D Bailey (Non-executive)	12,957	-	-	-	-	12,957
	<u>404,341</u>	<u>55,000</u>	<u>419</u>	<u>2,225</u>	<u>1,885</u>	<u>463,870</u>

Full details of the directors' options over Ordinary shares of 1p are detailed below:

Director	Grant Date	Exercise Price	As 31 December 2018 Number	At 31 December 2017 Number
M Slade (Executive)	29/11/2018	2.25p	15,555,556	-
D Rae (Executive)	29/11/2018	2.25p	7,333,333	-
K Harrison (Non-executive)	29/11/2018	2.25p	577,778	-

Notes: The options will vest in three equal tranches when certain share price targets have been reached, the share price targets are as follows:

- 4.8 pence per New Ordinary Share
- 7.3 pence per New Ordinary Share
- 9.7 pence per New Ordinary Share

Director	Grant Date	Exercise Price	As 31 December 2018 Number	At 31 December 2017 Number
M Slade (Executive)	14/11/2017	3.0p	-	12,371,172
D Rae (Executive)	14/11/2017	3.0p	-	1,757,086
K Harrison (Non-executive)	14/11/2017	3.0p	-	66,666

Note: figures have been updated for the share consolidation on 23 November 2018.

On behalf of the Board

.....
Kelvin Harrison Chairman, Remuneration Committee

Date:.....

Location Sciences Group PLC

Directors' Report for the Year Ended 31 December 2018

The Directors are pleased to present the annual report and audited financial statements of Location Sciences Group PLC for the year ended 31 December 2018.

Dividends

The Directors do not recommend the payment of a dividend.

Board of Directors

Kelvin Harrison, Non-Executive Chairman

Kelvin joined Location Sciences as Non-Executive Chairman in February 2017. He is a chartered engineer with extensive experience in executive and non-executive roles across the information technology, media and telecommunications sector. His involvement has spanned from start up, through VC and PE investment to IPOs on LSE and AIM and exits via trade sale. He was previously CEO of Vega Group Plc and Maxima Holdings Plc, which he founded and grew to more than £50M revenues, £9M PBT and 500 staff. He was also CEO of Symbionics Group, a pioneer in wireless technologies such as Bluetooth, and an NED with UBC Media Group Plc.

He has led high growth of revenues and profits in British and International businesses, with a recent focus on Software as a Service (DaaS). He was Chairman of NetDespatch which was recently purchased in a strategic acquisition by Royal Mail Group. He is also Chairman of Elmodis and Clixifix.

Mark Slade, Chief Executive Officer

Mark joined the Board on 24 July 2017 as an executive director and replaced John Kennedy as CEO on 30 October 2017, once the terms of the disposal of the Digital Payments Division were finalised.

Mark is one of the advertising industry's leading lights with numerous senior relationships across the ad tech and media giants. He joined from Opera Mediaworks, where he was Managing Director, EMEA. Mark founded and sold his mobile advertising business 4th Screen to Opera, and then helped grow the business to over \$100m in revenues. Mark's expertise is in executing in a high growth ad tech sector as well as European acquisitions. Mark is also a founding member of the IAB mobile council.

David Rae, Chief Financial Officer

David joined as CFO initially on a part-time basis in February 2018. Since his appointment he has become full-time and also taken on the role of COO of the Company. David has enhanced the Board's financial and strategic capabilities as well as bringing experience in delivering rapid growth for ambitious companies and international business experience within the technology and energy sectors.

David began his career in 1992 with EY's Entrepreneurial Services team in London, where he focused on fast growth companies. After leaving EY in 1999, David worked in corporate finance where he advised both public and private companies on fundraising and M&A activities. His experience includes SmartXpo, the AI and machine learning company, STC Energy Management, a leading energy software technology provider, as well as Pixel's, a successful digital marketing company recently acquired by Gravity4.

David is a Fellow of the Institute of Chartered Accountants in England and Wales and holds a first-class honours degree in Information Systems and Management Studies from the University of Leeds.

Location Sciences Group PLC

Directors' Report for the Year Ended 31 December 2018 (continued)

Benjamin Chilcott, Non-Executive Director

Benjamin was appointed as a non-executive director in March 2018.

Benjamin co-founded the management consultancy company, Concise Consultants Limited, which was acquired by iris Worldwide, the integrated marketing agency in 2008. Post-acquisition, the company became the strategy and consulting arm of iris Worldwide, with Benjamin taking up the role of CEO for iris Concise, as well as serving on the Board of Iris Worldwide. Benjamin is also non-executive Chairman of the electronic receipts company, yReceipts Limited.

Research and development

Location Sciences continued to invest substantially in research and development. "Intangible Assets" £393,439 of development expenditure has been capitalised (2017: £385,811). The Group continued to invest in the development of its payments and location intelligence products.

Financial Risk Management

The Group's financial instruments comprise cash and cash equivalents, trade receivables and payables and borrowings. The main risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk and foreign currency risk.

Interest rate and credit risk – the principal assets of the Group are its cash deposits. These are short-term liquid assets and as a result the exposure to interest rate income risk is not considered significant. The principal focus of the Directors has been to minimise any credit risk in relation to its cash deposits even at the expense of interest income received. Borrowings include financial instruments on fixed interest rate terms and a revolving credit facility at a variable rate. As a result, the exposure to interest rate expense risk is low and no active management of interest rate risk is undertaken by the Board.

Foreign currency risk – the main functional currency is sterling. Throughout 2018, the Company's transactions have primarily been denominated in sterling and the Group has had low exposure to foreign currency risk.

Liquidity risk – the Board's policy is to ensure that sufficient cash and cash equivalents are held on a short-term basis at all times in order to meet the Group's operational needs. The Group does actively raise funds through market placings and other loan facilities.

The Group has been operating at a trading loss due to its stage of development and seeks to ensure that its investments will deliver long term value to shareholders. Liquidity risk is actively managed through regular review of cash requirements of the business in conjunction with the strategic and operational plans for the Group.

Substantial shareholdings

As at 1 April 2019 the Directors had been notified of the following holdings representing three per cent or more of the issued share capital of the Company:

	Number of ordinary shares	Percentage of issued share capital
Canaccord Genuity Group INC	60,604,750	17.77%
Barclays PLC	58,630,219	17.19%
Peel Hunt	36,254,809	10.63%
Herald Investment Management Limited	22,222,222	6.52%
Mr Gavin Breeze*	12,540,004	3.68%
Hargreaves Lansdown Asset Management	12,446,772	3.65%

Location Sciences Group PLC

Directors' Report for the Year Ended 31 December 2018 (continued)

Directors

The directors, who held office during the year, were as follows:

B Chilcott (appointed 21 March 2018)

S Gregory (resigned 31 January 2019)

K Harrison

D Rae (appointed 12 February 2018)

D Francis (resigned 27 June 2018)

M Slade

The Company maintains director and officers' liability insurance.

Statement of Directors' responsibilities

The directors acknowledge their responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Location Sciences Group PLC

Directors' Report for the Year Ended 31 December 2018 (continued)

Directors' interests in shares

The directors held the following interests in Location Sciences Group PLC:

	At 31 December 2018	At 31 December 2018	At 31 December 2017	At 31 December 2017
	Ordinary shares of 1p each	Options over ordinary shares of 1p each	Ordinary shares of 1p each	Options over ordinary shares of 1p each
K Harrison	666,666	577,778	666,666	666,666
M Slade	6,204,444	15,555,555	1,760,000	12,371,172
D Francis	-	-	833,333	1,757,086
D Bailey *	-	-	2,616,455	-
J Kennedy	-	-	8,000	-
D Rae	1,166,667	7,333,333	-	-
B Chilcott	-	-	-	-

Note: figures have been updated for the share consolidation on 23 November 2018.

* the interest of David Bailey includes the holdings of his wife and is held directly through a self-invested personal pension plan as well as indirectly through various nominee accounts.

The market price of the Company's shares at the end of the financial year was 2.10p.

Disclosure of information to auditor

Each of the persons who are directors at the time when this director's report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the auditor is aware of that information.

Annual General Meeting

Notice of the forthcoming Annual General Meeting of the Company together with resolutions relating to the Company's ordinary business will be given to the members separately.

Reappointment of auditors

The auditors, Hazlewoods LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

Approved by the Board on and signed on its behalf by:

.....
M Slade
Director

Location Sciences Group PLC

Independent Auditor's Report to the Members of Location Sciences Group PLC

Opinion

We have audited the financial statements of Location Sciences Group PLC (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018, which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Statement of Financial Position, Consolidated Statement of Changes in Equity, Statement of Changes in Equity, Consolidated Statement of Cash Flows, Statement of Cash Flows, and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2018 and of the group's 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, 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.

