CloudTag Inc.

Annual Report and Accounts
For the year ended 30 September 2014

Corporate Advisers

Registered office:
Zephyr House
Mary Street
PO Box 709
Grand Cayman
KY1-1107
Cayman Islands

Directors:
T Reeves
M Hirschfield
A Jackson
(resigned 10 February 2015)
A Ben-Haim
(appointed 8 January 2015)
G Bodhi
(resigned 3 December 2014)

Secretary:
Kitwell Consultants Limited
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Ware
SG12 0JU

CARD Corporate Services
Limited (Assistant)
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Grand Cayman

Nominated adviser:
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EC2V 6AX

Registrars:
Computershare Investor
Services (Cayman) Limited
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Regatta Office Park
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Grand Cayman KY1-1103
Cayman Islands

Solicitors:
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Auditor:
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Windsor House
Bayshill Road
Cheltenham
GL50 3AT

Contents

Chairman's Statement

Introduction

It has been an important year for CloudTag and I am very pleased with the progress made across the business during that period. We have made some significant changes to the management team with the appointment of Mr Amit Ben-Haim as CEO. I am very confident that Amit will successfully lead CloudTag through the next important phase of finalising the wearable technology, moving the hardware to mass production and securing strategic commercial and technology partners. I am also delighted by the recent appointment of Whitman Howard as sole broker to CloudTag and we look forward to working with them to increase the profile of CloudTag within the investment community.

CloudTag launched the MyCloudTag mobile app in May 2014 on Apple's iOS App Store ("iOS") and a second version of MyCloudTag on both Google's Android Play Store and iOS in Q3 2014. CloudTag continues to monitor the user interaction and engagement with the app as we focus on developing the third version of MyCloudTag in collaboration with Preciousbluedot Ltd. to deliver a refined user experience targeted at the weight loss and fitness user. This version of the app will work with the CloudTag wearable device which the Company is developing and will have access to a library of premium training programmes, which is intended to increase revenues from this business stream.

The team continues to progress the development of the wearable device – a small, light and discreet 24 hour flexible activity tracker that will provide clinical grade wireless ECG monitoring – to the production line field test models. In collaboration with our partners, CloudTag has a wealth of experience in creating global customer-facing and engaging technology products. Having recognised the challenges moving from the prototypes received at the end of last year to production line field test models, Amit has engaged additional in-house resources with the specific systems skill sets required to deliver these models, which we anticipate will be delivered in the coming months.

These production models will undergo stringent field trials to ensure the device performs as intended for the consumer prior to the commercial launch. Bringing more of the core technological know-how and expertise in-house enables CloudTag to more effectively control the unit costs, the timescale to mass manufacture and, react faster to the results from the field trials as we continue to develop new versions of the technology. We expect initial production runs in the second half of 2015 and orders for mass manufacture at that time.

CloudTag has focussed on refining its wearable device and the MyCloudTag app to target the weight loss market, being the mass consumer market. Furthermore, the arrival of the production line field test models will allow CloudTag to progress the on-going discussions for the sales of the device, following the main trends of sales channels for wearables; namely with major retailers and online e-commerce platforms, to enable CloudTag to secure confirmed orders as early as possible and ahead of mass manufacture.

The management continues to monitor closely CloudTag's costs and evaluate its working capital requirements as we target the opportunities within our core target market. This set of financial results, which have come in under the forecasted budget, reflect the costs of completing the launch of the MyCloudTag App, developing CloudTag's first wearable technology products and investment in the infrastructure for the continued development and marketing of CloudTag's products and initial sales activities.

Results

In the year to 30 September 2014, the Group recorded a loss before tax of £1,290,000 (30 September 2013: £2,840,000), and a loss after tax of £1,035,000 (30 September 2013: £2,840,000). This includes certain fees settled in shares pursuant to admission and non-recurring costs associated with product development. Share based payments (a non-cash item) amounted to a profit of £169,000, compared with a loss of £227,000 in the previous year. The profit in the year of £169,000 related to the reversal of the charge made in the previous year in respect of certain options where it was concluded that it was unlikely that the options would vest. Development costs increased to £629,000 from £580,000 and other administrative expenses were £830,000 in the period compared with £2,033,000 the previous year. The Directors do not recommend the payment of a dividend at this time.

Outlook

The prime motivation to listing on AIM was to have access to capital and to give shareholders the opportunity to invest in wearable technology. With the new management team, increased in-house technical expertise and a product targeted at the weight loss segment, I believe CloudTag is well positioned in a diversified market. We believe there will be exciting progressions in wearable technology globally throughout 2015 and we look forward to releasing our device to enhance and complement that market.

Tony Reeves
Chairman

26 March 2015

Strategic Report

Business review

The Company has maintained a tight control of costs throughout the year and has focused all of its resources on progressing its wearable device to mass manufacture, as detailed in the Chairman's Statement. Additionally, the Company launched the MyCloudTag mobile app in May 2014 on Apple's iOS App Store and a second version of MyCloudTag on both Google's Android Play Store and iOS in Q3 2014.

Principal Activities, Aims and Objectives

To design, develop and sell unique wearable devices and software for the consumer health and wellbeing markets for global retail and distribution.

Key Performance Indicators

Given the early stage of the Company's development and its current scale of operations, the Board does not consider the use of particular financial or operational KPIs. The Board manages its cash flow on a week by week basis and measures the performance of its third party developers against contractual arrangements.

Business risks

There are a number of potential risks and uncertainties which could adversely impact the achievement of our corporate aims.

The Group faces risks frequently encountered by new companies. In particular, its future growth and prospects will depend on its ability to fund and manage growth and to continue to expand and improve operational, financial and management information and quality control systems on a timely basis, whilst at the same time maintaining effective cost controls.

In order to mitigate these risks the Company maintains regular dialogue with its core investors regarding the possibility of providing additional funding as and when required. The Company maintains systems commensurate with the current stage of the business and has plans to develop further appropriate systems when revenue streams commence.

Progress to Mass Manufacture & Commercial Launch

CloudTag continues to progress the wearable device to mass manufacture and commercial launch. There are a number of steps in the development and requisite approval process of the products to be completed before the products can be launched. The completion of these steps may take longer than the Directors currently anticipate and/or issues may arise during the process which may delay launch of the products. The products may need additional testing in order to be sold in certain markets. Whilst the Directors do not anticipate that this testing will be problematic, it may create a delay in launching the products in those regions and could incur additional costs.

The Company seeks appropriate legal advice regarding the processes and requirements and maintains dialogue with the technology partners to ensure milestones are set and met.

Reliance on third-party contractors

The Group has relied on certain third parties to program, manufacture, assemble and test its products and its failure to successfully manage relationships with these contractors could in turn damage CloudTag's relationships with customers, decrease anticipated sales and limit growth. The Company cannot guarantee that there will not be a prolonged disruption in the supply of the modules.

The Company maintains good relationships with developers through regular contact. It also reviews alternative supply arrangements to ensure that the Company has a second supplier should any issues arise.

To mitigate this risk CloudTag has brought more of the core technological know how and expertise in-house enabling the Company to manage more effectively the relationships with the technology partners and to complete much of the development in house.

Legal and contractual risks

CloudTag Active has entered into a number of significant contractual arrangements with third parties in connection with the products and the development of certain product applications. There is no guarantee that it will be able to enforce any or all its rights under such agreements or arrangements.

To mitigate this risk, in negotiating contracts the Company engages lawyers with suitable expertise to ensure contractual terms are valid, and secondly wherever possible contracts are written subject to English law and enforced by English courts.

Impact of negative press

The Company cannot guarantee that those parties that currently or will endorse its products have not conducted themselves in the past and will not conduct themselves in the future in such a way as to bring negative publicity upon the Company. Equally, the Company cannot guarantee that a major customer has not committed or will not commit an action that attracts negative publicity to the Company. There is the risk that either of the above situations, or any product failure, may be of a high profile nature.

