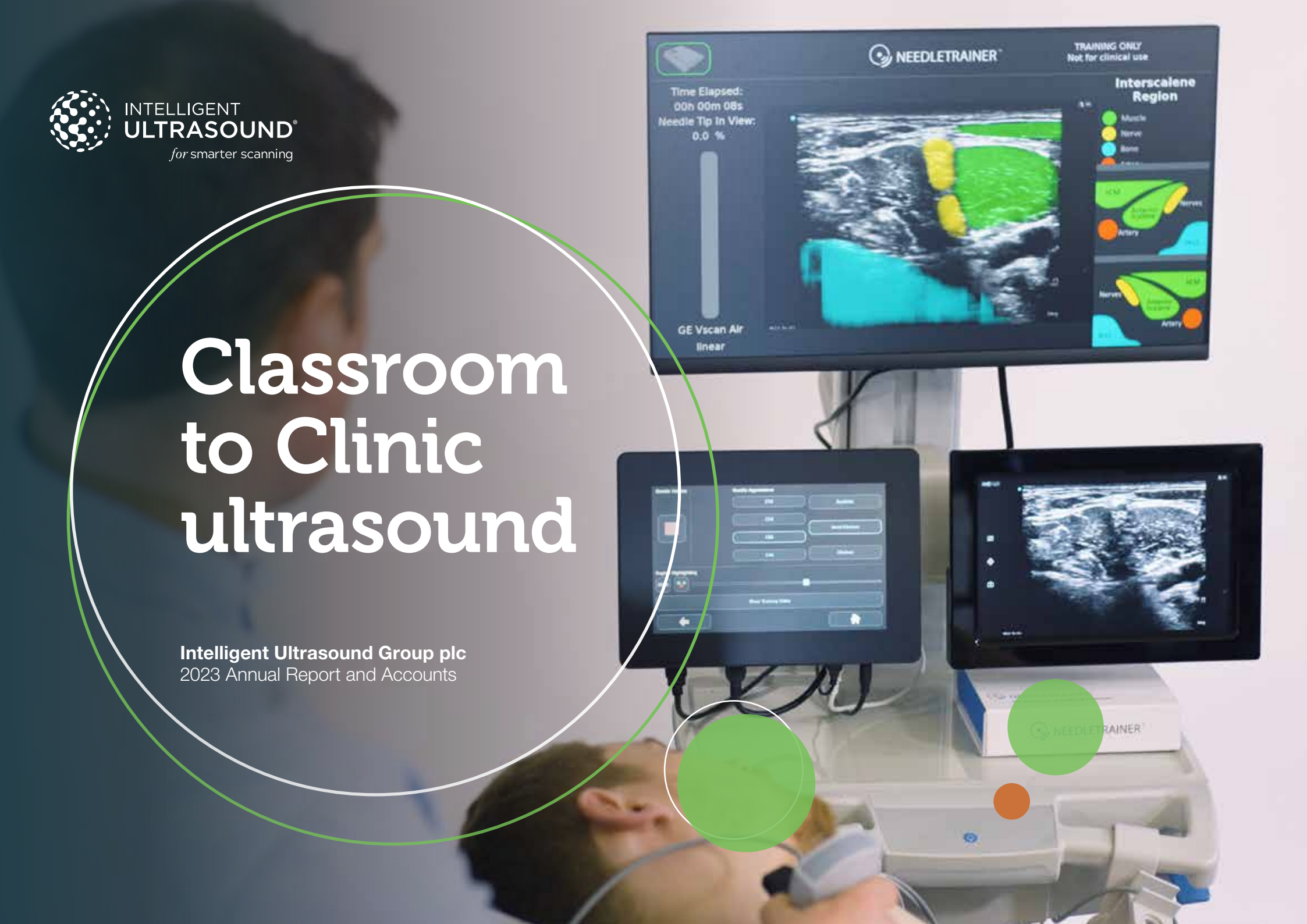
INTELLIGENT ULTRASOUND®
for smarter scanning

Classroom to Clinic ultrasound

Intelligent Ultrasound Group plc
2023 Annual Report and Accounts



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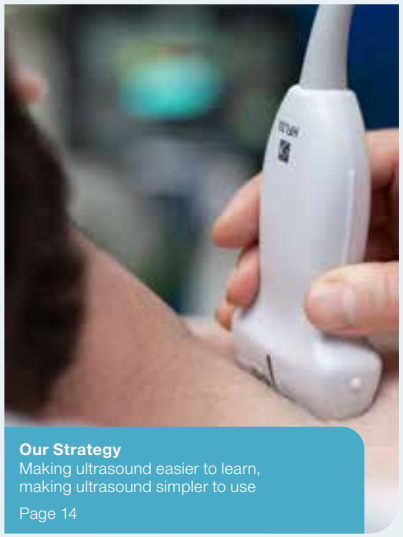

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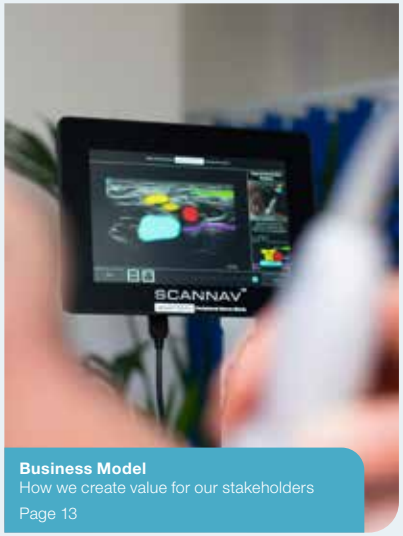

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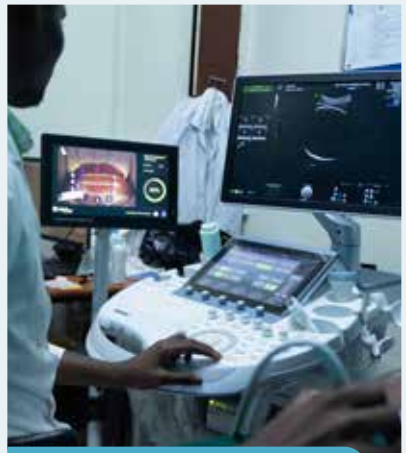

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Highlights

Financial

£11.2m
Group revenue
+11%

£2.0m
Clinical AI revenue
+203%

£3.0m
Cash and cash equivalents
-58%

£2.6m
Loss after tax
-13%

Operational

ScanNav Assist (SonoLyst)

SonoLyst*ive* launched as a standard feature on GE Healthcare's Voluson Expert 22 and 20 ultrasound machines.

ScanNav FetalCheck

New AI development programme for gestational age (GA) estimation in pre-natal care.

Simulation

New version upgrades for Bodyworks and Babyworks launched as well as a new endometriosis module for Scantrainer.

ScanNav Liver

Signed a research agreement with the University of Dundee to develop AI-based tools for screening patients with liver disease.