Emphasis of matter

In forming our opinion on the financial statements we have considered the adequacy of the disclosures made in the financial statements concerning the Company's and Group's ability to continue as a going concern.

The ability to continue as a going concern relies upon the Group's ability to generate revenue as projected. In common with other businesses there can be no certainty as to the timing or occurrence of future revenues. This represents a material uncertainty which may cast significant doubt about the Company's and Group's ability to continue as a going concern. The financial statements do not include the relevant adjustments that would result if the Company or Group was unable to continue as a going concern.

Conclusions relating to going concern

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

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

Location Sciences Group PLC

Independent Auditor's Report to the Members of Location Sciences Group PLC (continued)

Key audit matters

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

Our application of materiality

We apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. For the purpose of determining whether the group financial statements are free from material misstatement, we define materiality as the magnitude of a misstatement or an omission from the financial statements or related disclosures that would make it probable that the judgement of a reasonable person, relying on the information would have been changed or influenced by the misstatement or omission. We also determine a level of performance materiality, which we used to determine the extent of testing needed, to reduce to an appropriately low level that the aggregate of uncorrected and undetected misstatements exceed materiality of the group financial statements as a whole.

We establish materiality for the financial statements as a whole to be £125,000, which is 3% of the value of the Group's net assets. Key audit risks were identified as revenue recognition; internally developed intangible assets; and going concern.

An overview of the scope of our audit

Our audit approach was based on a thorough understanding of the Group's business and is risk based. In arriving at our opinions set out in this report, we highlight the following risks that in our judgment, had the greatest effect on the financial statements.

Audit risk

How we responded to the risk

Recognition of revenue

Revenue consists of the value of services. Revenue recorded for services is recorded to the extent that the Group has performed its contractual obligations. We therefore identified revenue recognition as a risk that required particular audit attention.

Our audit work included but was not restricted to:

- For revenue recognised in the year our audit work include, assessing whether the Group's accounting policy for revenue recognition was in accordance with IAS 18 'Revenue'.
- Sampling service sales in the year and comparing them to usage reports and stated performance dates.
- Performing cut-off testing of sales around the year end; and
- Analytical review of revenue recognised in the year including variance review.

Location Sciences Group PLC

Independent Auditor's Report to the Members of Location Sciences Group PLC (continued)

Audit risk

How we responded to the risk

Internally generated intangible assets

The company has £334,942 of development costs capitalised in the year on the balance sheet. The company capitalises development costs when the following criteria have been met: The product is technically viable, it is intended for sale, a market exists, expenditure can be measured reliably, and sufficient resources are available to allow completion of the project. When the Board is sufficiently confident that these criteria are met, the costs are capitalised. We therefore identified internally generated intangibles as a risk that required particular audit attention.

Our audit work included, but was not restricted to:

- Agreeing intangible asset additions to supporting documentation including employee costs and time spent on projects;
- Assessing the nature of the costs being capitalised to ensure they met the required accounting criteria for capitalisation; and
- Discussions were held with management to ensure that all criteria for capitalisation had been met and supporting evidence was obtained to corroborate this.

Going concern

Trading performance of the group has previously indicated the existence of material uncertainty, which may cast significant doubt about the company and the group's ability to continue as a going concern.

Our audit work included, but not limited to:

- considering new funds raised in the year;
- review of forecasts prepared by management to support the going concern assumption; and
- review of customer contracts to forecasts.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

Location Sciences Group PLC

Independent Auditor's Report to the Members of Location Sciences Group PLC (continued)

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

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

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

Responsibilities of directors

As explained more fully in the Directors' Report set out on page 22, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Location Sciences Group PLC

Independent Auditor's Report to the Members of Location Sciences Group PLC (continued)

Use of this 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.

.....
Scott Lawrence (Senior Statutory Auditor)
For and on behalf of Hazlewoods LLP, Statutory Auditor

Windsor House
Bayshill Road
Cheltenham
GL50 3AT

Date:.....

Location Sciences Group PLC

Consolidated Income Statement for the Year Ended 31 December 2018

Continuing Operations	Note	2018 £	2017 £
Revenue	4	751,853	471,993
Cost of sales		<u>(382,273)</u>	<u>(165,719)</u>
Gross profit		369,580	306,274
Administrative expenses		(1,706,083)	(4,333,073)
Other operating income	5	157,927	283,361
Other income		<u>-</u>	<u>6,678</u>
Operating loss before exceptional administrative expenses, amortisation and depreciation		(1,178,576)	(3,743,438)
Amortisation and depreciation		(454,385)	(560,246)
Administrative expenses - non-recurring item	7	<u>(99,801)</u>	<u>637,006</u>
Operating loss		(1,732,762)	(3,660,000)
Finance income	8	246	1,498
Finance costs	8	<u>-</u>	<u>(143,279)</u>
Loss before tax		(1,732,516)	(3,801,781)
Income tax receipt	12	244,982	280,113
Discontinued operations			
Discontinued operations		<u>-</u>	<u>(1,852,712)</u>
Loss for the year attributable to owners of parent		<u><u>(1,487,534)</u></u>	<u><u>(5,374,380)</u></u>
Earnings per share			
Loss per share - basic and diluted		(0.98p)	(7.51p)
Loss per share from continued operations - basic and diluted		(0.98p)	(4.92p)
Loss per share from discontinued operations - basic and diluted		0.00p	(2.59p)

The notes on pages 39 to 70 form an integral part of these financial statements.

Location Sciences Group PLC

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2018

	Note	2018 £	2017 £
Loss for the year		(1,487,534)	(5,374,380)
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation gains		-	111,043
Total comprehensive income for the year attributable to owners of the parent		<u>(1,487,534)</u>	<u>(5,263,337)</u>

The notes on pages 39 to 70 form an integral part of these financial statements.

Location Sciences Group PLC

(Registration number: 06458458)

Consolidated Statement of Financial Position as at 31 December 2018

	Note	31 December 2018 £	31 December 2017 £
Assets			
Non-current assets			
Intangible assets	14	1,332,915	1,379,902
Property, plant and equipment	15	14,899	16,437
		<u>1,347,814</u>	<u>1,396,339</u>
Current assets			
Trade and other receivables	17	359,264	233,387
Tax asset	12	235,723	269,428
Cash and cash equivalents	18	2,615,455	1,140,239
		<u>3,210,442</u>	<u>1,643,054</u>
Current liabilities			
Trade and other payables	19	(370,374)	(482,906)
Loans and borrowings	20	(152)	(4,169)
		<u>(370,526)</u>	<u>(487,075)</u>
Net current assets		<u>2,839,916</u>	<u>1,155,979</u>
Total assets less current liabilities		<u>4,187,730</u>	<u>2,552,318</u>
Non-current liabilities			
Loans and borrowings	20	-	(587)
Net assets		<u>4,187,730</u>	<u>2,551,731</u>
Equity			
Share capital	23	13,713,498	11,677,628
Share premium		18,168,965	15,189,919
Merger relief reserve		11,605,556	11,605,556
Capital reserve		209,791	209,791
Equity reserve		-	1,934,797
Reverse acquisition reserve		(9,225,108)	(9,225,108)
Retained earnings		<u>(30,284,972)</u>	<u>(28,840,852)</u>
Equity attributable to owners of the company		<u>4,187,730</u>	<u>2,551,731</u>

Approved by the Board on and signed on its behalf by:

.....
M Slade
Director

The notes on pages 39 to 70 form an integral part of these financial statements.