The Company is careful to conduct due diligence and to vet its customers and contractors to ensure a high standard of conduct in order to mitigate this risk.

Product liability

The Group may become exposed to product liability risks arising from the use of its technology in consumer products which, if not adequately covered by insurance, may have a material adverse effect upon the Group's financial condition.

The Company seeks to ensure that its insurance cover is adequate for perceived material risks. Furthermore all of the Company's literature contains disclaimers and protections.

Competition/competing technology

The markets in which the Group expects to operate are competitive and fast moving and may become even more competitive. There can be no guarantee that the Group's competitors will not develop similar or superior technology or offer superior product applications or services to the Group's target markets which may render one or more of CloudTag's technologies or intellectual property rights obsolete and/or otherwise uncompetitive. Technologies used by the Group may have a shorter commercial life than anticipated, if any, due to the invention or development of more successful technology or applications by competitors who may have greater financial, marketing, operational and technological resources than the Group. In order to mitigate this risk, the Company examines market movements and customer driven developments to ensure it continues to utilise cutting edge technology.

Economic climate

The trading activities of the Group will, to a certain extent, be dependent on the economic environment. The current adverse economic environment may have a detrimental effect on trading activity.

The company initiated this project during one of the harshest economic climates in decades and was established on a basis designed to be resilient to adverse economic conditions.

Financial risk management objectives and policies

The Group's principal financial instruments comprise cash and cash equivalents. The Group has various other financial instruments such as trade receivables and trade payables, which arise directly from its operations.

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Directors are responsible for co-ordinating the Group's risk management and focus on actively securing the Group's short to medium term cash flows.

The Group does not actively engage in the trading of financial assets and has no financial derivatives. The most significant risks to which the Group is exposed are described below:

Cash flow risks

The Group seeks to manage risks to ensure sufficient liquidity is available to meet foreseeable needs by investing cash assets safely and profitably. The Directors prepare rolling cash flow forecasts and seek to identify the need and raise additional funding whenever a shortfall in facilities is forecast. Further information on going concern is given below.

Currency risks

The Group does not seek to hedge its foreign exchange risk and the Directors consider that the exposure to movements in foreign currencies is not significant. At the time when the Directors consider that exposure to foreign exchange trading risks becomes significant they will seek to adopt appropriate hedging strategies and products.

Going concern

At 30 September 2014 the Group held cash balances of £25,000. Since the year end the Group has raised £850,000 from the issue of loan notes, and settled the amounts due to a creditor through an issue of a further £50,000 of loan notes. In aggregate, £900,000 of loan notes have been issued from a total authorised amount of £1,500,000. The Group has not earned any material revenue during the year ended 30 September 2014 or in the period subsequent to that date and the Company remains in a development phase. To this point, the operations of the business have been financed from funds raised through the issue of new ordinary shares and from the issue of loan notes as discussed above.

The Directors have considered the cash requirements of the business for the next 12 months. As part of this process, they have prepared detailed cashflow projections which assume that no revenue is generated by the Group. These projections contain an assumption that the Group will raise a further £300,000 through the issue of additional loan notes, from the remaining £600,000 of authorised loan notes. On this basis, the projections indicate that the Company will have sufficient cash resources to cover the period extending to at least 12 months from the date of approval of these financial statements. Although the projections used for this purpose assume no revenue is generated the Directors are confident that the Company will launch its first product during the forthcoming twelve months, with associated revenue generation. Although revenue generation is by no means certain, any such revenues generated would reduce the amount required to be raised through loan notes or possibly extinguish the need altogether.

Since the year end, trade creditors had been reduced from £672,000 to approximately £123,000 and accruals had been reduced from £187,000 to approximately £38,000 by 28 February 2015. Additionally the board is looking favourably on converting the £900,000 of Loan Notes detailed in note 17 into shares within the allowable time limit, which will have a positive impact on the Group's net current liability position.

Although the Directors are confident that they will be able to raise £300,000 through the issue of new loan notes if required, there is no certainty that they will be able to do so. The Company will be aided by its new sole broker should they need to raise these funds.

The projections prepared include unavoidable third party running costs of the Group and committed expenditure at the date of approving the financial statements.

On the basis of the assumptions above and following a detailed review by the Directors of the Group's cashflow requirements, the directors believe that the Group will have sufficient cash resources to meet its liabilities as they fall due for a period of at least 12 months from the date that the financial statements are signed. Consequently, the financial statements have been prepared on a going concern basis.

Future prospects

Based on the current estimated timetable, field trials of the CloudTag wearable device, a small, light and discreet 24 hour flexible activity tracker that will provide clinical grade wireless ECG monitoring, are to be completed in the next few months. Initial production runs are expected to start in the second half of this year and orders for mass manufacture at that time.

Amit Ben-Haim

On behalf of the board

26 March 2015

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Report of the Directors

Domicile and principal place of business

Cloudtag Inc. is domiciled in the Cayman Islands and its principal place of business is the Cayman Islands. Cloudtag Active Ltd. is domiciled in the UK and its principal place of business is the United Kingdom.

Directors

The Directors who served during the year are set out below.

T Reeves
M Hirschfield
A Jackson
M Butcher (resigned 20/11/2013)
G Bodhi (appointed 20/11/2013)

In November 2013, Mark Butcher resigned to focus on his other business interests, and Gabe Bodhi was appointed to the Board.

Substantial shareholdings

The only interests in excess of 3% of the issued share capital of the Company which have been notified as at 6 March 2015 were as follows:

	Ordinary shares of 0.25p each Number	Percentage of capital %
Platform Securities		
Nominees Limited	31,441,475	18.95
Osuna Limited	30,975,000	18.67
Spreadex Limited	29,731,964	17.92
Secure Nominees Limited	16,640,000	10.03
W B Nominees Limited	10,627,833	6.41
Mr Mike Hirschfield	7,235,000	4.36
Mr Amit Ben-Haim	6,666,667	4.01

Financial risk management objectives and policies

Financial risk management objectives and policies have been included in the Strategic Report as they have been considered to have strategic significance.

Directors' responsibilities

The Company was incorporated as a corporation in the Cayman Islands, which does not prescribe the adoption of any particular accounting framework. Accordingly, the Board have resolved that the Group will follow International Financial Reporting Standards as adopted by the European Union (IFRSs) when preparing its annual financial statements.

The Directors prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards 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 Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group transactions and disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for the preparation of the Report of the Directors and other information in the annual report.

In so far as the Directors are aware:

- there is no relevant audit information of which the Group's auditor is unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The Directors confirm that the accounting policies adopted in the preparation of the financial statements are appropriate to the Group, have been consistently applied and are supported by reasonable prudent judgements and estimates. All applicable accounting standards have been followed.

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

Auditor

Hazlewoods LLP have expressed their willingness to continue in office. A resolution to re-appoint Hazlewoods LLP will be proposed at the Annual General Meeting.

On behalf of the board

Tony Reeves
Chairmain

26 March 2015

Corporate Governance

The Group supports the concept of an effective Board leading and controlling the Group. The Board is responsible for approving Group policy and strategy. It meets on a regular basis, at least six times a year, and has a schedule of matters specifically reserved to it for decision. Management supply the Board with appropriate and timely information and the Directors are free to seek any further information they consider necessary. All Directors have access to advice from the Company Secretary and independent professional advice at the Group's expense.

The Board consists of a non-executive Chairman and an executive director, who holds the key operational position in the Group, and two non-executive directors, who together all bring a breadth of experience and knowledge.