What we do

Providing real time support from 'Classroom to Clinic'

Our purpose

Easier to learn

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

Simulation products

Simpler to use

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

Clinical AI products

Our vision

Unlock ultrasound for everyone

Training

Guiding

Supporting

Our markets – 2023 revenue

Specialties

- Anaesthesiology
- Cardiology
- Critical care
- Emergency medicine
- General radiology
- Intensive care
- Needling
- Obstetrics & Gynaecology
- Paediatrics & Neonatology

What we do continued

A unique range of ultrasound products in a growing market

Classroom simulation

Hospital training rooms and simulation centres

Market by 2026*
c.$200m

BODYWORKS Eve®
PoCUS**

SCANTRAINER®
OBGYN

HEARTWORKS®
Echo

BABYWORKS
Neonate and Paediatric

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

** Point of care ultrasound

Clinical AI software

Clinical scanning and operating theatres

Market by 2028***
$1.3bn

SCANNAV™ ASPIRE
Obstetrics
AI image analysis for obstetric ultrasound

SCANNAV™ ANATOMY
Anaesthesiology
AI assistance for regional anaesthesia

NEEDLETRAINER™
Needling
Ultrasound guided needling simulator

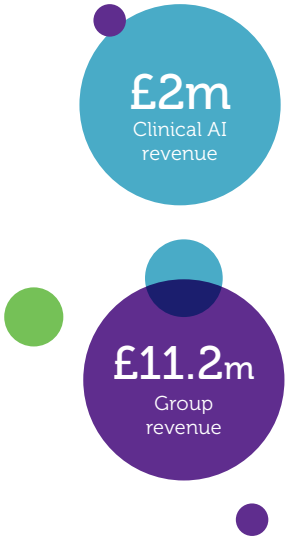
*** Artificial Intelligence in Ultrasound Imaging Market – Global Industry Trends and Forecast to 2028 | Data Bridge Market Research

Chairman's Statement

'Classroom to Clinic' gathering pace

This has been a positive year of progress for the Group, driven by our AI-related sales almost tripling to £2m (2022: £0.7m) and as a result Group revenue rose by 11% to £11.2m (2022: £10.1m).

Riccardo Pigliucci
Non-executive Chairman



Importantly, our AI software developments continued to hit key milestones during the year: GE HealthCare launched SonoLyst*ive* as standard on the Voluson Expert range of ultrasound machines; ScanNav FetalCheck, our new AI gestational age estimation software that is in development was purchased for a number of field trials in Africa funded by the Bill & Melinda Gates Foundation; and we commenced the proof-of-concept development work for our AI liver software, following the signing of our data agreement with Dundee University and NHS Trust.

Strategy

Our unique 'Classroom to Clinic' ultrasound strategy is based on:

- Growing the Group's 'Classroom' related revenues through increased sales of our four ultrasound simulator platforms and the continued expansion of our simulator range into new medical market segments
- Continuing to build our 'Clinic' related AI revenues through increased royalty income from GE HealthCare, who incorporate our 20-week obstetrics ScanNav AI technology in their Voluson ultrasound systems; increased sales of our proprietary stand alone AI-driven ScanNav Anatomy and NeedleTrainer Plus systems, sold through our direct sales and reseller operations; and future new proprietary stand-alone AI-driven products such as ScanNav FetalCheck gestational age estimation aimed at opening up new global medical imaging markets

This novel 'Classroom to Clinic' approach enables us to work with future clinical customers early in their medical careers, aiding brand recognition and product credibility and then, as they progress to real patient scanning and life-long learning, supports them with workflow or diagnostic AI-based medical imaging software.

We believe this unique approach to ultrasound will enable the Group to continue to grow in 2024.

People

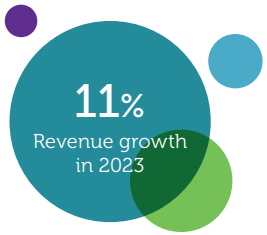
I would like to thank all our staff, in the UK, US and China, for working so hard to grow the business during the year and meet all our development and regulatory milestones.

Shareholders

We continue to have a broad spread of supportive shareholders, and we maintain an open-door policy at our head office in Cardiff and would welcome any visitors who wish to enjoy hands-on experience of our cutting-edge 'Classroom to Clinic' technology.

Chairman's Statement continued

"Another year of important progress and we achieved our key target to grow AI-related sales to £2m in 2023"



Board and governance

During the year, Ian Whittaker, who has served as an Executive Director and Chief Operating Officer (COO) since joining the Group on the acquisition of Inventive Medical Ltd in August 2016, chose to retire from the Board of Directors and his position as COO. Ian remains with the Group in a part-time capacity to assist on projects, as required.

The Board extends its thanks to Ian for his commitment and invaluable contribution to significantly growing the simulation revenue over the last seven years and wishes him continued success in his business and personal endeavours.

ESG

ESG remains an important part of our reporting and we believe we continue to have a positive impact locally, nationally and globally. We have continued to make improvements in all aspects of ESG and aspire to be a global force for good, empowering people to have access to medical ultrasound, one of the world's most important imaging modalities.
See our full report on page 18.

Outlook

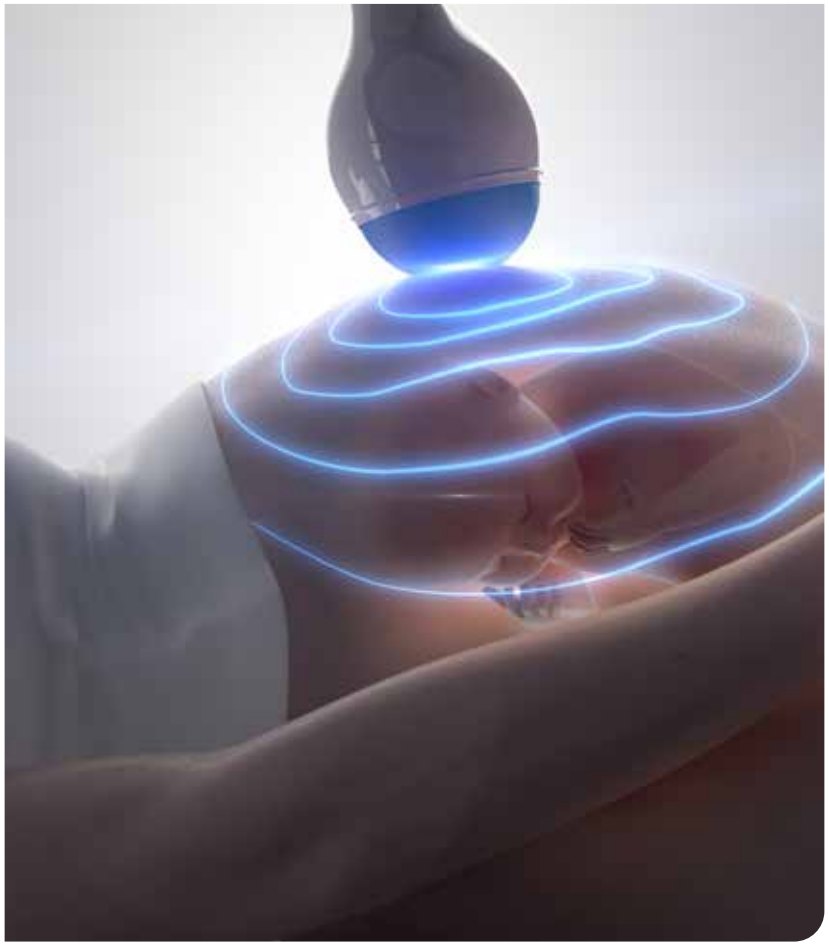
2023 has been another year of important progress for the Group, as we commercialize our regulatory-approved clinical AI software products and develop the next generation of diagnostic AI software.