Location Sciences Group PLC
(Registration number: 06458458)
Statement of Financial Position as at 31 December 2018

	Note	31 December 2018 £	31 December 2017 £
Assets			
Non-current assets			
Investments	16	<u>3,443,414</u>	<u>3,400,000</u>
Current assets			
Trade and other receivables	17	31,932	50,342
Cash and cash equivalents	18	<u>-</u>	<u>594,388</u>
		<u>31,932</u>	<u>644,730</u>
Current liabilities			
Trade and other payables	19	<u>(44,507)</u>	<u>(84,507)</u>
Net current assets		<u>(12,575)</u>	<u>560,223</u>
Total assets less current liabilities		<u>3,430,839</u>	<u>3,960,223</u>
Net assets		<u>3,430,839</u>	<u>3,960,223</u>
Equity			
Share capital	23	13,713,498	11,677,628
Share premium		18,168,965	15,189,919
Equity reserve		-	1,934,797
Merger relief reserve		11,605,556	11,605,556
Retained earnings		<u>(40,057,180)</u>	<u>(36,447,677)</u>
Total equity		<u>3,430,839</u>	<u>3,960,223</u>

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements. The loss after tax for the parent Company for the year was £3,652,917 (2017: £8,987,313)

Approved by the Board on and signed on its behalf by:

.....
M Slade
Director

Location Sciences Group PLC

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2018

	Share capital £	Share premium £	Merger relief reserve £	Translation reserve £	Capital reserve £	Equity reserve £	Other reserve £	Retained earnings £	Total £
At 1 January 2017	10,475,177	10,991,445	11,605,556	(44,679)	209,791	44,160	(9,225,108)	(23,620,582)	435,760
Loss for the year	-	-	-	-	-	-	-	(5,374,380)	(5,374,380)
Other comprehensive income	-	-	-	111,043	-	-	-	-	111,043
Total comprehensive income	-	-	-	111,043	-	-	-	(5,374,380)	(5,263,337)
New share capital subscribed	1,202,451	4,198,474	-	-	-	-	-	-	5,400,925
Translation transfer	-	-	-	(66,364)	-	-	-	66,364	-
Share-based payments	-	-	-	-	-	-	-	87,746	87,746
Equity element of convertible loan	-	-	-	-	-	1,934,797	-	-	1,934,797
Equity transfer	-	-	-	-	-	(44,160)	-	-	(44,160)
At 31 December 2017	<u>11,677,628</u>	<u>15,189,919</u>	<u>11,605,556</u>	<u>-</u>	<u>209,791</u>	<u>1,934,797</u>	<u>(9,225,108)</u>	<u>(28,840,852)</u>	<u>2,551,731</u>
	Share capital £	Share premium £	Merger relief reserve £	Translation Reserve £	Capital reserve £	Equity reserve £	Other reserve £	Retained earnings £	Total equity £
At 1 January 2018	11,677,628	15,189,919	11,605,556	-	209,791	1,934,797	(9,225,108)	(28,840,852)	2,551,731
Loss for the year	-	-	-	-	-	-	-	(1,487,534)	(1,487,534)
Total comprehensive income	-	-	-	-	-	-	-	(1,487,534)	(1,487,534)
New share capital subscribed	2,035,870	2,979,046	-	-	-	(1,934,797)	-	-	3,080,119
Share-based payments	-	-	-	-	-	-	-	43,414	43,414
At 31 December 2018	<u>13,713,498</u>	<u>18,168,965</u>	<u>11,605,556</u>	<u>-</u>	<u>209,791</u>	<u>-</u>	<u>(9,225,108)</u>	<u>(30,284,972)</u>	<u>4,187,730</u>

The notes on pages 39 to 70 form an integral part of these financial statements.

Location Sciences Group PLC

Statement of Changes in Equity for the Year Ended 31 December 2018

	Share capital £	Share premium £	Merger relief reserve £	Equity reserve £	Retained earnings £	Total £
At 1 January 2017	10,475,177	10,991,445	11,605,556	44,160	(27,548,110)	5,568,228
Loss for the year	-	-	-	-	(8,987,313)	(8,987,313)
Total comprehensive income	-	-	-	-	(8,987,313)	(8,987,313)
New share capital subscribed	1,202,451	4,198,474	-	-	-	5,400,925
Share-based payments	-	-	-	-	87,746	87,746
Equity transfer	-	-	-	(44,160)	-	(44,160)
Equity element of convertible loan	-	-	-	1,934,797	-	1,934,797
At 31 December 2017	<u>11,677,628</u>	<u>15,189,919</u>	<u>11,605,556</u>	<u>1,934,797</u>	<u>(36,447,677)</u>	<u>3,960,223</u>

	Share capital £	Share premium £	Merger relief reserve £	Equity reserve £	Retained earnings £	Total £
At 1 January 2018	11,677,628	15,189,919	11,605,556	1,934,797	(36,447,677)	3,960,223
Loss for the year	-	-	-	-	(3,652,917)	(3,652,917)
Total comprehensive income	-	-	-	-	(3,652,917)	(3,652,917)
New share capital subscribed	2,035,870	2,979,046	-	(1,934,797)	-	3,080,119
Increase in capital contribution of investment	-	-	-	-	43,414	43,414
At 31 December 2018	<u>13,713,498</u>	<u>18,168,965</u>	<u>11,605,556</u>	<u>-</u>	<u>(40,057,180)</u>	<u>3,430,839</u>

The notes on pages 39 to 70 form an integral part of these financial statements.

Location Sciences Group PLC

Consolidated Statement of Cash Flows for the Year Ended 31 December 2018

	Note	2018 £	2017 £
Cash flows from operating activities			
Loss for the year		(1,487,534)	(5,374,380)
Adjustments to cash flows from non-cash items			
Depreciation and amortisation		454,385	1,113,245
Impairment of intangible assets		-	350,431
Loss from disposals of assets		-	1,388,196
Foreign exchange loss		7,739	8,065
Finance income	8	(246)	(1,498)
Finance costs	8	-	143,279
Share based payment transactions		43,414	87,746
Income tax expense	12	<u>(244,982)</u>	<u>(280,113)</u>
		(1,227,224)	(2,565,029)
Working capital adjustments			
(Increase)/decrease in trade and other receivables	17	(133,615)	842,068
Decrease in trade and other payables	19	<u>(36,217)</u>	<u>(1,826,315)</u>
Cash generated from operations		(1,397,056)	(3,549,276)
Income taxes received	12	<u>202,372</u>	<u>456,260</u>
Net cash flow from operating activities		<u>(1,194,684)</u>	<u>(3,093,016)</u>
Cash flows from investing activities			
Interest received	8	246	1,498
Acquisitions of property plant and equipment		(12,421)	(6,316)
Acquisition of intangible assets	14	(393,440)	(687,639)
Proceeds from disposal of subsidiary		<u>-</u>	<u>773,106</u>
Net cash flows from investing activities		<u>(405,615)</u>	<u>80,649</u>
Cash flows from financing activities			
Interest paid	8	-	(143,279)
Proceeds from issue of ordinary shares, net of issue costs		3,080,119	5,400,925
Repayment of bank borrowing		-	(2,500,000)
Convertible loan note redeemed		-	(738,775)
Payments to finance lease creditors		<u>(4,604)</u>	<u>(4,072)</u>
Net cash flows from financing activities		<u>3,075,515</u>	<u>2,014,799</u>
Net increase/(decrease) in cash and cash equivalents		1,475,216	(997,568)
Cash and cash equivalents at 1 January		1,140,239	2,026,764
Effect of exchange rate fluctuations on cash held		<u>-</u>	<u>111,043</u>
Cash and cash equivalents at 31 December		<u><u>2,615,455</u></u>	<u><u>1,140,239</u></u>

The notes on pages 39 to 70 form an integral part of these financial statements.

Location Sciences Group PLC

Consolidated Statement of Cash Flows for the Year Ended 31 December 2018 (continued)

	Note	2018 £	2017 £
Net Cash Flows			
Net cash flow from continuing activities		<u>1,475,216</u>	<u>(1,052,817)</u>
Net cash flow from discontinued activities		<u>-</u>	<u>55,249</u>
Non-cash financing activities:			
Discount on share options		-	190,203
Loans written-off		-	482,935
Share warrants granted on release of bank loan		-	1,934,797
Share warrants exercised in year		1,934,797	-

For full details on non cash financing activities see note 23.

Location Sciences Group PLC

Statement of Cash Flows for the Year Ended 31 December 2018

	Note	2018 £	2017 £
Cash flows from operating activities			
Loss for the year		(3,652,917)	(8,987,313)
Adjustments to cash flows from non-cash items			
Loss on disposal of assets		-	855,081
Impairment to investments		-	2,321,236
Finance income		(42)	(1,495)
Finance costs		-	132,272
Share based payment transactions		-	15,446
		<u>(3,652,959)</u>	<u>(5,664,773)</u>
Working capital adjustments			
Decrease in trade and other receivables	17	18,410	1,860,024
Decrease in trade and other payables	19	<u>(40,000)</u>	<u>(8,763)</u>
Net cash flow from operating activities		<u>(3,674,549)</u>	<u>(3,813,512)</u>
Cash flows from investing activities			
Interest received		42	1,495
Proceeds from sale of investments		-	758,586
Net cash flows from investing activities		<u>42</u>	<u>760,081</u>
Cash flows from financing activities			
Interest paid		-	(132,272)
Proceeds from issue of ordinary shares		1,449,567	1,202,451
Share premium raised		1,630,552	4,198,474
Repayment of bank borrowing		-	(2,500,000)
Convertible loan note redeemed		-	(738,775)
Net cash flows from financing activities		<u>3,080,119</u>	<u>2,029,878</u>
Net decrease in cash and cash equivalents		(594,388)	(1,023,553)
Cash and cash equivalents at 1 January		<u>594,388</u>	<u>1,617,941</u>
Cash and cash equivalents at 31 December		<u>-</u>	<u>594,388</u>

The notes on pages 39 to 70 form an integral part of these financial statements.

