



INTELLIGENT
ULTRASOUND[®]
for smarter scanning

Making **ultrasound** accessible to everyone

Intelligent Ultrasound Group plc
2022 Annual Report and Accounts

Contents

Overview

Highlights	02
What We Do	03

Strategic Report

Chairman's Statement	05
Chief Executive's Review	07
Business Model	12
Our Strategy	13
Strategy in Action	14
Key Performance Indicators	16
Environmental, Social and Governance	17
S172 Statement	24
Risk Management	28
Principal Risks	30
Financial Review	35

Corporate Governance

Board of Directors	38
Chairman's Introduction	40
Corporate Governance Report	41
Nomination Committee Report	47
Audit and Risk Committee Report	48
Remuneration Committee Report	50
Directors' Report	54
Statement of Directors' Responsibilities	56

Financial Statements

Independent Auditor's Report	57
Group Statement of Profit and Loss and Other Comprehensive Income	61
Group and Company Statements of Financial Position	62
Group Statement of Changes in Equity	63
Parent Company Statement of Changes in Equity	64
Group and Company Statement of Cash Flows	65
Notes to the Financial Statements	66
Glossary of Terms	94
Corporate Directory	94

What We Do

Providing real time support from 'Classroom to Clinic'


Page 3



Chief Executive's Review

Another year of good progress


Page 7



Our Strategy

- Making ultrasound easier to learn
- Making ultrasound simpler to use


Page 13



Business Model

How we create value for our stakeholders

Page 12



Environmental, Social and Governance Report

Page 17



Highlights

Financial highlights

Group revenue

£10.1m ↑ +33%

2022 10.1

2021 7.6

2020 5.2

Loss after tax

£(3.0)m ↓ -15%

(3.0) 2022

(3.6) 2021

(4.5) 2020

Cash and cash equivalents

£7.2m ↑ +45%

2022 7.2

2021 5.0

2020 8.8



Operational highlights



GE HealthCare continued the rollout of the ScanNav Assist AI technology on the Voluson Expert 22 ultrasound machine



ScanNav Anatomy Peripheral Nerve Block (PNB) received FDA De Novo clearance in October and was subsequently launched in the US market



NeedleTrainer 2.0, the Group's third AI-driven product, which incorporates the PNB trainer software, was launched in September with the GE Vscan Air handheld ultrasound device



Agreed a charitable partnership with the World Federation for Ultrasound in Medicine and Biology ('WFUMB')

What We Do

Provide clinicians with real-time support from...

Classroom to...

Easier to learn

Real-time ultrasound education and training through high-fidelity ultrasound simulation

Simulation products →



Training

...Clinic

Simpler to use

AI-driven image analysis to make ultrasound smarter and more accessible

Clinical AI products →



Guiding

Supporting

Future

Unlock ultrasound for everyone

Our markets



Direct UK

£5.2m

Reseller network Rest of the World

£2.0m

Direct North America

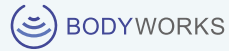
£2.9m

Specialties

- Anesthesiology
- Cardiology
- Critical care
- Emergency medicine
- General radiology
- Intensive care
- Needling
- Obstetrics & Gynecology
- Pediatrics & Neonatology

What We Do continued

A unique range of ultrasound products in a growing market



PoCUS

Over 200 systems sold



OBGYN

Over 500 systems sold



Obstetrics

AI image analysis for obstetric ultrasound



Echo

Nearly 500 systems sold

Classroom simulation

Hospital training rooms and simulation centres

c.\$200m market by 2026*

Clinical AI software

Clinical scanning and operating theatres

\$1.3bn market by 2028**



Neonate and Pediatric

Hi-fidelity training simulator



Needling

Ultrasound guided needling simulator



Anesthesiology

AI assistance for regional anesthesia

* <https://www.stratviewresearch.com/2288/ultrasound-simulator-market.html>

** Artificial Intelligence in Ultrasound Imaging Market – Global Industry Trends and Forecast to 2028 | Data Bridge Market Research

Chairman's Statement



Riccardo Pigliucci

Non-executive chairman

This has been another year of significant progress across the business. We have increased Group revenue by 33% to £10.1m (2021: £7.6m), achieved FDA De Novo clearance for our second AI-driven clinical product in the real-time ultrasound image analysis market, and with the launch of SonoLyst on the Voluson Expert 22 ultrasound machine, are building an excellent partnership with GE HealthCare – the world's leading ultrasound company.

Year of significant progress

Clinical AI

- Revenue grew by over 200% to £0.7m in 2022 (2021: £0.2m)
- GE HealthCare launched the SonoLyst technology on the Voluson Expert 22 ultrasound machine. SonoLyst utilises our ScanNav Assist AI software technology and is the world's first fully integrated ultrasound AI tool that recognises the 21 views recommended by the International Society of Ultrasound in Obstetrics and Gynecology (ISUOG) mid-trimester practice guidelines for fetal imaging
- ScanNav Anatomy Peripheral Nerve Block (PNB), our second AI-driven product, received FDA De Novo clearance in October for sale in the US
- NeedleTrainer 2.0, our third AI-related product to teach ultrasound-guided needling to medical professionals, was launched in September and now incorporates the GE HealthCare Vscan Air handheld ultrasound device

Simulation

- Revenue grew by 28% to £9.4m in 2022 (2021: £7.4m), primarily driven by UK direct sales that grew by 96% to £4.9m (2021: £2.5m)
- Direct sales revenue in the North American market was broadly flat due to the tighter than expected market in the second half of the year being positively offset by currency swings
- Sales in Europe and Asia, that are made through our reseller network, declined to £1.7m (2021: £2.1m), largely due to the restrictions of Covid-19 on the Chinese market

Group

- Loss after tax reduced to £3.0m (2021: loss of £3.6m)
- Cash at bank at 31 December 2022 was £7.2m (2021: £5.0m) after an oversubscribed placing in November raised £4.8m (net of fees) from new and existing shareholders
- Agreed a charitable partnership with the World Federation for Ultrasound in Medicine and Biology ('WFUMB') to help support their mission to bring sustainable ultrasound training programmes to the underserved areas of the world

Chairman's Statement continued

Strategy

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

- Growing the Group's 'Classroom' related revenues through increased sales from our existing simulator platforms sold through our direct sales operations in the UK and US, and our global reseller channels; and the continued expansion of our range of ultrasound training simulators into new medical market segments
- Building our 'Clinic' related AI revenues through increased revenue from royalty sales from GE HealthCare, who incorporate our ScanNav AI technology in their Voluson SWIFT and Expert 22 ultrasound systems; increased sales of our proprietary stand-alone AI -driven ScanNav Anatomy and NeedleTrainer systems sold through our direct sales and reseller operations; and future new proprietary stand-alone AI-driven products aimed at new medical markets.

We believe that our 'Classroom to Clinic' approach allows us to capture future clinical customers early in their medical careers, aiding brand recognition and product credibility as the ex-trainees progress their careers and increase their purchasing influence.

In the NeedleTrainer/Anatomy PNB example, there is a direct path from first learning basic skills with simulation in the classroom then, under supervision, learning on patients in clinical practice with the AI support tools and finally providing real-time AI-based support to practitioners' independent clinical practice.

People

Our people continue to have a pivotal role in our success and I would like to thank all our staff for working so hard and performing so well during a record year. Without their invaluable contribution we would not have achieved all the key milestones we set out to shareholders at the beginning of the year.

Shareholders

We are privileged to have such a supportive group of shareholders. During the second half of the year, we raised £5.2m (£4.8m net of fees) from new and existing shareholders and I would like to thank them for their continued support. It was pleasure to meet a number of our shareholders during our two technology open days that were held in London, and we will look to expand these events in 2023. As always, we maintain an open-door policy at our head office in Cardiff and welcome any visitors who wish to experience our cutting edge 'classroom to clinic' technology.

“

I would like to thank all three retiring Directors for their outstanding contribution to the Group. They have all worked tirelessly to support the Group and their input to the Board will be missed.

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Board and governance

The Board aims to maintain the highest standards of corporate governance and is continuing to appoint new diverse, experienced and independent non-executive Directors, as some of our longest serving Directors retire.

- In August 2022 we were delighted to welcome Dr Christian Guttman as a Non-executive Director to the Board. Christian is a recognised leader in shaping the global agenda on AI regulation and standards, as well as having outstanding AI research, development and commercialisation experience. He has edited and authored seven books, over 50 publications and has three patents in the field of AI
- At the 2022 AGM Prof Nazar Amso, one of the original founders of the company and David Baynes, representing the largest pre-listing investor, did not seek re-election and retired from the Board
- On 31 December 2022 Andrew Barker, who joined the Board after the acquisition in 2017 of Intelligent Ultrasound Ltd, retired from the Board
- Having served as an Executive Director and Chief Operating Officer since joining the Group on the acquisition of Inventive Medical Ltd in August 2016, Ian Whittaker will not be seeking re-election to the Board of Directors at the 2023 AGM. Ian has also announced his intention to retire from his position as COO on 31 December 2023 but will remain with the Group in a part-time capacity to assist on projects, as required. The Board joins me in thanking Ian for his commitment and invaluable contribution to significantly growing the simulation revenue and profitability over the last seven years and we wish him continued success in his business and personal endeavours.



I would like to thank all four retiring Directors for their outstanding contribution to the business. They have all worked tirelessly to support the Group and their input to the Board will be missed.

ESG

This is our second full year of ESG reporting and we have continued to make significant progress in all aspects of our reporting. For the first time we have provided a full calculation of our Scope 3 emissions and are delighted to be working with the World Federation for Ultrasound in Medicine and Biology ('WFUMB') in their mission to bring sustainable ultrasound training programmes to the underserved areas of the world. We continue to instigate new initiatives to promote better employee and local engagement and believe we continue to have a positive impact locally, nationally and globally. We look forward to continuing our ESG journey.

Outlook

This has been another year of significant progress for the Group. We have increased Group revenue by over 30%, achieved the important milestone of FDA clearance for our second AI product and continue to build an excellent partnership with the world's leading ultrasound company – GE HealthCare. With a positive start in Q1 2023, a growing range of both AI and simulation related products, an established operational base, and year end cash of £7.2m, we expect to continue this growth during 2023 and remain excited about the long-term potential of our unique 'Classroom to Clinic' model.

Riccardo Pigliucci

Non-executive Chairman

20 April 2023

Chief Executive's Review



Stuart Gall

Chief Executive Officer

Our vision is to make clinical diagnostic ultrasound easier to learn and simpler to use by providing clinicians around the world with real-time support from the classroom to the clinic. With the global market for artificial intelligence (AI) based ultrasound software expected to be \$1.3bn by 2028, AI remains a key element of our approach, as we expand both our simulation and clinical sales operations.

Based in Cardiff (UK), Alpharetta (US) and with representation in Beijing (China), the report below details the progress made in 2022 and the key challenges faced during the year.

Simulation (Classroom)

Training medical professionals in the specialist skills required to competently scan a patient using the diagnostic capabilities of ultrasound remains a key foundation stone of our business. We design, develop and sell some of the world's leading hi-fidelity ultrasound training systems and consider ourselves one of the world's leading companies in this growing market.

In 2022 simulation revenue increased by 28% to £9.4m (2021: £7.4m) and we now have four ultrasound simulation only platform technologies focussed on the following markets:

- ScanTrainer: obstetrics and gynecology (OBGYN)
- HeartWorks: echocardiography and anesthesiology (ECHO)
- BodyWorks: emergency medicine, critical care and point-of-care (PoCUS)
- BabyWorks (officially launched in the US in January 2022): neonate and pediatrics

During 2022 the majority of the simulation revenues came from our ScanTrainer, HeartWorks and BodyWorks platforms. In 2023 it is anticipated that BabyWorks will materially contribute to the simulation revenue stream, as we open up this new market.

The four ultrasound training platforms are, in the main, high value, capital equipment sold to the global medical institution market, through our direct sales forces in the US and UK and a network of over 23 resellers covering 33 countries in the rest of the world.

To date we have sold c.1500 simulators into over 750 medical institutions around the world.

Estimated global ultrasound simulation market

c.£105m
2022

Research & Development

During the year, the simulation R&D team focussed on four developments:

Launch of BodyWorks 4.0

In October we launched the latest version of our BodyWorks ultra-realistic female patient simulator for PoCUS scenario training with updated and enhanced images and an expanded range of modules to teach novice users how to develop ultrasound skills and competence in a non-clinical environment.

The first set of cardiac pathologies for the BabyWorks simulator

In November we launched the first suite of cardiac pathologies for the new BabyWorks augmented reality simulator which aims to aid medical trainees in the diagnosis and understanding of three important cardiac pathologies in the neonatal and pediatric intensive care settings. Further suites of pathologies are expected to be developed and launched during 2023.

Range of e-learning modules

With medical professionals needing to continually build their learning and confidence, during the year, we collaborated with a number of experts in their field to create five distance learning courses that provide high quality continuous education and improvement within ultrasound and healthcare. Sold as an integrated package or as an individual license, we expect to continue to roll out these modules on our simulator platforms during 2023.

New endometriosis module for ScanTrainer

It is estimated that 10% of women worldwide have endometriosis. The ScanTrainer endometriosis training module will support clinicians in learning how to locate and identify endometriosis in the ovaries, bowel and bladder using transvaginal ultrasound. The new module is expected to launch in May 2023.

Estimated share of the ultrasound market

9%
2022

Chief Executive's Review continued

Territory Review

Simulation revenues again grew strongly during the year, with revenue increasing by 28% to £9.4m (2021: £7.4m). However, there were significant variations in the performance across our three sales regions:

United Kingdom

Revenue increased by 96% to £4.9m (2021: £2.5m)

The UK had its second consecutive record year, with NHS spending on our simulators continuing to grow across all product lines. As indicated in our interim report in August 2022, we had a high number of one-off, individual orders from a UK NHS training initiative that totalled c.£1.9m over the full year. Although all our simulator sales are considered one-offs, if we exclude these exceptional orders, the UK like-for-like revenue would have been £3.0m, representing a growth of 15%. With a broad product portfolio, there remains good scope for growth within the UK and there continues to be strong purchasing interest in all our simulation products.

We therefore look forward to continuing the growth of the UK direct to market business in 2023.

North America

Revenue increased by 3% to £2.8m (2021: £2.7m)

Sales in North America grew to a record high of £2.8m but this was a disappointing performance relative to our expectations, as a high number of capital expenditure funding freezes were implemented by the larger teaching hospitals in the US, resulting in cancelled or delayed purchases of our simulators in the second half of the year. Although this loss of revenue was compensated for by a £0.3m positive exchange rate variance, the like-for-like US dollar sales during the year were down 9% to \$3.4m (2021: \$3.8m).

However, North America is a key market for the Group and we have therefore continued to invest in growing the US based sales and marketing operation. We now have seven sales-related staff supported by a web-based clinical applications specialist plus an office-based support team in Alpharetta, Georgia. We believe we will see the benefit of this investment in 2023 and beyond.

2022 witnessed the beginnings of post Covid-19 a resurgence in major face-to-face trade exhibitions in the US and with an encouraging start to the year and a solid pipeline of opportunities, we look forward to a significant improvement in the North American direct to market business in 2023.

Rest of the World

Revenue declined by 19% to £1.7m (2021: £2.1m)

2022 was a difficult year for the 23 resellers that sell our simulators world outside the UK and North America. Positive sales growth in countries such as Japan and Germany were offset by the continued Covid-19 restrictions in China, the loss of revenue from our decision to stop selling in Russia, and a disappointing market in France, that constrained our joint sales venture with Skills Meducation, where we are in the early stages of part funding an Intelligent Ultrasound only sales team. Although this impacted sales in 2022, we see a more positive outlook for China with the Covid-19 restrictions lifting and the recruitment of a new, experienced French sales team is expected to improve sales in France in 2023.

With the increased range of products, a growing pipeline and anticipated sales growth from France and China, we look forward to a growing reseller market in 2023.

Simulation revenue

UK	North America	Rest of the World
£4.9m	£2.8m	£1.7m
↑ +96%	↑ +3%	↓ -19%
(2021: £2.5m)	(2021: £2.7m)	(2021: £2.1m)



Chief Executive's Review continued

Clinical AI (Clinic)

Real time clinical AI-driven software that makes ultrasound easier to use remains a key part of our 'Classroom to Clinic' vision, and although we are still in the early stages of commercialisation, clinical AI-related revenue for the year grew over 200% to £0.7m (2021: £0.2m).

Our products provide a range of real-time support to clinicians including real-time workflow enhancements that support faster, more standardised scanning, but importantly also supports decision making, so that the stress of scanning is reduced and the 'burn-out' of operators being asked to increase productivity is minimised. We now have three AI-related software products available in the market:

- ScanNav Assist obstetric AI software that is utilised by GE HealthCare as SonoLyst on their ultrasound machines
- ScanNav Anatomy Peripheral Nerve Block (PNB) for real-time regional anesthesia highlighting
- NeedleTrainer that incorporates the PNB software to teach ultrasound-guided needling skills

Two major milestones were achieved in the year:

- In July 2022, GE HealthCare launched the SonoLyst technology on the Voluson Expert 22 ultrasound machine
- In October 2022, ScanNav Anatomy Peripheral Nerve Block (PNB), our second AI product, received FDA *De Novo* clearance for sale in the US

We expect 2023 to be a year of significant sales growth in our AI related sales.

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As ever, our staff have been tremendous throughout the year, and I would like to thank them for all their hard work in enabling us to achieve a record year.

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ScanNav Assist

Our ScanNav Assist AI technology drives GE HealthCare's SonoLyst X/IR software, the world's first fully integrated ultrasound AI tool that automatically and in real-time recognises the 21 views recommended for fetal sonography imaging.

Currently available as an optional extra on GE HealthCare's Voluson SWIFT and Expert 22 ultrasound machines, the SonoLyst software augments a sonographer's scanning skills, helping faster and more standardised scanning. Acting as a virtual on-board expert, SonoLyst automatically identifies the fetal anatomy seen on standard views and can be used to compare the image or view acquired to a standard criteria, ensuring exam quality and consistency. By automatically and in real-time supporting the sonographer in their decision making, the software also helps reduce the often-considerable stress of obtaining the recommended views.

Our long-term agreement with GE HealthCare was signed in 2019. GE HealthCare, the largest medical imaging company in the world, have the exclusive rights to our clinical AI technology in the field of women's healthcare and have now launched SonoLyst on two of its Voluson ultrasound machine ranges. The launch in July of SonoLyst on the Voluson Expert 22 was a key commercial milestone for Intelligent Ultrasound, as this is GE HealthCare's premium ultrasound machine in their women's health range.

Over 30,000 ultrasound machines are sold annually in the global obstetrics market and GE HealthCare is the dominant manufacturer. We therefore expect to see increased SonoLyst sales throughout 2023 and beyond as SonoLyst continues to be rolled out on the Expert 22 system.

In January 2022, we announced we had signed an extension to our GE HealthCare agreement to enable GE HealthCare to utilise the ScanNav Assist AI software in a new segment of automated ultrasound image analysis, that is outside the Group's original agreement. As with the main agreement, the terms, product sales and the timings of the related product launches are undisclosed.

Future variants of ScanNav Assist that will support additional protocol-based scanning are in advanced development.

ScanNav Anatomy Peripheral Nerve Block (PNB)

ScanNav Anatomy PNB simplifies ultrasound-guided needling by providing the user with real-time AI-driven anatomy highlighting for a range of medical procedures. The device supports the performance of healthcare professionals who are suitably qualified, but who perform ultrasound-guided local anesthesia procedures on a less frequent basis.

ScanNav Anatomy PNB achieved a major milestone in October 2022 when it was cleared by the FDA as a *De Novo* device for sale in the US. The *De Novo* regulatory process provides a marketing pathway to classify novel medical devices with a low to medium risk for their intended use, where there is no existing legally marketed comparable device. The device supports nine common peripheral nerve blocks and is sold as a stand-alone screen that is plugged into existing anesthesiology ultrasound machines to provide clinicians with real-time highlighting of their live ultrasound. Users can also re-familiarise themselves with blocks that are carried out less frequently using the system's integrated 3D animations.

ScanNav Anatomy PNB is now available for sale in the UK, France, Germany, Spain, Scandinavia and the US. With over 35,000 anesthesiology machines in operation in these markets, and ultrasound-guided peripheral nerve blocks increasingly being used as a prudent alternative to general anesthesia as well as a method of concurrent analgesia (potentially reducing opioid usage). Our aim is to support anesthetists who are competent but less confident in the specialist knowledge of ultrasound anatomy to perform nerve blocks and as a result increase the number of ultrasound-guided nerve blocks that they can perform.

A number of studies were released during the year to support the adoption of the system and 2023 will continue this focus as we aim to educate and grow the market for ScanNav Anatomy PNB.

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

Anesthesiology market

Anesthesiology ultrasound machines sold pa

c.10,800

Chief Executive's Review continued



NeedleTrainer

NeedleTrainer was relaunched to the market in September 2022 as a standalone needle training device incorporating the new GE HealthCare Vscan Air handheld ultrasound. Developed by the clinical AI software team as a spin-off from the ScanNav Anatomy PNB research and development, NeedleTrainer is a portable, plug-in system that uses a retractable needle and real-time, virtual image overlays to simulate needling non-invasively on a live volunteer, using the live ultrasound scan. This enables medical professionals to develop hand-eye coordination, optimum positioning, and accuracy in ultrasound-guided interventional procedures in a safe, realistic, simulated clinical environment.

The system is sold with the trainer version of our ScanNav Anatomy PNB AI-driven software integrated into the device and is being sold into major simulation centres, anaesthesiology departments, emergency medicine and primary healthcare.

Future ScanNav AI products

During 2022, the focus of the division remained on developing the partnership with GE HealthCare, commercialising ScanNav Assist, achieving FDA *De Novo* clearance for ScanNav Anatomy PNB and relaunching NeedleTrainer with GE HealthCare Vscan Air handheld ultrasound system. In addition, the development team continues to work on proof of concept AI software to facilitate the automatic recognition of abnormalities within a general medical ultrasound scan, confirming that a clinician has correctly scanned the anatomical area of interest, and then flagging any areas of potential abnormality, so patients can be triaged to a specialist.

Chief Executive's Review continued

Challenges to the 'Classroom to Clinic' business

Ultrasound continues to be a growing medical diagnostic tool, with increasing demand for training tools that can enhance a medical practitioner's scanning skills and clinical products that can assist sonographers. However, there have historically always been capital expenditure limitations on medical training budgets for high value medical simulators and on the clinical side hospital funding can also be hard to access, with most purchases being made on a 6 to 18-month purchase cycle. This makes annual revenues harder to forecast, especially during times of government spending cutbacks, political upheaval, changes of government or pandemics when funds can be diverted to frontline care.