We achieved our number one target for the year, which was to grow AI-related sales to £2m. In addition, our relationship with GE HealthCare continued to develop positively with the launch of SonoLyst*live*, powered by our obstetrics AI software, on the Voluson Expert ultrasound machine range and post year-end on the Signature ultrasound range. In Q4 2023, we announced the first trials in Africa that will be using our ScanNav FetalCheck AI software to enable an unskilled user to automatically obtain the gestational age of a fetus.

As we start 2024, the UK market is experiencing tougher trading conditions due to the current reduction in NHS capital expenditure spending. We are therefore keeping a tight control on our overheads to offset any potential reduction in UK revenue. When these cost controls are combined with the growing revenue from our high margin AI-related products and non-UK related simulation markets, the business continues to forecast that it will reach profitability with its current cash resources.

Riccardo Pigliucci
Non-executive Chairman

30 April 2024



Chief Executive's Review

Easier to learn Simpler to use

We 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.

AI is a key element of this unique approach, and the report below details the progress made in 2023 and the key challenges faced during the year.

Stuart Gall
Chief Executive Officer

SIMULATION (Classroom)

We design, develop and sell some of the world's leading high-fidelity ultrasound training simulators. Training medical professionals in the skills required to competently scan with diagnostic ultrasound remains an important building block of our business.

The Group's simulation revenue declined slightly by 3% to £9.1m (2022: £9.4m) in 2023, mainly due to lower-than-expected sales in Western Europe and China throughout the year and recognised revenue being slightly less than we anticipated in the final quarter of 2023. However, it should be noted that the 2022 UK simulation revenue figures included c.£1.9m of one-off orders from the NHS, so adjusting for this, simulation revenue in 2023 actually increased by 21% (2022*: £7.5m).

We have four ultrasound simulation-only platform technologies focused on the following markets:

- ScanTrainer – obstetrics and gynaecology (OBGYN)
- HeartWorks – echocardiography and anesthesiology (ECHO)
- BodyWorks – emergency medicine, critical care, intensive care and point-of-care (PoCUS)
- BabyWorks – neonate and paediatrics

* Alternative performance measure for 2022 UK simulation revenues

UK simulation revenues £m	2023	2022	Movement
Alternative performance measure basis	**2.4**	3.0	-22%
Unadjusted	**2.4**	4.9	-52%

These 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, plus a network of 23 resellers covering over 30 countries in the rest of the world. To date we have sold c. 1,700 simulators into over 800 medical institutions around the world.

Research & Development

During the financial year, the simulation R&D team focused on the following developments:

3D Echo MPR release for HeartWorks

In February, we added Multiplanar Reconstruction (MPR) as an optional extra to the HeartWorks simulation platform for cardiac anatomy and echocardiography, enabling students to build their confidence in 3D cardiac image acquisition and manipulation techniques.

BodyWorks 4.5

In August we launched BodyWorks 4.5, the latest version of our female patient point-of-care simulator that includes ten new high-value cases within the lung and gastric regions, as well as improvements to the custom patient lists to deliver increased flexibility for trainees and tutors.

BabyWorks 2.0

In June we launched an upgraded version of BabyWorks with new modules for cardiac, cranial, gastric and line placement. The modules were developed in collaboration with leading specialists in infant medicine to ensure the content is aligned with the latest requirements of neonatal and paediatric point-of-care ultrasound (PoCUS).

Endometriosis module for ScanTrainer

It is estimated that 10% of women worldwide have endometriosis so in May a new endometriosis augmented reality training module was launched for ScanTrainer to support clinicians in learning how to locate and identify endometriotic disease in the ovaries, bowel and bladder using transvaginal ultrasound.

Chief Executive's Review continued

"We train medical professionals in the skills required to competently scan with diagnostic ultrasound"

Territory Review – Simulation

United Kingdom

Revenue declined by 52% to £2.4m (2022: £4.9m) partly due to the receipt of £1.9m of one-off orders from a UK NHS training initiative in 2022. Excluding these exceptional orders, the UK like-for-like revenue declined by 22%.

There were two main factors that impacted simulator training budgets in the UK during 2023. Firstly, the NHS has had to implement cost savings to cover the increased cost of locum doctors and overtime caused by the doctors strikes during the year. Secondly, the merger of Health Education England (HEE) and NHS England impacted one of the biggest sources of funding for simulation in the NHS. All these reduced anticipated training spend in the second half of the year, by pushing expected orders into 2024.

Although this merger is now broadly complete, the UK market is dominated by NHS-related spending and there are concerns that the ongoing junior doctor strike will reduce funds normally made available for capital purchases. So although there remains strong purchasing interest in all our simulation products, we are monitoring closely whether the shortfalls in NHS Trust finances will impact 2024 training budgets.

North America

Revenue increased by over 60% to £4.5m (2022: £2.8m), a record high, with strong sales across all our simulator product platforms. We were particularly encouraged by the take-up of our new est simulator, BabyWorks, with medical schools such as the University of Nebraska Medical Center (UNMC) investing in the simulator, to expand its clinical simulation programme into bedside ultrasound for infants.

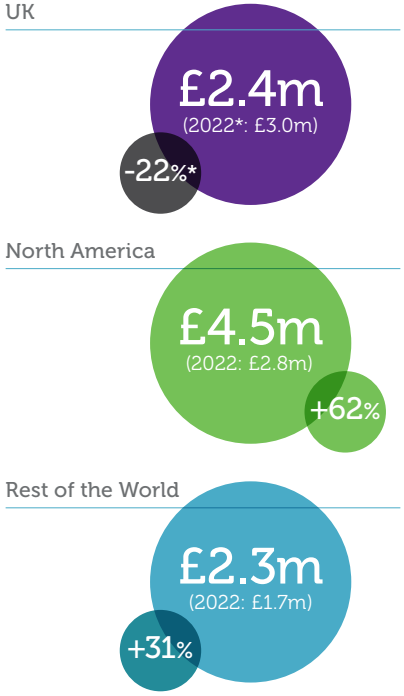
We continued to invest in the US-based sales team in 2023 and moved to a larger office and build space in Alpharetta. We also improved our application specialist web-based demo facilities and with an encouraging long-term sales pipeline, we look forward to continued growth in the North American direct-to-market operation in 2024.

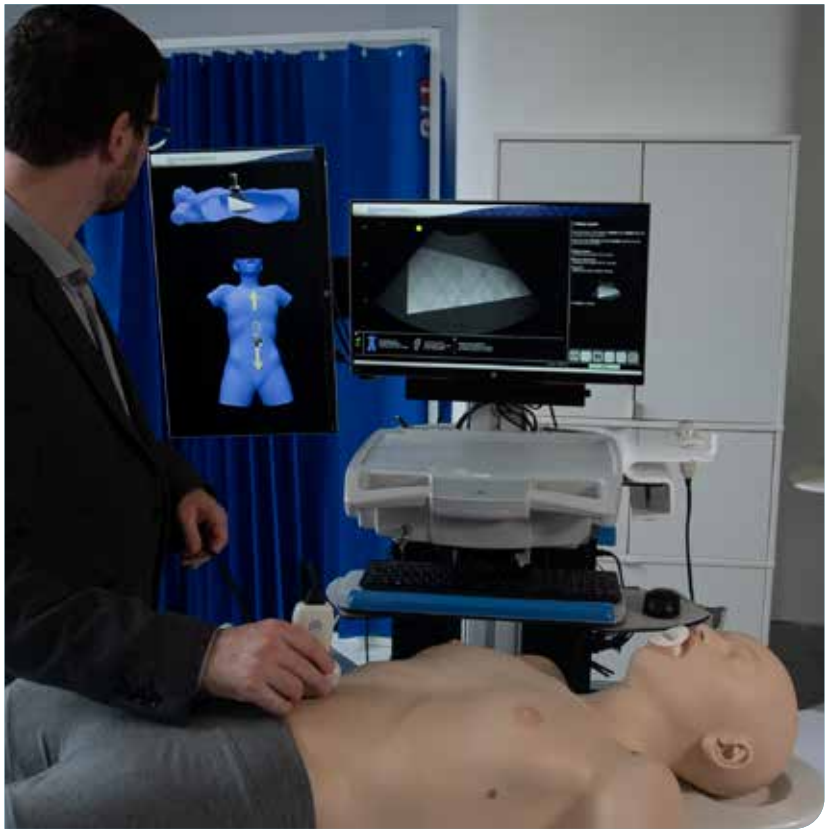
Rest of the World

Revenue increased by 31% to £2.3m (2022: £1.7m).