Location Sciences Group PLC

Notes to the Financial Statements for the Year Ended 31 December 2018

1 General information

The company is a public company limited by share capital, incorporated and domiciled in England.

The address of its registered office is:

20 Eastbourne Terrace
Paddington
London
W2 6LG

The company's ordinary shares are traded on the Alternative Investment Market (AIM) of the London Stock Exchange.

Principal activity

Location Sciences has two distinct products. Firstly, its UK Data and Insights platform, which gives customers access to its data lake of over 36 billion location data points. This helps customers in a variety of ways, for example, competitor and footfall analysis, attribution services for advertisers, and even the ability to enhance the sustainability of transport systems. Secondly, Location Sciences has developed a global platform called Verify, which brings transparency to the location based mobile advertising market. Verify allows marketers to authenticate where their adverts have been viewed and uses proprietary technology to detect location ad-fraud, which would otherwise go unnoticed.

2 Accounting policies

Statement of compliance

The group financial statements have been prepared in accordance with International Financial Reporting Standards and its interpretations adopted by the EU ("adopted IFRS's") and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared under the historical cost convention basis as discussed in the accounting policies below.

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Location Sciences Group PLC

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Going concern

The directors have taken a view of the Group as a whole.

The Group made significant strides forward during the year, including nearly quintupling Location Data and Insights sales and more than halving administrative costs compared to 2017. The launch of Verify was also a significant milestone for the Group, opening up the global ad-fraud verification market. However, the Group continued to operate with a trading loss during the year and the same is expected throughout 2019. The Group raised an additional £3.36 million in new investment during the year, which will be utilised for the growth of Verify and for working capital purposes. The Group also remains debt free.

Notwithstanding the positive progress in 2018, there remains a sensitivity to the timing and forecast pipeline of sales. Consequently, near term cash resources will continue to be closely monitored and controlled due to the associated working capital requirements of the Group in delivering its growing order pipeline and winning new business. To deliver its growth plans, the Board may also consider raising additional capital in 2019.

Based on the current status, after making enquiries and considering the progress of the Group during 2018, the directors have a reasonable expectation that the Group will be able to execute its plans in the medium term such that the Group will have adequate resources to continue in operational existence for the foreseeable future. This provides the directors assurance on the Group's ability to continue as a going concern, and therefore adopt the going concern basis of accounting in preparing the annual financial statements.

Basis of consolidation

The group financial statements consolidate the financial statements of the company and its subsidiary undertakings drawn up to 31 December 2018.

A subsidiary is an entity controlled by the company. Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the group.

The purchase method of accounting is used to account for business combinations that result in the acquisition of subsidiaries by the group. The cost of a business combination is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the business combination. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Any excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised is recorded as goodwill. If the cost of acquisition is less than fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Income Statement. Acquisition costs are expensed as incurred.

Inter-company transactions, balances and unrealised gains on transactions between the company and its subsidiaries, which are related parties, are eliminated in full.

Intra-group losses are also eliminated but may indicate an impairment that requires recognition in the consolidated financial statements.

Location Sciences Group PLC

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Changes in accounting policy

For the purpose of the preparation of these consolidated financial statements, the Group has applied all standards and interpretations that are effective for accounting periods beginning on or after 1 January 2018. The adoption of new standards and interpretations in the year has not had a material impact on The Group's financial statements.

IFRS 15

The Group has adopted IFRS 15 retrospectively in its consolidated financial statements for the year ended 31 December 2018. IFRS 15 replaces all existing revenue requirements in IFRS and sets out principles for recognising revenue that must be applied using a 5-step model. Revenue should only be recognised when (or as) control of goods or services is passed to the customer, when distinct 'performance obligations' are met, at the amount to which the entity expects to be entitled. The Group has completed its assessment of IFRS 15 and has not identified any material differences between the Group's current revenue recognition policy and the requirements of IFRS 15.

New standards, interpretations and amendments not yet effective

No new standards, amendments or interpretations to existing standards that have been published and that are mandatory for the Group's accounting periods beginning on or after 1 January 2019, or later periods, have been adopted early. The following standards are not yet applied:

IFRS 9 Financial Instruments (effective 1 January 2019)

IFRS 16 Leasing (effective 1 January 2019)

IAS 12 Income Taxes (effective 1 January 2019)

Other than IFRS 16 Leasing, none of the other standards, interpretations and amendments which are effective for periods beginning after 1 January 2019 and which have not been adopted early, are expected to have a material effect on the financial statements.

The adoption of IFRS 16 Leasing will require the Group to recognise in its Statement of Financial position the asset and financial commitment associated with properties under operating leases. As at 31 December 2018 this would increase the asset and the liabilities of the Group by £187,635, with £nil overall effect on the net liabilities of the Group.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker for the use in strategic decision making and monitoring of performance. The Group considers the chief operating decision maker to be the Executive Board.

Location Sciences Group PLC

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Revenue recognition

Revenue represents the invoice value of services and software licences provided to external customers in the period, stated exclusive of value added tax.

Consideration received from customers in respect of services is only recorded as revenue to the extent that the Group has performed its contractual obligations in respect of that consideration. Management assess the performance of the Group's contractual obligations against project milestones and work performed to date.

Revenue from software licences sold in conjunction with services is invoiced separately from those services and recognised over the period of the license.

Revenue from software licences for the use of the technology platform is recognised over the period of the license.

Revenue from software development is recognised to the extent that the Group has obtained the right to consideration through its performance.

The IFRS 15 Practical expedient has been applied whereby the promised amount of consideration has not been amended for the effects of a significant financing component as at the contract inception there are no contracts where the period between transfers of promised goods or services and customer payment is expected to exceed one year.

Grants

Grants received on capital expenditure are initially recognised within accrued income on the Group's Statement of Financial position and are subsequently recognised in the Income Statement on a systematic basis over the useful life of the related capital expenditure.

Grants for revenue expenditure are presented as part of the Income Statement in the periods in which the expenditure is recognised.

Foreign currency transactions and balances

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in sterling, which is the Parent's presentational currency.

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

The results and financial position of all Group entities that have a functional currency different from the presentational currency of the Group are translated into sterling follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;
- Income and expenses for each income statement are translated at the average exchange rate for the month where these approximate the exchange rate at the date of the transaction; and
- All resulting exchange differences are recognised within other comprehensive income and taken to the foreign exchange reserve.

Location Sciences Group PLC

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Tax

The tax expense for the period comprises current tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the group operates and generates taxable income.

Deferred tax is provided for using the liability method on temporary differences at the balance sheet date between tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised in full for all temporary differences other than those relating to goodwill on investments in subsidiaries. Deferred tax assets are recognised for all deductible temporary differences carried forward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is assessed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised, or the liability settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

The tax currently receivable is based on the taxable loss for the period and relates to R&D tax credits. Taxable loss differs from net loss as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. This is calculated using rates and laws enacted or substantively enacted at the reporting date

Financial instruments

The Company recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire. The Company's accounting policies in respect of financial instruments transactions are explained below:

Financial assets

The Company classifies all of its financial assets as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary assets. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterpart or default or significant delay in payment) that the company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the Income Statement. On confirmation that the trade receivable will not be collected, the gross carrying value of the asset is written off against the associated provision.

Location Sciences Group PLC

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Financial liabilities

The Company classifies all of its financial liabilities as liabilities at amortised cost. Liabilities are classified as current liabilities when the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Intangible assets

Goodwill

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is not subject to amortisation but is tested for impairment annually. Goodwill is held in the currency of the acquired entity and revalued to the closing rate at each reporting period date.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Goodwill is allocated to those cash-generating units that are expected to benefit from the synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows. The recoverable amount is tested annually or when events or changes in circumstances indicate that it may be impaired. The recoverable amount is higher of the fair value less costs and the value in use in the Group. An impairment loss is recognised to the extent that the carrying value exceeds the recoverable amount. In determining a value in use, 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 cash generating unit that have not already been included in the estimate of future cash flows.

Internally developed software

Intangible assets are predominantly internally generated software development costs for Location Sciences technologies. Development costs are capitalised when certain criteria are met. The product must be technically feasible, sale is intended, a market exists, expenditure can be measured reliably, and sufficient resources are available to complete the project. The extent of capitalisation is limited to the amount, which taken together with further related costs, will be recovered from the future economic benefits related to the asset. When the Board is sufficiently confident that all of the criteria for capitalisation are met, development costs are amortised over the expected useful life, currently 5 years, from the date the asset is available for use. Development costs that have been capitalised, but where amortisation has not yet commenced are reviewed annually for impairment. If no intangible asset can be recognised based on the above then development costs are recognised within administrative expenses in the Consolidated Income Statement.