The purchasing decisions made by medical institutions in the high value sector of the simulation market remain broadly based on the quality of training combined with value for money, rather than simply the lowest priced solution. During 2022, we continued to respond well to competitive products and pricing and margin pressures by offering a variety of purchase price points, expanding our product extensions and increasing our e-learning options that can work in tandem with our hands-on training simulators.

To counter clinical funding constraints our clinical AI products are competitively priced and aim to either provide improvements to the workflow, destress the scanning process or enable more clinicians to confidently complete a procedure that will save a hospital money.

Although we continued to experience supply chain pressure during the year, we were able to increase our key component stock holding in 2022, as well as switch a number of our tracking sensors to an alternative supplier. This enabled us to successfully avoid any disruption to sales in the year and we believe it has also minimised the component supply risk for 2023. It did however increase the amount of cash tied up in stock.

Simulation product cost of goods increased by approximately 6% during the year and as a result we had to increase the list price of many of our products. We continue to review supplier costs and overheads but expect the impact of price rises on our cost of goods in 2023 to be broadly similar to 2022, which we expect will result in a broadly similar impact on our end user pricing in the second half of 2023.

The AI-based ultrasound imaging software market is recognised as having significant global potential and as such there is considerable competition from both the existing ultrasound manufacturers and well-funded independent AI software vendors. With the revenue models for AI-driven software still in the early stages of commercialisation our two-pronged go-to market strategy aims to identify the most effective route to material revenues:

- Our ScanNav Assist software is being sold through a royalty-based, 'on-machine' licence with GE HealthCare, whose established sales network can provide faster roll-out of our technology in the new ultrasound machine market
- Our ScanNav Anatomy PMB software is being sold through our own sales network directly to the global pool of existing ultrasound machines via our own portable 'plug-in' real-time AI enabled device

The challenge of recruiting high calibre AI software engineers eased in 2022 and we hope that the combination of attractive, flexible salary packages, and a flexible work environment in a vibrant university capital city will enable this to continue in 2023.

During 2023 we expect the restrictions caused by the pandemic to have fully receded in all our markets, but there remains a threat that the continued Russian invasion and occupation of Ukraine could escalate to the point where it impacts other European markets.

The impact of inflation and interest rates on global healthcare spending is also of concern.

Quality Management System

Meeting the standards of ISO 13485:2016 remains a high priority for the Group, as we continue to ensure the consistent design, development, production, installation, and sale of medical devices that are safe for their intended purpose.

Workplace environment

One of the benefits of the pandemic was that it forced companies to operate remotely and enabled staff and companies to trial working on a more flexible basis. Once the full impact of the pandemic ended in 2022, we took the decision to continue to operate the company on a flexible basis, where appropriate. This has been well received by our staff and we believe it makes a significant contribution to the attractiveness of working for Intelligent Ultrasound. In our 2022 annual staff survey, over 90% of staff recommended the Group as a great place to work, with many citing that the Company has a great ethos and is doing rewarding work that is making a real difference to hospitals and patients around the world.

As ever, our staff have been tremendous throughout the year, and I would like to thank them for all their hard work in enabling us to achieve a record year.

Shareholders

I would also like to thank our shareholders for not just supporting the £5.2m placing also but supporting our vision that a currently small UK company can be a major player in the \$1.3 billion AI related ultrasound imaging market and produce cutting edge AI software that will make ultrasound easier to use for medical professionals around the world.

Looking ahead

Five years ago, we embarked on our 'classroom to clinic' vision to specialise in providing medical professionals with real-time, hi-fidelity simulation for the ultrasound training market ('the classroom') and then follow them into clinical scanning and provide real-time, artificial intelligence-based, clinical image analysis software tools for the diagnostic medical ultrasound market ('the clinic').

With the important milestone of FDA *De Novo* clearance achieved for our second AI-driven product and an excellent partnership with GE HealthCare, we are well placed to turn our 'classroom to clinic' vision into commercial reality. A positive start in Q1 2023, a growing range of both AI and simulation related products, an established operational base, and a successful £5.2m placing increasing our cash to £7.2m, means we expect 2023 to be a year of continued commercial growth as we drive the Group to our goal of profitability by the end of 2024.

Stuart Gall

Chief Executive Officer

20 April 2023

Business Model


Our purpose: to make ultrasound, the worlds fastest, safest and cheapest imaging modality, easier to learn and simpler to use

Our key strengths

Products and product pipeline

 [What We Do](#)
see page 3

Skilled leadership team

 [Board of Directors](#)
see page 38 and 39

Growing addressable markets

 [CEO Review](#)
see page 7

Balance sheet

 [Financial Review](#)
see page 35

Our values

Integrity, honesty and commitment to excellence

Our value chain

1. Innovate, develop and partner

We are ultrasound specialists. Ideas are generated by regular cross-functional meetings where staff and KOLs are encouraged to bring new ideas from their own unique experiences of the ultrasound market

5. Revenue

We recognise revenues after delivery to our customers

2. Build and supply

Although we are mainly an assembly and software integration operation, the prime objective is to deliver high quality, reliable products to our customers, from our UK operations centre in Caerphilly, Wales

4. Customers

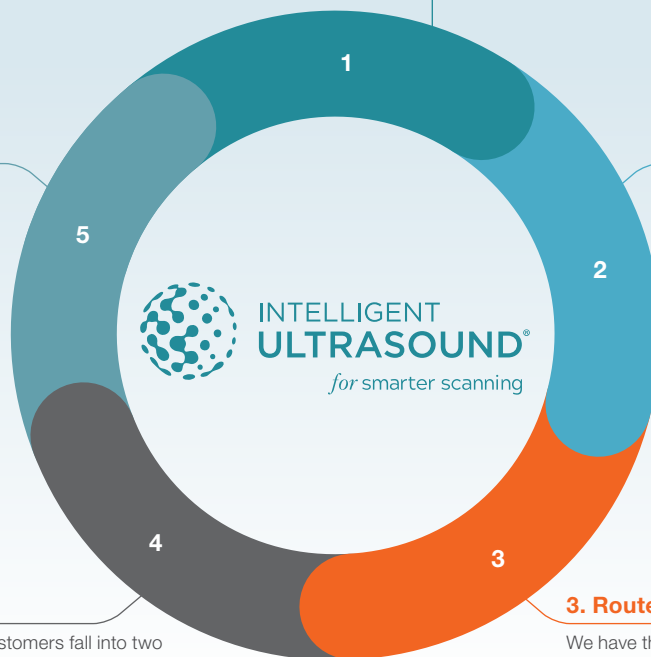
In the main, our customers fall into two distinct categories:

- Clinical institutions – including, but not limited to: hospitals, medical teaching schools, sonography schools, imaging centres, simulation centres and medical companies
- Ultrasound vendors – such as GE HealthCare

3. Routes to market

We have three routes to market:

- Direct – through a team of specialist business development managers based out of Cardiff, UK and Alpharetta, USA
- Resellers – we have over 20 specialist resellers of our products in the EMEA region, Asia and Australasia
- OEM's – royalty-based license agreements for our AI software



Creating value for our stakeholders



Investors



Partners



Employees



Suppliers



Customers



Community and environment





Healthcare professionals

 [Section 172](#)
see page 24

Our Strategy

We continue to advance our 'classroom to clinic' strategy

Strategic framework

	Objective	2022 Objectives	2022 Progress	2023 Objectives
 <p>Make ultrasound easier to learn</p>	<p>Advance ultrasound training through simulation</p> <p>Continue to build our range of world class real ultra-realistic simulators to be one of the world leaders in ultrasound training through simulation</p>	<ul style="list-style-type: none"> • Increase simulation sales to £9.4m • Continue to develop new simulation modules for our existing simulation product range • Market new and existing simulation products to drive revenue growth 	<ul style="list-style-type: none"> • Sales increased to £9.4m • Bodyworks 4.0 released • New e-learning modules released 	<ul style="list-style-type: none"> • Generate c.£10m revenue from simulation • Launch BabyWorks v2.0, BodyWorks v4.5 and ScanTrainer endometriosis module • Increase US revenue with an expanded sales team • Increase e-learning content and sign first overseas e-learn commercial agreement
 <p>Make ultrasound simpler to use</p>	<p>Empower clinicians through AI</p> <p>Follow clinicians into the scanning room to give them world leading AI-driven tools that enable them to scan patients faster and better</p>	<ul style="list-style-type: none"> • Increase clinical AI sales to £0.6m • Obtain FDA clearance for Scannav Anatomy PNB and launch in the US • Continue development of future variants of ScanNav 	<ul style="list-style-type: none"> • Clinical AI sales increased to £0.7m • FDA clearance for ScanNav PNB • 5 ScanNav variants in development 	<ul style="list-style-type: none"> • Generate c.£2m revenue from AI related sales • Continue to launch SonoLyst across the GE Voluson range • Complete additional studies for ScanNav PNB • Expand use of ScanNav PNB and NeedleTrainer
	<p>Enable AI for primary care and at-home use</p> <p>Develop AI that will enable ultrasound scanning in primary care and ultimately at-home to enable ultrasound for all</p>			<ul style="list-style-type: none"> • Sign new image database agreements • Explore long-term partnership opportunities

Strategy in Action – making ultrasound easier to learn

University of California Davis Selects BabyWorks to Develop Pediatric PoCUS Training Curriculum

The University of California, Davis (UC Davis) has selected Intelligent Ultrasound's BabyWorks to deliver a new pediatric Point of Care Ultrasound (PoCUS) training curriculum, driving greater learning opportunities for its trainees, with the objective of saving more lives at the bedside.

Committed to creating a healthy future for all children through outstanding patient care, ground-breaking research and innovative medical education, UC Davis is a pediatric hospital within an adult hospital. Not a 'free-standing' children's hospital, the pediatric department works closely with and has access to adult providers in the emergency room.

From a pediatric perspective, the hospital does not currently have a dedicated ultrasound teaching program in place. To date, training involves remote courses or adult manikin courses. They have recently initiated a pediatric and neonatal training program that involves live scanning pediatric and infant patients with their parent's permission during their admission.

When Covid-19 was declared a pandemic in 2020, this had a significant impact on both the hospital's workforce and its medical residency education. Training programs were limited due to staff priorities and the limited numbers of parents at the bedside. The usual training approach wasn't feasible, and the team had to explore other avenues to continue their hands on pediatric medical education for faculty, fellows and residents.

Outside of the pandemic, there was already scope for improvement in delivering pediatric ultrasound education. The team did not have access to high acuity, low occurrence type of events and practicing on real-life patients also had its limitations, based on the pathologies the patients presented with.

“

BabyWorks will be used to train around fifty PICU, NICU and ER residents every year, with the option to extend this to our twenty plus faculty fellows.

”

UC Davis



Strategy in Action – making ultrasound easier to learn continued

UCLH invests in NeedleTrainer and ScanNav Anatomy PNB

University College London Hospital (UCLH) has invested in Intelligent Ultrasound's NeedleTrainer and ScanNav Anatomy Peripheral Nerve Block (PNB), to expand training opportunities for regional anaesthesia.

A central London teaching hospital, UCLH currently uses anatomical 'phantoms' as part of its training program for early needling skills, along with monthly nerve block teaching sessions and in-theatre training. However, during the pandemic many training opportunities for regional anaesthesia were limited which compelled UCLH to invest in new technologies to enhance their training program for regional anaesthesia.

Dr Zeshan Bhatti came to UCLH in February 2021 to complete the regional anaesthesia fellowship but found that during the second wave of the pandemic, the opportunities for practical training were limited due to the large reduction in theatre case load necessitated by safe practice around Covid-19, as well as redeployment of trainees to the ICU.

He spoke to lead consultant anaesthetist Dr Simeon West about the potential that employing these new technologies could add to the training program. "We were talking about how the pandemic has massively impacted regional anaesthetic training and whether there were any other things that we could do." Dr Simeon West, MBChB FRCA.

"Regional anaesthesia is something that we build on as we go up in our training and doing those first blocks can be quite daunting, and so something like NeedleTrainer offers the opportunity to do a block in a protected safe environment and therefore maximises the opportunities that we can get in terms of getting experience in our needling technique and performing these blocks successfully." Dr Zeshan Bhatti.

NeedleTrainer connects to the ultrasound machine to simulate needling non-invasively on a live participant, using a retractable needle and augmented reality technology. This enables trainees to develop hand-eye coordination, optimum positioning, and accuracy in ultrasound-guided needling in a safe but realistic, clinical environment.

“

Something like NeedleTrainer offers the opportunity to do a block in a protected safe environment and therefore maximises the opportunities that we can get in terms of getting experience.

”

Dr Zeshan Bhatti




Key Performance Indicators


We assess Group operational and strategic progress against key performance indicators, or KPIs.

These provide a clear direction as to how we should achieve our goals. Importantly, these measures are reflected in management targets and are aligned with our growth objectives and our purpose, strategy and vision.

Link to strategic pillars

 Make ultrasound easier to learn

 [Business model](#)
see page 12

 Make ultrasound simpler to use

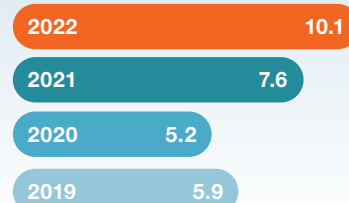
 [Risk management](#)
see page 28

Financial

Revenue

£10.1m

2022: increase of 33%



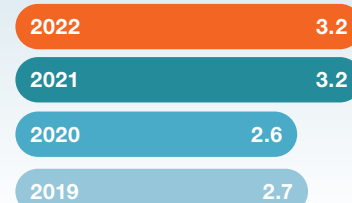
Revenue from sales of simulation and clinical AI products



Research and development

£3.2m

2022: increase of 1%



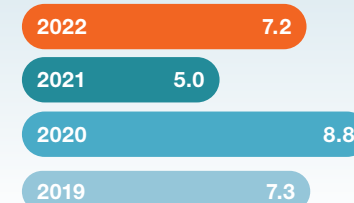
Total R&D expenditure including capitalised development costs



Cash and cash equivalents

£7.2m

2022: increase of 45%



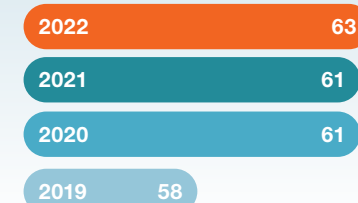
Cash resources available



Gross margin %

63

2022: Increase of 2%



Gross margin



Operational

AI image database

37m

2022: increase of 22m



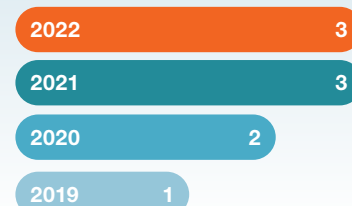
Total number of AI database ultrasound images



New products launched

3

2022: 3 new products launched



Total new products launched



AI partner agreements

1

2022: No new AI partner agreements signed



AI partner agreements



Environmental, Social and Governance



Stuart Gall
Chief Executive Officer

We aspire to being a global force for good, empowering people to have access to medical ultrasound, one of the world's leading imaging modalities.

 [CEO Review](#)
see page 7

Our three guiding principles

1. Make a positive impact on the world
2. Do the right thing while making an impact
3. Enjoy making an impact

Message from the CEO

ESG has become a core element of our mission and strategy, and we're delighted that we've experienced such a comprehensive engagement from all our stakeholders over the year.

In what is only our second full year of ESG reporting, we have made significant improvements at all levels, with more detailed reporting that includes our first year of expanded Scope 3 impact analysis; green travel schemes, flexible working, STEM and local university engagement and major changes to the size and composition of our board, to meet the latest corporate governance standards.

Inevitably, with the inclusion of full Scope 3, our total reported CO₂ emissions has significantly increased. However from now onwards we will be able to measure how effective we are in reducing our emissions per employee and per £ of revenue.

I'm delighted to also include a number of case studies that demonstrate the impact our products and services make on patients and the medical community around the world.

Impact

+ve	-ve
1500+ systems operating in over 750 medical institutions around the world	1,515 tonnes of CO ₂ (Scope 1, 2 and 3)
Over 100,000 clinicians have experienced using our devices	
Partnership with WFUMB to educate underserved regions of the world	
£3.2m invested in R&D	
36% female representation across the board, management and group	

Provide clinicians with real-time support from...

Classroom to...

Easier to learn

Real-time ultrasound education and training through high-fidelity ultrasound simulation

[Simulation products](#) →



Training

...Clinic

Simpler to use

AI-driven image analysis to make ultrasound smarter and more accessible

[Clinical AI products](#) →



Guiding

Supporting

Future

Unlock ultrasound for everyone

Environmental, Social and Governance continued

Framework

Environment

Principles

- Minimise the negative impact on the planet

Stakeholders

- Employees
- Customers
- Investors
- The planet

Commitment

- Understanding our full impact on the environment
- Manage energy use efficiently and increase renewables where possible
- Improve recycling and reduce waste
- Increase web demos and online training to reduce first touch travel impact

2022 metric

- Total CO₂ emissions
- Total CO₂ emissions per £ sale
- Total CO₂ emissions per employee

Future metric

- Green travel scheme expenditure

Social (people)

Principles

- Provide a safe and supportive work environment
- Continue to build a positive culture
- Have a positive impact on our local communities

Stakeholders

- Patients
- Employees
- Clinicians
- Local communities

Commitment

- Attract, retain and develop our talent
- Enable equality, diversity and inclusion to thrive
- Support employee health, safety and well-being
- Support charity work
- Support local STEM engagement
- Support local university intern schemes

2022 metric

- % employee turnover
- % female representation

Future metric

- Develop and implementation an employee engagement index
- Local STEM events
- Interns engaged
- Employee charity days

Social (product)

Principles

- Operate in an ethical and responsible manner
- Help society by providing products that help patient outcomes

Stakeholders

- Patients
- Clinicians

Commitment

- Uphold ethical standards in our supplier and reseller chain
- Continue to increase our recyclable packaging

2022 metric

- Scope 3 CO₂ emissions

Future metric

- % of recyclable packaging

Governance

Principles

- Be honest, transparent and responsible
- Meet the highest standards of corporate governance relative to our size

Stakeholders

- Investors
- Employees
- Customers
- Patients

Commitment

- Zero tolerance to bribery, corruption or fraud
- Robust data governance and compliance
- Commitment to QMS
- Cyber Essentials accreditation

2022 metric

- Compliance with the QCA Corporate Governance Code
- Report cases of bribery, corruption or fraud
- Whistleblower reports

Future metric

Environment

	2022	2021
Environmental		
Carbon dioxide emissions (kg CO ₂)	1,135,982	151,963
Carbon dioxide emissions (kg CO ₂ per average no. of employees)	17,477	2,666
Carbon dioxide emissions (kg CO ₂ per £ of revenue)	0.11	0.02
Carbon footprint report	Yes	Yes
Environmental and Sustainability Policies	Yes	Yes

Highlights from 2022

- First year of expanding our analysis and understanding our full Scope 3 emissions
- Scope 1 emissions have decreased in 2022 following the move to hybrid company cars, with higher electricity related emissions now reported within Scope 2
- Introduced a new employee commuting scheme to incentivise low carbon travel:
 - Free electric charging available to all employees at both our Hodge House and Caerphilly sites
 - Only 15% of journeys to the office are being completed by a petrol or diesel car
 - 36% of eligible staff qualified for payments during the year
- Comprehensively reviewed our packaging with the following areas of material impact:
 - All cardboard packaging now comes from sustainable sources
 - All packing peanuts are fully biodegradable
 - All pallets are locally sourced and mostly from recycled units
 - Bubble wrap is from 30% recycled materials and can itself be recycled

Offsetting

- With the move to full Scope 3 reporting, we have offset 100% of the Group's direct 2022 CO₂ equivalent greenhouse gas emissions through the following Climate Partner programmes, selected by an employee vote:

- 20% of the offset will support a clean drinking water programme in Eritrea
- 40% of the offset will support a clean oceans programme of plastic removal work in the Philippines
- 40% of the offset will support a forest protection programme in Brazil

We also aim to continue with our local support of the charity Stump Up for Trees in Wales.

- International travel and conference attendance were reviewed, and it was concluded that travel was acceptable for the level of business and necessary, given the nature of the product
- Web-based demos are now promoted in all cases as the first point of customer contact and as the primary training medium

Goals for 2023

- Review where we can make further positive changes to our products and packaging, especially bubble wrap and shrink wrap film
- Review purchase policy and promote sustainable practice where appropriate (such as: buying locally, recycled and/or recyclable materials)
- Continue to buy locally wherever possible
- Review recycling and reparability of all hardware products
- Continue to increase web demonstrations and training in UK and US offices with a monitorable metric
- Monitor the % of our energy that is sustainable
- Review our Scope 3 emissions on a per £ sale and per employee basis and identify potential areas for reduction

Scope 1

Covers the emissions we make directly, e.g. our buildings or vehicles

Direct

Emissions (kg CO₂):

5,681

2021: 13,180

Scope 2

Covers the emissions we make indirectly, e.g. the energy we buy to heat and cool our buildings

Indirect

Emissions (kg CO₂):

33,862

2021: 26,776

Scope 3

Covers all the indirect emissions associated with our value chain, e.g. from our supplier through to our customers

Indirect

Emissions (kg CO₂):

1,096,438

2021: 112,007*

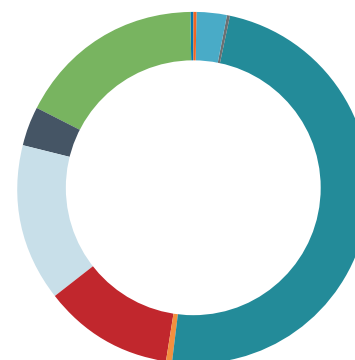
In 2022 we completed the full Scope 1, 2 and 3 calculations

2021

- Gas Consumed
- Electricity used
- Business travel
- Company vehicles
- Heat used
- Employee commuting

* Business travel and employee commuting emissions only

Emission sources 2022



Scope 1	0.5
Vehicle fleet	0.5
Scope 2	3.0
Purchased electricity for own use 1	2.8
Purchased heating, steam, and cooling for own use	0.2
Scope 3	96.5
Purchased goods and services	48.7
Fuel and energy-related activities	0.3
Upstream transportation and distribution	12.0
Business travel	14.4
Employee commuting	3.8
Downstream transportation and distribution	17.2
End-of-life treatment of sold products	0.1

Social

	2022	2021
Social		
Employee turnover (%)	13%	10%
Discrimination policies (view our policy)	Yes	Yes
Community policies (view our policy)	Yes	Yes
Ethics Policies (view our policy)	Yes	Yes
Management gender split (F/M) %	33/67	27/73
All company gender split (F/M) %	36/64	38/62

Highlights from 2022

- Set up a local academic engagement group and established the IUG internships programme
- Set up a Cardiff schools STEM engagement group with three staff representatives
- Switched manikin wig and clothing purchases to local supplier
- Implemented a flexible working policy for all Cardiff office based employees
- Highest % of “happy” staff since annual staff survey launched in 2019
- Signed agreement to support the World Federation for Ultrasound in Medicine and Biology (‘WFUMB’) in its mission to bring sustainable ultrasound programmes to the underserved areas of the world to improve global healthcare through collaboration, communication and education
- Implemented a ‘Charity day’ whereby each employee has an extra day off to carry out charitable work
- Implemented an annual staff ESG survey, the results of which were used to shape our ESG impact and policy during the year

Goals for 2023

- Implement the WFUMB support programme
- Local charity support programme to be implemented by a new staff charity representative
- Implement the local schools STEM programme
- Implement payroll charity giving for employees
- Move to a new employee pension scheme that offers the option of a green pension fund
- Continue the IUG internships programme
- Benchmark female representation against peer medtech and other comparable companies

95%

of staff would recommend IUG as a great place to work

“

We are committed to providing products that help patient outcomes; having a positive effect on our local communities and building a company that all our staff are proud to work for.