We currently have 28 resellers that sell our simulators outside the UK and North America and the revenue stream has been somewhat of a rollercoaster in recent years. 2023 continued that trend with sales returning to 2021 levels and, although we had positive sales growth in India, Scandinavia, South Africa and Israel, the sales growth in China was slower than expected and sales in Western Europe, Gulf and Australia were disappointing.

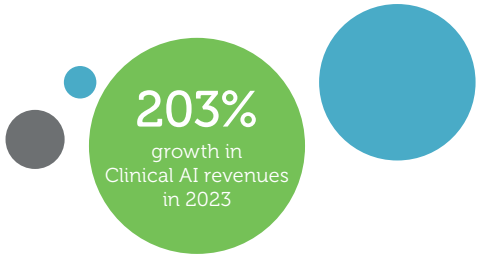
Simulation revenue





Chief Executive's Review continued

"One of the leading independent AI software vendors in real-time ultrasound image analysis. Our products provide real-time workflow enhancements that support faster, more standardised scanning and support decision-making"



However, with over £1m of revenue being generated in the final quarter of 2023, and with the increased range of products, growing pipeline and anticipated sales growth from China, we hope to continue to grow the reseller market in 2024.

CLINICAL AI (Clinic)

Real-time clinical AI software that makes medical ultrasound easier to use is a key part of our 'Classroom to Clinic' vision, and we were delighted that our AI-related revenue tripled to £2.0m (2022: £0.7m).

We are one of the leading independent AI software vendors in real-time ultrasound image analysis and our products provide real-time workflow enhancements that support faster, more standardised scanning, and importantly also support decision-making, so that the stress of scanning can be reduced and the potential 'burn-out' of clinicians being asked to increase productivity is minimised.

We have three AI-related software products available in the market:

- ScanNav Assist obstetric AI software that powers GE HealthCare's SonoLyst software on their Voluson range of women's healthcare ultrasound machines;
- ScanNav Anatomy Peripheral Nerve Block (PNB) for real-time regional anaesthesia highlighting; and
- NeedleTrainer that incorporates the PNB software to teach ultrasound-guided needling skills.

We expect 2024 to be another year of significant sales growth for our AI-related products.

ScanNav Assist (SonoLyst)

Our ScanNav Assist AI technology drives GE HealthCare's SonoLyst X/IR and Live software, the world's first fully integrated ultrasound AI tool that automatically and in real-time recognises the 21 views recommended for the second trimester (20 week) fetal sonography scan.

Integrated into GE HealthCare's Voluson SWIFT and Expert ultrasound machines, SonoLyst is available in two formats:

- **SonoLyst X/IR** is a virtual on-board expert utilising AI to automatically identify fetal anatomy on the operator's saved views, enhancing efficiency and providing quality assurance by comparing the image to the standard criteria to ensure image acquisition quality and consistency.
- **SonoLyst*live*** is a fully automated version of X/IR that automatically saves the optimal views live as the operator scans, enhancing efficiency, consistency and saving up to 40% of time on routine 20-week scans.

By automatically and in real-time supporting the sonographer in their decision-making, the software can also help reduce the often considerable stress of obtaining the recommended views.

The issue of burnout in scanning centres is increasing around the world and it is hoped that the adoption of this technology will help reduce this burden.

GE HealthCare is the largest medical imaging company in the world and under our long-term agreement has exclusive rights to our clinical AI technology in the field of women's healthcare until 2029. The royalty terms, product sales and the timings of the related product launches under this agreement are undisclosed.

The launch in October of SonoLyst*live* as a standard feature on GE HealthCare's Voluson Expert 22 and 20 ultrasound machines was a key commercial milestone as this is GE HealthCare's premium ultrasound machine in the obstetric market. Post year-end Sonolyst*live* was also launched on the Voluson Signature range.

GE HealthCare is the dominant manufacturer in this market, with over 50% market share of the 35,000-plus ultrasound machines that are sold annually. We therefore expect to see increased SonoLyst sales throughout 2024 and beyond as SonoLyst continues to be rolled out globally.

ScanNav Anatomy Peripheral Nerve Block (PNB)

Our FDA and CE cleared ScanNav Anatomy PNB AI software 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 anaesthesia procedures on a less frequent basis.

The device supports ten common peripheral nerve blocks and is sold as a standalone screen that is plugged into existing anaesthesiology ultrasound machines to provide clinicians with real-time highlighting of their live ultrasound image. Our aim is to support anaesthetists, 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.

The device is available for sale in the US, UK, France, Germany, Spain and Scandinavia. During the year several important studies were released to demonstrate how ScanNav Anatomy PNB can help support the adoption of ultrasound-guided regional anaesthesia (UGRA).

The accuracy of ScanNav Anatomy PNB was rated as 93.5% by expert clinicians[1]:

- Clinical trials demonstrated that ScanNav Anatomy PNB is:
  - helpful in identifying specific structures: in up to 99.7% of cases[1]
  - helpful for confirming the correct block view in up to 99.3% of cases[1]

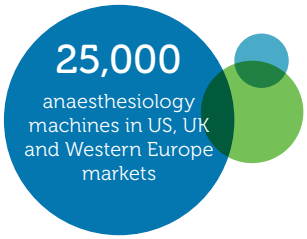
Could reduce the incidence of adverse events (such as nerve injury) and block failures by between 62.9% and 86.3%.

Studies also demonstrated a relative increase in delivery of UGRA by 40.4%[1] showing ScanNav Anatomy PNB is;

- helpful to experts in teaching (including in clinical setting);
- helpful to non-experts in training and clinical practice.

With over 25,000 anaesthesiology machines in operation in the US, UK and Western Europe markets, and ultrasound-guided peripheral nerve blocks increasingly being used as a prudent alternative to general anaesthesia as well as a method of concurrent analgesia (potentially reducing opioid usage), we continue to believe that ScanNav Anatomy PNB has considerable growth potential over the coming years.

Chief Executive's Review continued



"ScanNav FetalCheck, a new AI development programme for gestational age estimation in prenatal care, is our first diagnostic AI software that aims to enable a non-skilled or skilled user to automatically establish the gestational age (GA) accurately with minimal training"

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

NeedleTrainer

Developed by the clinical AI software team as a spin-off from the ScanNav Anatomy PNB research and development, NeedleTrainer is the first of its kind, using a retractable needle and virtual image overlays to simulate needling on a live participant, using a live ultrasound scan. This enables trainees to develop hand-eye coordination, optimum positioning, and accuracy in ultrasound-guided interventional procedures in a realistic and safe clinical environment with minimal risk.

