

Registered number: 06485099

2 DEGREES LIMITED

DIRECTOR'S REPORT AND FINANCIAL STATEMENTS

INFORMATION FOR FILING WITH THE REGISTRAR

FOR THE YEAR ENDED 31 DECEMBER 2019



2 DEGREES LIMITED
REGISTERED NUMBER: 06485099

BALANCE SHEET
AS AT 31 DECEMBER 2019

	Note	2019 £	2018 £
Fixed assets			
Tangible assets	10	10,661	15,031
Current assets			
Debtors: amounts falling due within one year	11	240,609	294,511
Cash at bank and in hand	12	52,851	189,731
		293,460	484,242
Creditors: amounts falling due within one year	13	(466,139)	(864,024)
Net current liabilities		(172,679)	(379,782)
Total assets less current liabilities		(162,018)	(364,751)
Creditors: amounts falling due after more than one year	14	(820,006)	(518,282)
Net liabilities		(982,024)	(883,033)
Capital and reserves			
Called up share capital	16	4,762	3,702
Share premium account		11,129,638	10,085,500
Profit and loss account		(12,116,424)	(10,972,235)
		(982,024)	(883,033)

The financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime and in accordance with the provisions of FRS 102 Section 1A - small entities.

The financial statements have been delivered in accordance with the provisions applicable to companies subject to the small companies regime.

The Company has opted not to file the statement of comprehensive income in accordance with provisions applicable to companies subject to the small companies' regime.

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

M N Chilcott

M N Chilcott
 Director

Date: *7th August 2020*

The notes on pages 4 to 15 form part of these financial statements.

2 DEGREES LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£	£	£	£
At 1 January 2019	3,702	10,085,500	(10,972,235)	(883,033)
Comprehensive income for the year				
Loss for the year	-	-	(1,145,871)	(1,145,871)
Taxation in respect of items of other comprehensive income	-	-	1,682	1,682
Other comprehensive income for the year	-	-	1,682	1,682
Total comprehensive income for the year	-	-	(1,144,189)	(1,144,189)
Shares issued during the year	1,060	1,044,138	-	1,045,198
Total transactions with owners	1,060	1,044,138	-	1,045,198
At 31 December 2019	4,762	11,129,638	(12,116,424)	(982,024)

The notes on pages 4 to 15 form part of these financial statements.

2 DEGREES LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£	£	£	£
At 1 January 2018	2,942	8,474,050	(9,765,069)	(1,287,477)
Comprehensive income for the year				
Loss for the year	-	-	(1,208,853)	(1,208,853)
Taxation in respect of items of other comprehensive income	-	-	1,687	1,687
Other comprehensive income for the year	-	-	1,687	1,687
Total comprehensive income for the year	-	-	(1,207,166)	(1,207,166)
Shares issued during the year	760	1,610,850	-	1,611,610
Total transactions with owners	760	1,610,850	-	1,611,610
At 31 December 2018	3,702	10,085,500	(10,972,235)	(883,033)

The notes on pages 4 to 15 form part of these financial statements.

2 DEGREES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. General information

2 Degrees Limited is a private limited company incorporated and domiciled in England and Wales. The registered office is 9400 Garsington Road, Oxford Business Park, Oxford, OX4 2HN. The Company's principal activities are that of the design and development of leading collaboration platforms and services for sustainable business.

The financial statements are rounded to the nearest whole £ Sterling.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Section 1A of Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Going concern

At the year end the Company had cash reserves of £52,851 (2018: £189,731) having made a loss for the year of £1,145,871 (2018: £1,208,853). Following the year end the Company raised further investment by way of a share issue of 237,500 Ordinary shares for a total consideration of £237,500, of which £155,000 had been received prior to the year end. The Directors recognise that the Company needs to raise further funds in order to continue with its strategy and are in the middle of a fundraising round, the funding from which is expected to last the Company at least 12 months. The Directors are confident that they will be able to secure such funding by way of a mixture of debt and equity and, therefore, believe that it is appropriate for the financial statements to be prepared on a going concern basis.

In concluding on the amount that the Company needs to raise the Directors have had consideration of the potential impact of COVID-19, whilst recognising that is too early to assess its full impact. They have prepared forecasts and projections using what they consider to be reasonable assumptions relating to the Company's financial resources for a period of at least 12 months from the signing of the financial statements which show the Company to be a going concern. The Directors are undertaking additional proactive measures to optimise working capital and preserve cash including taking advantage of actions available to it under recent Government announcements.

The Directors, however, recognise that the impact of COVID-19 and the need to raise future funding represents a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern. They are actively seeking future investment as well as looking at ways in which funds can be restricted to preserve the cash within the business.

2 DEGREES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2. Accounting policies (continued)

2.3 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

2.4 Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

2.5 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

At each reporting date the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Fixtures & fittings	- 25% straight line
Computer equipment	- 25-33% straight line

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

2 DEGREES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2. Accounting policies (continued)

2.6 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.7 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.8 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.9 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss except when deferred in other comprehensive income as qualifying cash flow hedges.