”



Governance

	2022	2021
Governance		
Female representation on the board	30%	27%
Independent board members	50%	45%
CEO cash compensation (vs UK median earnings)	6.1 x	6.2x
Highest to lowest pay ratio	12.1 x	7.8x
CEO & Chairperson role split?	Yes	Yes
Adheres to relevant Corporate Governance code	Yes	Yes
ESG meetings held	10	5
Whistleblowing reports	0	0
Political campaigns, lobbying or think tanks	0	0

Highlights from 2022

- Reviewed the United Nation's Sustainable Goals and identified the areas where we can make the most impact
- The highest to lowest pay ration increased significantly this year due to a highly successful year for one of our sales team, who is paid mainly on commission
- Implemented a framework of KPIs across the Group
- Zero reported incidents of bribery, corruption and fraud
- Reduced the size of the board from 11 directors to 9
- Conducted company-wide training on bribery and corruption, mental health and well-being, unconscious bias and health and safety at work

Goals for 2023

- Continue on our path to meeting the full requirements of the QCA Corporate Governance Code

“ We are committed to continuing to be honest, transparent and responsible and meet the highest standards of corporate governance relative to a company of our size. ”

We believe we have strong corporate governance practices that help us protect the interests of all our stakeholders, including customers, employees, shareholders and local communities.

Board of Directors

The Board is responsible for oversight of the Group's global business. This includes setting a culture of accountability, the highest standards of ethical conduct and strong corporate values. Its core areas of oversight include strategy, executive performance, financial performance, risk management and internal control framework and ESG matters.

Our governance practices include:

- annual election of all directors by majority vote
- 100% committee independence
- oversight of corporate responsibility and ESG matters
- 50% of directors are independent

Oversight and Management of ESG

- The ESG Working Group meets on a monthly basis and is chaired by the CEO
- The Group comprises – 3 Executive directors, two NEDs and 3 staff representatives

UN Sustainability Development Goals

At the heart of the United Nation's 2030 agenda for sustainable development are 17 Sustainable Development Goals (SDGs), which recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.

The SDGs we consider to be the most relevant to Intelligent Ultrasound are:

At a product level we believe we have an impact through our classroom to clinic products helping to support, guide and speed up ultrasound which helps improve global health and well-being.

Specifically, this:

- improves access to better maternal health and health of new borns
- speeds up scanning and improves scanning skills in emergency medicine, critical care and intensive care
- enables safer ultrasound guided needling procedures

At a Group level, albeit in a small way, we align to the following SDGs by:

- Supporting the health and wellbeing of our employees
- Providing opportunities to continually develop our employees
- Commitment to ensure equal opportunities for all, irrespective of gender
- Supporting our local community
- Endeavouring to conduct our business in accordance with the best practices
- Standards of quality and safety



Environmental, Social and Governance continued

Case study

Health Education England (HEE) are elevating the national standard of training in Echocardiography, with Intelligent Ultrasound's HeartWorks and BodyWorks ultrasound training simulators

HEE has invested in twenty-three combined HeartWorks and BodyWorks simulator systems to standardize training in ultrasound and echocardiography for healthcare scientists across NHS England.

As part of HEE, the National School of Healthcare Science has overall responsibility for the educational framework for healthcare scientists, across more than 40 specialties in NHS England. However, with a workforce gap in diagnostics and with departments understaffed there was a general lack of capacity to provide the required training.

The National School of Healthcare Science set up a new Echocardiography Training Programme designed to fast-track competence and elevate the standard of training in echocardiography.

Following a successful pilot across two sites, Intelligent Ultrasound worked with the HEE team, helping to create a bespoke package to meet their needs and twenty-three combined HeartWorks-BodyWorks systems were purchased so that all regions had access to simulation training.

The program also employed training coordinators for each area to provide some training away from the clinic, relieving the pressure on the clinical team and increasing training capacity.



“

In most regions that I work in, there are areas that have established centres that have good training, and there are lots of other centres that would love to provide that same training but just don't have the backup or the ability to take time out of their normal working day to provide training. This is about levelling everybody up and trying to get everybody to a better standard, and it's about bringing those departments that previously couldn't train into the fold so that they can.

”

Jane Lynch,
Scientist Training Programme Director

Environmental, Social and Governance continued

Case study

HEIW Invests in NeedleTrainer to Drive Curriculum Changes and Learning Safely

Health Education and Improvement Wales (HEIW) has invested in Intelligent Ultrasound's (IU) NeedleTrainer to help drive curriculum changes and safely provide more learning opportunities for trainees.

HEIW's responsibilities include postgraduate training of all junior doctors in Wales and in 2022, in conjunction with the Welsh School of Anesthesia, decided to address the severely restricted learning opportunities for ultrasound-guided regional anaesthesia (UGRA).

UGRA is a practical skill which can broadly be split into two parts:

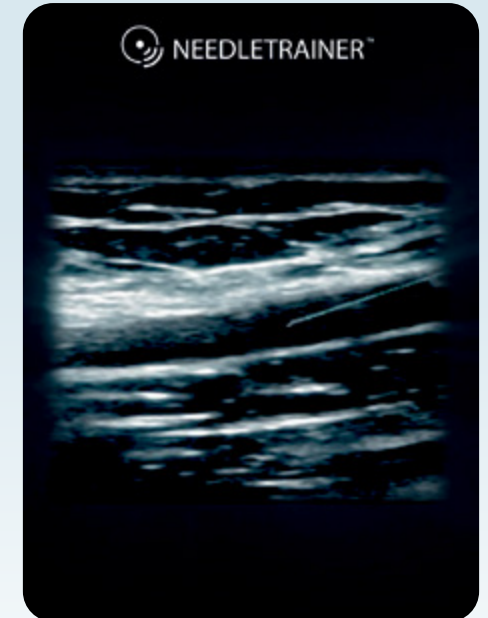
- acquiring and interpreting an optimal ultrasound image of the relevant sono-anatomy
- followed by needle-probe manipulation to maintain visualisation of the needle tip on the ultrasound image as it is advanced to the target where local anesthetic is deposited

The first skill is relatively easy to practice in a safe and non-invasive manner. The second skill is much harder, but essential to learn prior to performing needle insertion or an injection on a real patient in a clinical setting.

A number of training options were considered but NeedleTrainer was selected as it was considered "the most realistic simulated training available".

Dr Sarah Harries, Head of School for Anesthesia and HEIW Associate Dean, commented "While training and early clinical practice remained safe, as the trainee was always closely supervised, there were risks of needle misplacement leading to nerve damage, pneumothorax, or vascular puncture. We needed a learning solution that would allow trainees to practice and develop this skill prior to injecting a real patient, minimising risks."

Sarah continued "NeedleTrainer is a simulation device that inexperienced trainees can use to develop the essential needle-probe co-ordination required to ensure needle tip visualisation and safe clinical practice. Using human models allows trainees to learn about how to position the patient, and practice on different sides of the body, as well as different bodies, which all appear different under ultrasound."



“

NeedleTrainer will allow students to practice in a highly supervised environment, with no risk, before moving to a patient-facing environment and then independent practice. The platform will allow us to ensure all Welsh trainees have equitable access to consistent expert regional anaesthesia teaching, which meets curriculum requirements.

”

Dr Sarah Harries,
Head of School for Anaesthesia

S172 Statement

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

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

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

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

I. Regular information flow from the Executive Directors

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

II. Direct engagement of board members

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

Identifying our stakeholders

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

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

Section 172 factor	Read more
The likely consequences of any decision in the long-term	Our business model (page 12) Our strategy (page 13)
The interests of the Company’s employees	Covered in the Section 172 report Social section within the ESG Report (page 20)
The need to foster the Company’s business relationships with suppliers, customers and other stakeholders	Covered in the Section 172 report
The impact of the Company’s operations on the community and the environment	Environmental section within our ESG Report (page 19)
The desirability of the Company maintaining a reputation for high standards of business conduct	Governance (page 41) Risk management (page 28) Our business model (page 12)
The need to act fairly between members of the Company	Corporate Governance Report (page 41)



S172 Statement continued

The people who use our products

Healthcare professionals 

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

Material issues

- Products continue to support the needs of the healthcare professional

How we engage

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

Outcomes

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

Customers 

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

Material issues

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

How we engage

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

Outcomes

- Annual simulation product planning meeting discussing each of the four product pillars in detail taking into account customer feedback, discussions with the sales teams and R&D as well as desk based and market research

Impact on decisions made in 2022

Some examples of how the Board has considered and responded to stakeholder needs in 2022 are as follows:

1. BodyWorks

In H2 2022 the upgraded BodyWorks 4.0 was launched. Working with customers and experts in the field to ensure the product remains up to date with and meet market needs, six new pathologies and three new protocols were added as well as a Basic Skills module to help novice users and trainees develop their ultrasound skills and competence in the safe environment. Prior to launch, IU took the Basic Skills modules to a FAMUS and FUSIC training course at the National Imaging Academy Wales where sixteen doctor candidates from Critical Care, the Emergency Department, General Surgery, ACCS, Anaesthetics and ITU provided feedback.

2. ScanNav Anatomy PNB

In 2022, the functionality of the platform was widened to include the femoral block. This ensured that the product supported highlighting for 10 key nerve block regions relevant to ultrasound-guided regional anaesthesia, including all seven 'Plan A' blocks endorsed by RA-UK.

S172 Statement continued

Direct enablers who help us to deliver

People



Our people are incredibly important. We rely on their skills, experience, knowledge and diversity to deliver our vision

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

Material issues

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

How we engage

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

2022 Outcomes

- In September we held our first all employee offsite engagement event
- In H1 we conducted a staff survey covering topics such as happiness, flexible working, ESG, communications and training. Overall the results were very positive and the feedback was reviewed at Executive and Board level and actions agreed as required. An example action was a request to improve employee communication for ESG related initiatives and as a result there are now regular internal ESG Newsletters from our ESG employee representatives to all employees

Shareholders



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

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

Material issues

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

How we engage

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

2022 Outcomes

- We held two technology open days for new and existing investors in London to demonstrate all our products
- Feedback received from investors following investor roadshows was reviewed by the Board

Suppliers



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

Material issues

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

How we engage

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

2022 Outcomes

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

S172 Statement continued

Direct enablers who help us to deliver

Partners

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

Material issues

- Pricing and commercial terms
- Accessible training
- Continuity of supply

How we engage

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

2022 Outcomes

- Formal reviews of the 2022 performance of each reseller
- Ensured web-based training room in Cardiff head office was made available to all resellers on demand

Community & environment

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

Material issues

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

How we engage

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

2022 Outcomes

- See ESG Report on pages 17 to 23

Other stakeholders

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

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

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

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

Risk Management

Managing risk

The Board

Sets the tone on risk management culture
Reviews the principal risks and ensures they are aligned with overall goals and strategic objectives

Executive Committee

Reviews and identifies risks across the business
Oversees execution and implementation of controls to manage risks

Audit & Risk Committee

Reviews the effectiveness of risk management and internal control systems
Organisational culture, policies and procedures

Risk monitoring and reporting

Visibility of Group risks is delivered through our risk register which is updated in detail by the Executive team at least annually. An effective and successful risk management process balances risk and reward and is dependent on the judgement of the likelihood and impact of the risk involved. The review process will evaluate identified risks to establish root causes, financial and non-financial impacts and likelihood of occurrence. We use a scoring system to assess the likelihood of a risk materialising and the potential impact on the Group. The risks are prioritised in terms of severity based on the scoring and a mitigation plan is prepared to reduce the risk. Once controls and mitigating factors are considered, the risk is reassessed and re-scored (mitigated score) to ascertain the net exposure.

The assessment of Impact x Probability results in a gross risk rating. A mitigating control rating of High, Medium or Low is then applied to this to calculate a net or mitigated risk rating. This residual risk remaining is indicative of the risk appetite that we consider to be tolerated/accepted in order to achieve our strategic and operational effectiveness.

This ensures alignment between our view of acceptable risk exposure and the ability to achieve strategic objectives.

The review process of the Executive committee is as follows:

1. Review of the existing risks including changes required to the:
 - Description
 - Impact
 - Risk scoring
 - The mitigating controls in place
2. Agree any actions required to further mitigate those risks
3. Identify any new or emerging risks
4. Agree the risk rating status, controls and further actions required
5. Monitor agreed mitigation measures

Emerging risks

Emerging risks are those where we do not believe we have sufficient clarity to be able to assess their likely impact or their likelihood of occurrence. Such risks are unlikely to impact the business in the near term but may have the potential to significantly impact the business in the medium to long term.

Risk categories

The risks are split into 4 broad categories:

- Strategic
- Operational
- Financial
- Compliance

Risk appetite

No risk exists in isolation from others and that risk management is about finding the right balance between risks and opportunities to act in the best interests of stakeholders.

Risk category	Risk appetite
Strategic	High
Operational	Medium to High
Financial	Low to medium
Compliance	Low

Risk Management continued

Heat map of principal risks

During the year, the Audit and Risk Committee and the Board reviewed the principal risks and uncertainties facing the Group and continues to focus on those which could threaten the sustainability of our business model, our reputation, future performance expectations and liquidity.

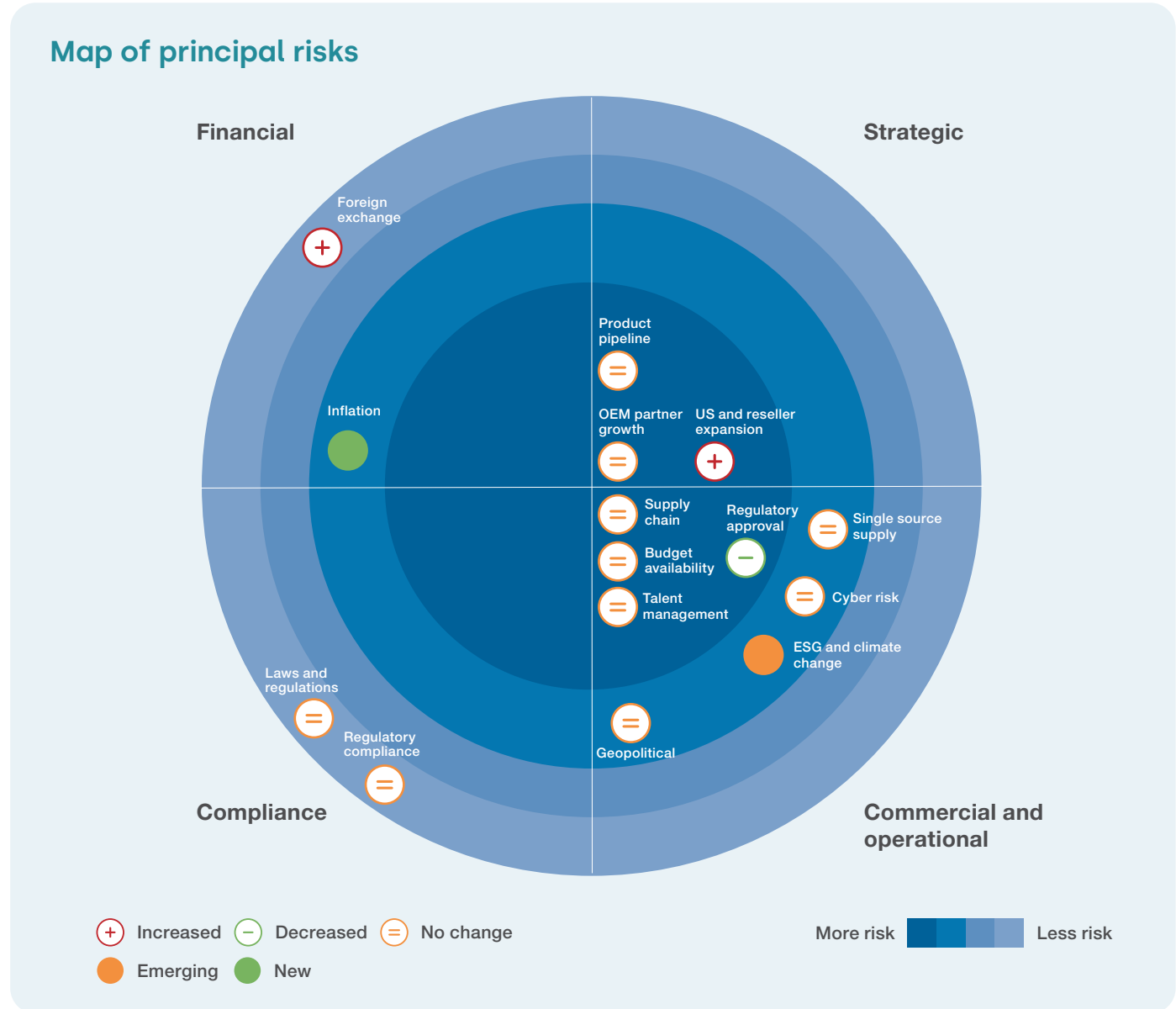
The identified risks are not intended to be an exhaustive list of all the risks the Group faces but are the principal risks and uncertainties which the Directors believe include all known material risks in relation to the Group and the markets and industry within which we operate.

The environment in which we operate is constantly evolving and can be affected by events that are outside of our control and which may impact on us both operationally and financially. New risks may emerge, the potential impact of known risks, including how quickly they escalate, and/or our assessment of these risks may need to change.









New emerging risks

For 2022, we have recognised one new emerging risks in relation to ESG/climate change. Two new risks also identified are high inflation and product development implementation.

Map of principal risks



Principal Risks

Risk	Risk description	Impact	Key mitigating actions	Change from 2021	Link to strategy
Strategic risks					
Product pipeline	<p>Risk that product pipeline cannot support required revenue growth:</p> <ol style="list-style-type: none"> 1. Wrong product or product extensions 2. New competitive technology 3. Correct route to market not selected 4. Market takes longer to understand product benefits 5. Regulatory approval for new products takes longer 	Slower than anticipated revenue growth and depending on severity this can impact liquidity, path to profitability and the company value	<p>Monitoring and forecasting of revenues by product by region</p> <p>Review of feedback from customers taken into account in the ongoing development of our products</p> <p>Regular review of new competitive products and technology</p>		 
OEM partner growth	<p>Risk that we do not achieve material revenues from our GE HealthCare agreement, as there are many factors outside our control:</p> <ul style="list-style-type: none"> • Product launch timetable • Product acceptance by customers • Sales process 	Slower than anticipated revenue growth and depending on severity this can impact liquidity, path to profitability and the company value	Regular meetings with GE HealthCare to understand customer feedback, product pipeline, marketing strategy and launch schedules		
US and reseller growth	Risk that we do not achieve material growth in the US and reseller sales	Slower than anticipated revenue growth and depending on severity this can impact liquidity, path to profitability and the company value	<p>Additional resource has been put in place in the US to achieve growth</p> <p>Improved marketing campaigns aligned to the strategy</p> <p>Maintain close working relationship with our resellers</p> <p>Increased online training to resellers provided to ensure optimum product knowledge</p>		 











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Link to strategic pillars

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Principal Risks continued

Risk	Risk description	Impact	Key mitigating actions	Change from 2021	Link to strategy
Commercial and operational risks					
Regulatory approval	<p>Failure to achieve regulatory approval of new AI products as well as changes in regulation may require us to reapply for approval or prevent the further use of those products</p> <p>The requirements of regulators continue to evolve and potentially may increase the regulatory burden for our products</p>	<p>Higher costs of development</p> <p>Delay in product launch may impact lower than anticipated revenue growth and depending on severity this can impact liquidity, path to profitability and the company value</p>	<p>We manage this risk by employing experienced professionals combined with external advisers who consult with regulatory authorities on the design of any products or programmes that may be required</p>		
Geopolitical	<p>Covid related lockdowns, geopolitical and other unexpected events affecting our ability to operate or sell such as a global pandemic or war</p>	<p>No access to hospitals to demo products leading to reduced revenues in regions affected</p> <p>Could potentially impact on the supply chain in terms of availability of supply, cost increases which impact profitability</p>	<p>Installation of web demonstration rooms in both the UK and US offices to enable remote selling</p> <p>Maintenance of close working relationships with suppliers and distributors</p> <p>Back-up supplier contingency plans where feasible</p> <p>Keep informed of global events and economic conditions in the territories we operate to ensure risks are monitored accordingly</p>		 
Supply chain	<p>The Group is unable to fulfil its sales orders due to stock component shortages or a major issue in the supply chain, especially where the Group is reliant on a single source supplier for manufacturing</p>	<p>Significant business disruption leading to being unable to fulfil orders and demand resulting in loss of revenue</p>	<p>The Group has effective supply chain management</p> <p>Seek to maintain appropriate buffer stock levels of key components to minimise risk</p> <p>Business Interruption ('BI') insurance is procured to transfer an element of the financial risk</p>		 
Budget availability	<p>Reduced availability of public sector training budgets for ultrasound training equipment</p>	<p>Slower than anticipated revenue growth and depending on severity this can impact liquidity, path to profitability and the company value</p>	<p>Experienced sales managers who monitor the availability of public sector budgets and communicate this through sales review meetings on a regular basis</p> <p>The Classroom to Clinic strategy aims to move the group away from a dependency on training budgets</p>		