The system is sold with the trainer version of our ScanNav Anatomy PNB AI-driven software integrated into the device and is also sold as a standalone device, with the GE Vscan Air handheld ultrasound machine. The product is sold into major simulation centres, anaesthesiology departments, emergency and primary healthcare centres.

We also sell a Classroom to Clinic (C2C) needling package that includes a NeedleTrainer system, that is placed into the simulation centre, and a ScanNav Anatomy PNB clinical system, that is then placed into the operating theatre block room. This enables:

- trainee anaesthetists to learn with confidence;
- more qualified anaesthetists to conduct PNBs;
- increase the number of PNBs per hospital to be increased.

Future ScanNav AI products

During 2023 we progressed the development of our next two AI software products.

ScanNav FetalCheck

At the end of 2023 we announced a new AI development programme for gestational age estimation in prenatal care. ScanNav FetalCheck is our first diagnostic AI software that aims to enable a non-skilled or skilled user to automatically establish the gestational age (GA) accurately with minimal training. Pregnant women are usually offered two routine ultrasound scans. The first at 11–14 weeks is performed to confirm viability of the fetus as well as the gestational age to pinpoint the likely due-date. A second scan at 18-20 weeks focuses on detecting congenital abnormalities. Additional scans may be offered to monitor high-risk or complex pregnancies.

Having an accurate gestational age is important in the management of pregnancy, both to assess fetal growth and to inform treatment choice in the event that complications are seen. However, accurate determination of GA is difficult in low and middle -income countries (LMICs) as, currently, GA must be measured by trained sonographers.

Our ScanNav FetalCheck software aims to enable a non-skilled user to get an accurate GA with minimal training and without the need for an expensive high-end ultrasound machine. It has the potential to transform antenatal care both in LMICs and in high income countries (HICs) by allowing the age of the fetus to be assessed in a primary care setting where women need it.

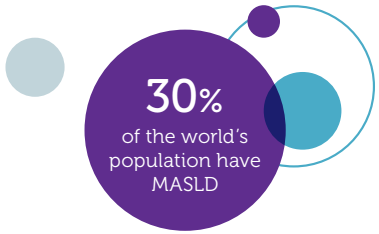
We were also pleased to announce that a leading university in Africa purchased four ScanNav FetalCheck systems as part of a trial to evaluate biomarkers and other factors which affect the probability of stillbirth.

Post year-end we also announced that our ScanNav FetalCheck AI software is to be used in the largest ever trial on the use of aspirin to prevent pre-eclampsia. Conducted in Kenya, Ghana and South Africa, the trial is funded by the Bill & Melinda Gates foundation and led by Concept Foundation (see page 23).

1 https://onlinelibrary.wiley.com/doi/10.1002/ca.23742

Chief Executive's Review continued

"Signed a research agreement with the University of Dundee to initiate the proof-of-concept work to develop AI-based tools for screening patients with liver disease"



It aims to advance evidence on pre-eclampsia prevention and inform policies so that women who are treated with aspirin to prevent pre-eclampsia receive a dose that is both effective and safe.

All clinical trial sites will use Intelligent Ultrasound's ScanNav FetalCheck software to enable frontline healthcare professionals, with no prior experience of ultrasound, to quickly estimate gestational age.

ScanNav FetalCheck is currently not licensed for clinical use.

ScanNav Liver

In November 2023 we were pleased to announce that we had signed a research agreement with the University of Dundee to initiate the first phase of proof-of-concept work to develop AI-based tools for screening patients with liver disease.

Utilising the comprehensive archive comprising over 1m ultrasound images from approximately 50,000 patients from the University of Dundee and NHS Tayside, our AI team intends to create machine-learning models that make it easier to determine stage liver disease and monitor disease progression.

The agreement, which is mainly royalty-based, will allow Intelligent Ultrasound to develop ultrasound-based AI tools with the potential to support clinicians in the clinical management of metabolic dysfunction-associated steatotic liver disease (MASLD) and its advanced form, metabolic dysfunction-associated steatohepatitis (MASH).

MASLD is the leading cause of liver disease and is closely related to obesity, the rates of which are rising[1].

Monitoring MASLD is important as patients in the early stages of the disease may be able to reduce the effects on their liver with dietary and lifestyle changes if caught in time[2].

Around 30% of the world's population have MASLD, and by 2030 it is expected that healthcare systems will need to accurately stage the disease to allow them to target treatment. As current methods for diagnosis are either invasive, costly, or inaccurate, it is hoped that AI-based ultrasound may prove to be a cost-effective point-of-care technique that can give clinicians the answers they need.

Prof. John Dillon at the University of Dundee is a world-renowned hepatologist, who played a major role in introducing Hepatitis C screening in Scotland. We believe that his team's clinical experience, combined with the richness of the Dundee dataset, will create a strong pairing with our expertise in creating healthcare AI solutions. Signing the research agreement was a key longer-term step for us as we look to build our fourth AI ultrasound platform and we have high hopes for this proof-of-concept work.

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 continue to be 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 long adoption periods and purchase cycles of between six to 18 months. This makes revenue forecasting difficult, 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 simulation market remain broadly based on the quality of training combined with value for money, rather than simply the lowest priced solution.

During 2023, 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. After a two-year period where we increased our key component stocks to combat supply chain pressure, during the second half of 2023 we have been able to reduce our stock levels and now have only three components that have a lead time longer than four weeks.

We are conscious that, for a relatively small company, there has to be constant monitoring of cash and stock against revenue forecasts and potential supply chain spikes. To date we have managed this well and will continue with the current policy in 2024.

We continue to review supplier costs and overheads and are conducting a component savings review but expect our simulation gross margin to hold stable in 2024. We are currently reviewing the option for price increases in the second half of 2024.

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 relatively early stages of commercialisation, we continue to have a two-pronged go-to-market strategy:

- 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; and
- Our ScanNav Anatomy PNB 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.

1 Fatty Liver Disease (liverfoundation.org)

2 NAFLD, NASH and fatty liver disease – British Liver Trust

Chief Executive's Review continued

"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"

Although the restrictions caused by the pandemic have now fully receded in all our markets, there are several potential threats to the world, regional and local economies. These include:

- The continued threat that the Russian invasion and illegal occupation of Ukraine could escalate to the point where it impacts other European countries
- The Israeli-Hamas war and increased tension in the Middle East region escalating
- The impact on hospital budgets of an economic slowdown in UK, Europe and China
- The disruption to government spending plans that can be caused by imminent elections in the US and UK
- The continuation of the junior doctors strike in the UK significantly reducing funds available for capital purchases.

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

We have a great team that has worked incredibly hard all year and I would like to thank everyone for enabling us to achieve so much.

Shareholders

I would also like to thank our shareholders for their continued support as we grow our Classroom to Clinic vision and produce cutting edge AI software that will make ultrasound easier to use for medical professionals around the world.

Looking ahead

In 2023 over half of our AI-related revenue came from our women's health-related AI software sales, which included both GE HealthCare royalty income, combined with revenue from studies utilising our ScanNav FetalCheck AI software we are well placed to continue this growth.