Relations with shareholders

The Group values the views of its shareholders and recognises their interest in the Group's strategy and performance. The Annual General Meeting will be used to communicate with private investors and they are encouraged to participate. The Directors will be available to answer questions. Separate resolutions will be proposed on each issue so that they can be given proper consideration and there will be a resolution to approve the annual report and accounts.

Internal control

The Board is responsible for maintaining a strong system of internal control to safeguard shareholders' investment and the Group's assets and for reviewing its effectiveness. The system of internal financial control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss.

The Audit Committee, comprising of Mike Hirschfield, Amit Ben-Haim and chaired by Anthony Reeves, meets at least twice a year to consider the integrity of the financial statements of the Company, including its annual and interim accounts, the effectiveness of the Company's internal controls and risk management systems, auditor reports, and terms of appointment and remuneration for the auditors.

As the Company only has three directors there is no separate remuneration committee and the board as a whole deal with the matters which would normally be done by the committee. The company will recruit additional directors at an appropriate time and the remuneration and audit committees will be constituted at that time.

The Board acting as the Remuneration Committee has as its remit the determination and review of, amongst others, the remuneration of executives on the Board and any share incentive plans of the Company. A separate report on remuneration is contained on pages 10 – 11.

The Board has considered the need for an internal audit function but has decided the size of the Group does not justify it at present. However, it will keep the decision under annual review.

Directors' remuneration

The Board recognises that Directors' remuneration is of legitimate concern to shareholders. The Group operates within a competitive environment where performance depends on the individual contributions of the Directors and employees and it believes in rewarding vision and innovation.

Policy on executive Directors' remuneration

As the Company only has three directors there is no separate remuneration committee and the board as a whole deal with the matters which would normally be done by the committee. The company will recruit additional directors at an appropriate time and the remuneration and audit committees will be constituted at that time.

The Board is responsible for the policy and structure for the remuneration of the Executive Directors and senior management and approving performance based remuneration. The Board also fulfils the role of an options committee for the Employee Share Option Scheme and its main duty in this context is to approve the grant of options to relevant employees.

The policy of the Board is to provide executive remuneration packages designed to attract, motivate and retain Directors of the calibre necessary to maintain the Group's position and to reward them for enhancing shareholder value and return. It aims to provide sufficient levels of remuneration to do this, but to avoid paying more than is necessary. The remuneration will also reflect the Directors' responsibilities and contain incentives to deliver the Group's objectives.

The remuneration of the Directors was as follows:

	T Reeves £	A Jackson £	M Hirschfield £	G Bodhi (appointed 21 November 2013) £	M Butcher (resigned 21 November 2013) £	Total £
Short-term employment benefits:						
Year to 30 September 2014						
Salary and fees	30,000	97,666	24,000	22,800	–	174,466
Pension scheme contributions	–	4,667	–	–	–	4,667
Total	**30,000**	**102,333**	**24,000**	**22,800**	–	**179,133**
Employers NI	–	**2,760**	–	–	–	**2,760**
Year to 30 September 2013						
Salary and fees	15,000	26,667	24,000	–	6,250	71,917
Pension scheme contributions	–	5,333	–	–	–	5,333
Share based payments	29,075	133,672	–	–	29,075	191,822
Total	**44,075**	**165,672**	**24,000**	–	**35,325**	**269,072**
Employers NI	–	**2,062**	**209**	–	–	**2,271**

The £30,000 fees to T Reeves were paid to Spur Lodge Limited, a company beneficially owned by T Reeves.

Of the £97,666 (2013: £26,667) fees to A Jackson, £74,333 (2013: £Nil) was paid or is due to AJ Scott, a company beneficially owned by A Jackson.

The company has committed to make pension contributions of £4,667 (2013: £5,333) to the personal pension scheme of A Jackson, no payments had been made prior to 30 September 2014.

Report on Remuneration

continued

In addition to the fees above, the Company was charged £12,000 (year ended 30 September 2013: £7,000) by Kitwell Consultants Limited, a company beneficially owned by Mr Hirschfield, for Company Secretarial and administrative services.

The Group has not made contributions to post-employment benefits, other long-term benefits or other termination benefits in respect of any of the Directors, nor were any benefits in kind paid.

In the year ended 30 September 2013 a charge of £133,672 was made to profit and loss in respect of share options awarded to A Jackson. The non-market vesting conditions attached to these options were re-assessed in the year ended 30 September 2014 and the charge made in the previous year was reversed and credited to the Statement of Comprehensive Income.

Bonuses

No amounts are payable for bonuses in respect of the year ended 30 September 2014 or the period ended 30 September 2013.

Notice periods

The Directors all have three month rolling notice periods.

Share option incentives

At 30 September 2014 the following share options were held by the Directors.

	Date of grant	Exercise price	Number of options
A Jackson	19 March 2013	20p	2,250,000
A Jackson	19 March 2013	25p	600,000
A Jackson	19 March 2013	30p	499,998
T Reeves	19 March 2013	20p	250,000

Options Granted 19 March 2013

The share options for Mr Reeves are exercisable immediately. Of the options granted to Mr Jackson 1,116,666 were exercisable following admission to AIM and launch of products within 12 months from Admission, 1,116,666 were exercisable when turnover has exceeded £750,000 in any one month and share price has been at least 40p for 5 consecutive trading days, and 1,116,666 were exercisable when turnover has exceeded £1,500,000 in any one month and share price has been at least 60p for 5 consecutive trading days. The options lapsed since 30 September 2014 and new options on different terms were issued.

All options lapse after ten years.

The highest and lowest share price for the year was 14.5p and 3.75p respectively. The share price at 30 September 2014 was 3.75p.

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Report of the Independent Auditor

to the members of CloudTag Inc.

We have audited the group financial statements of CloudTag Inc. for the year ended 30 September 2014, which comprise the Principal Accounting Policies, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Financial Position, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

Respective responsibilities of the Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on pages 7 – 8, the Directors are responsible for the preparation of the group financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the group financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the group financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited group financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion;

- the group financial statements give a true and fair view of the state of the group's affairs as at 30 September 2014 and of its loss for the year then ended, and
- the financial statements have been properly prepared in accordance with IFRSs adopted by the European Union.

Emphasis of Matter – Going Concern and uncertain outcome of lawsuit

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1(b) to the financial statements concerning the Group's ability to continue as a going concern.

Report of the Independent Auditor

continued

The Group incurred a net loss of £1,035,000 during the year ended 30 September 2014 and, at that date, the Group had net current liabilities of £616,000. Since that date the Company has raised £900,000 by way of the issue of new convertible loan notes that are repayable on 3 December 2015 if not converted into ordinary share capital by the loan note holders. The ability of the Group to continue trading is reliant on its ability to raise further funds to finance activities until such time that sales of its product commence. There can be no certainty that further funds can be raised or of the timing of sales of the Group's product commencing. These conditions, along with the other matters explained in note 1(b) to the financial statements, indicate the existence of a material uncertainty which may cast doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

We have also considered the adequacy of the disclosure made in note 10 to the financial statements concerning the uncertain outcome of a lawsuit against the Company's subsidiary company by a supplier, where the Company's subsidiary is the defendant.

Hazlewoods LLP
Statutory Auditors, Chartered Accountants
CHELTENHAM

26 March 2015

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Principal Accounting Policies

1. Basis of Preparation

The Company was incorporated in the Cayman Islands which do not prescribe the adoption of any particular accounting framework. The Board has therefore adopted and complied with International Financial Reporting Standards as adopted by the European Union (IFRS).

The Group's shares are listed on AIM, a market operated by the London Stock Exchange plc.