2.10 Convertible debt

The proceeds received on issue of the Company's convertible debt are allocated into their liability and equity components and presented separately in the Balance Sheet.

The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that did not include an option to convert.

The difference between the net proceeds of the convertible debt and the amount allocated to the debt component is credited direct to equity and is not subsequently remeasured. On conversion, the debt and equity elements are credited to share capital and share premium as appropriate.

Transaction costs that relate to the issue of the instrument are allocated to the liability and equity components of the instrument in proportion to the allocation of proceeds.

2 DEGREES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2. Accounting policies (continued)

2.11 Finance costs

Finance costs are charged to profit or loss over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.12 Operating leases: the Company as lessee

Rentals paid under operating leases are charged to profit or loss on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

2.13 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in profit or loss when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Company in independently administered funds.

2.14 Holiday pay accrual

A liability is recognised to the extent of any unused holiday pay entitlement which is accrued at the Balance Sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the Balance Sheet date.

2.15 Interest income

Interest income is recognised in profit or loss using the effective interest method.

2.16 Taxation

Tax is recognised in profit or loss except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

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

2.17 Exceptional items

Exceptional items are transactions that fall within the ordinary activities of the Company but are presented separately due to their size or incidence.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

2. Accounting policies (continued)

2.18 Research and development

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives, which range from 3 to 6 years.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the Balance Sheet date and the amounts reported for revenue and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Revenue recognition

Revenue is recognised over the life of a contractual agreement when the all conditions in 2.3 are satisfied. In the opinion of the director, higher levels of work are performed at the beginning of some contracts, resulting in a judgemental level of revenue being recognised on initiation of these contracts.

Share based payments

The fair value of employee services received in exchange for the grant of options is recognised as an expense. The total amount to be expensed on a straight-line basis over the vesting period is determined with reference to the fair value of the options determined at the grant date.

The share options are valued using the Black-Scholes option pricing model. Non-market based vesting conditions are included in assumptions about the number of options that are expected to become exercisable or the number of shares that the employee will ultimately receive.

4. Auditors' remuneration

Fees payable to the Company's auditor for the audit of the Company's annual financial statements totalled £4,175 (2017- £1,050).

5. Employees

The average monthly number of employees, including directors, during the year was 21 (2018 - 31).

2 DEGREES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

6. Directors' remuneration

	2019 £	2018 £
Directors' emoluments	104,916	95,000
Company contributions to defined contribution pension schemes	2,375	1,899
	<u>107,291</u>	<u>96,899</u>

During the year retirement benefits were accruing to 1 director (2018 - 1) in respect of defined contribution pension schemes.

7. Interest payable and similar expenses

	2019 £	2018 £
Bank interest payable	41,880	39,865
	<u>41,880</u>	<u>39,865</u>

8. Taxation

	2019 £	2018 £
Corporation tax		
Current tax on profits for the year	(90,494)	(80,671)
	<u>(90,494)</u>	<u>(80,671)</u>
Total current tax	<u>(90,494)</u>	<u>(80,671)</u>

2 DEGREES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

8. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2018 - higher than) the standard rate of corporation tax in the UK of 19% (2018 - 19%). The differences are explained below:

	2019 £	2018 £
Loss on ordinary activities before tax	<u>(1,236,365)</u>	<u>(1,289,524)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018 - 19%)	(234,909)	(245,010)
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	283	6,894
Additional deduction for R&D expenditure	(66,056)	(61,281)
Surrender of tax losses for R&D expenditure	27,679	25,679
Adjustments to tax charge in respect of prior periods	(1,249)	2,070
Adjust closing deferred tax to average rate of 19.00%	187,471	168,204
Adjust opening deferred tax to average rate of 19.00%	(168,128)	(148,101)
Deferred tax not recognised	164,415	170,874
Total tax charge for the year	<u>(90,494)</u>	<u>(80,671)</u>

Factors that may affect future tax charges

The Finance Act 2016 enacted a reduction in the main rate of corporation tax from 19% to 17% from 1 April 2020. As this change of rate was enacted at the balance sheet date then deferred tax balances have been stated at a rate of 17%. On 17 March 2020 the Government announced their intention to cancel this reduction in the corporation tax rate. As a result the deferred tax timing differences are expected to reverse at 19%.

9. Exceptional income

	2019 £	2018 £
Income on disposal of Innovation Gateway	<u>100,000</u>	<u>-</u>

During the year, 2 Degrees disposed of their Innovation Gateway department for a total consideration of £100,000.