Other intangibles

Acquired trademarks and intellectual property rights are recognised as an asset at cost, or deemed cost, less accumulated amortisation and any recognised impairment loss.

Location Sciences Group PLC

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Amortisation

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

Asset class	Amortisation method and rate
Development costs	20% straight line
Trademarks and intellectual property rights	10% straight line

Amortisation is recognised within administrative expenses and disclosed separately on the consolidated Income Statement.

Property, plant and equipment

Property, plant and equipment is stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

Asset class	Depreciation method and rate
Computer equipment	33.33% straight line
Office equipment	33.33% straight line

Depreciation is recognised within administrative expenses and disclosed separately on the Consolidated Income Statement

Impairment of non-financial assets

At each Statement of Financial Position date, the Group performs an impairment review in respect of goodwill and any intangible assets not yet ready for use and reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered any impairment. If any such indication exists, the recoverable amount of the asset (being the higher of fair value less costs to sell and value in use) is estimated in order to determine the extent of any impairment. Any impairment loss is recognised as an expense in the Income Statement in the period in which it was identified.

Investments

Investments are carried at cost, less any impairment in value.

The Company grants options over its equity investments to the employees of its subsidiaries. The carrying value of the investment in this subsidiary is increased by an amount equal to the value of the share-based payment charge attributable to the option holder in the subsidiary.

Dividends on equity securities are recognised in income when receivable.

Location Sciences Group PLC

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value, and have a maturity of less than 3 months from the date of acquisition. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash in hand and bank deposits.

Trade receivables

Trade receivables are amounts due from customers for licences sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

Assets held under finance leases are recognised as non-current assets of the group at the lower of their fair value at the date of commencement of the lease and at the present value of the minimum lease payments. These assets are depreciated on a straight-line basis over the shorter of the useful life of the asset and the lease term. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance costs in the income statement and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability

Leases in which a significant proportion of the risks and rewards are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the Income Statement on a straight-line basis over the period of the lease.

Location Sciences Group PLC

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Equity

Equity comprises:

Share capital - the nominal value of ordinary share is classified as equity.

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

Merger relief reserve - the difference between cost or fair value and the nominal value of shares issued on the exchange of shares with Location Sciences AI Limited and on acquisition of subsidiaries where shares are issued as part of the consideration.

Translation reserve - the foreign exchange difference arising on consolidation.

Capital reserve - represents a capital contribution to the Company.

Equity reserve - represents the fair value of warrants over shares issued to Barclays in return for debt waiver in 2017. During the year the equity reserve has been transferred to share premium upon exercise of the warrants.

Reverse acquisition reserve - the balance of the amount recognised as issued equity instruments arising on restatement of Location Sciences AI Limited to reflect the parent equity structure, further to the reverse acquisition basis of accounting adopted in 2013 on the share exchange by Location Sciences Group Plc for 100% of the shares of Location Sciences AI Limited.

Retained earnings - includes all current and prior period retained profits/(losses).

Equity instruments issued by the Group are recorded as the proceeds received, net of direct issue costs.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Defined contribution pension obligation

A defined contribution plan is a pension plan under which fixed contributions are paid into a separate entity and has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans contributions are paid publicly or privately administered pension insurance plans on a mandatory or contractual basis. The contributions are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as an asset.

Share based payments

The Group operates an equity-settled, share-based compensation plan. Equity-settled share-based payments are measured at fair value at date of grant. 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 shares that will eventually vest. Fair value is measured by use of the Black Scholes or a binomial options valuation model as appropriate depending on the terms of the options.

Location Sciences Group PLC

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial information in conformity with IFRS requires the directors to make critical accounting estimates and judgements that affect the application of policies and reported amounts of assets and liabilities, income and expenses. An assessment of the impact of these estimates and judgements on the financial statements is set out below,

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates and any subsequent changes are accounted for with an effect on income at the time such updated information is available.

Fair values for employee share schemes

The establishment of fair values in respect of employee services received in exchange for share options require the exercise of judgement and estimation in respect of the life of the option, the expected dividend yield and, in particular, the volatility of the underlying shares. A calculated value for the latter may not accurately reflect the future share price movements given the Group's stage of development.

Assessing whether development costs meet the criteria for capitalisation

The point at which development costs meet the criteria for capitalisation is critically dependent on management's judgement of the point at which technical feasibility is demonstrable. Commercial success of the development projects remains uncertain at the time of recognition and therefore impairment reviews are undertaken based on current estimates of future revenues streams. This assessment has resulted in the impairment of £nil (2017: £359,431) of development costs, previously capitalised for which the underlying projects are no longer being pursued.

Classification and valuation of financial instruments

The Group previously issued financial instruments including conversion features and warrants. The valuation of these financial instruments, including Level 3 fair values where there are no observable market inputs, are performed in consultation with third party valuation specialists, with the overall aim of maximising the use of market based information.

Impairment of goodwill and other intangible assets

There are a number of assumptions management have considered in performing impairment reviews of goodwill and intangible assets, as determining whether such assets are impaired requires an estimation of the value in use of the cash generating units to which goodwill and other intangible assets have been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value. An impairment of goodwill of £nil has been recognised in the year.

Location Sciences Group PLC

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Assessing whether revenue meets the criteria for recognition

Contracts can include both the sale of licences and provision of services including integration and development. Revenue is recognised based on the analysis of individual contracts and the point at which significant risks and reward of ownership transfer is dependent on the contractual terms. In respect of a licence, this would usually be on delivery of the software. Software development and other consulting services generally recognised on the basis of work done but where issues of client acceptance are identified, then revenue is deferred until issues are resolved.

4 Segmental analysis

Operating segments are based on internal reports about components of the Group, which are regularly reviewed and used by the Board for strategic decision making, to allocate resources across segments and to assess performance by segment.

During 2018, the Group maintained a holding company structure with one operating subsidiary. For financial reporting, Location Sciences segments the Group based on its two distinct products. Firstly, its UK Data and Insights platform, which gives customers access to its data lake of over 36 billion location data points. This helps customers in a variety of ways, for example, competitor and footfall analysis, attribution services for advertisers, and even the ability to enhance the sustainability of transport systems. Secondly, Location Sciences has developed a global platform called Verify, which brings transparency to the location based mobile advertising market. Verify allows marketers to authenticate where their adverts have been viewed and uses proprietary technology to detect location ad-fraud, which would otherwise go unnoticed.

Note, the location aspects of the proximity marketing product have been absorbed into the Location Sciences UK Data and Insights platform, and as such, proximity marketing is no longer reported on as an individual segment.

It should be noted that a segmental analysis of the Balance Sheet is not part of routine management reporting and consequently no segmental analysis of assets is shown here.

The analysis of the Group's revenue from contracts with customers for the year from continuing operations is as follows:

	2018	2017
	£	£
Verify	53,922	-
Location Data and Insights	697,931	144,813
Proximity Marketing	-	327,180
	<u>751,853</u>	<u>471,993</u>

Location Sciences Group PLC

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

4 Segmental analysis (continued)

An analysis of the Group's revenue by geographical segment is as follows:

	2018	2017
	£	£
UK	481,530	34,077
Europe	20,166	-
Rest of World	250,157	437,916
	<u>751,853</u>	<u>471,993</u>

During the year there was revenue from individual customers that represented more than 10% of revenue totalling £303,793 (2017: £330,372).

Average payments terms are set out in Note 17. There are no significant financing components, nor variable consideration elements in customers' contracts.

An analysis of EBITDA is as follows:

	2018	2017
	£	£
Proximity Marketing	-	(2,932,139)
Location Data and Insights	(1,186,464)	(1,297,795)
Verify	(91,666)	-
Total EBITDA for continuing operations	<u>(1,278,130)</u>	<u>(4,229,934)</u>
Total EBITDA for discontinued operations	-	(464,516)
Total EBITDA	<u>(1,278,130)</u>	<u>(4,694,450)</u>

Location Sciences Group PLC

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

4 Segmental analysis (continued)

An analysis of loss before tax is as follows:

	2018	2017
	£	£
Proximity Marketing	-	(2,512,966)
Location Data and Insights	(1,608,262)	(1,288,815)
Verify	(124,254)	-
Total loss before tax for continuing operations	<u>(1,732,516)</u>	<u>(3,801,781)</u>
Total loss before tax for discontinued operations	-	(1,852,712)
Total loss before tax	<u><u>(1,732,516)</u></u>	<u><u>(5,654,493)</u></u>

The impairment in 2017 of £350,431 is associated with the sale of the Digital Payments segment within discontinued operations.