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Principal Risks continued

Risk	Risk description	Impact	Key mitigating actions	Change from 2021	Link to strategy
ESG and climate change	The Group fails to plan and respond to the environmental and climate change agenda	Yet to be determined	Increased business focus on ESG and associated risks through ESG committee and detailed annual reporting		 
Cyber risk	Increased levels of cybercrime represent a threat to the Group and may lead to business disruption or loss of data	<p>Failure to protect against the threat of cyber-attack could adversely impact the systems performing critical functions which could lead to a significant breach of security, jeopardising sensitive information and financial transactions of the Group</p> <p>A data breach or attack resulting in operational disruption could reduce the effectiveness of our systems. This in turn could result in loss of revenue, loss of financial, customer or employee data, fines and/or reputational damage</p>	<p>The Group has invested in the protection of its data and IT systems from the threat of cyber-attack</p> <p>Cyber security policies and procedures exist to minimise this risk, including preventative and detective controls</p> <p>We have an experienced IT Manager who monitors and responds to new and expanding cyber risks and seeks to implement best practice in IT security management</p> <p>Proactive and reactive security controls are implemented, including up-to-date anti-virus software, network/system monitoring and regular penetration testing to identify vulnerabilities</p> <p>Incident response capability is in place to mitigate the impact of a cyber-attack on our day-to-day operations, including disaster recovery and business continuity plans to support the business in the event of a significant attack</p> <p>The Group has received re-accreditation under Cyber Essentials + ('CE+') in order to validate the strength of its cyber controls</p> <p>The Group also has in place Cyber Insurance, providing coverage and protection against a range of cyber-related security threats to enables the Group to transfer an element of financial risk and liability</p>		 




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Principal Risks continued

Risk	Risk description	Impact	Key mitigating actions	Change from 2021	Link to strategy
Talent management	<p>Recruitment of expertise in relation to machine-learning, industrial software development experience and product management continues to be highly competitive</p> <p>Our ability to attract, develop and retain a diverse range of skilled people is critical if we are to compete and grow effectively</p>	<p>The loss of key employees could potentially weaken the Group's operational and management capabilities, potentially impeding its ability to grow</p> <p>Loss of continuity/loss of knowledge as a result of employee replacement, potentially leading to operational inefficiencies</p> <p>Potential lack of required skills and expertise to support the continued growth of the business, its systems, procedures, and processes</p>	<p>The Group maintains a competitive remuneration package to retain existing employees and attract high quality applicants for new roles</p> <p>These include:</p> <ul style="list-style-type: none"> • Competitive salary and regular benchmarking • Provision of online training and development • Annual learning and development budgets • Flexible working arrangements • Wellness focus through health insurance • Leadership workshops for all managers • Annual performance reviews and incentive plans • Share option scheme 		 

Financial Risks

Liquidity	The risk that the Group does not reach cash profitability and is unable to raise further funding through equity placings or through debt	This could lead to a winding down or need to restructure the business	<p>Group cash forecasts are prepared as part of the annual budget and actuals are monitored against these balances on a monthly basis</p> <p>Cash reforecasts are produced on a periodic basis throughout the year</p> <p>See the going concern statement on page 67</p>		 
Foreign exchange	The Group has transactional and translational currency exposures. The Group has a US subsidiary, it makes purchases of inventory and incurs other costs in foreign currencies but accounts for the business in Sterling therefore the reporting of revenues and profits is subject to volatility due to changes in the exchange rates	Adverse movements in Sterling exchange rates vs US dollar as well the Euro to a lesser extent	<p>The Group has, when necessary, utilised foreign currency hedging instruments to mitigate the impact of unhedged currency fluctuations</p> <p>The current split of the business has provide a natural hedge over the past few years, but this is reviewed annually</p>		 
Inflation	Risk of rising cost of key components and overheads including payroll costs	Impact on gross margins if costs cannot be passed on to customers through increases in sales prices	Price increases are passed on to customer, where possible, in an annual pricing review		 






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Link to strategic pillars

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Principal Risks continued

Risk	Risk description	Impact	Key mitigating actions	Change from 2021	Link to strategy
Compliance Risks					
Regulatory compliance	<p>Risk of non-compliance with product classification regulations and registration requirements, including relevant internal/external quality regulations and requirements, across all territories in which our products are manufactured and sold</p> <p>We need to comply with ongoing regulatory requirements, such as to maintain a quality management system (QMS), for which we are subject to periodic inspections (scheduled and unscheduled), restrictions in relation to promotional materials and post-market safety surveillance programmes</p>	<p>Non-compliance with product classification regulations/registration requirements may result in product having to be withdrawn from the market, with a consequential loss of sales</p> <p>Losing the ISO13485 accreditation would impact regulatory approval</p>	<ul style="list-style-type: none"> Our internal regulatory team is focused on the development of quality documentation for the QMS All documentation is stored and available should any resubmission be necessary, and our quality systems are designed to be sufficiently robust to withstand any necessary scrutiny 		
Laws and regulations	<p>Risk of non-compliance with relevant laws and regulations in the countries in which we operate, including anti-corruption laws, IP breaches, data privacy laws, competition laws, accounting, taxation and AIM listing regulations</p> <p>The sales tax and general tax environment is more complex and the risk of incorrectly reporting and paying relevant taxes increases as the business grows</p>	<p>Bribery, anti-slavery, and corruption all carry their own penalties, and reputational damage</p> <p>Breaches of taxation rules also carry a risk of interest and penalties becoming payable</p> <p>Breaches of AIM rule can lead to penalties</p>	<ul style="list-style-type: none"> Training for all employees on anti-bribery, anti-money laundering, competition law and GDPR Gift and Hospitality register maintained Corporate compliance overseen by CFO Engagement of third-party experts in the US to help us ensure compliance with local rules and regulations IASME Governance certificate The Group continues to mitigate the risk of litigation by reviewing its IP position against all its competitors and conducting annual reviews of its freedom to operate in its target markets 		 

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Financial Review



Helen Jones

Chief Financial Officer

Continuing our growth

Summary financial performance

£m (unless otherwise stated)	2022	2021	Change
Revenue	10.10	7.60	+33%
Gross profit	6.33	4.66	+36%
Gross profit margin (%)	63%	61%	+2%
Total R&D spend	(3.20)	(3.23)	-1%
Administrative expenses (excluding expensed R&D)	(8.32)	(7.02)	+18%
Operating loss	(3.67)	(4.33)	-15%
Loss after taxation	(2.98)	(3.61)	-17%
Net cash used in operating activities	(0.68)	(1.82)	-62%
Cash and cash equivalents	7.17	4.95	+45%

Income statement

Revenue

The Group delivered strong growth in 2022 with revenues up 33% to a record high of £10.1m (2021: £7.6m) with growth in revenues achieved across both revenue streams. We continued to experience significant growth in the UK with revenue up 104% from 2021, however Covid-19 related challenges continued to impact reseller markets in Asia and Europe where revenues declined by 14% year on year.

Simulation

Simulation revenue grew 28% year-on-year largely driven by significant growth in sales in the UK which almost doubled in 2022, due in part to a NHS ultrasound training programme to standardise training in echocardiography across NHS England.

Revenue from North America also increased by 3% due to positive exchange rate movements of £0.3m but on a like for like US dollar basis revenue declined by 9% to \$3.4m (2021: \$3.8m).

£m	2022	2021	Change
UK	4.91	2.51	+96%
North America	2.78	2.73	+3%
Rest of the World	1.74	2.15	-19%
	9.43	7.39	+28%

It was also another difficult year for our resellers in the Rest of the World where sales were down 19% to £1.7m (2021: £2.15m) due to ongoing Covid-19 restrictions in China, the decision to prohibit sales to Russia and also a disappointing performance in France. Performance by region has been discussed in more detail in the CEO review.

Financial Review continued

Clinical AI

£m	2022	2021	Change
UK	0.24	0.02	0.22
North America	0.16	–	0.16
Rest of the World	0.27	0.19	0.08
	0.67	0.21	0.46

Clinical AI revenues began to gain commercial traction in 2022 with revenues increasing by 224% to £0.67m (2021: £0.21m). AI royalty revenue in 2022 and 2021 is split based on the location of the country of invoicing rather than by end user geographical location.

Gross profit

Group gross profit increased by 36% to £6.33m (2021: £4.66m), the increase being higher than revenue growth due to a higher weighting of direct versus reseller sales as well as favourable USD exchange rate movements.

Simulation gross margin percentage went up 2% to 63% (2021: 61%) with 82% of revenue coming from direct sales in the UK and North America (2021: 71%) as well as favourable USD exchange rate movements. We were also able to pass on some inflationary raw material cost pressures where possible through sales price increases. Some supply chain disruption continued to present challenges during the year, but these were overcome by maintaining adequate buffer inventories.

Clinical AI gross margin declined to 60% (2021: 74%) due to the one-off cost of a component upgrade to the NeedleTrainer V2 demonstration units, which reduced gross margin by 14%. Excluding this one-off cost, the Clinical AI gross margin increased to 79% on a like-for-like basis.

Administrative expenses

£m	2022	2021	Change
Sales, marketing and distribution	3.08	2.44	+26%
Other general and administrative	3.48	2.86	+22%
<i>Other non-cash costs:</i>			
Share based payment charges	0.38	0.53	-28%
Depreciation and amortisation	1.38	1.19	+16%
	8.32	7.02	+18%

Administrative expenses, excluding expensed R&D costs, increased by 18% to £8.32m (2021: £7.02m) predominantly due to higher sales and marketing costs. Despite some challenges affecting the US market in 2022, the long-term opportunity for commercial growth exists and to address this we have further invested in sales and marketing in this key region as well as in our UK marketing and product management teams. In addition, a lot of the sector conferences and exhibitions, key to sales lead generation, that were cancelled or held virtually in 2021 returned in 2022 resulting in an increase of marketing costs of £0.17m (67%) in 2022. Sales travel also returned to pre-pandemic levels in 2022 increasing cost year on year by £0.15m.

Other general and administrative costs increased by 22% due partly to headcount increases in central functions combined with salary increases, as well as higher general travel costs and legal and professional costs.

Operating loss

The operating loss reduced by 15% to £3.67m (2021: £4.33m) due to the 36% improvement in gross profit, partly offset by a 18% increase in administrative expenses (detailed above).

Research and development (R&D) costs

£m	2022	2021	Change
R&D			
– Expensed	1.69	1.96	
– Capitalised	1.51	1.27	
	3.20	3.23	-1%
Simulation	1.24	1.15	+8%
Clinical AI	1.96	2.08	-6%

The Group incurred R&D expenditure of £3.20m (2021: £3.23m) in 2022. The simulation R&D team was largely focused on increasing the BabyWorks functionality as well as development of the new version of BodyWorks. The clinical AI R&D team continued the development of the ScanNav Anatomy PNB product, in particular in relation to progressing the product through US FDA regulatory clearance, achieved in October 2022, as well as further improvements to NeedleTrainer and the development of other variants of ScanNav Assist. With significant costs of taking ScanNav Anatomy PNB through US FDA clearance incurred in 2021, clinical AI R&D costs were lower in 2022.

Taxation

The total tax credit in 2022 was £0.72m (2021: £0.76m). The Group claims each year for R&D tax credits and, since it is loss-making, elects to surrender these tax credits for a cash rebate.

As at 31 December 2021, the Group had cumulative gross UK tax losses of approximately £19.2m (31 December 2021: £17.3m) for which the Group continues to hold a cautious view, and consequently the Group has chosen not to recognise those losses fully as a deferred tax asset.

Balance sheet

The balance sheet was strengthened in December following a successful share placing and subscription of a net £4.81m after costs. This contributed significantly to net assets increasing to £12.16m at the year end (31 December 2021: £9.72m).

Included within trade and other receivables of £2.03m (31 December 2021: £2.65m) are trade receivables of £1.36m (31 December 2021: £1.89m), lower than the previous year end due to timing of invoicing and customer payments in the last quarter.

Inventory of £1.60m (31 December 2021: £1.20m) increased by £0.40m due to timing of receipt of certain high value bulk stock items as well as an adequate amount of buffer stock in the event of any supply chain disruption.

Included within current assets is the R&D tax credit receivable of £0.71m (31 December 2021: £0.95m). This is £0.24m lower than as at 31 December 2021 due to the balance in 2021 including £0.2m of the 2020 receivable, which was received at the start of 2022.

During the year £1.49m (2021: £1.27m) of product development costs were capitalised within intangible assets with more development cost meeting the criteria for capitalisation in 2022 compared to the prior year.

Current liabilities were to £3.28m (31 December 2021: £3.21m), with trade payables of £1.36m (31 December 2021: £1.35m) and accruals of £0.97m (31 December 2021: £1.23m) largely relating to sales-based royalties payable, sales commissions and annual bonuses. Lease liabilities of £0.49m (31 December 2021: £0.67m), relating to offices, the warehouse facility and company cars, reduced by £0.18m in 2022 with ongoing lease payments. New leases in the year related to the US office lease renewal.

Deferred income at 31 December 2022 was £0.55m (31 December 2021: £0.53m) which relate to extended warranties and technical support. These amounts are deferred and released to the income statement over the life of the extended warranty and support period.

Financial Review continued

The share based payment reserve increased by £0.38m to £1.75m (31 December 2021: £1.37m) due to the share based payment charge for the year.

Cash flow

The Group reported cash and cash equivalents of £7.17m at 31 December 2022 (31 December 2021: £4.95m).

Operating cash outflows before working capital movements of £1.91m (2021: £2.61m) improved by £0.70m in 2022 due to the higher trading levels in the year offset partly by increases in administrative expenses. Movements in working capital of £0.26m (2021: £0.31m) and higher R&D tax credits received in the year of £0.96m (2021: £0.48m) resulted in the net cash used in operating activities reducing by 62% to £0.68m (2021: £1.82m).

The net cash outflow arising from investing activities was £1.82m (2021: £1.78m) relating to capitalised R&D expenditure of £1.47m (2021: £1.28m) and £0.38m (2021: £0.50m) of property, plant and equipment, the majority of which relates to the capitalisation of sales demonstration equipment.

The net cash inflow from financing activities was £4.55m (2021: £0.22m outflow) as a result of the gross proceeds from the share placing of £5.2m reduced by issue costs of £0.39m. We also paid £0.23m (2021: £0.20m) in lease payments.

Going concern

In undertaking a going concern review, the Directors have reviewed two financial projections to 31 December 2024 based on the existing base budget and a flexed, more conservative version of the base budget; both of which include estimates and assumptions regarding the product development projects, sales pipeline, future revenues and costs and timing and quantum of investments in the R&D programmes. Both forecasts indicate that the Group should be able to operate within the limits of its existing resources and therefore the Directors have a reasonable expectation that the Company and the Group can continue in operational existence for at least twelve months from the date of approval of the financial statements. Therefore, the Company and Group continues to adopt the going concern basis in preparing its financial statements.

Helen Jones

Chief Financial Officer

The Company is required by the Companies Act 2006 to include a Strategic Report in its Annual Report. The information that fulfils this requirement can be found from pages 1 to 37.

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

This Strategic Report was approved by the Board on 20 April 2023 and signed on its behalf by:

Stuart Gall

Chief Executive Officer

Board of Directors

An experienced Board



Riccardo Pigliucci
Non-executive Chairman

Appointed: 2012

Experience

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



Stuart Gall
Chief Executive Officer

Appointed: 2009 (p/t), 2014 (f/t)

Experience

Stuart was a joint founder and executive director of Fusion IP plc, an AIM-listed university IP commercialisation company, before its purchase by IP Group plc for £103m in 2014. Stuart has a sales, marketing and general management background with over 25 years' experience in starting small technology-led companies, fund raising for and managing SMEs and acting as an executive director for a number of public companies. Stuart is an engaging and motivational leader with an energetic management style and the drive and enthusiasm to 'tell the Intelligent Ultrasound story'. In addition to Fusion IP, he has previously worked at British Airways plc, The Promotions Partnership Limited, Anvil Limited and Toad Group plc and was formerly an NED with i2L Ltd. He attends events to keep his skills up to date and relevant.



Helen Jones
Chief Financial Officer

Appointed: 2020

Experience

After graduating with BS(Hons) in French and Spanish, Helen began her career in accounting and finance at PwC where she qualified as a Chartered Accountant. Before joining the Group in 2020, Helen was part of the senior finance team at Amerisur Resources plc, an AIM-quoted oil and gas company and prior to this had spent over ten years in various senior group finance and tax roles within Tata Steel Europe. Helen is a Fellow of the Institute of Chartered Accountants in England and Wales and has experience in corporate acquisitions, restructurings and disposals, debt and equity transactions, IFRS reporting and investor relations. She attends regular external courses during the year to keep her skills up to date and most recently the ICAEW's global leadership Financial Talent Executive Network programme.



Ian Whittaker
Chief Operating Officer

Appointed: 2016

Experience

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



Nicholas Sleep
Chief Technology Officer

Appointed: 2012

Experience

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

Independent

Yes

Executive Directors

Yes

Committees

Remuneration

Nomination

Audit and Risk

ESG

Board of Directors continued



Professor Nick Avis
Non-Executive Director



Appointed: 2006

Experience

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



Ingeborg Øie
Non-Executive Director



Chair from
22 June 2022

Appointed: 2021

Experience

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



Michèle Lesieur
Non-Executive Director



Chair from
1 January 2023

Appointed: 2021

Experience

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



Christian Guttman
Non-Executive Director



Appointed: 2022

Experience

Christian joined the Board on 15 August 2022. Dr Guttman is a recognised leader in shaping the global agenda on AI regulation and standards, as well as having outstanding AI research, development and AI commercialisation experience. He has edited and authored seven books, over 50 publications and has three patents in the field of AI. Christian is currently an Executive Director of the Nordic Artificial Intelligence Institute (NAII) and Vice President of Engineering, Decisioning and AI at Pegasystems in Sweden. He has built over 100 novel AI systems and products and has been an organiser / steering committee member at major AI conferences. As a founder of the Nordic AI Institute, he advises governments, thinktanks and businesses around the world.



Andrew Barker
Non-Executive Director
(retired 31 December 2022)



Chair until
31 December 2022

Appointed: 2017

Experience

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

Independent



Yes

Executive Directors



Yes

Committees



Remuneration



Nomination



Audit and Risk



ESG

Chairman's Introduction



Riccardo Pigliucci
Non-executive Chairman

Strong corporate governance to support our growth

Dear Shareholder,

On behalf of the Board, I am pleased to present the Corporate Governance Report for the year ended 31 December 2022. The report includes details about the Board, our individual roles and responsibilities, and the activities of each Committee to demonstrate how we have discharged our responsibilities to stakeholders during 2022.

Changes to the Board

- In 2022 we continued with our strategy to refresh the composition of Non-executive Directors on the Board. At the AGM in June 2022, Prof Nazar Amso retired from the Board after 18 years and David Baynes also retired from his roles as Non-executive Director and Chair of the Audit and Risk Committee after 12 years.
- On 31 December 2022 Andrew Barker also stepped down as Non-executive Director and as part of this Chair of the Remuneration Committee. I would like to thank them for their contribution to the Group and wish them well for the future.
- In August 2022 we welcomed the appointment of Dr Christian Guttman as Non-executive Director. Christian is a recognised leader in shaping the global agenda on AI regulation and standards, as well as having outstanding AI research, development and AI commercialisation experience. He has edited and authored seven books, over 50 publications and has three patents in the field of AI.
- Having served as an Executive Director and Chief Operating Officer since joining the Group on the acquisition of Inventive Medical Ltd in August 2016, Ian Whittaker will not be seeking re-election to the Board of Directors at the 2023 AGM. Ian has also announced his intention to retire from his position as COO on 31 December 2023 but will remain with the Group in a part-time capacity to assist on projects, as required. The Board joins me in thanking Ian for his commitment and invaluable contribution to significantly growing the simulation revenue and profitability over the last seven years and we wish him continued success in his business and personal endeavours.

Corporate Governance

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

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

ESG

The Board recognises the many environmental, social and governance issues that may affect the sustainability of the Group and which are of importance to our stakeholders. In 2022 we have continued on our ESG journey which is overseen by the ESG Committee and its progress is also discussed regularly at Board level. You can read more about the work of the Committee on page 17. The Board would like to thank all shareholders and colleagues for their continued support, and we look forward to continuing with our good work during 2023.

Riccardo Pigliucci
Chair of the Board

20 April 2023

Corporate Governance Report

The Board and its committees

The Board is responsible for leading and controlling the Company and has overall authority for the management and conduct of its business, strategy and development. The Board is focused on ensuring the long-term sustainable success of the Group and the continuous creation of value for its shareholders and stakeholders.

The Board has established Audit and Risk, Remuneration, Nomination and ESG Committees with formally delegated duties and responsibilities. Reports from each of these committees can be found on pages 47 to 53. The ESG report is on page 17. Each Committee Chair reports to the Board on the activities considered and determined by the relevant Committee.

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

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

The Nomination Committee has primary responsibility for succession planning and Board composition. The committee meets at such times as the Chair of the Committee requires.

The Executive Directors are employed full-time by the Group. The Non-executive Directors are contracted to work for the Company for 20 days per annum.

Board meetings

The Board has continued to meet through a combination of in-person attendance and video conferences. The Chair expects Non-executive Directors to provide sufficient commitment to the Company for advance preparation and attendance at Board and Committee meetings, together with ad hoc availability at other times. In leading and controlling the Company, the Directors are expected to attend all meetings. The Board and its Committees meet regularly on scheduled dates including a two-day strategy planning meeting the purpose of which is to review progress in delivering agreed plans and to develop and settle the Group's business plans and long-term strategic targets and set the framework for the achievement of those. From this session, the Group's strategic plan and business model is agreed. The CEO is responsible for the implementation of the strategy and communicates to all employees through regular all company meetings on Teams and an annual Group away day.

The Non-executive Directors communicate directly with Executive Directors between formal Board meetings as required and the Non-executive Directors meet the Chair without the Executive Directors present at least once a year.