The principal accounting policies applied by the Group are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(a) Measurement basis

The consolidated financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

(b) Going concern

At 30 September 2014 the Group held cash balances of £25,000. Since the year end the Group has raised £850,000 from the issue of loan notes, and settled the amounts due to a creditor through an issue of a further £50,000 of loan notes. In aggregate, £900,000 of loan notes have been issued from a total authorised amount of £1,500,000. The Group has not earned any material revenue during the year ended 30 September 2014 or in the period subsequent to that date and the Company remains in a development phase. To this point, the operations of the business have been financed from funds raised through the issue of new ordinary shares and from the issue of loan notes as discussed above.

The Directors have considered the cash requirements of the business for the next 12 months. As part of this process, they have prepared detailed cashflow projections which assume that no revenue is generated by the Group. These projections contain an assumption that the Group will raise a further £300,000 through the issue of additional loan notes, from the remaining £600,000 of authorised loan notes. On this basis, the projections indicate that the Company will have sufficient cash resources to cover the period extending to at least 12 months from the date of approval of these financial statements. Although the projections used for this purpose assume no revenue is generated, the Directors are confident that the Company will launch its first product during the forthcoming twelve months with associated revenue generation. Although revenue generation is by no means certain, any such revenues generated would reduce the amount required to be raised through loan notes or possibly extinguish the need altogether.

Since the year end, trade creditors had been reduced from £672,000 to approximately £123,000 and accruals had been reduced from £187,000 to approximately £38,000 by 28 February 2015. Additionally the board is looking favourably on converting the £900,000 of Loan Notes detailed in note 17 into shares within the allowable time limit, which will have a positive impact on the Group's net current liability position.

Although the Directors are confident that they will be able to raise £300,000 through the issue of new loan notes if required, there is no certainty that they will be able to do so. The Company will be aided by its new sole broker should they need to raise these funds.

The projections prepared include unavoidable third party running costs of the Group and committed expenditure at the date of approving the financial statements.

On the basis of the assumptions above and following a detailed review by the Directors of the group's cashflow requirements, the directors believe that the Group will have sufficient cash resources to meet its liabilities as they fall due for a period of at least 12 months from the date that the financial statements are signed. Consequently, the financial statements have been prepared on a going concern basis.

(c) Basis of consolidation

The Group financial statements consolidate those of the Company and its subsidiary undertaking drawn up to the Statement of Financial Position date. Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities.

Unrealised gains on transactions between the Company and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Acquisitions of subsidiaries are dealt with by the acquisition method. The acquisition method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. The acquisition cost is calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer and excludes any transaction costs. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated statement of financial position at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

(d) Adoption of new or amended IFRS

At the date of authorisation of this financial information, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Group. Management anticipates that all of the pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements is provided below although these are not expected to have a material impact.

The following standards, amendments and interpretations have been issued by the International Accounting Standards Board (IASB) or by the International Financial Reporting Interpretations Committee (IFRIC):

- IFRS 10 Consolidated Financial Statements (effective 1 January 2014)
- IFRS 11 Joint Arrangements (effective 1 January 2014)
- IFRS 12 Disclosure of Interests in Other Entities (effective 1 January 2014)
- IAS 27 (Revised), Separate Financial Statements (effective 1 January 2014)
- IAS 28 (Revised), Investments in Associates and Joint Ventures (effective 1 January 2014)
- IFRIC 21 Levies (effective 1 January 2014)
- Amendments to IFRS 10, IFRS 11, IFRS 12, IAS 27, IAS 36 and IAS 39 (effective 1 January 2014)
- Amendments to IAS 19 and the annual updates to various other standards (effective 1 July 2014)

There are other standards in issue but not yet effective, which are not likely to be relevant to the group which have therefore not been listed.

(e) Taxation

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the Statement of Financial Position date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable result for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit and loss.

Deferred taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amounts of assets and liabilities in the consolidated financial statements with their respective tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries, is not provided if reversal of these temporary differences can be controlled by the Group and it is probable the reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are always provided for in full. Deferred tax assets are recognised to the extent that it is probable that they will be able to be offset against future taxable income. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the Statement of Financial Position date. Most changes in deferred tax assets or liabilities are recognised as a component of tax expense in profit and loss. Changes in deferred tax assets or liabilities that relate to a change in value of assets or liabilities that is recognised in other comprehensive income are charged or credited in other comprehensive income, and current and deferred tax that relates to items that are recognised in equity is recognised directly in equity.

(f) Research and development

Research expenditure is written off as incurred. Expenditure on a development project will be written off as incurred unless the following conditions are met:

(a) it is for a new or substantially improved product or process;

(b) it is technically feasible;

(c) it is commercially feasible, and with a high probability that recovery of the costs will take place;

(d) there is the availability of adequate technical, financial and other resources to complete the development and to use or sell the product; and

(e) there is the intention to complete the product and use or sell it.

For a project meeting all of the above criteria, subsequent costs will be capitalised and amortised through administrative expenses from the date the product or process is available for use, on a straight line basis over the product's estimated useful life.

(g) Financial assets

The Group's financial assets include cash and other receivables, which are classified as loans and receivables.

All financial assets are recognised when the Group becomes party to the contractual provisions of the instrument. All financial assets are initially recognised at fair value, plus transaction costs. Loans and receivables are subsequently measured at amortised cost. Other receivables are provided against when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivable. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and bank demand deposits, together with other short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value with original maturities of three months or less from the date of acquisition.

(i) Equity

The share capital is determined using the nominal value of shares that have been issued. The share premium account represents premiums received on the initial issue of the share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits. Retained earnings include all current and prior period results as disclosed in the consolidated statement of comprehensive income.

(j) Financial liabilities

The Group's financial liabilities include trade and other payables. Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. All financial liabilities are recognised initially at fair value, net of direct issue costs, and are subsequently recorded at amortised cost using the effective interest method with interest related charges recognised as an expense in profit and loss.

(k) Share based payments

Options

The Group issues equity-settled share-based payments to certain employees (including directors). Equity-settled share-based payments are measured at fair value at the 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, together with a corresponding increase in equity, based upon the Group's estimate of the shares that will eventually vest.

Fair value is measured using the Black-Scholes model. 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 considerations.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates.

No adjustment is made to the expense recognised in prior periods if fewer share options are, ultimately exercised than originally estimated. Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of shares issued are allocated to share capital with any excess being recorded as share premium.

(l) Fees settled in shares

Where shares have been issued as consideration for services provided they are measured at the fair value of the services provided. The difference between the carrying amount of the financial liability (or part thereof) extinguished, and the fair value of the shares, is recognised in profit or loss

(m) Foreign currencies

The consolidated financial statements are presented in UK Sterling, which is also the functional currency of the parent company. Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognised in profit or loss.

(n) Segmental reporting

As the Group has not generated any revenue during the year, management have not identified any operating segments. Management will review the operating segments during the forthcoming year.

2. Critical Accounting Estimates and Judgements

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.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The directors do not consider they have made any estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting year.

Development costs

In applying the Group's accounting policies, the directors have made a key accounting judgement regarding whether to capitalise development costs. To this point, development costs have not been capitalised owing to the early stage of the business's development and the view that, at this stage, the directors do not consider that all of the conditions have been met as set out in the accounting policy on page 16. The Board will continue to keep this treatment under review and when the development project is at the stage where these conditions are met, future development costs will be capitalised and amortised in line with the prescribed accounting policy.

Share based payments

In assessing the fair value of the share options granted the directors have made a number of assumptions. The directors have applied a Black-Scholes valuation model in determining the value of the share options granted on 19 March 2013. 2,583,332 of these options have market conditions attached and these market conditions have not been incorporated in determining the fair value of the options at the grant date. The directors do not consider that the impact of incorporating the market conditions has a material impact on the fair value. The directors have also made assumptions in respect of when options will vest based on the best estimate of when performance conditions will be met and in the financial year ended 30 September 2013 assumed that all options would vest as these conditions would be met within the exercise period.