2 DEGREES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

10. Tangible fixed assets

	Fixtures & fittings £	Computer equipment £	Total £
Cost or valuation			
At 1 January 2019	14,556	76,996	91,552
Additions	-	4,517	4,517
Disposals	-	(22,707)	(22,707)
At 31 December 2019	<u>14,556</u>	<u>58,806</u>	<u>73,362</u>
Depreciation			
At 1 January 2019	13,827	62,694	76,521
Charge for the year on owned assets	314	4,990	5,304
Disposals	-	(19,124)	(19,124)
At 31 December 2019	<u>14,141</u>	<u>48,560</u>	<u>62,701</u>
Net book value			
At 31 December 2019	<u>415</u>	<u>10,246</u>	<u>10,661</u>
At 31 December 2018	<u>729</u>	<u>14,302</u>	<u>15,031</u>

11. Debtors

	2019 £	2018 £
Trade debtors	90,714	112,336
Other debtors	106,937	112,302
Prepayments and accrued income	42,958	69,873
	<u>240,609</u>	<u>294,511</u>

12. Cash and cash equivalents

	2019 £	2018 £
Cash at bank and in hand	<u>52,851</u>	<u>189,731</u>

2 DEGREES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

13. Creditors: Amounts falling due within one year

	2019 £	2018 £
Trade creditors	94,703	109,671
Other taxation and social security	26,712	67,134
Other creditors	188,786	243,089
Accruals and deferred income	155,938	444,130
	466,139	864,024

14. Creditors: Amounts falling due after more than one year

	2019 £	2018 £
Debentures loans	744,429	484,377
Accruals and deferred income	75,577	33,905
	820,006	518,282

Debenture loans

Of the total debenture loan of £744,429 (2018: £484,377), £744,429 is repayable in December 2021.

Included within accruals and deferred income is an amount of £75,577 (2018: £33,905) relating to interest accrued on the debenture loan balance of £744,429.

15. Loans

Analysis of the maturity of loans is given below:

	2019 £	2018 £
Amounts falling due 1-2 years		
Loans	744,429	484,377
	744,429	484,377

2 DEGREES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

16. Share capital

	2019 £	2018 £
Allotted, called up and fully paid		
4,761,890 (2018 - 3,701,770) Ordinary shares of £0.001 each	<u>4,762</u>	<u>3,702</u>

During the year ended 31 December 2019 the Company issued 370,000 Ordinary shares of £0.001 nominal value for a total consideration of £370,000.

During the year ended 31 December 2019 the Company issued 280,120 Ordinary shares of £0.001 nominal value for a total consideration of £280,120.

During the year ended 31 December 2019 the Company issued 145,000 Ordinary shares of £0.001 nominal value for a total consideration of £145,000.

During the year ended 31 December 2019 the Company issued 15,000 Ordinary shares of £0.001 nominal value for a total consideration of £78.

During the year ended 31 December 2019 the Company issued 50,000 Ordinary shares of £0.001 nominal value for a total consideration of £50,000.

During the year ended 31 December 2019 the Company issued 200,000 Ordinary shares of £0.001 nominal value for a total consideration of £200,000.

2 DEGREES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

17. Share based payments

The Company operates an equity settled share option arrangement.

The options will vest on the occurrence of a business sale, listing or the Company being under control of another person. The maximum term of the options is 10 years.

	Weighted average exercise price (pence) 2019	Number 2019	Weighted average exercise price (pence) 2018	Number 2018
Outstanding at the beginning of the year	.523	57,300	0.523	87,300
Granted during the year	1.00	24,750	0	-
Forfeited during the year	.523	(30,000)	0	(30,000)
Outstanding at the end of the year	.75	52,050	0.523	57,300

	2019 Black- Scholes	2018 Black- Scholes
Option pricing model used		
Weighted average share price (pence)	0.80	3,497
Exercise price (pence)	.523	0.523
Weighted average contractual life (days)	3,390	3,652
Expected volatility	50%	50%
Risk-free interest rate	4.25%	4.25%

18. Pension commitments

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £28,333 (2018: £24,955). Contributions payable at the year end total £5,226 (2018: £4,915) and are included in other creditors.

2 DEGREES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

19. Commitments under operating leases

At 31 December 2019 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2019 £	2018 £
Not later than 1 year	77,648	77,648
Later than 1 year and not later than 5 years	6,471	77,648
	<u>84,119</u>	<u>155,296</u>

20. Post balance sheet events

On 31 March 2020, the Company issued 237,500 Ordinary shares with a nominal value of £0.001 for a total consideration of £237,500. Of this consideration, £155,000 was already received by the year end and is included within other creditors in note 13.

On 23 July 2020, the Company received £50,000 via a Government supported Bounce Back loan.

21. Controlling party

In the opinion of the directors, the Company is not controlled by any one person.

22. Auditors' information

The auditors' report on the financial statements for the year ended 31 December 2019 was unqualified.

In their report, the auditors emphasised the following matter without qualifying their report:

We draw attention to note 2.2 of the financial statements which indicates that the Company is currently raising funds in order to enable it to fulfil its strategy, whilst acknowledging that it is doing so at a time of uncertainty due to COVID-19, which casts doubt upon the Company's ability to continue as a going concern. As stated in note 2.2, these events or conditions, along with the other matters as set forth in note 2.2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

The audit report was signed on 24 August 2020 by Sue Staunton MA FCA CF (Senior Statutory Auditor) on behalf of James Cowper Kreston.