Stuart Gall
Chief Executive Officer

30 April 2024

Business model

Creating value

Our purpose

To make ultrasound, the world's fastest, safest and cheapest imaging modality, ***easier to learn*** and ***simpler to use***

Our values

Integrity, honesty and commitment to excellence

Our key strengths

Products and product pipeline

See 'What we do' on page 3

Skilled leadership team

See the Board of Directors on page 41

Growing addressable markets

See the Chief Executive's review on page 7

Our value chain

Innovate, develop and partner

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

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

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 licence agreements for our AI software

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

Creating value for our stakeholders

Our strategy

We continue to build our business based on our 'Classroom to Clinic' strategy

Strategic Framework

	Objective	2023 Objectives	2023 Progress	2024 Objectives
Make ultrasound easier to learn	– **Advance ultrasound training through simulation** – Continue to build our range of world-class ultra-realistic simulators to be one of the world leaders in ultrasound training through simulation	– Generate c.£10m revenue from simulation – Increase US revenue with an expanded sales team – Launch BabyWorks v2.0, BodyWorks v4.5 and ScanTrainer endometriosis module – Increase e-learning content and sign first overseas e-learn commercial agreement	– Simulation sales in 2023 of £9.1m – US revenues increased by 62% – Bodyworks 4.5 and BabyWorks v2.0 released – ScanTrainer endometriosis module released – Overseas e-learn commercial agreement signed	– Generate c.£11m revenue from simulation with growth across all three regions – Explore feasibility of low-cost opportunities to address changing simulation market – Maintaining and sustaining our current Simulation Platforms whilst moving into new market segments – Develop 'Needling on Eve' on BodyWorks
Make ultrasound simpler to use	– **Empower clinicians through AI** – Follow clinicians into the scanning room to give them world-leading AI-driven tools that enable them to scan patients faster and better	– Generate c.£2m revenue from AI-related sales – Continue to develop GE Healthcare relationship – Complete additional studies for ScanNav PNB – Expand use of ScanNav PNB and NeedleTrainer	– Clinical AI sales increased by 203% to £2.0m – SonoLyst*live* launched as a standard feature on Voluson Expert 20 and 22 – New ScanNav FetalCheck AI software development programme announced – First phase of ScanNav Liver development started	– Double Clinical AI revenue to c.£4m – Continue to develop GE Healthcare relationship – SonoLyst*live to* launch on Voluson Signature 20 and 18 – Continue to develop ScanNav FetalCheck AI software – Increase clinical sales of ScanNav PNB
	– **Enable AI for primary care and at-home use** – Develop AI that will enable ultrasound scanning in primary care and ultimately at home to enable ultrasound for all	– Sign new image database agreements – Explore long-term partnership opportunities	– Research agreement signed with University of Dundee which provides access to over 1m images	– Continue ScanNav Liver development using the image data from University of Dundee

Strategy in Action continued

Case study

Easier to learn Simpler to use

Southmead Hospital invests in BabyWorks to teach bedside ultrasound for neonates

Southmead Hospital, Bristol has invested in the BabyWorks simulator to support hands-on teaching in bedside ultrasound for neonatology trainees. BabyWorks will allow trainees on the neonatal wards to develop skills in Point-of-Care Ultrasound (PoCUS) and echocardiography in a risk-free supportive environment.

Southmead Hospital is a regional tertiary centre and joint-lead centre for the northern sector of the Southwest Neonatal Network. In addition to internal training, the department has set up a regional training course using BabyWorks.

Dr David Evans MBE, Consultant Neonatologist & Director of Medical Education shared "it's quite difficult to learn on babies because they'll start protesting, they get cold, and they're being disturbed. So, it is very useful to practice on a simulator."

BabyWorks allows trainees to learn probe manipulation, viewing windows, and ultrasound image interpretation in a supported environment, without the pressures of clinical practice. This allows trainees to build confidence and technique to apply to real-life scanning, so when training in-clinic they can maximise time and reduce the stress to the infant.

"It means that they're not rushing when they are scanning a baby" explained Dr Amiel Billetop, Consultant Neonatologist. "When scanning an infant, they have a lot of external factors that they're worrying about at the same time as trying to scan. If they've already practised in a simulated way on a manikin, then they can maximise their time scanning the infant."

Dr Evans added "The manikin also means you are able to slow down and unpick what they're doing during the examination, because you can't do that when scanning a real baby as that would prolong the examination, which would be to the detriment of the baby. The 3D models and the simulations offered with BabyWorks provide that ability to move offline if you like, and to explore just how you get the standard views."

For more information visit www.intelligentultrasound.com/news

"It means that they're not rushing when they are scanning a baby"

Dr Amiel Billetop
Consultant Neonatologist

NHS
North Bristol
NHS Trust

Strategy in Action continued

Case study

Easier to learn Simpler to use

NHS Education for Scotland invests in NeedleTrainer and ScanNav Anatomy PNB to deliver enhanced 'Classroom to Clinic' learning

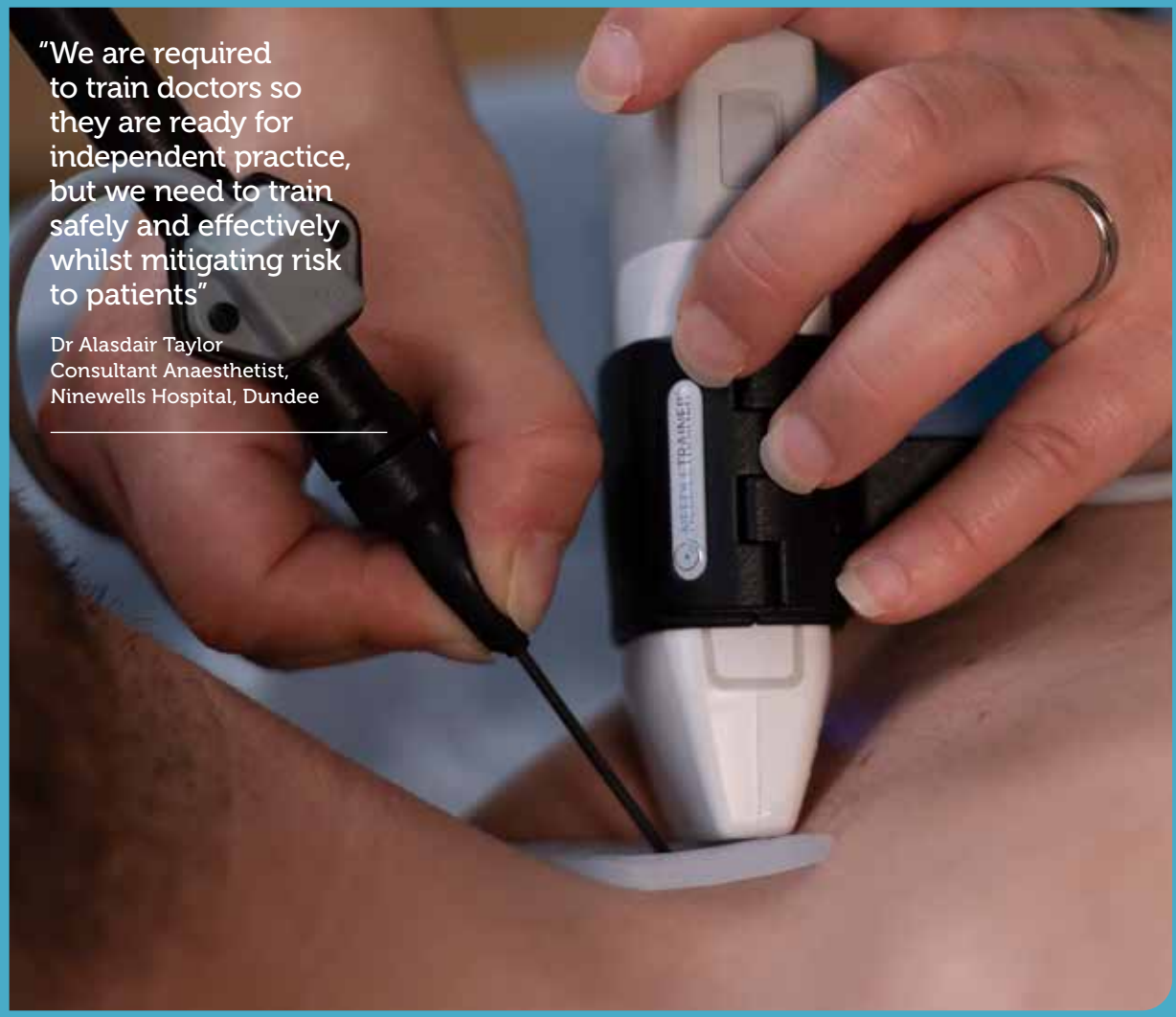
NHS Education for Scotland (NES) is an education and training body and a national health board within the National Health Service (NHS) Scotland, UK. NES aims to lead the design and delivery of high quality technology-enhanced learning for the health and social care workforce across Scotland.