In the year ended 30 September 2014 the directors concluded that it was unlikely that the options with performance conditions would ever vest, and in consequence the charge made in the year ended 30 September 2013 was reversed.

In considering the fair value of services provided where consideration has been settled in shares, the directors have discussed with the service provider the services provided and estimated the cash amount that would have otherwise been due for those services. Shares have been issued at the Admission price to the value equivalent to the fair value of the services provided.

Going concern

The directors also consider the appropriateness of preparing the accounts on a going concern basis to be a significant judgement area. The business has made losses in the year and therefore the board has given due consideration to the preparation of the financial statement on a going concern basis. The details of the directors' review and conclusion are set out in the accounting policies under the heading "Going concern" in note 1(b).

Consolidated Statement of Comprehensive Income

	Note	Year ended 30 September 2014 £000	Year ended 30 September 2013 £000
Administrative expenses			
Share based payments	7	**169**	(227)
Research and development costs		**(629)**	(580)
Other administrative expenses	1	**(830)**	(2,033)
Total administrative expenses		**(1,290)**	(2,840)
Loss from operations and loss before taxation		**(1,290)**	(2,840)
Loss before taxation		**(1,290)**	(2,840)
Taxation	2	**255**	–
Loss after taxation and loss attributable to the equity holders of the Company and total comprehensive income for the period		**(1,035)**	(2,840)
Loss per share			
Total basic and diluted (pence per share)	3	**(0.69)**	(2.01)

All of the activities of the Group are classed as continuing.

The accompanying accounting policies and notes form an integral part of these financial statements

Consolidated Statement of Changes in Equity

	Share capital £000	Share premium £000	Share based payment reserve £000	Retained earnings £000	Total equity £000
Balance at 1 October 2012	134	418	–	(670)	(118)
Issue of share capital	14	2,860	–	–	2,874
Share issue costs	–	(76)	–	–	(76)
Transactions with owners	14	2,784	–	–	2,798
Share based payments	–	–	227	–	227
Loss for the period	–	–	–	(2,840)	(2,840)
Balance at 30 September 2013	148	3,202	227	(3,510)	67
Issue of share capital	6	527	–	–	533
Share issue costs	–	(10)	–	–	(10)
Transfer to retained earnings	–	–	(58)	58	–
Transactions with owners	6	517	(58)	58	523
Share based payments	–	–	(169)	–	(169)
Loss for the period	–	–	–	(1,035)	(1,035)
Balance at 30 September 2014	154	3,719	–	(4,487)	(614)

Note 9 gives further details on each of the reserve categories.

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated Statement of Financial Position

	Notes	30 September 2014 £000	30 September 2013 £000
Assets			
Fixed assets			
Property, plant and equipment	4	**2**	1
Current			
Trade and other receivables	5	**264**	5
Cash and cash equivalents		**25**	556
Total current assets		**289**	561
Total assets		**291**	562
Liabilities			
Current			
Trade and other payables	6	**905**	495
Total current liabilities and total liabilities		**905**	495
Equity			
Issued share capital	8	**154**	148
Share premium		**3,719**	3,202
Share based payment reserve	7	**–**	227
Retained earnings		**(4,487)**	(3,510)
Equity attributable to owners of the company		**(614)**	67
Total equity and total liabilities		**291**	562

The consolidated financial statements were approved by the Board on 26 March 2015.

A Ben-Haim
Director

The accompanying principal accounting policies and notes form an integral part of these financial statements.

Consolidated Cash Flow Statement

	Notes	Year ended 30 September 2014 £000	Year ended 30 September 2013 £000
Operating activities			
Loss after tax		**(1,035)**	(2,840)
Share based payments		**(169)**	227
Depreciation		**1**	–
Fees paid in shares	8	**33**	1,350
(Increase)/decrease in trade and other receivables		**(259)**	102
Increase in trade and other payables		**410**	127
Net cash outflow from operating activities		**(1,019)**	(1,034)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(2)**	(1)
Net cash outflow from financing activities		**(2)**	(1)
Financing activities			
Proceeds from issue of share capital		**500**	1,525
Share issue costs		**(10)**	(76)
Amounts deposited with shareholder		**–**	(745)
Amounts returned from shareholder		**–**	745
Net cash inflow from financing activities		**490**	1,449
Net change in cash and cash equivalents		**(531)**	414
Cash and cash equivalents at beginning of period		**556**	142
Cash and cash equivalents at end of period		**25**	556

The accompanying accounting policies and notes form an integral part of these financial statements.

Notes to the Financial Statements

1 Revenue, Loss Before Taxation and Segmental Information

Revenue and loss before taxation

Revenue and loss before taxation are attributable to the principal activities of the Group.

The loss before taxation is stated after charging:

	Year ended 30 September 2014 £000	Year ended 30 September 2013 £000
Wages and salaries	**366**	184
Exchange differences	**(16)**	1
Fees payable to the Company's auditor for the audit of the Company financial statements	**17**	26
Fees payable to the Company's previous auditor for other services	**21**	3
Fees related to AIM admission	–	1,451

Segmental information

An operating segment is a distinguishable component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about the allocation of resources and an assessment of performance and about which discrete financial information is available.

The chief operating decision maker has defined that the Group's only operating segment during the period is the development of physiological technology. All of the corporate headquarter costs are allocated to this segment.

The Group has not generated any revenues from external customers during the period.

In respect of the non-current assets all (2013: all) arise in the UK.

2 Taxation

There is a tax credit for enhanced UK research and development tax relief for the year of £255,000, of which £127,000 relates to expenditure incurred in previous years (year ended 30 September 2013: £nil).

Unrelieved tax losses in the UK of approximately £1,607,000 (2013: £1,397,000) remain available to offset against future taxable trading profits. The unprovided deferred tax asset at 30 September 2014 is £321,000 (2013: £344,000) which has not been provided on the grounds that it is uncertain when or in what tax jurisdiction taxable profits will be generated by the Group to utilise the losses of the UK subsidiary.

2 Taxation continued

The tax assessed for the period differs from the standard rate of corporation tax in the UK as follows:

	Year ended 30 September 2014 £000	Year ended 30 September 2013 £000
Loss for the period before taxation	**(1,290)**	(2,840)
	(1,290)	(2,840)
Tax rate	**22.0%**	23.5%
Expected tax credit	**(284)**	(667)
Non UK losses not available for relief	**72**	406
Share based (credit)/charge not taxable	**(37)**	53
Difference between research and development tax credit received and losses surrendered	**(30)**	–
Expenses that are not tax deductible	**5**	5
Deferred tax asset not recognised on unutilsed losses	**146**	203
Prior year adjustment	**(127)**	–
Tax credit for the year	**(255)**	–

3 Loss Per Share

	Year ended 30 September 2014	Year ended 30 September 2013
Loss on ordinary activities after tax (£000)	**(1,035)**	(2,840)
Weighted average number of shares for calculating basic loss per share	**150,696,507**	141,040,411
Basic and diluted loss per share (pence)	**(0.69)**	(2.01)

There are 4,549,998 share options as detailed in note 7. Their effect is anti-dilutive, but are potentially dilutive against future profits, although 4,049,998 of these options either lapsed or were cancelled since 30 September 2014.

Since the year end a further 11,463,336 shares have been issued whose impact is potentially dilutive, along with 10,700,000 new options as described in note 16. 6,250,000 warrants were also in issue as described in note 8 which are also potentially dilutive, as are further options and warrants issued after 30 September 2014 as described in note 16.