Attendance at Board and Committee meetings during 2022

	Board meeting	Audit and Risk Committee	Remuneration Committee	Nomination Committee	ESG Committee
Number of meetings in 2022	12	4	5	3	10
Chair	RP	IO	AB	ML	SG
Current Directors					
Riccardo Pigliucci	12	n/a	n/a	3	n/a
Stuart Gall	12	n/a	n/a	n/a	10
Helen Jones	12	n/a	n/a	n/a	10
Ian Whittaker	12	n/a	n/a	n/a	n/a
Nicholas Sleep	12	n/a	n/a	n/a	10
Nick Avis	12	2/2	3/3	3	10
Ingeborg Øie	12	4	3/3	3	9
Michèle Lesieur	11	4	5	3	n/a
Christian Guttman ³	4/5	2/2	n/a	n/a	n/a
Former Directors					
David Baynes ¹	4/5	2/2	2/2	2/2	n/a
Nazar Amso	12	n/a	2/2	n/a	n/a
Andrew Barker ² (AB)	10	n/a	5	3	n/a

1. Retired 22 June 2022

2. Retired 31 December 2022

3. Appointed to the Board 15 August 2022

Corporate Governance Report continued

Key activities for the Board and Committees in 2022

Topic	Activities
Strategic planning	Two day strategy meeting including R&D strategy, new product development, patent review, funding, commercialisation and key medical/scientific advisor feedback
2023 Budget	Presentation of the budget from the CFO, review of supporting budget paper and budget approval
Fundraising	Approval of the 2022 share placing and subscription
Financial performance, company results and trading statements	Considered the financial performance of the Group and key performance targets. Full and half year trading update, full and half year announcements, Annual Report and monitored performance against budget through regular presentations from the CFO
Corporate development	Review of M&A and related opportunities
Investor engagement and broker presentations	Full and half year results presentations, analyst calls and investor roadshows, AGM and presentations from the broker
Nomination Committee	Board composition and committee membership, NED recruitment and appointment, terms of reference
Remuneration Committee	Review of 2023 salary proposals and 2023 Annual Incentive Scheme; and monitoring of the 2022 Annual Incentive Scheme, objectives and targets, terms of reference
Audit and Risk Committee	External audit tender process, terms of reference, annual audit process and fees, external auditor, consideration of internal audit function, IP risk review, KPI performance, risk review, financial reporting issues, non-audit services policy
ESG Committee	Link to UN sustainability development goals, Scope 3 emission evaluation, ESG internal and external initiatives

Corporate Governance Report continued

The QCA Code

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

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

Statement of compliance with the QCA Corporate Governance Code

Principle	Commentary	Further information
1 Establishing a strategy and business model to promote long-term value for shareholders	The Group's business model and strategy to deliver shareholder value in the medium to long-term is discussed in the Strategic Report. The section Risk Management includes a discussion of the key challenges facing the Group and how these will be addressed	Business model: page 12 Strategy: page 13
2 Seeking to understand and meet shareholder needs and expectations	Responsibility for shareholder liaison rests principally with our CEO supported by our CFO and Chairman, alongside our advisers Cenkos and Walbrook PR. However, all our Board members attach a high degree of importance to providing shareholders with clear and transparent information on the Group's activities, strategy and financial position. The board holds meetings with institutional investors and other large shareholders following the release of the interim and financial results. We provide the market and shareholders with the results of AGM and GM voting via RNS and other communication channels, including the Group's website. We also participate from time-to-time in investor shows offering smaller and private investors insight into our business and also access to our management team	Details of all shareholder communications are provided on our website See the Shareholders section of the Section 172: page 26
3 Taking into account wider stakeholder and social responsibilities and their implications for long-term success	The Board recognises its responsibility under UK law to promote the success of the Group for the benefit of its stakeholders and understands that the business has a responsibility towards its stakeholders including shareholders, employees, customers, partners, suppliers and to the local community. The Board is very conscious that the tone and culture it sets impacts all aspects of the Group and the way employees behave and operate. The Board encourages open dialogue and commitment to providing the best service possible to the Group's stakeholder. The Company monitors feedback from all its stakeholders and the Board uses this to develop future policy and make decisions	See the Section 172 report which details our key stakeholders See the Business model on page 12
4 Embedding effective risk management, considering both opportunities and threats throughout the organisation	Our Executive Directors are closely involved in the day-to-day operations of the Group and report to the Board in detail at monthly intervals. Relevant papers are distributed to members of the Board in advance of Board and Committee meetings. Detailed financial reports of the Group's financial performance are also provided on a regular basis The Board reviews a matrix of the key risks which sets out how these are managed and mitigated through internal and other controls and processes	Our Risk Management process is explained on page 28

Corporate Governance Report continued

Principle	Commentary	Further information
<p>5 Maintaining the Board as a well-functioning, balanced team led by the Chairman</p>	<p>The Board comprises the independent Non-executive Chairman, four Executive Directors and four Non-executive Directors</p> <p>The Board considers that Michèle Lesieur, Christian Guttman and Ingeborg Øie are independent Non-executive Directors. Currently no Senior Independent Director has been appointed, but the Board continues to evaluate a possible appointment</p> <p>Although Riccardo Piglucci has served on the Board for over ten years, the Board considers that he is an independent Non-executive Chairman in both character and judgement</p> <p>To ensure the Board functions well, the Board meets at least 11 times each year and it is the responsibility of the Company Secretary (supported by reports submitted by the Executive Directors) to provide the Board with high quality information in a timely manner to facilitate the proper assessment of the matters requiring a decision or insight</p> <p>We also hold an annual strategy meeting at which Directors' attendance is mandatory. Each Non-executive Director continues to demonstrate that they have sufficient time to devote to our business</p> <p>To support the Board we have put in place Audit and Risk, Remuneration and Nomination Committees all of which have agreed formal terms of reference</p> <p>In 2020, the Board undertook a review of its balance and composition to ensure it has a sufficiently wide range of skills and experience to enable the Group to pursue its strategic goals</p>	<p>Biographies of the Directors: page 38</p> <p>Key corporate governance changes in the year: page 40</p> <p>See: Audit and Risk Committee report: page 48</p> <p>Nomination Committee report: page 47</p> <p>Remuneration Committee report: page 50</p>
<p>6 Ensuring that between them the Directors have the necessary up-to-date experience, skills and capabilities</p>	<p>The Board is satisfied that the Directors have an effective and appropriate balance of skills and experience, including in the areas of innovation, software development, the use of medical ultrasound, finance, marketing, international trade and corporate acquisitions</p> <p>The Board includes some diversity in terms of the background and gender of each Director</p> <p>The Nomination Committee reviews the balance and composition of the Board and its Committees taking into account the skills and experience of each Board member</p> <p>Each new Director undertakes an induction programme to strengthen their understanding of the business</p>	<p>Nomination Committee report: page 47</p> <p>Biographies of the Directors: page 38</p>
<p>7 Evaluating Board performance based on clear and relevant objectives, seeking continuous improvement</p>	<p>The Chairman regularly assesses the performance of each of the Directors (including by way of one-to-one meetings) to ensure that they remain committed to the business, that their individual contributions are relevant and effective and where relevant, they have maintained their independence</p> <p>Agreed objectives and targets are set each year for the Executive Directors and performance measured against these metrics</p> <p>Since the 2020 external formal Board evaluation process was performed, the Board membership has been through significant changes in personnel, and we have allowed the new board members to settle into their roles before embarking on a new evaluation exercise</p>	<p>Key corporate governance changes in the year: page 41</p>

Corporate Governance Report continued

Principle	Commentary	Further information
<p>8 Promoting a corporate culture based on ethical values and behaviours</p>	<p>The Board has an ethics policy which forms part of the Staff Handbook and a breach of the policy by any member of staff would result in disciplinary action to ensure that the Company's ethical values and behaviours are recognised and respected. A summary of the policy is set out below:</p> <p><i>It is the policy of Intelligent Ultrasound to conduct its business at all times and throughout the world with honesty and integrity and the Company will continue to be an ethical and responsible company. The Company recognises it has a responsibility for all the actions of its employees in connection with the activities of the organisation. In view of this, the Company believes that the ethics demonstrated by our employees should give all customers, shareholders, suppliers, colleagues, business partners and regulators' confidence that the Company operates in a way that avoids any suggestion of improper or personal motives or actions. Therefore, all employees are expected to conduct themselves in accordance with the Company's Code of Ethics at all times</i></p> <p><i>The Company has a clear set of values and purpose which are communicated to the organisation regularly by the Board. The Board principally monitors and assesses corporate culture through an annual staff survey</i></p>	<p>See Section 172: page 24</p> <p>Business model: page 12</p>
<p>9 Maintaining governance structures and processes that are fit for purpose and support good decision-making by the Board</p>	<p>The Board has established three Committees to discharge its roles and responsibilities: an Audit and Risk Committee, a Remuneration Committee and a Nomination Committee. Each Committee is governed by its own terms of reference which are created and reviewed by the Board to ensure they are appropriate to support the Board and to ensure good decision making</p> <p>The CEO is responsible for the day-to-day leadership of the Group, the management team and its employees. The CEO is responsible, in conjunction with the Executive Directors and senior management, for the execution of the Company's strategy approved by the Board and the implementation of Board decisions</p>	<p>Audit and Risk Committee report: page 48</p> <p>Remuneration Committee report: page 50</p> <p>Nomination Committee report: page 47</p>
<p>10 Communicating how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders</p>	<p>We maintain a regular dialogue with our shareholders through investor presentations for our annual and interim reports, investor conferences, shareholder meetings, podcasts, technology open days and through our broker Cenkos</p>	<p>See the Section 172 report which details our engagement with shareholders: page 26</p> <p>See: Audit and Risk Committee report: page 48 Nomination Committee report: page 47 Remuneration Committee report: page 50</p>

Corporate Governance Report continued

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

Understanding shareholder needs and expectations

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

That the Company Secretary should not be an Executive Director

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

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

The QCA Code requires that a regular review for effectiveness is also carried out for the board as a whole and for individual committees. Whilst an external board evaluation was performed in 2020, there was no such review in 2022 for either the board or the individual committees. Due to the significant changes in the Board in 2021 and 2022 we have allowed the new board members to settle into their roles before embarking on an evaluation exercise.

Riccardo Pigliucci

Chair of the Board

20 April 2023

Nomination Committee Report



Michele Lesieur

Chair of the Nomination Committee

Composition of the Committee

Member	Attendance
Michèle Lesieur (Chair)	3/3
Riccardo Pigliucci	3/3
Ingeborg Øie	3/3
Nick Avis	3/3
David Baynes*	2/2
Andrew Barker*	3/3

* Stepped down from the Committee on 22 June 2022 and 31 December 2022 respectively

Dear Shareholder,

On behalf of the Nomination Committee (the 'Committee'), I am pleased to introduce the Nomination Committee Report in which we set out the Committee's responsibilities and report on the activities of the Committee during the year. During 2022, the Nomination Committee continued to focus on strengthening the Board and in August 2022 we warmly welcomed Dr Christian Guttman to the Board as a Non-executive Director.

Responsibilities

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

<https://www.intelligentultrasound.com/wp-content/uploads/2022/07/Proposed-IUG-terms-of-reference-for-the-nomination-committee-211213-1.pdf>

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

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

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

Diversity

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

Principal activities during the year

The Committee met formally three times in 2022, twice by video conference and once in person. As outlined in the report last year, the Nominations Committee has been focused on conducting a search for additional Non-executive Directors to join the Board. This was a rigorous process overseen by the Nominations Committee in 2021 and in the first half of 2022, aimed at building the skills matrix of the Board.

In 2020, an external consultant was appointed as adviser to the Board to conduct the search for these appointments. Further to the two NEDs that joined the Board in 2021, on 15 August 2022, Dr Christian Guttman was appointed to the Board to serve as an independent NED and member of the Audit and Risk Committee. Christian is a recognised leader in shaping the global agenda on AI regulation and standards, as well as having outstanding AI research, development and AI commercialisation experience. He has edited and authored seven books, over 50 publications and has three patents in the field of AI. He is currently an Executive Director of the Nordic Artificial Intelligence Institute (NAII) and Vice President, Engineering, Decisioning and AI at Pegasystems in Sweden. He has built over 100 novel AI systems and products and has been an organiser / steering committee member at major AI conferences. As a founder of the Nordic AI Institute, he advises governments, thinktanks and businesses around the world.

At the 2022 AGM two members of the Committee did not stand for re-election and the composition of the Nomination committee was revised by the Board to include Michele Lesieur as Chair, Ingeborg Øie, Nick Avis and Riccardo Pigliucci. Concurrent with the appointment of Christian, Andrew Barker, who has been a Non-executive Director since 2017, announced his intention to retire from the Board as of 31 December 2022.

Induction of new directors

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

Michele Lesieur

Chair of the Nomination Committee

20 April 2023

Audit and Risk Committee Report



Ingeborg Øie

Chair of the Audit and Risk Committee

Composition of the Committee

Member	Committee member since	Attendance since publication of last annual report
Ingeborg Øie (Chair from 22 June 2022)	19 May 2021	5
David Baynes (Chair until 22 June 2022)	14 August 2014	2/2
Christian Guttman	15 August 2022	2/2
Michèle Lesieur	20 September 2021	4
Nick Avis*	14 August 2014	2/2

* Stepped down from the Committee on 15 August 2022

Dear Shareholder,

I took over as Chair of the Audit and Risk Committee in June 2022 upon the retirement of David Baynes from the Board. First of all, I would like to thank David for his many years of service on the Committee, and for his guidance and thoughtful handover. In addition to discharging our duties in accordance with the Terms of Reference, the Committee dedicated significant time to the auditor selection process which concluded with the appointment of CLA Evelyn Partners Limited as our external auditor from FY2022 onwards.

In this report I am pleased to present an overview of both our routine and non-routine activities relating to the year ending 31 December 2022 and in the period up to the approval of the 2022 Annual Report and Accounts (together, the 'period').

Role of the Committee

The Audit and Risk Committee oversees the Company's financial reporting process and risk management process on behalf of the Board of Directors, and in accordance with the Terms of Reference, which were reviewed and updated following my appointment as Chair.

The Terms of Reference can also be found on the Company's website: https://www.intelligentultrasound.com/wp-content/uploads/2023/02/IUG-terms-of-reference-for-the-audit-committee_Final.pdf

The Group's external auditor

The Audit and Risk Committee oversees the annual audit and its effectiveness, including the objectivity and independence of the external auditor. Evelyn Partners were appointed as the Group's auditor in 2022 following a competitive tender that involved a short-list of five audit firms, and a multi-stage process. The Committee considered a range of factors, including capabilities, experience of the proposed audit partner with similar companies, the ability to deliver a timely audit while working with a lean finance team and the audit fee. The audit fee was not the main factor, and with the increased requirements on auditors and our benchmarking of fees in the market, we expected an increase in fees. The committee will continue to monitor the performance of the auditor and the audit fees. A summary of remuneration paid to the external auditor is provided in note 7 of the financial statements. Having reviewed the auditor's independence and performance, the Audit and Risk Committee recommends that CLA Evelyn Partners Limited be re-appointed for an additional year as the Group's auditor at the 2023 AGM.

Internal audit

The Group does not have an internal audit function, as the Board does not consider the current scale and complexity of operations warrant such a function. The Committee regularly reviews this on behalf of the Board, and our review during 2022 concluded this was still appropriate. In addition, the Committee reviewed and discussed together with management and the external auditor the effectiveness of the Group's internal control over financial reporting and the significant improvements that continue to be made.

Audit and Risk Committee Report continued

Audit Committee meetings

In addition to numerous meetings relating to the audit tender, the Committee held three full meetings since the publication of the 2021 Report and Accounts. In addition to this, audit-related matters are discussed by the full Board at most meetings.

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

The meetings of the Committee are designed to facilitate and encourage communication among the Committee, the Company, and the external auditor. Following the completion of the 2021 Reports and Accounts work, the Committee reviewed its cycle of work for the year ahead and set out a plan to ensure that the work of the management and Committee is balanced through the year and that all relevant topics are covered. In the August meeting, the Committee reviewed and approved the policy on non-audit services, ensuring compliance with the QCA guidance. It also focused on the Company's KPIs and KPI monitoring processes. In November, the Committee discussed with the external auditor the overall scope and plans for their audit and the key audit risks identified at the audit planning stage. We also reviewed and challenged the Company's risk management process. Risk management was previously overseen by the Board, and by moving the responsibility to the Audit and Risk Committee, we have been able to spend more time on this topic, and ensuring that it is embedded into the operations of the Company. The Committee was pleased with the first in-depth risk review. A detailed review of IP risk was performed by the Board, and information security risk management processes will be reviewed in detail in 2023. The Committee subsequently met with the external auditor on 6 April 2023 to discuss the announcement, results of their audit to that date, their evaluation of the Company's internal control and the overall quality of the Company's financial reporting.

Based on the recommendations of the 2021 Audit, the Committee has received updates from management and the external auditor regarding the controls in relation to the impairment review process and assessment of going concern. The Committee is pleased to see a strengthened process.

As the Chair of the Audit and Risk Committee, I also had several conversations with the partner responsible for the 2022 audit during the planning stage and during the audit. These included discussions about planning, updates on audit findings and timelines. Having an open dialog is also important to ensure that the Committee takes into account the feedback and external perspective of the auditors.

Financial reporting

The Company's management has the primary responsibility for the financial statements, for maintaining effective internal control over financial reporting, and for assessing the effectiveness of internal control over financial reporting. The Committee has reviewed, with both management and the external auditor, where the more significant judgements have been made and the quality and appropriateness of the Group's accounting policies.

In fulfilling its oversight responsibilities, the Committee reviewed and discussed the audited consolidated financial statements included in this Annual Report with management and the Group's external auditor, including a discussion of the quality, not just the acceptability, of the accounting principles; the reasonableness of significant judgments; and the clarity of disclosures in the financial statements.

i) Going concern assessment

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

- Existing base budget
- A flexed, more conservative version of the base budget
- A projection based on latest trading.

All of the above forecasts include estimates and assumptions regarding the product development projects, sales pipeline, future revenues and costs and timing and quantum of investments in the R&D programmes. Following the capital increase in November 2022, and a detailed review of the scenarios, the Committee recommended that the Board adopt the going concern basis in preparing these financial statements on the basis that the Group has sufficient funding.

ii) Intangible asset impairment

The Committee considered the carrying value of intangible assets in the 2022 financial statements together with the recoverability of the carrying value through future cash flows. For the purposes of its annual impairment testing process, the Group assesses the recoverable amount of each of the Group's cash generating units (CGUs) based on the calculation of the value-in-use. The Committee reviewed the impairment methodology and specifically assessed the key assumptions used to estimate the recoverable amount of each CGU, including future cash flows and discount rates applied in the calculation of the value-in-use, along with the sensitivity analysis performed.

Approval of the financial statements

The Audit and Risk Committee has concluded that it has acted in accordance with its Terms of Reference. At the meeting on 6 April 2023 the Audit and Risk Committee considered each section of the Annual Report and the document as a whole, as proposed by the Company and subsequent to a review of the final draft of the report and accounts; it reached the conclusion and advised the Board that it considered the 2022 Annual Report and Accounts to be fair, balanced and understandable and, combined with the QCA Code Website Disclosures, provided the information necessary to assess the Group's business plan and strategy.

Approval

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

Ingeborg Øie

Chair of the Audit & Risk Committee

20 April 2023

Remuneration Committee Report



Michele Lesieur

Chair of the Remuneration Committee

Composition of the Committee

Member	Attendance
Michèle Lesieur (Chair from 1 January 2023)	5/5
Andrew Barker (Chair until 31 December 2022)	5/5
Ingeborg Øie	3/3
Nick Avis	3/3
David Baynes*	2/2
Nazar Amso*	2/2

* Stepped down from the Committee on 22 June 2022

Dear Shareholder,

On behalf of the Board, I am pleased to present the report of the Remuneration Committee for the year ended 31 December 2022.

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

Membership

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

Role of the Committee

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

Terms of Reference

The Terms of Reference of the Remuneration Committee are available on the Company's website at:
<https://www.intelligentultrasound.com/wp-content/uploads/2020/12/Remuneration-Committee-Terms-of-Reference-1.pdf>

Basis of preparation

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

The information is unaudited except where stated.

Director's remuneration

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

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

The remuneration package for Executive Directors comprises:

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

Remuneration Committee Report continued

Directors' service contracts

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

Directors remuneration (audited)

The Directors' remuneration for the year ended 31 December 2022 was:

	Salaries & fees £'000	Accrued AIS £'000	Pension £'000	Travel & car allowance £'000	Other benefits £'000	Total 2022 £'000	Total 2021 £'000
Nazar Amso ²	12	–	–	–	–	12	22
Nick Avis	25	–	–	–	–	25	21
Andrew Barker ³	30	–	–	–	–	30	25
David Baynes ²	10	–	–	–	–	10	20
Stuart Gall	200	59	20	14	1	294	274
Christian Guttman ¹	10	–	–	–	–	10	
Helen Jones	124	31	12		1	168	150
Michèle Lesieur	25	–	–	–	–	25	7
Ingeborg Øie	25	–	–	–	–	25	16
Riccardo Pigiucci	60	–	–	–	–	60	56
Nicholas Sleep	190	47	19	–	1	257	240
Ian Whittaker	152	38	15	–	7	212	210
Total	863	175	66	14	10	1,128	1,041

¹ Appointed 15 August 2023

² Retired 22 June 2022

³ Retired 31 December 2022

The former Director David Baynes holds an interest in IP Group plc, the largest shareholder of the Company. Fees of £20,000 (2021: £20,000) were paid to IP Group plc in respect of the services provided by Mr Baynes.

Basic salary

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

Pensions

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

Performance-related pay

i) 2022 Annual Incentive Scheme

Under the 2022 Annual Incentive Scheme (AIS), the Chief Executive could earn up to a maximum of 35% of his base salary and each other Executive Director could earn up to a maximum of 30% of their base salary on the successful achievement of Group revenue and operations targets.

Based on the AIS targets achieved during 2022, the Chief Executive earned 29.6% of his base salary and the other Executive Directors earned 24.6% of their base salary.

ii) 2023 Annual Incentive Scheme

The Chief Executive can earn up to a maximum of 35% of his base salary on the successful achievement of the following:

- 25% based on hitting Group revenue, EBITDA adjusted and cash targets; and 10% based on the achievement of individual performance-based targets.

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

- 25% based on hitting Group revenue, EBITDA adjusted and cash targets; and 5% based on the achievement of individual performance-based targets.

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

Remuneration Committee Report continued

Directors and their interests

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

	At 31 December 2022 No.	% of issued Ordinary share capital	At 31 December 2021 No.	% of issued Ordinary share capital
Current Directors				
Stuart Gall	1,491,042	0.46%	923,474	0.34%
Ian Whittaker	532,253	0.16%	451,172	0.17%
Nicholas Sleep	583,871	0.18%	421,709	0.16%
Helen Jones	149,292	0.05%	95,238	0.04%
Nick Avis	407,754	0.12%	272,619	0.10%
Riccardo Pigliucci	117,648	0.04%	117,648	0.04%
Ingeborg Øie	216,216	0.07%	–	–
Michèle Lesieur	–	–	–	–
Christian Guttman	–	–	–	–
Former Directors				
David Baynes ¹	–	–	–	–
Andrew Barker ²	372,046	0.11%	317,992	0.12%
Nazar Amso ¹	1,134,000	0.35%	1,134,000	0.42%

¹ Retired 22 June 2022

² Retired 31 December 2022

Parties related to Professor Nick Avis hold 141,177 shares representing 0.04% (2021: 0.05%) of the issued share capital.