Dr Ed Mellanby is the Simulation Associate Postgraduate Dean for Scotland. He commented that "It is a huge challenge to consistently meet the requirements of training in regional anaesthesia in a safe and reliable way. We are developing a national approach to simulation training in Scotland, with the aim of sharing resources. This technology aligns with that ambition and with both patient and curriculum requirements. I am really excited to see how this can reduce the variability in practice and training, and witness the positive impact on performance that we believe this will produce."

Dr Alasdair Taylor (Consultant Anaesthetist, Ninewells Hospital, Dundee) is working closely with Dr Melanby to deliver this NES investment. Alasdair explained "as a team, we want to increase the delivery of safe and efficacious ultrasound guided regional anaesthesia (UGRA) to patients in Scotland. Patients benefit from reduced morbidity, improved pain scores, and a reduced opiate requirement resulting in fewer/less serious side effects. Organisations can benefit from greater theatre efficiency, and shorter length and cost of in-patient stay. Also, with the long-term aim of performing more awake regional anaesthesia, we can achieve a reduced carbon footprint for surgical procedures."

However, the risks of poorly performed UGRA and ultrasound-guided needle insertion are well documented, including damage to nerves that can lead to chronic pain, loss of sensation and muscle weakness. Poor identification of structures on ultrasound can lead to needle trauma (such as to blood vessels, the lung, bowel and kidney).

For more information visit www.intelligentultrasound.com/news/



Key Performance Indicators

Measuring success

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

These KPIs 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
- Make ultrasound simpler to use

Link to risks

1. Strategic
2. Commercial/operational
3. Financial
4. Compliance

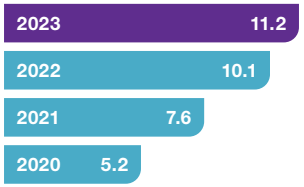
*Restated - see page 68

For more on information our strategic pillars see page 14

For more information on risks see page 30

Financial

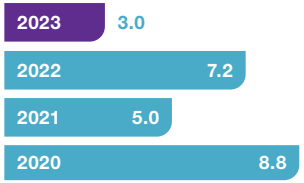
Revenue £m (1 2 3)



2023: increase of 11%

Revenue from sales of simulation and clinical AI products

Cash and cash equivalents £m (1 3)



2023: decrease of 58%

Cash resources available

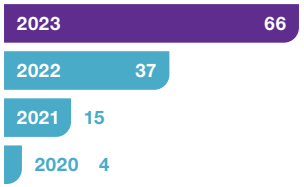
Gross margin % (3)

2023: increase of 1%

Gross margin

Operational

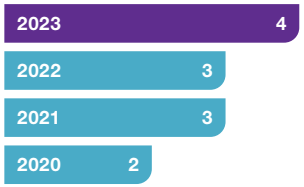
AI image database (millions) (1 4)



2023: increase of 29m

Total number of AI database ultrasound images

New products launched (number) (1 2 4)



2023: 4 new upgrades launched

Total new products/ versions launched

Environmental, Social and Governance

A global force for good

"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."

Stuart Gall
Chief Executive Officer

Our three guiding principles

Message from the CEO

ESG remains a core element of our mission and strategy, and we continue to make improvements in both reducing the environmental impact of our products, operations and practices and our reporting at all levels.

- We are now in our second year of expanded Scope 3 impact analysis.
- Our flexible working policy is both popular and productive.
- We encourage our employees to think about how they travel to work and reward green travel.
- Our STEM and local university engagement programme continues, and we commenced our local intern programme.
- We have made changes to the composition of our Board to meet the corporate governance standards for an AIM-listed company

I am also delighted to include two new case studies that again demonstrate the impact our products and services make on patients and the medical community around the world.

Environmental, Social and Governance continued

ESG Impact

- 1500+ systems operating in over 800 medical institutions around the world.
- Over 1000 systems using our real-time AI image analysis software.
- ScanNav FetalCheck, our gestational age software, is to be used in the largest-ever trial on the use of aspirin to prevent pre-eclampsia (see page 24).
- Partnership with WFUMB to educate underserved regions of the world (see page 23).
- 38% female representation on the Board.
- 35% female representation across the Board, Management and Group.
- 1,056 tonnes of CO_2 emissions in 2023 fully offset in Gold Standard VAR projects.

UN Sustainability Development Goals

At the heart of the United Nation's 2030 agenda for sustainable development are 17 Sustainable Development Goals (SDGs), which recognise 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 wellbeing.

Specifically, this:

- improves access to better maternal health and health of newborns;
- 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

Our ESG Framework is built around our 3 Pillars: **Environment**, **Social** (People and Product), **Governance**.

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 demonstrations and online training to reduce first-touch travel impact

2023 metric

- Total CO_2 emissions
- Total CO_2 emissions per £ of revenue
- Total CO_2 emissions per employee
- Green travel scheme expenditure

UN Sustainable Goals

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 wellbeing
- Support charity work
- Support local STEM engagement
- Support local university intern schemes

2023 metric

- % employee turnover
- % female representation
- % staff survey response-rate
- Local STEM events
- Interns engaged
- Employee charity days

UN Sustainable Goals

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

2023 metric

- Scope 3 CO_2 emissions
- % of recyclable packaging

UN Sustainable Goals

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 quality management system (QMS)

2023 metric

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

UN Sustainable Goals

Environmental, Social and Governance continued
> Environment

	2023	2022
Environmental		
Carbon dioxide emissions (tonnes CO_2)	**1,056.0**	1,136.0
Carbon dioxide emissions (tonnes CO_2 per employee)	**15.8**	17.5
Carbon dioxide emissions (kg CO_2 per £ of revenue)	**0.09**	0.11
Scope 1 to 3 CO_2 emissions offset	**100%**	100%
Environmental and sustainability policies	**Yes**	Yes