4 Property, Plant and Equipment

	Computer Equipment £'000	Total £'000
Cost		
At 1 October 2012	–	–
Additions	1	1
At 30 September 2013	1	1
Additions	2	2
Cost at 30 September 2014	**3**	**3**
Depreciation		
At 1 October 2012	–	–
Charge for the year	–	–
At 30 September 2013	–	–
Charge for the year	1	1
At 30 September 2014	**1**	**1**
Net book value		
At 30 September 2014	**2**	**2**
At 30 September 2013	1	1
At 1 October 2012	–	–

5 Trade and Other Receivables

	30 September 2014 £000	30 September 2013 £000
Prepayments	**4**	–
Other receivables	**260**	5
Total	**264**	5

The fair value of these short term financial assets is not individually determined as the carrying amount is a reasonable approximation of fair value.

All receivables have been reviewed for indicators of impairment based on the age of the balances outstanding and the credit worthiness of the third parties from which these balances are due. Amounts past due and not impaired are not material.

6 Trade and Other Payables

	30 September 2014 £000	30 September 2013 £000
Trade payables	**672**	145
Tax and social security	**6**	14
Other payables	**40**	–
Accruals	**187**	336
	905	495

All of the above are due within one year. The fair value of trade and other payables has not been disclosed as, due to their short duration, management considers the carrying amounts recognised to be a reasonable approximation of their fair value.

7 Share Based Payments

The Group operates share option schemes for certain employees (including directors). Options are exercisable at the option price agreed at the date of grant. The options are settled in equity once exercised. The options are exercisable from the date on which the conditions are met until 10 years from the grant date. The expected life of the options varies from six months to three years. Options granted to employees are forfeited if the employee leaves the Group before the options vest.

7 Share Based Payments continued

Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the year are as follows:

First exercise date (when vesting conditions are met)	Grant date	Assumed vesting period	Exercise price £	Fair value £	30 September 2014 Number	30 September 2013 Number
20 March 2013	20 March 2013	6 months	0.2	0.116299	500,000	500,000
On launch of product if by 20 March 2014	20 March 2013	12 months	0.2	0.116299	1,100,000	1,100,000
On launch of product if by 20 March 2014	20 March 2013	12 months	0.25	0.106651	200,000	200,000
On launch of product if by 20 March 2014	20 March 2013	12 months	0.3	0.098623	166,666	166,666
Turnover exceeds £750,000 in a month and share price exceeds 40p for 5 consecutive days	20 March 2013	24 months	0.2	0.116299	1,100,000	1,100,000
Turnover exceeds £750,000 in a month and share price exceeds 40p for 5 consecutive days	20 March 2013	24 months	0.25	0.106651	200,000	200,000
Turnover exceeds £750,000 in a month and share price exceeds 40p for 5 consecutive days	20 March 2013	24 months	0.3	0.098623	166,666	166,666
Turnover exceeds £1,500,000 in a month and share price exceeds 60p for 5 consecutive days	20 March 2013	36 months	0.2	0.116299	750,000	750,000
Turnover exceeds £1,500,000 in a month and share price exceeds 60p for 5 consecutive days	20 March 2013	36 months	0.25	0.106651	200,000	200,000
Turnover exceeds £1,500,000 in a month and share price exceeds 60p for 5 consecutive days	20 March 2013	36 months	0.3	0.098623	166,666	166,666
					4,549,998	4,549,998

At 30 September 2014, 500,000 options were exercisable.

7 Share Based Payments continued

For options granted to employees and directors, the fair values were calculated using the Black-Scholes model. The inputs into the model were as follows:

	20 March 2014
Risk free rate	0.50%
Share price volatility	50%
Expected life	Between 6 months and 3 years
Share price at date of grant	£0.20

The Black-Scholes model used by the Group does not take into account the impact on the fair value of the market conditions. The directors do not consider that the impact of incorporating the market conditions would be material to the financial statements.

Expected volatility was determined by calculating the historical volatility of the share price of an AIM listed company in a similar business. 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 considerations.

The following assumptions were used with regards to the vesting period:

- The options granted on 20 March 2013 at 20p with no conditions attached were assumed to vest in 6 months as the share price was expected to rise above 20p by that time.
- The options granted on 20 March 2013 exercisable once CloudTag has been successfully admitted to AIM and launched products within 12 months from Admission were assumed to vest in 12 months.
- The options granted on 20 March 2013 and exercisable when turnover has exceeded £750,000 in one month and share price has been at least 40p for 5 consecutive trading days were assumed to vest in 24 months.
- The options granted on 20 March 2013 and exercisable when turnover has exceeded £1,500,000 in any one month and share price has been at least 60p for 5 consecutive trading days were assumed to vest in 36 months.

The costs charged to profit an loss in respect of these options was £227,000 in the year ended 30 September 2013. The Directors reconsidered the assumptions used in calculating the share based payments and considered that there was little likelihood that the options granted with vesting conditions would vest, and since the end of the financial year the options were waived to the extent that they had not already lapsed. Therefore the charge of £169,000 relating to these options in the year to 30 September 2013 has been reversed in the current year.

These recognised expenses are not, and never will be, a cash cost to the Group but are merely an accounting charge to the income statement reflecting the theoretical cost to the Group if options are exercised in the future where the receipts from exercise are lower than if the same number of shares had been issued at the then prevailing market value. In many cases, for the theoretical cost to be accurate, the market price of the Group's shares at exercise will need to be a multiple of the current share price.

8 Share Capital

	30 September 2014 £000	30 September 2013 £000
Authorised	**1,000**	1,000

	£000	£000
Allotted, issued and fully paid		
154,437,500 ordinary shares of 0.1p (30 September 2013: 147,775,000)	**154**	148

The movement in the share capital is as follows:

	Price £	Number	Nominal amount £000	Share premium £000
As at 1 October 2012	–	133,400,000	134	418
Share placing	0.2	7,625,000	7	1,517
Placing costs		–	–	(76)
Fees paid in shares	0.2	6,750,000	7	1,343
At 30 September 2013		**147,775,000**	**148**	**3,202**
Share placing	0.08	6,250,000	6	494
Placing costs		–	–	(10)
Fees paid in shares	0.08	412,500	–	33
At 30 September 2014		**154,437,500**	**154**	**3,719**

On 31 March 2014, 412,500 ordinary shares of 0.1p were issued at 8p in payment of fees totalling £33,000. On 31 March 2014, 6,250,000 ordinary shares 0.01p were placed at 8p raising total proceeds of £500,000 before expenses. Each Ordinary Share issued for cash on 31 March had a three-year warrant attached to it which is exercisable at 8 pence. The warrants will not be admitted to trading on AIM. There were 6,250,000 warrants outstanding at 30 September 2014 at a weighted average exercise price of 8p and a weighted average remaining contractual life of 2.59 years.

These warrants fall outside the scope of IFRS2 as they have been issued to shareholders in their capacity as shareholders and have therefore not been treated as share based payments.

All shares are equally eligible to receive dividends and the repayment of capital and represent equal votes at meetings of shareholders.

9 Reserves

The share capital account represents the value of the shares issued at par.

The share premium account represents the difference between the price paid for shares and the par value, less any costs incurred for the shares issued. Under Cayman law this reserve is available for distribution to shareholders provided that the directors are confident that all liabilities of the Company can be met.

The share based payment reserve is the cumulative value of the deemed cost of share based payments. This reserve has been accumulated into the retained earnings reserve in the year, as there is no requirement to retain a separate reserve.

The retained earnings reserve is the accumulated profit/(losses) of the Company. Profits are available for distribution to the shareholders.

10 Contingent Assets and Liabilities

The Company's subsidiary company is currently involved in litigation with one of its suppliers, which is claiming €290,000 (£226,509) against the Company for services supplied. The directors have included €150,000 (£117,160) as a provision for this in the accounts which they consider to be prudent. There is therefore a contingent liability of €140,000 (£109,349).

The Company is rigorously defending this claim as it considers the services delivered were unsatisfactory and has entered a counter claim at least equal to the amount claimed.