Directors' interests in share options

At 31 December 2022 the following options had been granted to the Directors and remain current and unexercised:

	Option exercise price (pence)	At 1 January 2022 No.	Forfeited during year No.	At 31 December 2022 No.	Expiry date
Executive Directors					
Stuart Gall	19.00	268,000	–	268,000	1 May 2023
Stuart Gall	42.50	324,000	–	324,000	30 June 2024
Stuart Gall	11.25	2,437,000	–	2,437,000	29 May 2028
Stuart Gall	15.00	1,087,498	–	1,087,498	21 Dec 2030
Nicholas Sleep	19.00	268,000	–	268,000	1 May 2023
Nicholas Sleep	42.50	260,000	–	260,000	30 June 2024
Nicholas Sleep	11.25	1,605,000	–	1,605,000	29 May 2028
Nicholas Sleep	15.00	1,033,711	–	1,033,711	21 Dec 2030
Ian Whittaker	20.50	200,000	–	200,000	4 April 2027
Ian Whittaker	11.25	1,000,000	–	1,000,000	29 May 2028
Ian Whittaker	15.00	824,790	–	824,790	21 Dec 2030
Helen Jones	12.00	1,000,000	–	1,000,000	24 April 2030
Helen Jones	15.00	662,266	–	662,266	21 Dec 2030
Non-executive Directors					
Nazar Amso ¹	19.00	80,000	(80,000)	–	1 May 2023
Nazar Amso	42.50	150,000	(150,000)	–	30 June 2024
Nick Avis	42.50	40,000	–	40,000	30 June 2024
Andrew Barker ²	16.22	135,000	–	135,000	6 October 2027
Riccardo Pigliucci	19.00	216,000	–	216,000	1 May 2023
Riccardo Pigliucci	42.50	80,000	–	80,000	30 June 2024
		11,671,265	(230,000)	11,441,265	

¹ Retired 22 June 2022

² Retired 31 December 2022

The vesting conditions are detailed in note 23 of the financial statements.

Remuneration Committee Report continued

M&A bonus arrangement

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

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

Non-executive Directors

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

The Chair of the Committee will be available at the 2023 AGM to answer any questions about the Group's senior management remuneration policies and practices.

Approval

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

Michele Lesieur

Chair of the Remuneration Committee

20 April 2023

Directors' Report

The Directors present their report and audited consolidated financial statements of Intelligent Ultrasound Group plc (the Company or the Group) for the year ended 31 December 2022.

General Information

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

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

Information included in the Strategic Report

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

- Performance of the business
- Financial review
- Principal risks and uncertainties
- Important events which have occurred post period end and
- Likely future developments

Dividends

The Directors do not recommend the payment of a dividend (2021 £nil).

Research and development

The Group's research and development activity plays an important role in the operational and financial success of the business. The Group spent £3.20m (2021: £3.23m) on research and development activities of which £1.69m (2021: £1.96m) was expensed and £1.51m (2021: £1.27m) was capitalised as an intangible asset.

Going concern

The Directors have considered the available cash resources of the Group and its current forecasts and have a reasonable expectation that the Group has adequate cash resources and support to continue in operational existence for the foreseeable future, considered to be at least 12 months for the date of approval from the financial statements.

Financial instruments

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

Directors and their interests

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

Current Directors

- Stuart Gall
- Helen Jones
- Riccardo Pigliucci
- Nicholas Sleep
- Ian Whittaker
- Ingeborg Øie
- Michèle Lesieur
- Nicholas Avis
- Christian Guttman (appointed 15 August 2022)

Former Directors

- Andrew Barker (retired 31 December 2022)
- David Baynes (retired 22 June 2022)
- Nazar Amso (retired 22 June 2022)

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

Directors' Report continued

Substantial shareholdings

The following shareholders held 3% or more of the issued share capital of the Company as at 31 March 2023:

Shareholder	Number of shares	% of issued capital (as at date of notification)
IP Group plc	67,858,641	20.76
Octopus Investments	36,047,252	11.03
Parkwalk Advisors	35,965,600	11.00
Polar Capital	30,683,236	9.39
Amati Global Investors	22,025,000	6.74
Canaccord Genuity Wealth Management	13,771,400	4.21
Dowgate Capital	12,794,283	3.91
Herald Investment Management	11,448,900	3.50
Rathbones	10,926,019	3.34

Insurance

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

Corporate governance

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

Statement as to Disclosure of Information to the Auditor

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

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

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

Auditors

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

By order of the Board

Helen Jones

Chief Financial Officer and Company Secretary

20 April 2023

Statement of Directors' Responsibilities

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

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

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

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

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

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

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

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

Helen Jones

Chief Financial Officer and Company Secretary

20 April 2023



Independent Auditor's Report to the members of Intelligent Ultrasound Group plc

Opinion

We have audited the financial statements of Intelligent Ultrasound Group Plc (the 'Parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2022 which comprise the Group statement of profit and loss and other comprehensive income, the Group and Company statements of financial position, the Group statement of changes in equity, the Company statement of changes in equity, the Group and Company statements of cash flow and the notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards.

In our opinion, the financial statements:

- Give a true and fair view of the state of the Group's and of the Parent company's affairs as at 31 December 2022 and of the Group's loss for the year then ended;
- Have been properly prepared in accordance with UK-adopted international accounting standards; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and Parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our approach to the audit

Of the Group's four reporting components, we subjected four to audits for Group reporting purposes where the extent of our audit work was based on our assessment of the risk of material misstatement and of the materiality of that component. An additional dormant component has also been subject to audit.

The components within the scope of our work covered 100% of Group revenue, 100% of Group profit before tax, and 100% of Group net assets.

Key audit matters

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

Key audit matter	Description of risk	How the matter was addressed in the audit
Classification and valuation of intangibles	<p>As the business continues to grow there has been significant capitalisation of costs relating to intangible assets within the two subsidiaries Medaphor Limited (Simulation division) and Intelligent Ultrasound Limited (Clinical AI Division).</p> <p>The entities capitalise qualifying development costs as intangible assets, which are material to the Group's financial statements. The audit risk is considered significant, given the stringent requirements that must be met to capitalise these costs in accordance with IAS 38.</p> <p>In addition, the value of these costs to the Group, once capitalised, presents an area of audit risk, given the uncertainty and value of future sales, and the projected future life of the intangible asset and amortisation period assigned. For these reasons we have considered this an area of key audit focus.</p>	<p>The main procedures performed on the recognition and valuation assessments, including areas where we challenged management were as follows:</p> <ul style="list-style-type: none"> • Obtaining and agreeing the breakdown of intangible assets by ongoing/finalised projects to note 12 in the financial statements. • Assessing a sample of costs capitalised for each project at year end against the recognition criteria of IAS 38 and corroborating the explanations received from management with information obtained elsewhere. • Substantive testing a sample of costs capitalised during the year by agreeing to supporting documents and assessing them against the recognition criteria of IAS 38. • Reviewing the amortisation charged during the year, to ensure it has been calculated in accordance with the Group's amortisation policy, and consideration of whether the amortisation period is appropriate for the specific costs capitalised. • Reviewing management's assessment of the value of the intangible assets against the impairment indicators of IAS 36. • Obtaining, reviewing and recalculating key judgements used in the impairment assessment including the discount rate and growth assumptions. • Reviewing and challenging the capitalisation policy of those assets being developed but not yet capitalised. • Considering the appropriateness of the disclosures made in the financial statements in respect of these assets.

Independent Auditor's Report to the members of Intelligent Ultrasound Group plc continued

Key audit matter	Description of risk	How the matter was addressed in the audit
Valuation of investment in subsidiaries & intercompany receivables	The Group and trading entities have historic losses, with a history of impairment within the simulation division. We have identified that significant management judgement is required to assess the indicators of impairment and the requirements of IFRS 9, specifically the expected credit loss model for financial assets to be held at amortised cost.	<p>The main procedures performed on the valuation of investments and recoverability of intercompany receivable, including areas where we challenged management were as follows:</p> <ul style="list-style-type: none"> • Obtaining and agreeing the breakdown of investments in subsidiaries, including share options granted to note 14 in the financial statements. • Testing the carrying investment balance of each entity and separately considering the net asset position and the forecast value in use of the entities. • Obtaining, reviewing and recalculating key judgements used in the impairment assessment including the discount rate and growth assumptions. • Perform a review of managements forecasts and challenge the assumptions used in the value in use calculation for each subsidiary. • Obtaining and agreeing the breakdown of intercompany receivables to note 16 in the company financial statements. • Challenge managements assessments of the expected credit loss to be recognised in relation to the intercompany receivable in line with IFRS9. • Considering the appropriateness of the disclosures made in the financial statements in respect of these assets.

Emphasis of Matter – forecast performance of Clinical AI revenue stream used for the recoverability of intangible assets, investment value and intercompany receivable

We draw attention to note 4 in the financial statements concerning key estimation uncertainty, and specifically, the forecasted sales of Clinical AI products used in the recoverability of £1.529m of intangible asset on the Groups statement of financial position; and £3.17m of investment value and £3.1m of intercompany receivables on the statement of financial position of the Company.

As described in note 4 – Critical accounting judgements and key sources of estimation uncertainty – the recoverability of these assets is dependent on sales of Clinical AI products being delivered and cash collected, the timing of which is not certain. The financial statements do not reflect any impairments that may be required if the above Group assets totalling £1.529m or the above Company assets totalling £6.27m are not recoverable. Our opinion is not modified in respect of this matter.

Our application of materiality

The materiality for the Group financial statements as a whole ('Group FS materiality') was set at £200,000. This has been determined with reference to the benchmark of the Group's turnover, which we consider to be one of the principal considerations for members of the company in assessing the Group's performance. Group FS materiality represents 2% of the Group's turnover as presented on the face of the Group statement of profit and loss and other comprehensive income. Revenue growth is a key performance indicator of the Group to improve performance from a loss-making position.

The materiality for the Parent company financial statements as a whole ('Parent FS materiality') was set at £199,999. This has been determined with reference to the benchmark of the Parent company's net assets and capped at £1 less than Group FS materiality. Parent FS materiality represents 5% of the Parent company's net assets as presented on the face of the Parent company statement of financial position, capped at £1 less than Group FS materiality. The company holds the investments in the subsidiaries whilst assisting in the financing of these entities. The value of the company is therefore based on the performance of the trading subsidiaries.

Performance materiality for the Group financial statements was set at £160,000, being 80% of Group FS materiality, for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. We have set it at this amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds Group FS materiality. We judged this level to be appropriate based on our understanding of the Group and its financial statements, as updated by our risk assessment procedures and our expectation regarding current period misstatements. It was set at 80% to reflect the fact that few misstatements were expected in the current period and there is some judgement or estimation in the financial statements.

Performance materiality for the Parent company financial statements was set at £159,999, being 80% of Parent FS materiality. It was set at 80% to reflect the fact that few misstatements were expected in the current period and there is little judgement or estimation in the financial statements.

Conclusions relating to going concern

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

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

- Challenging the assumptions used in the detailed budgets and forecasts prepared by management for the financial years ending 2023 and 2024.
- Considering historical trading performance by comparing recent growth rates of revenue and gross profit across the Group's geographical and market segments;
- Assessing the appropriateness of the assumptions concerning growth rates and inputs to the discount rate against latest market expectations and macro-economic assumptions;
- Comparing the forecast results to those actually achieved in the 2023 financial period so far;

Independent Auditor's Report to the members of Intelligent Ultrasound Group plc continued

- Reviewing bank statements to monitor the cash position of the Group post year end, and obtaining an understanding of significant expected cash outflows (such as capital expenditure) in the forthcoming 12-month period;
- Considering the Group's funding position and requirements;
- Considering the sensitivity of the assumptions and re-assessing headroom after sensitivity.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- The information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

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

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

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 56, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

We obtained a general understanding of the Group's legal and regulatory framework through enquiry of management concerning their understanding of relevant laws and regulations, the entity's policies and procedures regarding compliance, and how they identify, evaluate and account for litigation claims. We also drew on our existing understanding of the company's industry and regulation.

Intelligent Ultrasound Group plc is incorporated in England and Wales and holds investment in subsidiaries.

Independent Auditor's Report to the members of Intelligent Ultrasound Group plc continued

We understand that the Group complies with the framework through:

- Outsourcing payroll, share based payments computations and tax compliance to external experts.
- Subscribing to relevant updates from external experts, and making changes to internal procedures and controls as necessary.
- Updating operating procedures, manuals and internal controls as legal and regulatory requirements change.
- Given the management structure and all components, meaning reporting lines, that any litigation or claims would come to their the Directors' attention directly as being of significance in the context of the Group.

In the context of the audit, we considered those laws and regulations which determine the form and content of the financial statements, which are central to the Group's ability to conduct its business, and where there is a risk that failure to comply could result in material penalties. We identified the following laws and regulations as being of significance in the context of the Group:

- The Companies Act 2006 and IFRS in respect of the preparation and presentation of the financial statements.
- AIM rules and the UK Market Abuse Regulation.
- UK taxation law.

We performed the following specific procedures to gain evidence about compliance with the significant laws and regulations identified above:

- Inspected the monthly board meeting minutes to ensure there are no reports of non-compliance.
- Reviewed legal expenses accounts to ensure spend is in line with expectations.

The senior statutory auditor led a discussion with senior members of the engagement team regarding the susceptibility of the entity's financial statements to material misstatement, including how fraud might occur. The areas identified in this discussion were:

- Manipulation of the financial statements, especially revenue, via fraudulent journal entries, particularly as the size of the company means that there is little opportunity for segregation of duties.

These areas were communicated to the other members of the engagement team not present at the discussion.

The procedures we carried out to gain evidence in the above areas included:

- Testing a sample of revenue journal entries back to supporting documentation.

Overall, the senior statutory auditor was satisfied that the engagement team collectively had the appropriate competence and capabilities to identify or recognise irregularities. In particular, both the senior statutory auditor and the audit manager have a number of years' experience in dealing with companies in the technology and medical sector and also with companies listed on the AiM market of the London Stock Exchange.

A further description of our responsibilities is available on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent 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 Parent company and the Parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Carl Deane

Senior Statutory Auditor, for and on behalf of

CLA Evelyn Partners Limited

Statutory Auditor
Chartered Accountants
Portwall Place
Portwall Lane
Bristol
BS1 6NA

20 April 2023

Group Statement of Profit and Loss and Other Comprehensive Income

For the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Continuing operations			
Revenue	5	10,100	7,596
Cost of sales		(3,766)	(2,937)
Gross profit		6,334	4,659
Other income	6	8	2
Administrative expenses		(10,014)	(8,993)
Operating loss	7	(3,672)	(4,332)
Finance income	8	1	1
Finance costs	8	(31)	(37)
Loss before taxation		(3,702)	(4,368)
Taxation	9	718	758
Loss attributable to the equity shareholders of the Parent		(2,984)	(3,610)
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Exchange gain arising on translation of foreign operations		238	33
Other comprehensive gain for the period		238	33
Total comprehensive loss attributable to the equity shareholders of the Parent		(2,746)	(3,577)
Loss per ordinary share attributable to the equity shareholders of the Parent			
Basic and diluted (pence)	11	(1.08)	(1.34)

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

Group and Company Statements of Financial Position

As at 31 December 2022

	Note	Group		Company	
		2022 £'000	2021 £'000	2022 £'000	2021 £'000
Non-current assets					
Intangible assets	12	3,272	2,558	–	–
Property, plant and equipment	13	1,174	1,400	388	532
Investments in subsidiaries	14	–	–	6,328	5,951
Trade and other receivables	16	61	61	11,849	14,942
		4,507	4,019	18,565	21,425
Current assets					
Inventories	15	1,603	1,196	–	–
Trade and other receivables	16	2,025	2,650	192	232
Current tax assets		713	954	–	–
Cash and cash equivalents	17	7,166	4,950	5,027	1,507
		11,507	9,750	5,219	1,739
Total assets		16,014	13,769	23,784	23,164
Current liabilities					
Trade and other payables	18	(2,732)	(2,767)	(445)	(345)
Deferred income	19	(337)	(206)	–	–
Lease liabilities	13	(188)	(213)	(118)	(138)
Provisions	20	(22)	(22)	–	–
		(3,279)	(3,208)	(563)	(483)
Non-current liabilities					
Deferred income	19	(209)	(320)	–	–
Lease liabilities	13	(298)	(457)	(263)	(381)
Other payables	18	(65)	(65)	(65)	(65)
		(572)	(842)	(328)	(446)
Total liabilities		(3,851)	(4,050)	(891)	(929)
Net assets		12,163	9,719	22,893	22,235

	Note	Group		Company	
		2022 £'000	2021 £'000	2022 £'000	2021 £'000
Equity					
Share capital	22	3,269	2,707	3,269	2,707
Share premium	22	30,207	25,959	30,207	25,959
Accumulated losses		(29,951)	(26,967)	(16,967)	(12,435)
Share-based payment reserve		1,753	1,373	1,671	1,291
Merger reserve		6,538	6,538	4,548	4,548
Foreign exchange reserve		182	(56)	–	–
Other reserves		165	165	165	165
Total equity		12,163	9,719	22,893	22,235

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

The Company has elected to take the exemption under Section 408 of the Companies Act 2006 to not present the statement of comprehensive income for the Company. The result for the Company for the year was a loss of £4.5m (2021: loss of £2.38m).

These financial statements were approved and authorised for issue by the Board of Directors on 20 April 2023 and were signed on its behalf by:

Helen Jones

Chief Financial Officer

Stuart Gall

Chief Executive Officer

Company number: 09028611

Group Statement of Changes in Equity

For the year ended 31 December 2022

	Note	Share capital £'000	Share premium £'000	Accumulated losses £'000	Share-based payment reserve £'000	Share warrants £'000	Merger reserve £'000	Foreign exchange reserve £'000	Other reserves £'000	Total equity £'000
As at 31 December 2020		2,694	25,959	(23,381)	842	126	6,538	(89)	–	12,689
Loss for the year		–	–	(3,610)	–	–	–	–	–	(3,610)
Other comprehensive loss		–	–	–	–	–	–	33	–	33
Total comprehensive loss for the year		–	–	(3,610)	–	–	–	33	–	(3,577)
Transactions with owners, recorded directly in equity										
Issue of share capital	22	13	–	–	–	–	–	–	–	13
Exercise of share warrants	22	–	–	24	–	(126)	–	–	165	63
Cost of share-based awards	23	–	–	–	531	–	–	–	–	531
As at 31 December 2021		2,707	25,959	(26,967)	1,373	–	6,538	(56)	165	9,719
Loss for the year		–	–	(2,984)	–	–	–	–	–	(2,984)
Other comprehensive income		–	–	–	–	–	–	238	–	238
Total comprehensive loss for the year		–	–	(2,984)	–	–	–	238	–	(2,746)
Transactions with owners, recorded directly in equity										
Issue of share capital	22	562	4,248	–	–	–	–	–	–	4,810
Cost of share-based awards	23	–	–	–	380	–	–	–	–	380
As at 31 December 2022		3,269	30,207	(29,951)	1,753	–	6,538	182	165	12,163

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

Parent Company Statement of Changes in Equity

For the year ended 31 December 2022

	Note	Share capital £'000	Share premium £'000	Share warrants £'000	Accumulated losses £'000	Share-based payment reserve £'000	Merger reserve £'000	Other reserves £'000	Total equity £'000
As at 31 December 2020		2,694	25,959	126	(10,077)	760	4,548	–	24,010
Loss for the year		–	–	–	(2,382)	–	–	–	(2,382)
Total comprehensive loss for the year		–	–	–	(2,382)	–	–	–	(2,382)
Transactions with owners, recorded directly in equity									
Issue of share capital	22	13	–	–	–	–	–	–	13
Exercise of share warrants	22	–	–	(126)	24	–	–	165	63
Cost of share-based awards	23	–	–	–	–	531	–	–	531
As at 31 December 2021		2,707	25,959	–	(12,435)	1,291	4,548	165	22,235
Loss for the year		–	–	–	(4,532)	–	–	–	(4,532)
Total comprehensive loss for the year		–	–	–	(4,532)	–	–	–	(4,532)
Transactions with owners, recorded directly in equity									
Issue of share capital	22	562	4,248	–	–	–	–	–	4,810
Cost of share-based awards	23	–	–	–	–	380	–	–	380
As at 31 December 2022		3,269	30,207	–	(16,967)	1,671	4,548	165	22,893

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

Group and Company Statement of Cash Flows

For the year ended 31 December 2022

	Note	Group		Company	
		2022 £'000	2021 £'000	2022 £'000	2021 £'000
Cash flows from operating activities					
Loss before taxation		(3,702)	(4,368)	(4,532)	(2,382)
Depreciation	7	604	508	143	143
Amortisation of intangible assets	7	780	680	–	–
Credit loss allowance/(reversal) on intercompany receivables		–	–	3,744	1,623
Fair value adjustment to share warrants		–	3	–	3
Finance costs/(income)	8	30	36	21	29
Share-based payment charge	10	380	530	4	37
Operating cash flows before movement in working capital					
		(1,908)	(2,611)	(620)	(547)
Movement in inventories	15	(404)	(149)	–	–
Movement in trade and other receivables	16	739	(592)	40	(115)
Movement in trade and other payables	16	(70)	1,045	101	111
Movement in provisions	20	–	12	–	–
Cash used in operations					
		(1,643)	(2,295)	(479)	(552)
Income taxes received	9	959	476	–	–
Net cash used in operating activities					
		(684)	(1,819)	(479)	(552)
Cash flows from investing activities					
Purchase of property, plant and equipment		(357)	(503)	–	–
(Increase) in intercompany loans		–	–	(652)	(3,978)
Internally generated intangible assets	12	(1,467)	(1,275)	–	–
Interest received	8	1	1	1	–
Net cash (used in)/generated by investing activities					
		(1,823)	(1,777)	(651)	(3,978)

	Note	Group		Company	
		2022 £'000	2021 £'000	2022 £'000	2021 £'000
Cash flows from financing activities					
Proceeds from issue of new shares	22	5,200	13	5,200	13
Share issue costs	22	(390)	–	(390)	–
Principal elements of lease payments	13	(231)	(195)	(138)	(123)
Interest paid	8	(31)	(37)	(22)	(29)
Net cash generated by/(used in) financing activities					
		4,548	(219)	4,650	(139)
Net increase/(decrease) in cash and cash equivalents					
		2,041	(3,815)	3,520	(4,668)
Cash and cash equivalents at beginning of year	17	4,950	8,774	1,507	6,175
Exchange losses on cash and cash equivalents		175	(9)	–	–
Cash and cash equivalents at end of year					
	17	7,166	4,950	5,027	1,507

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

Notes to the Financial Statements

For the year ended 31 December 2022

1. General information

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

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

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

2. New and amended Standards adopted by the Group

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

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

- Annual Improvements to IFRS: 2018-2020 Cycle
- Conceptual Framework for Financial Reporting (Amendments to IFRS 3)
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendment – Onerous Contracts – Cost of Fulfilling a Contract)
- IAS 16 Property, Plant and Equipment (Amendment – Proceeds before Intended Use)

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

New and revised IFRS Standards in issue but not yet effective

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

Mandatorily effective for periods beginning on or after 1 January 2023

- IFRS 17 Insurance Contracts
- IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 (Amendment – Disclosure of Accounting Policies)
- IAS 8 Accounting policies, Changes in Accounting Estimates and Errors (Amendment – Definition of Accounting Estimates)
- IAS 12 Income Taxes (Amendment – Deferred Tax related to Assets and Liabilities arising from a Single Transaction)

Mandatorily effective for periods beginning on or after 1 January 2024

- IFRS 16 Leases (Amendment – Liability in a Sale and Leaseback)
- IAS 1 Presentation of Financial Statements (Amendment – Classification of Liabilities as Current or Non-Current)
- IAS 1 Presentation of Financial Statements (Amendment – Non-current Liabilities with Covenants)

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

3. Significant accounting policies

Basis of preparation

Compliance with IFRS

The Group and Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the UK.