5 Other operating income

The analysis of the group's other operating income for the year is as follows:

	2018	2017
	£	£
Government grants	157,927	283,361
Other operating income	<u>-</u>	<u>6,678</u>
	<u><u>157,927</u></u>	<u><u>290,039</u></u>

Location Sciences Group PLC

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

6 Loss before taxation

Arrived at after charging/(crediting)

	2018	2017
	£	£
Depreciation expense	13,959	34,449
Amortisation expense	440,426	1,078,797
Impairment loss	-	350,431
Research and development expenditure	313,375	65,127
Government grants	(157,927)	(283,361)
Operating lease rentals	79,702	96,027
Share based payments	43,414	87,746
Net foreign exchange losses	7,739	8,065
Auditors remuneration		
- Company audit	15,000	15,000
- Subsidiary audit	10,000	15,000
Non-audit services:		
- Compliance services	7,500	-
- Other non-audit services	11,000	-
	<u>11,000</u>	<u>-</u>

7 Exceptional items

	2018	2017
	£	£
Irrecoverable VAT	10,467	-
Restructuring costs	89,334	36,132
Discount on settlement of bank loan	-	(190,203)
Discount on settlement of convertible loan	-	(482,935)
	<u>99,801</u>	<u>(637,006)</u>

Location Sciences Group PLC

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

8 Finance income and costs

	2018 £	2017 £
Finance income		
Interest income on bank deposits	246	1,498
Finance costs		
Interest on bank overdrafts and borrowings	-	(11,069)
Interest on obligations under finance leases and hire purchase contracts	-	(500)
Finance cost on convertible loan note	-	(131,710)
	<u>-</u>	<u>(143,279)</u>
Total finance costs	-	(143,279)
Net finance income/(costs)	<u>246</u>	<u>(141,781)</u>

9 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2018 £	2017 £
Wages and salaries	1,162,981	2,657,101
Social security costs	132,378	303,854
Pension costs, defined contribution scheme	16,119	14,801
Share-based payment expenses	43,414	87,746
	<u>1,354,892</u>	<u>3,063,502</u>

Included within the above totals, £nil (2017: £1,198,869) relates to the discontinued operation.

The average number of persons employed by the group (including directors) during the year, analysed by category was as follows:

	2018 No.	2017 No.
Finance and Operations	4	8
Research and development	8	29
Commercial and client services	2	10
	<u>14</u>	<u>47</u>

Included within the above totals, 0 (2017: 10) research and development staff relate to the discontinued operation.

Location Sciences Group PLC

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

10 Key management compensation and directors remuneration

Details of aggregate key management emoluments for the year are as follows:

	2018	2017
	£	£
Salaries and other short-term employee benefits	448,043	734,761
Pension costs	2,303	773
Expense of share-based payments	15,987	17,134
Redundancy payment	27,625	-
	<u>493,958</u>	<u>752,668</u>

The directors are of the opinion that the key management of the Group comprises the executive and the non-executive directors of Location Sciences Group Plc. These persons have authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

Directors' remuneration is disclosed in the Directors' Remuneration Report on pages 18 to 19.

11 Auditors' remuneration

	2018	2017
	£	£
Audit of the financial statements of subsidiaries of the company pursuant to legislation	<u>7,500</u>	<u>15,000</u>

Location Sciences Group PLC

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

12 Income tax

Tax charged/(credited) in the income statement

	2018 £	2017 £
Current taxation		
UK R&D tax credit	(235,723)	(193,113)
UK R&D tax credit adjustment to prior periods	(9,259)	-
	<u>(244,982)</u>	<u>(193,113)</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	-	(87,000)
Tax receipt in the income statement	<u>(244,982)</u>	<u>(280,113)</u>

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2017 - higher than the standard rate of corporation tax in the UK) of 19% (2017 - 19.25%).

The differences are reconciled below:

	2018 £	2017 £
Loss before tax	<u>(1,732,516)</u>	<u>(3,801,781)</u>
Corporation tax at standard rate	(329,178)	(731,843)
Decrease in current tax from adjustment for prior periods	(9,259)	-
Effect of expenses not deductible	41,039	215,069
Unrecognised deferred tax asset	209,940	346,477
Surrender of tax losses for R&D tax credit	73,155	66,247
Other differences	(56,096)	62,765
Additional deduction for Research development expenditure	<u>(174,583)</u>	<u>(151,828)</u>
Total tax credit	<u>(244,982)</u>	<u>(193,113)</u>

Subject to the UK tax authority's agreement, the Group has UK tax losses of approximately £18,750,000 (2017: £19,200,000) available to carry forward and offset against future taxable profits arising from the same trade. The Group has a potential deferred tax asset of £3,190,000 (2017: £3,260,000) which will not be recognised until it is regarded as more likely than not that there will be sufficient taxable profits from which the tax losses can be deducted. In addition, no deferred tax asset is recognised in respect of future tax deductions on exercise of share options.

Location Sciences Group PLC

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

13 Loss per share

The calculation of loss per share is based on the loss of £1,487,533 (2017: £5,374,380) and on the number of shares in issue, being the weighted average number of equity shares in issue during the period of 151,100,816 1p ordinary shares (2017: 7,157,915,871 0.01p ordinary shares, 71,579,159 1p shares after consolidation). A separate adjusted loss per share calculation has been prepared related to the loss before exceptional items.

Note prior year loss per share is reported assuming the share consolidation that took place during the year to facilitate comparability.

	2018	2017
	£	£
Loss for year	(1,487,533)	(5,374,380)
Add back:		
Exceptional items	99,801	(637,006)
Adjusted loss	<u>(1,387,732)</u>	<u>(6,011,386)</u>
Loss per share - basic and diluted	(0.98p)	(7.51p)
Adjusted loss per share - basic and diluted	(0.92p)	(8.40p)
Loss per share from continued operations - basic and diluted	(0.98p)	(4.92p)
Loss per share from discontinued operations - basic and diluted	-	(2.59p)

Dilutive instruments

Instruments that could potentially dilute basic loss per share in the future but are not included in the calculation of diluted loss per share because they are anti-dilutive, related to share options in the period. See note 24 for further details of the share options.

Location Sciences Group PLC

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

14 Intangible assets

Group

	Goodwill	Trademarks	Customer relationships	Internally generated software development costs	Intellectual property rights	Total
	£	£	£	£	£	£
Cost or valuation						
At 1 January 2017	659,289	5,102	1,000,000	5,560,590	6,001	7,230,982
Additions	-	-	-	687,639	-	687,639
Disposals	(659,289)	-	(1,000,000)	(4,011,399)	-	(5,670,688)
At 31 December 2017	-	5,102	-	2,236,830	6,001	2,247,933
At 1 January 2018	-	5,102	-	2,236,830	6,001	2,247,933
Additions	-	-	-	393,440	-	393,440
Disposals	-	(5,102)	-	(137,524)	(6,001)	(148,627)
At 31 December 2018	-	-	-	2,492,746	-	2,492,746
Amortisation						
At 1 January 2017	399,394	2,384	500,000	1,573,996	3,600	2,479,374
Amortisation charge	-	603	200,000	877,544	-	1,078,147
Amortisation eliminated on disposals	(399,394)	-	(700,000)	(1,941,177)	650	(3,039,921)
Impairment	-	-	-	350,431	-	350,431
At 31 December 2017	-	2,987	-	860,794	4,250	868,031
At 1 January 2018	-	2,987	-	860,794	4,250	868,031
Amortisation charge	-	2,115	-	436,561	1,751	440,427
Amortisation eliminated on disposals	-	(5,102)	-	(137,524)	(6,001)	(148,627)
At 31 December 2018	-	-	-	1,159,831	-	1,159,831
Carrying amount						
At 31 December 2018	-	-	-	1,332,915	-	1,332,915
At 31 December 2017	-	2,115	-	1,376,036	1,751	1,379,902
At 1 January 2017	259,895	2,718	500,000	3,986,594	2,401	4,751,608

Location Sciences Group PLC

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

14 Intangible assets (continued)

Internal development represents the cost incurred in developing the Group's DaaS platform and software development, split between the two distinct products UK Data and Insights and Verify, with net book value of £1,146,550 and £186,365 respectively. These internal costs have been capitalised in accordance with the Group's accounting policies where all the conditions for capitalisation have been met.

The Verify and Location Data and Insights intangible assets have on average a remaining amortisation period of 5 and 3 years respectively.

Impairment of research and development is considered within the conditions of capitalisation. Amortisation charges are included in administrative expenses, disclosed separately on the Consolidated Income Statement.

Other intangible assets represent amounts paid to third parties for acquiring trademarks and intellectual property rights.