There were no contingent liabilities at 30 September 2013.

11 Capital Commitments

There were no capital commitments at 30 September 2014 nor at 30 September 2013.

12 Financial Instruments

The Group uses financial instruments comprising cash and cash equivalents, other loans and various other short-term instruments such as trade receivables and trade payables which arise from its operations. The main purpose of these financial instruments is to fund the Group's business strategy and the short-term working capital requirements of the business.

Financial assets by category

The IAS 39 categories of financial asset included in the Statement of Financial Position and the headings in which they are included are as follows:

	30 September 2014			30 September 2013		
	Loans and receivables £000	Non financial assets £000	Statement of Financial Position total £000	Loans and receivables £000	Non financial assets £000	Statement of Financial Position total £000
Cash	**25**	–	**25**	556	–	556
Prepayments	–	**4**	**4**	–	3	3
Other receivables	**260**	–	**260**	2	–	2
Total	**285**	**4**	**289**	558	3	561

Financial liabilities by category

The IAS 39 categories of financial liability included in the Statement of Financial Position and the headings in which they are included are as follows:

	30 September 2014			30 September 2013		
	Other financial liabilities at amortised cost £000	Liabilities not within the scope of IAS 39 £000	Total £000	Other financial liabilities at amortised cost £000	Liabilities not within the scope of IAS 39 £000	Total £000
Trade payables	**672**	–	**672**	145	–	145
Taxes and Social security	–	**6**	**6**	–	14	14
Other payables	**40**	–	**40**	–	–	–
Accruals	**187**	–	**187**	336	–	336
Total	**899**	**6**	**905**	481	14	495

12 Financial Instruments continued

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Board is responsible for co-ordinating the Group's risk management and focuses on actively securing the Group's short to medium term cash flows.

The Group does not actively engage in the trading of financial assets and has no financial derivatives. The most significant risks to which the Group is exposed are described below:

Credit risk

The Group's principal financial assets are cash balances and other receivables

Cash at bank is all held with highly rated banks the suitability of which are periodically reviewed.

Liquidity risks

The Group seeks to manage risks to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The directors also manage liquidity through agreements with some key creditors to withhold payment of liabilities while the company remains in the development phase and until such time as it undergoes further fundraising. Short term flexibility is achieved by the use of money markets to deposit excess cash which is not required in the short term. The Directors prepare rolling cashflow forecasts and seek to raise additional funding whenever a shortfall in facilities is forecast. Details of the funding status of the Group are included in the going concern paragraph in the principal accounting policies.

13 Related Party Transactions

Corvus Capital Ltd, a major shareholder in CloudTag Inc. charged the Group £4,297 for the year ended 30 September 2014 in respect of telephone costs recharged (year ended 30 September 2013: £59,017 in respect of consultancy fees and expenses).

Kitwell Consultants Limited, a shareholder in CloudTag Inc. and a company owned by M Hirschfield, a director of CloudTag Inc. and CloudTag Active Limited charged the Group £12,000 for the year ended 30 September 2014 for secretarial fees and expenses (year ended 30 September 2013: £7,000). At 30 September 2014 £6,400 was owed to Kitwell Consultants Limited in respect of secretarial fees (30 September 2013: £7,000).

A Jackson, a director of Cloudtag Inc and Cloudtag Active Ltd was reimbursed £60,505 in expenses during the year (30 September 2013: £35,831).

At 30 September 2014 the following amounts were outstanding for fees payable to directors of Cloudtag Inc. and Cloudtag Active Limited, T Reeves £17,500 (30 September 2013: £7,500), M Hirschfield £23,000 (30 September 2013: £4,500), A Jackson £86,833 (30 September 2013: £Nil) , G Bodhi £22,800 (30 September 2013: £Nil) and P Georgiou £16,000 (30 September 2013: £4,000).

At 30 September 2014 the Group owed £424 to L Musgrave, a director of Cloudtag Active Limited, in respect of expenses, (30 September 2013: £771). Lee Musgrave was paid fees of £12,000 fees and £1,791 expenses during the year ended 30 September 2014 (30 September 2013: £6,000 fees and £1,294 expenses).

P Georgiou was awarded fees of £12,000 during the year ended 30 September 2014, as a director of Cloudtag Active Limited (30 September 2013: £6,000).

Key management personnel are considered to be the directors, and information is disclosed in the remuneration report on page 10 in respect of their remuneration.

14 Employee Remuneration

Employee benefits expense

Expense recognised for employee benefits, including Directors' emoluments, is analysed below:

	2014 £000	2013 £000
Wages and salaries	**349**	172
Social security	**17**	12
	366	184

Average monthly number of employees

	2014 No.	2013 No.
Directors	**6**	4
Other	**4**	4
	10	8

15 Principal Subsidiary Undertaking

Name	Principal activity	Place of incorporation
Cloudtag Active Limited	Develop, market and sell a state of the art physiological monitoring technology to the professional sports, consumer wellbeing and weight-loss markets.	UK

The subsidiary was 100% owned by the Group at the year end.

The subsidiary Company's activities have been funded by loans from its parent company, CloudTag Inc. At 30 September 2014 the aggregate amounts loaned to the Company amounted to £1,916,381 (2013: £1,560,893). These amounts together with any other obligations and liabilities to CloudTag Inc. have been secured by a fixed and floating charge over the assets of the Company dated 11 October 2012.

16 Capital Management

The Group's capital management objectives are:

- to ensure the Group's ability to continue as a going concern;
- to provide an adequate return to shareholders;
- to support the Group's stability and growth;
- to provide capital for the purpose of strengthening the Group's risk management capability;
- to provide capital for the purpose of further investments.

The Group actively and regularly reviews and manages its capital structure to ensure an optimal capital structure and to maximise equity holder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The management regards capital as total equity and reserves, for capital management purposes.

17 Post Balance Sheet Events

On 4 December 2014, the Company announced that it has entered into subscription agreements with certain investors in respect of the issue of, in aggregate, £800,000 unsecured loan notes due in 2015 ("Loan Notes") to such investors ("Fundraising"). Under the terms of the Fundraising, the Loan Notes are convertible into Ordinary Shares subject to the following terms:

(i) at the holder's option at a conversion price which is fixed at 3.75 pence of indebtedness per one Ordinary Share, representing an effective discount of 3.23% to the closing mid-market price of an Ordinary Share on 3 December 2014 (being 3.875 pence); or

(ii) at the Company's option at a conversion price which is fixed at 3.75 pence of indebtedness per 1.5 Ordinary Shares (equivalent to 2.5 pence of indebtedness per one Ordinary Share), representing an effective discount of 35.48% to the closing mid-market price of Ordinary Shares on 3 December 2014 (being 3.875 pence).

The Loan Notes carry nil interest for the first six months following issue and thereafter carry interest at a rate of 8% per annum beginning on the business day after the six-month anniversary of issue. The Loan Notes are unsecured, are not listed and are transferable.

In December 2014 a further £50,000 of loan notes were issued for cash and £50,000 were issued in settlement of a creditor from the remaining £700,000 of loan notes authorised, under the same terms as those above.

On 4 December 2014, the Company also announced that it has granted to Golden Bridge Services Limited conditional warrants to subscribe for up to 22,000,000 new Ordinary Shares at a subscription price of 4.25p per share ("Warrant Shares"). The conditions are either (i) the introduction by GBSL, within 150 days, of one or more investor(s) investing together not less than £500,000 in the Company, such new investment being on equal or better terms to the Company than the convertible Loan Note issue; or (ii) the introduction of a strategic partner; that means a strategic partner concluding a transaction, acquisition or collaboration with the Company, such party being a hardware, software or sports and fitness company which has mutual business interests with the Company's business operations and which brings either significant strategic advantages to the Company or which has a platform (being any, some or all of a website, app or e-commerce platform) with not less than 30 million unique users.