Historical cost convention

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

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

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

Foreign currency translation

i) Functional and presentation currency

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

ii) Transactions and balances

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

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

Notes to the Financial Statements continued

For the year ended 31 December 2022

3. Significant accounting policies continued

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

iii) Group companies

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

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

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

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

Going concern

In undertaking a going concern review, the Directors have reviewed two financial projections to 31 December 2024 based on the existing base budget and a flexed, more conservative version of the base budget; both of which include estimates and assumptions regarding the product development projects, sales pipeline, future revenues and costs and timing and quantum of investments in the R&D programmes. Both forecasts indicate that the Group should be able to operate within the limits of its existing resources and therefore the Directors have a reasonable expectation that the Company and the Group can continue in operational existence for at least twelve months from the date of approval of the financial statements. Therefore, the Company and Group continues to adopt the going concern basis in preparing its financial statements.

Basis of consolidation

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

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

Revenue recognition

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

i) Simulation

Performance obligations and timing of revenue recognition

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

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

Notes to the Financial Statements continued

For the year ended 31 December 2022

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

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

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

Determining the transaction price

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

Allocating amounts to performance obligations

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

Costs of obtaining contracts and costs of fulfilling contracts

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

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

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

Significant payment terms

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

Practical expedients

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

ii) Clinical AI – royalty income

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

Share-based payments

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

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

Notes to the Financial Statements continued

For the year ended 31 December 2022

3. Significant accounting policies continued

Financial instruments

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

Trade receivables

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

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

Amounts owed by subsidiary undertakings (Company only)

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

Financial liabilities and equity

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

Trade payables

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

Deferred consideration

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

Business combinations

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

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

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

Goodwill

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

Other intangible assets

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

Internally generated intangible assets – research and development expenditure

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

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

Notes to the Financial Statements continued

For the year ended 31 December 2022

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

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

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

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

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

Medical device product development capitalisation

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

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

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

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

Subsequent measurement

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

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

Amortisation of intangible assets

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

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

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

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

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

Subsequent expenditure

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

Notes to the Financial Statements continued

For the year ended 31 December 2022

3. Significant accounting policies continued

Subsequent expenditure that needs regulatory approval

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

Derecognition

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

Intangible assets acquired as part of a business combination

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

Intellectual property	5 to 10 years
Brands	5 years

Impairment of assets

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

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

Property, plant and equipment

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

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

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

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

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

Leases

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

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

i) Right-of-use assets

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

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

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

Notes to the Financial Statements continued

For the year ended 31 December 2022

ii) Lease liabilities

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

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

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

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

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

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

Investments in subsidiaries

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

Cash and cash equivalents

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

Short-term investments

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

Inventories

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

Income tax

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

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

Notes to the Financial Statements continued

For the year ended 31 December 2022

3. Significant accounting policies continued

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

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

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

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

UK Research and Development Tax Incentive regimes

The Group accounts for amounts claimed under the SME scheme as tax credits.

Pension costs

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

Warranty claims

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

Government grants

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

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

Equity

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

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

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

The share based payment reserve comprises the grant date fair value of share options granted to employees and Directors which are yet to be exercised. The share based payment reserve is used to record the credit to equity over the vesting period in an equity settled SBP arrangement.

On exercise of share warrants relating to acquisitions, the share warrant reserve is extinguished directly through equity resulting in a new undistributable other reserve.

4. Critical accounting judgements and key sources of estimation uncertainty

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

i) Critical accounting judgements

In preparing the 2022 financial statements, management has made various judgements in the process of applying the entity's accounting policies. The following represents those judgments, apart from those involvement estimation uncertainty (see (ii)), made by management which have the most significant effect on the amounts recognised in the financial statements.

Notes to the Financial Statements continued

For the year ended 31 December 2022

Capitalisation of internally generated intangible assets – Clinical AI only

The Group capitalises internal and external software development costs, in particular internal staff costs. The point at which such internal costs are capitalised as well as their magnitude is a key area of judgement. A key area in respect of the stage of development of internally developed technology is subject to judgement as to when a product's future economic value justifies capitalisation. In making this judgement, management assesses each project against each of the capitalisation criteria. If one of the conditions is not met, then the costs attributable to the project would not be capitalised. It is common practice within the regulated medical device sector that technical feasibility with respect to Clinical AI software products is not achieved until regulatory approval to use and sell to the market is obtained. In the current and prior year, the Directors applied this judgement with respect to research and development costs for Anatomy PNB. Directors also applied judgement to the point of capitalisation of development costs that relate to new products that are an extension of existing products that already have regulatory approval, are available for sale and for which commercial terms have been agreed.

ii) Key sources of estimation uncertainty

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

Impairment assessment of Clinical AI intangible assets

For the intangible assets that have a finite life, the Directors considered the need to impair the carrying value of intangible assets by performing a review for indicators of impairment by assessing the performance of the assets against qualitative and quantitative factors. If any of these factors are present a detailed impairment review is undertaken. A detailed impairment assessment is performed by assessing the assets value in use which requires management to make a number of estimates. The most sensitive estimate is in relation to management's estimates of future revenues on the basis that these are new products which have no extensive history of sales upon which to base the forecasts.

During the period ended 31 December 2022, the Clinical AI related assets of £1.5m were tested for impairment.

The calculations use five-year cash flow projections based on financial budgets approved by management covering a two-year period. Cash flows for periods three to five are extrapolated using estimated growth rates and growth rates beyond five years are consistent with forecasts specific to the sector in which the CGU operates.

Reasonable sensitivities applied to the cashflow projections indicate that there is significant headroom before any impairment would be required. A 69% reduction in the budgeted revenue used in the value-in-use calculation for the IUL acquired intangible assets would result in full impairment of the carrying value of the asset by £1.5m.

Recoverability of amounts due from subsidiary undertakings (Company only)

The Company has applied the IFRS 9 general approach to measure expected credit losses arising from amounts owed by its subsidiary undertakings. This required the Directors to make judgements to arrive at a weighted average expected credit loss based on a number of forecast cash flow scenarios and the assignment of probability factors to each scenario. Amounts owed by subsidiary undertakings is £11.8m (2021: £14.9m) – see Note 16.

Investment in subsidiaries impairment (Company only)

The Directors perform an annual impairment assessment for the investments held in subsidiaries by the Company by performing a review for indicators of impairment by assessing the performance of the subsidiaries against qualitative and quantitative factors. If any of these factors are present a detailed impairment review is undertaken. A detailed impairment assessment is performed by assessing the subsidiary's value in use which requires management to make a number of estimates. The calculations use five-year discounted cash flow (DCF) projections based on financial budgets approved by management covering a two year period. Cashflows for periods four to five are extrapolated using estimated growth rates and growth rates beyond five years are consistent with forecasts specific to the sector in which the subsidiary operates.

The DCF model is sensitive to expected future cash inflows. The most sensitive estimate is in relation to management's estimates of future revenues for new Clinical AI products which have no extensive history of sales upon which to base the forecasts.

Reasonable sensitivities, including EBITDA reducing by 50%, applied to the cashflow projections indicate that there is significant headroom before any impairment would be required.

5. Operating segments

Operating segments reflect the way in which information is presented to and reviewed by the CODM for the purposes of making strategic decisions and assessing Group-wide performance. The Group's Board of Directors ('the Board') is the Group's CODM. The Group evaluates performance of the operational segments on the basis of revenue and gross profit. Apart from Intangible assets and Property, plant and equipment, all other assets and liabilities are reported to the Board at Group level and are not separated segmentally.

The format of revenue reporting is based on the Group's management and internal reporting (including reports to the CODM). The Group has two operating segments: Simulation and Clinical AI.

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

	Simulation £'000	Clinical AI £'000	Total £'000
2022			
Revenue	9,432	668	10,100
Cost of sales	(3,502)	(264)	(3,766)
Gross profit	5,930	404	6,334
	Simulation £'000	Clinical AI £'000	Total £'000
2021			
Revenue	7,390	206	7,596
Cost of sales	(2,883)	(54)	(2,937)
Gross profit	4,507	152	4,659

Notes to the Financial Statements continued

For the year ended 31 December 2022

5. Operating segments continued

Revenue by destination of external customer

	2022 £'000	2021 £'000
United Kingdom	5,145	2,553
North America (USA & Canada)	2,943	2,733
Rest of the World	2,012	2,310
	10,100	7,596
Timing of revenue recognition:		
At a point in time	9,591	7,284
Over time	509	312

Clinical AI royalty income is included within Rest of the World based on the external customer's invoicing country rather than the destination of the end customer.

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

	2022 £'000	2021 £'000
USA	2,808	2,426

The Group had no customers who accounted for more than 10% of the Group revenue for the year ended 31 December 2022 or 2021.

Other segment information

	Depreciation and amortisation		Additions to non-current assets	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Simulation	942	843	1,258	1,334
Clinical AI	299	202	605	535
Central	143	143	–	–
	1,384	1,188	1,863	1,869

Non-current assets based outside the UK

Right-of-use assets include leased offices for Intelligent Ultrasound North America Inc (IUNA), based in Georgia. The net book value as of 31 December 2022 was £0.03m (2021: £0.07m).

6. Other income

	2022 £'000	2021 £'000
UK grant income	8	2

7. Operating loss

	2022 £'000	2021 £'000
Operating loss is stated after charging/(crediting):		
Raw materials and consumables used	2,960	2,512
Depreciation		
Right-of-use assets	223	218
Other assets	381	290
Amortisation of intangible assets	780	680
Staff costs (note 10)	5,647	5,413
Exchange (loss)/gain	(75)	31
Auditor's remuneration		
Audit of Group financial statements	47	81
Audit of Company and subsidiaries	58	18
Review of interim accounts	5	5
R&D cost		
– Expensed	1,695	1,957
– Amortised	641	334

Staff and other development costs of £1.49m not included in the operating loss have been capitalised as intangible assets during the year (2021: £1.27m).

8. Finance income and costs

	2022 £'000	2021 £'000
Finance income		
Interest income from bank deposits	(1)	(1)
Finance costs		
Interest on lease liabilities	31	37
	30	36

Notes to the Financial Statements continued

For the year ended 31 December 2022

9. Taxation

i) Analysis of income tax credit in the year

	2022 £'000	2021 £'000
Current tax		
R&D tax credit	(711)	(769)
R&D tax credit relating to prior periods	(7)	11
	(718)	(758)
Deferred tax		
Origination and reversal of timing differences	-	-
Effect of tax rate change on opening balance	-	-
Income tax credit	(718)	(758)

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25% (rather than remaining at 19%, as previously enacted). This new law was substantively enacted on 24 May 2021. Deferred taxes at 31 December 2021 and 2022 have been measured using these enacted tax rates and reflected in these financial statements.

ii) Factors affecting the tax credit

The Group has made a taxable loss for the year (2021: loss) and therefore has not recognised all of the deferred tax asset arising due to uncertainty over the timing of future profit.

	2022 £'000	2021 £'000
Loss before taxation	(3,702)	(4,368)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2021: 19%)	(703)	(830)
Effects of:		
Fixed asset differences	(18)	(26)
Expenses not deductible/income not taxable	101	158
Differences between R&D expenditure credit (SME Scheme) and capitalised revenue expenditure	(329)	(337)
Adjustments in respect of prior periods	(7)	4
Remeasurement of deferred tax for changes in tax rates	-	(912)
Difference in US tax rate	(9)	(35)
Deferred tax not recognised	247	1,220
Income tax credit	(718)	(758)

iii) Deferred tax

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

	Unrecognised		Recognised	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Accelerated capital allowances	-	-	(190)	(190)
Intangible assets	-	-	(727)	(554)
Provisions	-	-	3	3
Tax losses	4,805	4,322	914	741
Total asset	4,805	4,322	-	-

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

	Accelerated capital allowances £'000	Intangible assets £'000	Provisions £'000	Tax losses £'000	Total £'000
At 1 January	190	554	(3)	(741)	-
Charged/(credited) to income statement	-	173	-	(173)	-
As at 31 December	190	727	(3)	(914)	-

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

Notes to the Financial Statements continued

For the year ended 31 December 2022

9. Taxation continued

iv) Tax losses

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

	2022 £'000	2021 £'000
Unused tax losses for which no deferred tax asset has been recognised	19,218	17,289
Potential tax benefit @25% (2021: 25%)	4,805	4,322

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

Tax losses in the US do not have an expiration date.

v) Uncertainty over income tax treatments

MedaPhor is currently appealing various penalty notices received by the Inland Revenue Service (IRS) totalling \$0.05m for late filing of historical tax returns in the US. The Company has appealed these penalties and it is the view of the Company, supported by the Group's tax advisers, that these appeals will be successful. The penalty appeal remains outstanding due to significant ongoing delays within the IRS.

10. Employees

	2022 No.	2021 No.
The average monthly number of persons (including Executive Directors) employed by the Group was:		
Research and development	30	28
Sales, marketing and distribution	12	12
Management and administration	23	17
	65	57

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

	2022 No.	2021 No.
The average monthly number of Non-executive Directors employed by the Company was:	6	7

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

	2022 £'000	2021 £'000
Wages and salaries	5,510	4,995
Social security costs	526	374
Pensions	131	128
Share-based payments	380	530
Total employed staff costs	6,547	6,027
Staff costs capitalised	(900)	(759)
Staff costs included under administrative expenses	5,647	5,268

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

	2022 £'000	2021 £'000
Short-term employee benefits	1,062	988
Post employment benefits	67	53
Share-based payments	153	338
	1,282	1,379

Directors' remuneration comprises the following:

	2022 £'000	2021 £'000
Salaries and fees (including estimated value of other benefits)	1,052	968
Fees paid to third parties in respect of services provided by Directors	10	20
Directors' pension costs	67	53

No Directors are accruing benefits under Company defined contribution pension schemes (2021: None). Each Executive Director is entitled to a 10% pension allowance.

Notes to the Financial Statements continued

For the year ended 31 December 2022

	2022 £'000	2021 £'000
This remuneration includes the following amounts in respect of the highest paid Director:		
Salaries and fees (including estimated value of other benefits)	274	255
Pension costs	20	19

The highest paid Director held 1,491,042 (2021: 923,474) shares at the year end and share options in the Company totalling 4,116,498 (2021: 4,116,498). None of the Directors exercised any of their share options during the year (2021: None).

Further details of Directors' fees and salaries, bonuses, pensions and share options are given in pages 50 to 53 in the Remuneration Report, which forms part of these financial statements.

11. Loss per Ordinary share

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

	2022 £'000	2021 £'000
Loss after taxation	(2,984)	(3,610)

	2022 No.	2021 No.
Number of Ordinary shares of 1p each		
Basic and diluted weighted average number of Ordinary shares	275,274,014	269,964,886
Basic and diluted loss pence per share	(1.08)	(1.34)

At 31 December 2022 and 2021 there were share options outstanding (see note 23) which could potentially have a dilutive impact but were anti-dilutive in both years.

12. Intangible assets

	Arising from business combinations			Other intangibles		Total £'000
	Goodwill £'000	Intellectual property £'000	Brand £'000	Capitalised development costs £'000	Software licences £'000	
Cost						
At 1 January 2021	3,328	3,038	133	3,517	25	10,041
Additions	–	–	–	1,275	–	1,275
At 31 December 2021	3,328	3,038	133	4,792	25	11,316
Additions	–	–	–	1,494	–	1,494
At 31 December 2022	3,328	3,038	133	6,286	25	12,810
Amortisation/impairment						
At 1 January 2021	3,328	1,909	118	2,698	25	8,078
Charge for year	–	331	15	334	–	680
At 31 December 2021	3,328	2,240	133	3,032	25	8,758
Charge for year	–	139	–	641	–	780
At 31 December 2022	3,328	2,379	133	3,673	25	9,538
Net book value						
At 31 December 2022	–	659	–	2,613	–	3,272
At 31 December 2021	–	798	–	1,760	–	2,558
At 1 January 2021	–	1,129	15	819	–	1,963

i) Intellectual property

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

Material individual intangible assets within IP are as follows:

- £0.66m (2021: £0.80m) in relation to the acquisition of IUL with a remaining amortisation period of 4.75 years as at 31 December 2022.

Notes to the Financial Statements continued

For the year ended 31 December 2022

12. Intangible assets continued

ii) Capitalised development costs

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

Development costs	20%
Software licences	33%

iii) Impairment tests

For the intangible assets that have a finite life, the Directors considered the need to impair the carrying value of intangible assets by performing a review for indicators of impairment by assessing the performance of the assets against qualitative and quantitative factors. If any of these factors are present a detailed impairment review is undertaken. A detailed impairment assessment is performed by assessing the assets value in use which requires management to make a number of estimates. The most sensitive estimate is in relation to management's estimates of future revenues on the basis that these are new products which have no extensive history of sales upon which to base the forecasts.

During the period ended 31 December 2022, the Clinical AI related assets of £1.5m were tested for impairment. The calculations use five-year cash flow projections based on financial budgets approved by management covering a two-year period. Cash flows for periods three to five are extrapolated using estimated growth rates and growth rates beyond five years are consistent with forecasts specific to the sector in which the CGU operates.

Reasonable sensitivities applied to the cashflow projections indicate that there is significant headroom before any impairment would be required. A 69% reduction in the budgeted revenue used in the value-in-use calculation for the IUL acquired intangible assets would result in full impairment of the carrying value of the asset by £1.4m.

13. Property, plant & equipment

i) Group

	Leasehold improvements £'000	Furniture & fixtures £'000	Plant & equipment £'000	Right-of-use assets £'000	Total £'000
Cost					
At 1 January 2021	63	28	993	951	2,035
Additions	7	15	479	93	594
Disposals	–	–	–	(10)	(10)
Foreign exchange	–	–	–	2	2
At 31 December 2021	70	43	1,472	1,036	2,621
Additions	–	4	324	41	369
Disposals	–	–	(67)	(10)	(77)
Foreign exchange	–	–	4	31	35
At 31 December 2022	70	47	1,733	1,098	2,948
Depreciation					
At 1 January 2021	10	8	561	143	722
Charge for year	17	10	263	218	508
Disposals	–	–	–	(10)	(10)
Foreign exchange	–	–	–	1	1
At 31 December 2021	27	18	824	352	1,221
Charge for year	17	11	353	223	604
Disposals	–	–	(67)	(10)	(77)
Foreign exchange	–	–	(17)	43	26
At 31 December 2022	44	29	1,093	608	1,774
Net book value					
At 31 December 2022	26	18	640	490	1,174
At 31 December 2021	43	25	648	684	1,400
At 1 January 2021	53	20	432	808	1,313

Total depreciation expense of £0.60m (2021: £0.51m) has been charged to administrative expenses in the income statement. The addition of £0.09m to the right-of-use assets relate to a fair value adjustment arising from the renewal of the IUNA office lease.

The disposal of the right-to-use asset in 2022 relates to a non-cash disposal of a leased vehicle.

Notes to the Financial Statements continued

For the year ended 31 December 2022

ii) Company

	Right-of-use assets £'000
Cost	
At 1 January 2021 and 2022	718
Additions	–
As at 31 December 2021 and 2022	718
Depreciation	
At 1 January 2021	43
Charge for year	143
At 31 December 2021	186
Charge for year	144
At 31 December 2022	330
Net book value	
At 31 December 2022	388
At 31 December 2021	532
At 1 January 2021	675

iii) Leases

The balance sheet shows the following amounts relating to leases:

	Group		Company	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Right-of-use assets				
Premises	462	670	388	532
Vehicles	28	14	–	–
	490	684	388	532

Maturity analysis of lease liabilities:

	Group		Company	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Year 1	205	241	133	160
Year 2	195	186	160	133
Year 3	117	185	114	160
Year 4	–	116	–	114
Year 5	–	–	–	–
	517	728	407	567
Less: unearned interest	(31)	(58)	(26)	(48)
	486	670	381	519
Analysed as:				
Current	188	213	118	138
Non-current	298	457	263	381
	486	670	381	519

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

	Group		Company	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
At 1 January	670	773	519	641
Non-cash changes:				
New leases	41	92	–	–
Interest on lease liability	31	37	22	29
Foreign exchange	6	–	–	–
Cash changes:				
Interest paid	(31)	(37)	(22)	(29)
Principal repaid	(231)	(195)	(138)	(122)
At 31 December	486	670	381	519

Leases are the only liability arising from financing activities.

Notes to the Financial Statements continued

For the year ended 31 December 2022

13. Property, plant & equipment continued

The following amounts relating to leases are recognised in profit and loss in the year to 31 December 2022:

	2022 £'000	2021 £'000
Short-term or low-value lease expense	2	2
Depreciation expense on right-of-use assets – property	208	209
Depreciation expense on right-of-use assets – vehicles	15	9
Interest expense on lease liabilities	31	37
	256	257

Cash outflows from short-term or low-value leases are £0.002m (2021: £0.002m).

14. Investments in subsidiaries

	Company	
	2022 £'000	2021 £'000
At 1 January	5,951	5,459
Equity settled share options granted to employees of subsidiaries	377	492
At 31 December	6,328	5,951

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

The Company's subsidiary undertakings are as follows:

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

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

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

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

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

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

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

The Directors perform an annual impairment assessment for the investments held in subsidiaries by the Company by performing a review for indicators of impairment by assessing the performance of the subsidiaries against qualitative and quantitative factors. If any of these factors are present a detailed impairment review is undertaken. A detailed impairment assessment is performed by assessing the subsidiary's value in use which requires management to make a number of estimates. The calculations use five-year discounted cash flow (DCF) projections based on financial budgets approved by management covering a two year period. Cashflows for periods four to five are extrapolated using estimated growth rates and growth rates beyond five years are consistent with forecasts specific to the sector in which the subsidiary operates.