In the prior year the directors identified a number of R&D projects related to the Digital Payments business (reported within Proximity Marketing segmental analysis) sitting within Location Sciences AI Limited that were not transferred as part of the disposal. Due to the fact that the directors see the likelihood of future revenues attributable to these products as low, a decision was made to fully impair the value of these products.

The amount of impairment loss included in profit and loss is £Nil (2017 - £350,341).

Location Sciences Group PLC

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

15 Property, plant and equipment

Group

	Computer Equipment £	Office Equipment £	Total £
Cost or valuation			
At 1 January 2017	178,617	83,951	262,568
Additions	6,316	-	6,316
Disposals	(5,944)	(4,435)	(10,379)
At 31 December 2017	178,989	79,516	258,505
At 1 January 2018	178,989	79,516	258,505
Additions	12,421	-	12,421
Disposals	(157,734)	(79,516)	(237,250)
At 31 December 2018	33,676	-	33,676
Depreciation			
At 1 January 2017	156,515	61,128	217,643
Charge for year	11,775	22,674	34,449
Eliminated on disposal	(4,080)	(5,944)	(10,024)
At 31 December 2017	164,210	77,858	242,068
At 1 January 2018	164,210	77,858	242,068
Charge for the year	12,301	1,658	13,959
Eliminated on disposal	(157,734)	(79,516)	(237,250)
At 31 December 2018	18,777	-	18,777
Carrying amount			
At 31 December 2018	14,899	-	14,899
At 31 December 2017	14,779	1,658	16,437
At 1 January 2017	22,102	22,823	44,925

Assets held under finance leases and hire purchase contracts

The net carrying amount of property, plant and equipment includes the following amounts in respect of assets held under finance leases and hire purchase contracts:

31 December 2018 £	31 December 2017 £
1,265	5,524

Location Sciences Group PLC

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

16 Investments

Group subsidiaries

Details of the group subsidiaries as at 31 December 2018 are as follows:

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest and voting rights held	
			2018	2017
Location Sciences AI Limited*	Location Data and Insights and Verify	Same registered office address as group	100%	100%

* indicates direct investment of the company

Summary of the company investments

	31 December 2018 £	31 December 2017 £
Investments in subsidiaries	<u>3,443,414</u>	<u>3,400,000</u>
	2018 £	2017 £
Investment in Location Sciences AI Limited	2,414,043	2,414,043
Capital contributions arising from IFRS2 share based payments charge	<u>1,029,371</u>	<u>985,957</u>
	<u><u>3,443,414</u></u>	<u><u>3,400,000</u></u>
Subsidiaries		£

Cost or valuation

At 1 January 2017	<u>3,400,000</u>
At 31 December 2017	<u>3,400,000</u>
At 1 January 2018	3,400,000
Capital contributions from share based payments	<u>43,414</u>
At 31 December 2018	<u>3,443,414</u>
Carrying amount	
At 31 December 2018	<u><u>3,443,414</u></u>
At 1 January 2017	<u><u>3,400,000</u></u>

Location Sciences Group PLC

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

17 Trade and other receivables

	Group		Company	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	£	£	£	£
Trade receivables	138,511	34,095	-	-
Accrued income	124,702	-	-	-
Prepayments	45,125	14,217	-	1,875
Other receivables	50,926	185,075	31,932	48,467
	<u>359,264</u>	<u>233,387</u>	<u>31,932</u>	<u>50,342</u>

Trade receivables comprise amounts due from customers for services provided. All amounts are short term. The net carrying amount of trade receivables is considered a reasonable approximation of fair value. Average credit terms were 30 days (2017: 30) and average debtor days outstanding were 69 (2017: 26).

All of the Group's trade and other receivables have been reviewed for impairment. An impairment provision of £5,340 (2017: £9,065) has been recognised in the year.

The group's exposure to credit and market risks, including impairments and allowances for credit losses, relating to trade and other receivables is disclosed in the financial risk management and impairment note.

Trade receivables above include amounts (detailed below) that are past due at the end of the reporting period and which an allowance for doubtful debts has not been recognised as the amounts are still considered recoverable and there hasn't been a significant change in credit quality.

Age of trade receivables that are past due but not impaired

	Group	
	31 December 2018	31 December 2017
	£	£
7 to 30 days	6,771	-
31 to 60 days	61,358	4,035
61 to 90 days	(141)	-
91 to 120 days	11,760	-
	<u>79,748</u>	<u>4,035</u>

18 Cash and cash equivalents

	Group		Company	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	£	£	£	£
Cash at bank	<u>2,615,455</u>	<u>1,140,239</u>	<u>-</u>	<u>594,388</u>

Location Sciences Group PLC

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

19 Trade and other payables

	Group		Company	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	£	£	£	£
Trade payables	91,543	152,394	-	-
Accrued expenses	106,569	155,405	19,000	59,000
Social security and other taxes	125,061	33,048	-	-
Other payables	47,201	142,059	25,507	25,507
	<u>370,374</u>	<u>482,906</u>	<u>44,507</u>	<u>84,507</u>

The directors consider that the carrying amount of trade and other payables approximated their fair value.

Trade payables are paid between 30 and 60 days of receipt of the invoice.

The group's exposure to market and liquidity risks, including maturity analysis, related to trade and other payables is disclosed in the financial risk management and impairment note.

20 Loans and borrowings

	Group		Company	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	£	£	£	£
Current loans and borrowings				
Finance lease liabilities	<u>152</u>	<u>4,169</u>	<u>-</u>	<u>-</u>
	Group	Group	Company	Company
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	£	£	£	£
Non-current loans and borrowings				
Finance lease liabilities	<u>-</u>	<u>587</u>	<u>-</u>	<u>-</u>

The group's exposure to market and liquidity risk; including maturity analysis, in respect of loans and borrowings is disclosed in the financial risk management and impairment note.

Finance lease agreements are secured on the assets concerned. Interest rates are fixed for the term of the agreements which are payable by equal fixed monthly amounts where applicable.

Location Sciences Group PLC

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

21 Obligations under operating leases

Group

Operating leases

The total future value of minimum lease payments is as follows:

	31 December 2018 £	31 December 2017 £
Within one year	107,220	11,347
In two to five years	80,415	-
	<u>187,635</u>	<u>11,347</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year was £79,702 (2017 - £299,913)

22 Financial risk management and impairment of financial assets

Treasury risk management

The Group manages a variety of market risks, including the effect of changes in foreign exchange rates, liquidity and counterparty risks.

Credit risk

The Group's principal financial assets are bank balances, cash, trade and other receivables.

The credit risk on liquid funds is limited because the counterparties are UK banks or "Blue Chip" companies with high credit ratings assigned by international credit rating agencies.

As a result, investment returns and credit risk to the Group in this regard are not material to the financial statements.

The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets at the reporting date. No collateral is held in respect of these amounts which are expected to be received in full. In order to manage credit risk, credit limits are reviewed on a regular basis in conjunction with debt ageing and collection history.

Location Sciences Group PLC

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

22 Financial risk management and impairment of financial assets (continued)

Currency risks

The Group's operations are primarily located in the United Kingdom, with an increasing investment into the United States. The Group's transactions during 2018 were predominantly denominated in sterling, with consequently little exposure to foreign currency risks. Due to the limited risks to the Group, forward exchange contracts are not considered necessary and are not used. At the year end, the Group operated sterling bank accounts only. Going forward the Directors will monitor the currency risk and monitor the potential impact of increasing trade and investment into the United States.

The translation risk on the Group's foreign exchange payables and receivables is considered to be immaterial due to their short-term nature.

Liquidity risk

The Group has sufficient capital resources to meet its external current liabilities as they fall due in 2019.

Operational cash flow represents on going trading revenue and costs, administrative costs and research and development activities. The Group manages its liquidity requirements by the use of both short-term and long-term cash flow forecasts. The Group's policy is to ensure facilities are available as required or to issue equity share capital to ensure cash resources available are in accordance with long-term cash flow forecasts. The Group currently has no overdrawn committed facilities as at 31 December 2018.

The Group actively manages its working capital to ensure it has sufficient funds for operations and planned research and development activities.

The Group's main financial liabilities include trade payables and operational costs. All amounts for trade and other payables are due for payment in accordance with agreed settlement terms with suppliers or statutory deadlines. All such payment terms are within six months.

Capital management

The Group's activities are of a type and at a stage of development where the most suitable capital structure is that of one primarily financed by equity. The directors will reassess the future capital structure when projects under development are sufficiently advanced.

The Group's financial strategy is to utilise its resources and current trading revenue streams to commercialise its products and grow revenues. The Group keeps investors informed of its progress with its projects through regular announcements and raises additional equity finance at appropriate times.