On 4 December 2014, the Company also announced that it has issued 1,250,000 Ordinary Shares (subject to admission to trading on AIM) at an issue price of 3.75 pence per share to a third party creditor in settlement of fees owed to it in respect of its services to the Company.

On 17 December 2014, the Company announced that it has issued 3,546,669 new ordinary shares in settlement of, in aggregate, £133,000 of fees due to directors and a third party creditor at an issue price of 3.75 pence per share ("Fee Shares").

On 23 December 2014 the Company announced that it has issued 6,666,667 new ordinary shares in the Company to Amit Ben-Haim by way of capitalisation of fees and commissions owing to him at an issue price of 3.75 pence per share.

17 Post Balance Sheet Events continued

On 12 January 2015, the Company announced that it has granted a total of 10,700,000 options and warrants over new ordinary shares to certain Directors and employees, as follows:

	Options or warrants	Number	Exercise Prices*
Andy Jackson	Options	5,000,000	6p, 8p, 10p, 12p
Tony Reeves	Warrants	1,000,000	6p, 8p, 10p, 12p
Employees	Options	2,700,000	6p, 8p, 10p, 12p
Employees	Warrants	2,000,000	6p, 8p, 10p, 12p
		10,700,000	

* The exercise prices of all options and warrants are apportioned equally, such that 25% of each award is exercisable at each of the stated prices

On 10 February 2015 Andrew Jackson resigned as a director, and under the terms of his termination agreement the following amounts were payable:

£41,302.68 shall be paid in lieu of notice pay, payment of the same shall be made in two parts as follows:

- £30,977.01 shall be payable on the Termination Date; and
- £10,325.67 shall be payable three months following the Termination Date (or the nearest working day thereafter).

£5,363.98 shall be paid on the Termination Date in consideration of accrued 10 days' untaken holiday; and

£10,000 shall be paid one month after the Termination Date, in respect of accrued pension entitlement.

Notice of Annual General Meeting

Notice is hereby given that the 2015 annual general meeting of CloudTag Inc. (the "**Company**") will be held at the office of Collas Crill, 40 Don Street, St Helier, Jersey JE1 4XD on 6 May 2015 at 14:30 to consider and, if thought fit, to pass the following resolutions:

Ordinary Resolutions

1. To receive the annual report and financial statements for the year ended 30 September 2014, together with the reports of the directors and auditors.
2. To re-elect Tony Reeves as a director who is retiring in accordance with article 154 of the articles of association of the Company (the "**Articles**") and who being eligible offers himself for re-election.
3. To re-elect Amit Ben-Haim as a director who is retiring, having been appointed since the last general meeting of the Company, and who being eligible offers himself for re-election.
4. To authorise the Board of directors to appoint Hazlewoods LLP as auditor to the Company and to authorise the directors to determine their remuneration.
5. That the directors are authorised to disapply the pre-emption rights set out in article 17 of the Articles and provided that the authority is limited to:

   a. the allotment of equity securities for cash up to an aggregate nominal value of £10,000, being 6.03% of the Company's issued share capital at the date of this notice;

   b. the allotment of equity securities pursuant to the exercise of warrants granted by the Company from time to time;

   c. the allotment of equity securities pursuant to the exercise of share options granted by the Company from time to time under the Company's employee share scheme, up to an aggregate nominal amount representing 10% of the Company's issued share capital at the date of grant; and

   d. the allotment of equity securities for cash, otherwise than in accordance with paragraphs 5(a), 5(b) and 5(c), up to an aggregate nominal amount of £16,590 being 10% of the Company's issued share capital at the date of this notice.

   In this notice, "**equity securities**" means any shares in the capital of the Company and the grant of any of any rights to subscribe for, or to convert any security into, shares in the capital of the Company.

   These authorities shall apply in substitution for all previous authorities (but without prejudice to the validity of any allotment pursuant to such previous authority) and shall expire at the end of the next annual general meeting of the Company or, if earlier, 15 months after the date of this resolution, save that the Company may before such expiry make any offer or agreement which would or might require shares to be allotted or rights granted to subscribe for or convert any security into shares after such expiry and the directors may allot shares or grant such rights in pursuance of any such offer or agreement as if the power and authority conferred by this resolution had not expired.

By order of the Board

Kitwell Consultants Limited
Company Secretary

Registered office:
122 Mary Street
PO Box 709
KY1-1107
Grand Cayman
Cayman Islands

30 March 2015

Notice of Annual General Meeting

continued

Notes

1. All shareholders who wish to attend and vote at the meeting must be entered on the Company's register of members no later than 6:00pm on 4 May or 48 hours before the time of any adjourned meeting. Changes to entries on the register after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.

2. A member entitled to attend and vote at the above meeting has the right to appoint a proxy to attend and vote in his place. A proxy need not be a member of the Company. In the case of joint shareholders, the person whose name appears first in the register of members has the right to attend and vote at general meetings to the exclusion of all others. Investors who hold their shares through a nominee may wish to attend the meeting as a proxy, or to arrange for someone else to do so for them, in which case they should discuss this with their nominee or stockbroker. Whilst proxies may vote on a poll on any resolution, they are not entitled to vote on a show of hands. Proxies may ask questions at the meeting if, in his discretion, the chairman of the meeting allows it. Members are invited to complete and return the enclosed proxy form if they are unable to attend the meeting. The return of the proxy form will not prevent a member from attending in person and voting at the meeting.

3. To be effective, a completed and signed proxy (and any power of attorney or other authority under which it is signed) must be delivered to Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol BS99 6ZY by no later than 14:30 on 4 May 2015 or 48 hours before the time fixed for any adjourned meeting. You may also deliver by hand to Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol BS99 6ZY during normal business hours. Completion of a form of proxy will not prevent a member from attending and voting in person.

4. In the case of joint holders of shares in the Company, the vote of the senior holder shall be accepted to the exclusion of the votes of the other joint holder(s). For this purpose, seniority will be determined by the order in which the names appear in the Company's register of shareholders (or the Company's registrars' records).

5. In the case of holders of depositary interests representing ordinary shares in the Company, a form of instruction must be completed in order to appoint Computershare Company Nominees Limited, as custodian, to vote on the holder's behalf at the meeting or, if the meeting is adjourned, at the adjourned meeting. To be effective, a completed and signed form of instruction (and any power of attorney or other authority under which it is signed) must be delivered to the Company's transfer agent, Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol BS99 6YZ by no later than 14:30 on 1 May 2015 or 72 hours before the time fixed for any adjourned meeting.

6. The completion and return of the form of instruction will not preclude a holder from attending the meeting and voting in person. Should the holder, or a representative of that holder, wish to attend the meeting and/or vote at the meeting, they must notify the custodian in writing or email !UKALLDITeam@computershare.co.uk by no later than 14:30 on 1 May 2015 or 72 hours before the time fixed for any adjourned meeting.

7. Entitlement to attend and vote at the meeting and the number of votes which may be cast thereat will be determined by reference to the Depositary Interest Register at close of business on 1 May 2015. Changes to the entries on the Depositary Interest Register after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting.

8. As at 27 March 2015 (being the last business day prior to the publication of this notice), the Company's issued share capital comprised 165,900,836 ordinary shares of £0.001 each. The Company does not hold any shares in treasury and each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 27 March 2015 (being the last business day prior to the publication of this notice), is 165,900,836.

9. CREST members who wish to vote by utilising the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

10. In order for a voting instruction made by means of CREST to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (EUI) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID: 3RA50) by 14:30 on 1 May 2015. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

11. CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such actions as are necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

12. The Company may treat as invalid a CREST Proxy Instruction in the circumstances.

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