The DCF model is sensitive to expected future cash inflows. The most sensitive estimate is in relation to management's estimates of future revenues for Clinical AI products which have no extensive history of sales upon which to base the forecasts. Estimates have been based on management's conservative view of market demand by region for the products.

Reasonable sensitivities, including EBITDA reducing by 50%, applied to the cashflow projections indicate that there is significant headroom before any impairment would be required.

The net present value of the DCF has been calculated using a pre-tax discount rate of 14.03% (2021: 12.98%) and a growth rate of 2% (2021: 2.00%) was used to determine the terminal value. The conclusion of this impairment review was that no further impairment was required in 2022 (2021: £nil).

Notes to the Financial Statements continued

For the year ended 31 December 2022

15. Inventories

	Group	
	2022 £'000	2021 £'000
Raw materials	1,543	617
Work in progress	14	510
Finished goods	46	69
	1,603	1,196

The costs of individual items of inventory are determined using weighted average cost. Inventories recognised as an expense during the year ended 31 December 2022 amounted to £2.96m (2021: £2.51m). These were included in 'cost of sales'. The above figures include a provision for obsolete stock of £Nil (2021: £Nil).

Inventory written off in the year, included within 'cost of sales', totalled £0.15m (2021: £0.05m).

Inventories of £1.6m (2021: £1.2m) are expected to be recovered within 12 months.

16. Trade and other receivables

i) Included within non-current assets

	Group		Company	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Financial assets at amortised cost	61	61	61	61
Amounts owed by subsidiary undertakings	–	–	11,788	14,881
	61	61	11,849	14,942

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

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

ii) Included within current assets

	Group		Company	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Trade receivables	1,356	1,882	–	–
Other receivables	69	67	–	–
VAT and other sales taxes	88	175	86	28
Prepayments	512	526	106	204
	2,025	2,650	192	232

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

Group

Trade receivables are initially recognised at their transaction price and subsequently measured at their amortised cost using the effective interest method less any loss allowance. The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and ageing. Customers are assigned one of four credit risk profiles (A to D) with A being the lowest credit risk profile (institutional customers such as hospitals and medical schools) and D the highest (non-institutional customers with a poor credit history). The expected loss probability rates are based on management's experience of historical credit losses for each group of trade receivables. The resultant provision matrix is then adjusted for current and forward-looking information based upon management's knowledge of the customer concerned and the prospects of recovery. The allowance that has been made for estimated irrecoverable trade receivables is £0.052m (2021: £0.024m). The movement in the impairment allowance is included in Administrative Expenses in profit and loss.

Notes to the Financial Statements continued

For the year ended 31 December 2022

16. Trade and other receivables continued

At 31 December 2022 the lifetime expected loss allowance for trade receivables is as follows:

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

Trade receivables	Current £'000	1–30 days past due £'000	31–60 days past due £'000	61–90 days past due £'000	More than 90 days past due £'000	Total 2022 £'000
Gross carrying amount	576	472	94	15	252	1,409
Loss allowance	–	(6)	(3)	(4)	(39)	(52)
Trade receivables – net	576	466	91	11	213	1,357

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

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

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

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

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

	Group	
	2022 £'000	2021 £'000
At 1 January	24	112
Increase/(decrease) in loss allowance during the year	28	(88)
At 31 December	52	24

There are no trade receivables within the Company.

Company

Impairment allowance in respect of receivables from subsidiary undertakings

	Company	
	2022 £'000	2021 £'000
At 1 January	6,971	5,348
Increase in loss allowance during the year	3,744	1,641
Reversal of loss allowance	–	(15)
At 31 December	10,715	6,974

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

	Risk category	2022			2021		
		Carrying value £'000	Loss allowance £'000	Net £'000	Carrying value £'000	Loss allowance £'000	Net £'000
Med	In default	18,777	(10,104)	8,673	18,469	(5,194)	13,275
IUNA	In default	19	–	19	–	–	–
IUL	In default	3,707	(611)	3,096	3,383	(1,777)	1,606
At 31 December		22,503	(10,715)	11,788	21,852	(6,971)	14,881

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

Notes to the Financial Statements continued

For the year ended 31 December 2022

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

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

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

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

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

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

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

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

Sensitivity analysis

Amounts due from Med

i) If the probability of Med:

- Performing to budget reduces from 40% to 30%
- Exceeding budget by 20% reduces from 5% to 0%
- Underperforming budget by 20% increases from 10% to 25%

The loss allowance recognised would increase by £0.46m.

ii) If the probability of Med:

- Performing to budget reduces from 40% to 39.5%
- Underperforming budget by 20% increases from 10% to 15.5%

The loss allowance recognised would increase by £0.14m.

Amounts due from IUNA

i) If the probability of IUNA:

- Performing to budget reduces from 40% to 30%
- Exceeding budget by 20% reduces from 5% to 0%
- Underperforming budget by 20% increases from 10% to 25%

The loss allowance recognised would increase by £0.20m.

ii) If the probability of IUNA:

- Performing to budget reduces from 40% to 15%
- Exceeding budget by 20% reduces from 5% to 0%
- Underperforming budget by 20% increases from 10% to 40%

The loss allowance recognised would increase by £0.23m.

Amounts due from IUL

i) If the probability of IUL:

- Performing to budget reduces from 30% to 20%
- Exceeding budget by 20% reduces from 15% to 0%
- Underperforming budget by 20% increased from 5% to 30%

The loss allowance recognised would increase by £0.80m.

ii) If the probability of IUL:

- performing to budget reduces from 30% to 0.25%
- underperforming budget by 20% increased from 5% to 510%

The loss allowance recognised would increase by £1.16m.

Notes to the Financial Statements continued

For the year ended 31 December 2022

17. Cash and cash equivalents

	Group		Company	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Cash at bank and on hand	7,166	4,950	5,027	1,507

18. Trade and other payables

	Group		Company	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Current liabilities				
Trade payables	1,359	1,353	230	259
Taxation and social security	397	179	–	–
Amounts owed to subsidiary undertakings	–	–	–	14
Other payables	5	–	–	–
Accruals	971	1,235	215	72
	2,732	2,767	445	345
Non-current liabilities				
Other payables	65	65	65	65
	2,797	2,832	510	410

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

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

The share warrants are explained in note 22.

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

19. Deferred income

	Group	
	2022 £'000	2021 £'000
Deferred income expected to be recognised		
Within one year – included in current liabilities	337	206
In the second to fifth years inclusive – included in non-current liabilities	209	320
	546	526

Deferred revenue released to the income statement in 2022 is £0.21m (2021: £0.312m).

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

20. Provisions

Remedial and warranty provision

	Group	
	2022 £'000	2021 £'000
At 1 January	22	10
Provision made in the year	–	12
Utilised in the year	–	–
Released in the year	–	–
At 31 December	22	22

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

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

Notes to the Financial Statements continued

For the year ended 31 December 2022

21. Non-current liabilities – deferred taxation

	Group	
	2022 £'000	2021 £'000
At 1 January	–	–
Released	–	–
At 31 December	–	–

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

22. Share capital

Authorised, allotted, issued and fully paid	2022		2021	
	Number	£'000	Number	£'000
Ordinary shares of 1p each				
Balance at 1 January	270,653,485	2,707	269,396,792	2,694
Shares issued for cash	56,216,436	562	1,256,693	13
At 31 December	326,869,921	3,269	270,653,485	2,707

The nominal values and the premium arising on shares issued in 2022 and 2021 are as follows:

Date	Number of shares	Nominal value £'000	Premium £'000
19 July 2021	1,256,693	13	–
1 and 2 December 2022	56,216,436	562	4,638

On 1 December 2022 the Company placed 56,216,436 newly issued shares of 1 pence each in the capital of the Company at a price of 9.25 pence per share. Share issue costs of £0.39m have been netted off against share premium arising on the new share issue.

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

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

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

23. Share-based payments

Share options

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

Group

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

	2022		2021	
	Number of options	Weighted average exercise price (pence)	Number of options	Weighted average exercise price (pence)
At 1 January	23,816,323	15.28	23,679,323	15.21
Granted	1,650,000	14.30	1,105,000	16.51
Forfeited	(1,140,000)	(18.82)	(968,000)	(14.93)
At 31 December	24,326,323	15.05	23,816,323	15.28
Vested and exercisable at 31 December	6,839,710	15.87	5,299,082	17.66

No share options were exercised in the year.

1,140,000 options expired during the periods covered by the above table as detailed on the following page.

Notes to the Financial Statements continued

For the year ended 31 December 2022

23. Share-based payments continued

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

Option exercise price (pence)	Grant date	2021	Granted	Forfeited	2022	Expiry (years)	Risk-free rate of return %	Expected volatility %	Vested	Notes
Unapproved schemes										
19.00	15/08/14	296,000	–	(80,000)	216,000	10	1.790	35.0	216,000	Fully vested
42.50	30/06/14	350,000	–	(150,000)	200,000	10	2.815	35.0	200,000	Fully vested
16.22	06/10/17	268,920	–	(135,000)	133,920	10	1.410	35.0	133,920	Fully vested
12.75	06/10/17	500,000	–	–	500,000	10	1.410	35.0	500,000	Fully vested
12.50	19/01/18	600,000	–	–	600,000	10	1.409	37.0	–	(iii)
11.25	29/05/18	2,709,040	–	–	2,709,040	10	1.339	38.9	2,709,040	Fully vested
7.75	20/12/18	150,000	–	–	150,000	10	1.285	58.0	150,000	Fully vested
8.00	18/01/19	150,000	–	–	150,000	10	1.380	46.6	150,000	Fully vested
11.00	09/08/19	150,000	–	–	150,000	10	0.540	61.9	150,000	Fully vested
15.25	21/12/20	3,054,292	–	–	3,054,292	10	0.240	75.3	419,693	(vi)
EMI schemes										
16.51	15/08/14	644,000	–	–	644,000	10	1.790	35.0	644,000	Fully vested
42.50	30/06/14	904,000	–	–	904,000	10	2.815	35.0	376,000	(i)
50.00	15/08/14	23,529	–	–	23,529	10	2.508	35.0	23,529	Fully vested
51.50	01/01/16	20,000	–	–	20,000	10	2.009	17.0	20,000	Fully vested
42.50	18/08/16	20,000	–	–	20,000	10	0.687	22.0	20,000	Fully vested
29.00	21/12/16	60,000	–	–	60,000	10	1.440	32.0	60,000	Fully vested
20.50	04/04/17	200,000	–	–	200,000	10	1.071	32.0	60,000	(ii)
0.240	06/10/17	317,835	–	–	317,835	10	1.410	35.0	317,835	Fully vested
12.50	19/01/18	1,950,000	–	(150,000)	1,800,000	10	1.408	37.0	–	(iii)
11.25	29/05/18	3,332,960	–	–	3,332,960	10	1.339	38.9	–	(iv)
8.00	18/01/19	220,000	–	–	220,000	10	1.380	46.6	220,000	Fully vested
11.00	09/08/19	50,000	–	–	50,000	10	0.540	61.9	50,000	Fully vested
12.00	24/04/20	1,300,000	–	–	1,300,000	10	0.300	75.7	–	(iv)
15.00	23/10/20	863,529	–	–	863,529	10	0.330	76.4	–	(v)
15.25	21/12/20	4,577,218	–	(375,000)	4,202,218	10	0.240	75.3	419,693	(vi)
16.51	02/12/21	1,105,000	–	–	1,105,000	10	0.800	69.2	–	(vii)
14.30	15/06/22	–	1,650,000	(250,000)	1,400,000	10	2.450	67.62	–	(v)
Total		23,816,323	1,650,000	(1,140,000)	24,326,323				6,839,710	

Notes to the Financial Statements continued

For the year ended 31 December 2022

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

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

The Group charged £0.003m to the statement of comprehensive income in respect of share-based payments for the financial year ended 31 December 2022 (2021: £0.53m).

The weighted average remaining life of all share options outstanding at 31 December 2022 is 4 years and 2 months (2021: seven years and two months).

Vesting conditions:

- I. 236,000 of these options will vest when the Group achieves breakeven EBITDA for a financial year; 312,000 of these options will vest on the earlier of the Group achieving EBITDA of £2m or £10m revenue for a financial year and the remainder have vested.
- II. 60,000 of these options vest when the Group achieves breakeven EBITDA for a financial year; 80,000 of these options will vest on the earlier of the Group achieving EBITDA of £2m or £10m revenue for a financial year and the remainder vested on 4 April 2020.
- III. 266,742 of these options vest when the Company's share price reaches 25p; 1,094,964 vest when the share price reaches 37.5p and 1,347,334 vest when the share price hits 50p.
- IV. 1,747,257 of these options vest when the Company's share price reaches 25p; 919,035 vest when the share price reaches 37.5p and 666,668 vest when the share price reaches 50p.
- V. These options vest three years from grant date.
- VI. For 3,608,265 of these options, 1/36 vest 12 months from grant date. After the initial 12 months, 1/36 vest per month for the remaining 24 months. 4,523,245 of these options vest three years from grant date.
- VII. 1,105,000 of these options vest two years from the grant date.

Company

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

	2022		2021	
	Number of options	Weighted average exercise price (pence)	Number of options	Weighted average exercise price (pence)
At 1 January	1,681,000	20.33	1,849,000	19.98
Lapsed	(365,000)	27.63	(168,000)	16.51
At 31 December	1,316,000	18.30	1,681,000	20.33
Vested and exercisable at 31 December	1,199,920	18.60	1,366,513	21.86

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

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

365,000 options expired during the periods covered by the above table as detailed on the following page.

Notes to the Financial Statements continued

For the year ended 31 December 2022

23. Share-based payments continued

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

Option exercise price (pence)	Grant date	2021	Granted	Forfeited	2022	Expiry (years)	Risk-free rate of return %	Expected volatility %	Vested	Notes
EMI schemes										
16.22	06/10/17	135,000	–	(135,000)	–	10	1.410	35.0	–	–
Unapproved schemes										
19.00	15/08/14	296,000	–	(80,000)	216,000	10	1.790	35.0	216,000	Fully vested
42.50	30/06/14	350,000	–	(150,000)	200,000	10	2.815	35.0	200,000	Fully vested
16.22	06/10/17	133,920	–	–	133,920	10	1.410	35.0	133,920	Fully vested
12.75	06/10/17	500,000	–	–	500,000	10	1.410	35.0	500,000	Fully vested
7.75	20/12/18	150,000	–	–	150,000	10	1.285	58.0	150,000	Fully vested
15.00	21/12/20	116,080	–	–	116,080	10	0.24	75.3	–	(i)
Total		1,681,000	–	(365,000)	1,316,000				1,199,920	

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

The Company charged £0.003m to the statement of comprehensive income in respect of share-based payments for the financial year ended 31 December 2022 (2021: £0.038m (£380k)).

The weighted average remaining life of all share options outstanding at 31 December 2022 is 4 years and 2 months (2021: four years and ten months).

Vesting conditions

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

Notes to the Financial Statements continued

For the year ended 31 December 2022

24. Related party transactions

i) Key management personnel compensation

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

ii) Transactions with related parties

Med, IUNA, IML and IUL are related parties by virtue of being subsidiary companies of the Company. During the year working capital funding was provided by the Company to Med and IUL. The gross amounts outstanding from subsidiary undertakings to the Company at 31 December 2022 totalled £22.59m (2021: £21.85m). The gross amounts owed by the Company at 31 December 2022 totalled £nil (2021: £0.014).

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

IP Group plc (IPG) is a related party by virtue of their significant shareholdings in the Company. The value of the expenses (which exclude Directors' fees noted above) paid to IPG are disclosed below.

Professor Nazar Amso was a Director of the Company until June 2022 and also a Director and shareholder of Advanced Medical Simulation Online Limited ('AMSOL'). The value of the goods and services sold to AMSOL to the date of his resignation is disclosed below.

Company	2022 £'000	2021 £'000
Med (working capital)	833	3,500
Med (recharges, e.g. Director fees, VAT and insurance refunds)	(525)	(430)
IUNA (working capital)	–	–
IUNA (expenses)	19	(15)
IUL (working capital)	235	880
IUL (expenses)	90	43
IPG (expenses)	6	50
Group	2022 £'000	2021 £'000
AMSOL (goods and services sold)	(3)	–
IPG (expenses)	6	50

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

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

Company	2022 £'000	2021 £'000
Med	8,673	13,275
IUL	3,096	1,606
IUNA	19	(14)
Net amount owed by subsidiaries (after credit losses)	11,788	14,867
IPG	–	–
Group	2022 £'000	2021 £'000
AMSOL	–	–
IPG	(1)	–

25. Financial instruments

i) Financial risk factors – Group and Company

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

Liquidity risk

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

Capital risk management

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

Notes to the Financial Statements continued

For the year ended 31 December 2022

25. Financial instruments continued

Credit risk

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

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

Foreign currency risk

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

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

In addition to the financial risk factors facing the Group described above, the Company also provides working capital funding for its trading subsidiaries; Med, IUNA and IUL which are included within the intercompany loan balance although repayable on demand is not expected to be repaid in the next 12 months. The funding provided is supported by annual budgets including monthly cash flows which are approved at the start of each year by the Board. The recoverability of the amounts owed to the Company by its subsidiary undertakings and the Company's investments in its subsidiary undertakings are dependent on the ability of the subsidiary undertaking businesses to grow in line with the longer term forecasts of the Group. The Board monitors the performance of the Company's subsidiary undertakings by monthly reviews of management accounts including the sales order pipeline and cash flows compared to budget. The Company has determined that the amounts due from its subsidiary undertakings at 31 December 2022 totalling £10.38m (2021: £6.97m) were credit impaired. See note 16 for the movement in the expected credit loss in the year.

ii) Financial instruments by category – Group

Financial assets

	2022 £'000	2021 £'000
Financial assets measured at amortised cost		
Trade and other receivables: non-current	61	61
Trade and other receivables: current	1,425	1,949
	1,486	2,010
Cash and cash equivalents	7,166	4,950
Total financial assets	8,652	6,960

Financial liabilities

	2022 £'000	2021 £'000
Financial liabilities measured at amortised cost		
Trade payables	1,356	1,353
Accruals	557	704
Non-current liabilities – other payables	65	65
Lease liabilities: current	184	213
Lease liabilities: non-current	298	457
Total financial liabilities	2,460	2,792

iii) Financial instruments by category – Company

Financial assets

	2022 £'000	2021 £'000
Financial assets measured at amortised cost		
Trade and other receivables: non-current	61	61
Trade and other receivables: current	–	–
Amounts owed by subsidiary undertakings	11,788	14,881
	11,849	14,942
Cash and cash equivalents	5,027	1,507
Total financial assets	16,876	16,449

Notes to the Financial Statements continued

For the year ended 31 December 2022

Financial liabilities

	2022 £'000	2021 £'000
Financial liabilities measured at amortised cost		
Trade payables	230	259
Amounts owed to subsidiary undertakings	–	14
Accruals	215	72
Other payables: non-current	65	65
Lease liabilities: current	118	138
Lease liabilities: non-current	263	381
Total financial liabilities	891	929

Group and Company

Trade payables and receivables generally have a remaining life of less than one year so their value recorded in the balance sheet is considered to be a reasonable approximation of fair value. Other receivables relate to a refundable deposit paid to the landlord of the UK Head Office on expiration of the lease term in September 2026. Amounts owed by subsidiary undertakings are repayable on demand but are not expected to be repaid within the next 12 months.

Other payables relate to a dilapidation liability owed to the landlord of the UK head office payable on expiration of the lease term in 2026.

The value of the amounts owed by subsidiary undertakings is considered to approximate fair value.

Please refer to note 13 for the maturity analysis of lease liabilities.

iv) Currency denomination

Financial assets and liabilities are denominated in the following currencies:

Financial assets

	Group		Company	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Trade and other receivables				
Sterling	558	937	11,849	14,942
US Dollar	852	647	–	–
Canadian Dollar	54	308	–	–
Euro	22	118	–	–
	1,486	2,010	11,849	14,942
Cash and cash equivalents				
Sterling	5,757	2,080	5,025	1,505
US Dollar	738	2,236	2	2
Canadian Dollar	25	57	–	–
Swiss Franc	9	–	–	–
Euro	637	577	–	–
	7,166	4,950	5,027	1,507
Total financial assets	8,652	6,960	16,876	16,449

Financial liabilities

	Group		Company	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Trade payables				
Sterling	2,099	2,049	891	929
US Dollar	289	429	–	–
Euro	71	117	–	–
Swiss Franc	1	197	–	–
Total financial liabilities	2,460	2,792	891	929

Notes to the Financial Statements continued

For the year ended 31 December 2022

25. Financial instruments continued

v) Currency fluctuations

At the year end the Group was exposed to fluctuations in the US Dollar, Canadian Dollar, Swiss Franc and the Euro against Sterling. The following table details the Group's sensitivity to a 10% increase or decrease in Sterling against the relevant foreign currencies rounded to the nearest £'000. 10% represents management's assessment of a reasonable possible change in foreign currency exchange rates.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% weakening in foreign currency rates. A negative number below indicates a decrease in profit where Sterling strengthens against the relevant currency. For a 10% strengthening in Sterling against the foreign currency, there would be an equal and opposite impact on profit and loss.

	Group	
	2022 £'000	2021 £'000
US Dollar	129	277
Canadian Dollar	42	41
Euro	10	68
Swiss Franc	–	(24)

26. Events after the reporting period

There are no events after the reporting period.

27. Ultimate parent and controlling party

The ultimate parent company is Intelligent Ultrasound Group plc.

There was no overall controlling party as at 31 December 2022 or 31 December 2021.

Glossary of Terms

Term	Description
AI	Artificial intelligence
CGU	Cash Generating Unit
ECHO	Echocardiogram
ECL	Expected Credit Losses
ESG	Environmental Social and Governance
GHG	Greenhouse Gas
IML	Inventive Medical Limited
ISUOG	International Society of Ultrasound in Obstetrics and Gynaecology
IU	Intelligent Ultrasound
IUL	Intelligent Ultrasound Limited
IUNA	Intelligent Ultrasound North America, Inc
MED	Medaphor Limited
NED	Non-Executive Director
OBGYN	Obstetrics & Gynaecology
OEM	Original Equipment Manufacturer
PACS	Picture Archiving and Communication System
PNB Trainer	Peripheral Nerve Block Trainer
PoCUS	Point-of-Care Ultrasound
QMS	Quality Management System
RDEC	Research and Development Expenditure Credit
TEE	Transoesophageal echocardiogram
TTE	Transthoracic echocardiogram

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