The Group manages capital on the basis of the carrying amount of equity, and debt with regard to maintaining sufficient liquidity to enable the Group to continue to trade and invest in commercialisation. As at the year end the equity to overall financing ratio is 1 (2017:1).

Location Sciences Group PLC

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

22 Financial risk management and impairment of financial assets (continued)

Categories of financial instruments

All of the Group's financial assets are classified as loans and receivables; see note 17. The directors consider that the carrying amount of trade and other receivables approximates their fair value.

All of the Group's financial liabilities are classified as liabilities at amortised cost: see note 19. The directors consider that the carrying amount of trade and other payables approximates their fair value. The contractual maturity of financial liabilities is set out in notes and 19.

The accounting policies applied are set out in note 2.

23 Share capital

Allotted, called up and fully paid shares

	31 December 2018		31 December 2017	
	No.	£	No.	£
Ordinary shares of £0.01 (2017 - £0.0001) each	341,044,439	3,410,444	13,745,747,069	1,374,575
Deferred shares of £0.01 each	<u>1,040,712,398</u>	<u>10,303,053</u>	<u>1,040,712,398</u>	<u>10,303,053</u>
	<u>1,381,756,837</u>	<u>13,713,497</u>	<u>14,786,459,467</u>	<u>11,677,627</u>

Reconciliation of shares

	Number of shares
Total number of shares as at 1 January 2018	14,786,459,467
19 June 2018	1,374,574,705
12 September 2018	5,863,021,931
21 November 2018	<u>95</u>
Total shares pre-consolidation	22,024,056,198
Number of shares after consolidation	209,833,438
29 November 2018	122,822,221
13 December 2018	<u>8,388,780</u>
Total number of shares as at 31 December 2018	<u>341,044,439</u>

Location Sciences Group PLC

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

23 Share capital (continued)

New shares allotted

- On the 19th June 1,374,574,705 new shares were allotted with a nominal value of £137,457 for aggregate consideration of £412,372.
- On the 12th September 5,863,021,931 new shares were allotted further to Barclays exercising their warrants, with a nominal value of £586,302. No consideration was received for them, further to waiver of a loan in the prior year. The fair value of the warrants was determined to be £1,934,797, which is the deemed value of the shares issued.
- On the 21st November there was a share consolidation, whereby every 100 existing Ordinary shares of 0.001p was consolidated into one new Ordinary share of 1p. As a result of the consolidation 95 fragment shares were allotted.
- On the 29th November 122,822,221 new shares were allotted with a nominal value of £1,228,222 for aggregate consideration of £2,763,500.
- On the 13th December 8,388,780 shares were allotted under an open offer, with a nominal value of £83,888 for aggregate consideration of £188,748.

Share rights

Ordinary shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

Deferred shares have attached to them no voting, dividend or capital distribution (including on winding up) rights; they do not confer any rights of redemption.

Share Warrants

Mike Staten (formerly held by Darwin Capital Limited) holds 5,583,522 share warrants at the year end with an exercise price of 16.92 pence per share. These warrants are exercisable at 16.92 pence per share. For comparison the closing share price on 29 March 2019 was 2.4 pence per share. The fair value of the warrants is not material for adjustment.

Location Sciences Group PLC

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

24 Share-based payments

The share option scheme was originally adopted by the company on 29 September 2011. It was established to attract and retain the best available personnel for positions of responsibility, to provide additional incentive to employees, officers or consultants of the company and to promote the success of the company's business. Further to the acquisition of the business by Location Sciences Group plc (formerly Proxama plc), the options were granted over shares in the parent entity. The share option scheme was and continues to be administered by the directors.

All outstanding options as at 1 January 2018 and outstanding options issued in March 2018 and May 2018 were surrendered and replaced by options issued in November 2018. Share options surrendered are accounted for as modified options under IFRS 2. The incremental value of the modified share options is not material.

Share options issued in November 2018 are to be settled by way of issues of Ordinary Shares. The options have no vesting period, but cannot be exercised until target share prices are achieved and have a maximum term of 10 years.

Further, Location Sciences Group plc consolidated its shares during the year whereby every 100 existing ordinary shares of 0.01 pence was consolidated into one new ordinary share of 1 pence each. As a result the number of shares subject to any option held under share options decreased to one hundredth. This consolidation is reflected in the comparative information below to facilitate comparability.

The target share prices are as follows:

Target A: £0.048

Target B: £0.073

Target C: £0.097

The movements in the number of share options during the year were as follows:

	31 December 2018 Number	31 December 2017 Number
Outstanding, start of period	15,664,210	388,653
Granted during the period	39,177,222	15,537,237
Forfeited during the period	(3,081,372)	(261,680)
Surrendered during the period	(17,537,838)	-
Outstanding, end of period	<u>34,222,222</u>	<u>15,664,210</u>

None of the options outstanding at the end of the period are yet exercisable as the target share prices have not yet been achieved.

Location Sciences Group PLC

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

24 Share-based payments (continued)

The movements in the weighted average exercise price of share options during the year were as follows:

	31 December 2018 £	31 December 2017 £
Outstanding, start of period	0.40	1.70
Granted during the period	2.25	0.40
Forfeited during the period	2.15	1.60
Surrendered during the period	2.80	-
Outstanding, end of period	<u>2.25</u>	<u>0.40</u>

The weighted average contractual life of options outstanding at the year end is 3 years (2017: 6.6 years). The weighted average share price as at the date of grant is 2.35p (2017: 0.48p).

The fair value of the equity instruments granted was determined using the Black Scholes Model. This model was selected as it is an industry standard model. The exercise price of all the options in issue is 2.35p per ordinary share. The performance condition includes three target share prices, as set out above. The inputs into the model for options granted in November 2018 were as follows:

Average share price	2.35p
Exercise price	2.25p
Expected volatility	53%
Risk-free interest rate	2%
Probability of achieving criteria	50%

The expected volatility was determined with reference to historic volatility. The expected life used in the model has been adjusted, based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural consideration and is estimated at 3 years.

The share-remuneration expense for the year recognised in the Profit and Loss is £43,414 (2017 - £84,000). Expenses are allocated to Location Sciences AI Limited, the company that receives the employee services.

25 Pension and other schemes

The group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the group to the scheme and amounted to £16,119 (2017: £9,570). Contributions totaling £1,835 (2017: £Nil) were payable to the scheme at the end of 2018 and are included in creditors.

26 Commitments

No capital expenditure was committed to as at 31 December 2018 (2017: £Nil).

Location Sciences Group PLC

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

27 Related party transactions

As at 31 December 2018, S Gregory (a director), was owed £Nil (2017: £2,000) by the Company.

During the year sales of £15,000 were made to Concise Consultants Limited, a company in which B Chilcott is a director. As at 31 December 2018, the balance owed by Concise Consultants Limited was £Nil.

Key management personnel are considered to be the directors of the company and key management personnel compensation is disclosed in note 10 to the financial statements and in the Directors' Remuneration Report on pages 18 to 19 of the financial statements.

28 Discontinued operations

Disposal of Aconite Group

On 31 October 2017, the group entered into a sale agreement to dispose of Aconite Technology Limited, Aconite Solutions Limited and Aconite Consulting Limited, which carried out all of the group's digital payments operations. The disposal was affected in order to generate cash flow for the expansion of the group's other businesses. The disposal was completed on 31 October 2017, on which date control of Aconite Technology Limited, Aconite Solutions Limited and Aconite Consulting Limited passed to the acquirer.

The results of the discontinued operations, which have been included in the consolidated income statement, were as follows:

	2017
	£
Revenue	1,056,935
Expenses	<u>(1,521,451)</u>
Loss before tax	(464,516)
Loss on sale of discontinued operation	<u>(1,388,196)</u>
Net loss attributable to discontinued operations	<u><u>(1,852,712)</u></u>

The discontinued operations results contributed the following to the group cash flow:

	2017
	£
Net cash inflows from operating activities	195,779
Net cash outflows from investing activities	(301,826)
Net cash outflows from financing activities	<u>(2)</u>
Net cash outflows arising on disposal	<u><u>(106,049)</u></u>

Location Sciences Group PLC

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

28 Discontinued operations (continued)

Details of the sale of the subsidiary

	Period ended 31 October 2017
	£
Consideration received or receivable:	
Cash	758,586
Total disposal consideration	758,856
Carrying amount of net assets sold	(2,146,782)
Loss on sale	(1,388,196)

The carrying amounts of assets and liabilities as at the date of sale (31 October 2017) were:

	Period ended 31 October 2017
	£
Intangible assets	2,630,621
Trade and other receivables	195,854
Cash and cash equivalents	10,455
Total assets	2,836,930
Trade and other payables	(422,748)
Deferred tax	(267,400)
Total liabilities	(690,148)
Net assets	2,146,782