Highlights from 2023

- We maintained our status of a carbon-neutral company
- We reduced our total Scope 1 to 3 carbon emissions by 7% in 2023
- Our employee commuting scheme continues to incentivise low-carbon travel
  - Electric car and bicycle purchase scheme
  - Free electric charging available to all employees at both our Hodge House and Caerphilly sites
- We strive to reduce the environmental impact of all of our packaging. All our cardboard packaging now comes from sustainable sources, our packing peanuts are fully biodegradable and our pallets are locally sourced. Only 30% of our bubble wrap packaging is from recycled materials but it can itself be recycled
- In late 2022 we started to ship the cart systems we purchase from North America via sea freight instead of air freight which has reduced our upstream emissions in 2023
- At the end of 2022 we joined the DHL GO Green Scheme which allows us to reduce our emissions associated with outbound shipping through the use of Sustainable Aviation Fuel (SAF)
- We continue to review international travel and conference attendance, and continued to conclude that travel was acceptable for the level of business and necessary, given the nature of the products we sell
- Web-based sales demonstrations and training continue to be the first point of customer contact and the primary training medium and since October 2023 these have been monitored using the Group's time-tracking software
- Where possible we try to buy locally, and utilise recycled and/or recyclable materials
- We also completed a review of the energy tariffs to ensure the energy we use is sustainable and from renewable sources
- We continued with our local support of the charity Stump Up for Trees in Wales

Offsetting

- We have offset 100% of the Group's 2023 CO_2 equivalent greenhouse gas emissions through the following Climate Partner Gold Standard Verified Emissions Reductions (VER) programmes:
  - Renewable energy in Asia.
  - Water filters and solar lamps in India.

Goals for 2024

- Review where we can make further positive changes to our products and packaging
- Continue to buy local, recycled and/or recyclable materials where possible
- Review shipping/protective casings to reduce installation impact on travel and resources
- Increase web demonstrations and training in UK and US offices

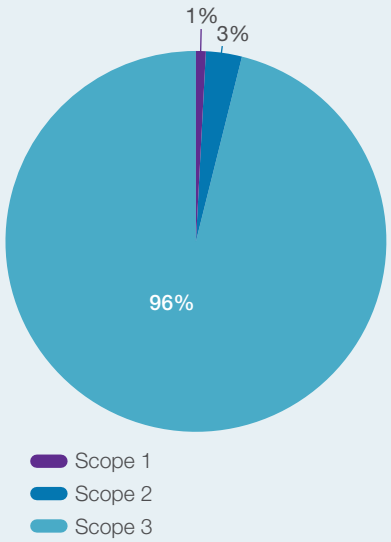
Carbon neutral Company
ClimatePartner.com/18319-2304-1001

Environmental, Social and Governance continued
> Environment

Emission sources (tonnes CO_2)

	2023	2022	Change
Scope 1	**9.9**	**5.7**	**4.2**
Vehicle fleet	9.9	5.7	4.2
Scope 2	**29.5**	**33.9**	**(4.4)**
Purchased electricity for own use	26.9	31.2	(4.3)
Purchased heating, steam, and cooling for own use	2.6	2.7	(0.1)
Scope 3	**1,016.6**	**1,096.4**	**(79.8)**
Purchased goods and services	**526.1**	553.6	(27.5)
Fuel and energy-related activities	**5.7**	3.1	2.6
Upstream transportation and distribution	**38.8**	136.4	(97.6)
Business travel	**184.7**	163.4	21.3
Employee commuting	**57.2**	43.4	13.8
Downstream transportation and distribution	**203.3**	195.7	7.6
End-of-life treatment of sold products	**0.8**	0.8	–
	1,056.0	**1,136.0**	**(80.0)**

Emissions by Scope



Scope 1	Scope 2	Scope 3
Covers the emissions we make directly, e.g. our buildings or vehicles	Covers the emissions we make indirectly, e.g. the energy we buy to heat and cool our buildings	Covers all the indirect emissions associated with our value chain, e.g. from our suppliers through to our customers
Direct Emissions (tonnes CO_2)	Indirect emissions (tonnes CO_2)	Indirect emissions (tonnes CO_2)
9.9 ▲	**29.5** ▼	**1,016.6** ▼
2022: 5.7	2022: 33.9	2022: 1,096.4

- Scope 3 emissions reduced by 7% relating mainly to lower stock purchases and the inbound shipping emissions associated with lower purchases
- Scope 1 and Scope 2 emissions combined are consistent year-on-year
- There has been a small reclassification of emissions from Scope 2 to Scope 1 in 2023

Environmental, Social and Governance continued
> Social

	2023	2022
Social		
Employee turnover (%)	**17%**	13%
Staff survey response rate (%)	**74%**	87%
Happy staff (%)	**88%**	94%
Female representation (all Company) (%)	**35%**	36%

Highlights from 2023

- First interns joined the Group in the summer of 2023 for a one-month IUG internship programme.
- As part of our STEM commitments, we attended a local science festival and also talked at a primary school assembly. Our aim at these events is to give children exposure to the fundamentals of ultrasound, which we believe we do in an interactive and fun environment.
- Our annual staff survey continued to be really positive and showed that a high majority of our employees continue to be 'happy' working for the Company.
- Supported 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 by providing training simulators to support a number of education.
- First year that our employees could take advantage of a 'Charity Day'; an extra day's annual leave to carry out charitable work.
- Switched to a new workplace pension scheme provider that has a higher proportion of sustainable investment funds.
- Female representation across the Group is 36%.
- Our employees continue to work on a flexible basis. This continues to be well received by our staff and makes a significant contribution to the attractiveness of working for Intelligent Ultrasound. For the last two years, our annual, anonymous staff survey shows us that almost 90% of our staff recommend Intelligent Ultrasound as a great place to work. Although there will always be areas we can improve, most of our employees believe we are doing rewarding work that is making a real difference to hospitals and patients around the world.
- We continue to offer employees an excellent combination of attractive salary packages and a flexible work environment located in a vibrant university capital city.
- Our team in North America receive an attractive salary package, but there is a high cost to providing appropriate health care and pension provisions, that is difficult for a small company to provide. We continue to review how to overcome these issues for our US-based employees.

Goals for 2024

- Ongoing support for the WFUMB support programme
- Increase the local schools STEM programme

Case study

Easier to learn Simpler to use

Supporting WFUMB in its mission to bring sustainable ultrasound programmes to the underserved areas of the world

In December 2022 we announced that we would be supporting 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.

Under the partnership we have donated a ScanTrainer Compact obstetrics and gynaecology and general medicine training simulator as well as a neonate and paediatric BabyWorks training simulator to WFUMB to support their ongoing ultrasound education programme.

The simulators have already been used in a number of congresses and regional Centre of Education courses including two of the key WFUMB events in 2023 – EUROSON 2023 in Riga, Latvia and the WFUMB Congress in Muscat, Oman.

We have provided training and product support through our enhanced web demonstration facility in Cardiff and provided logistics support where appropriate.

Lynne Rudd of WFUMB said:

"The amazing donation of a ScanTrainer and BabyWorks and the support that Intelligent Ultrasound has provided is providing invaluable hands-on experience at our worldwide Centres of Education courses and congresses."

Environmental, Social and Governance continued

Case study

Easier to learn Simpler to use

Measuring gestational age in primary care in sub-Saharan Africa

ScanNav FetalCheck, our gestational age software, is to be used in the largest-ever trial on the use of aspirin to prevent pre-eclampsia.

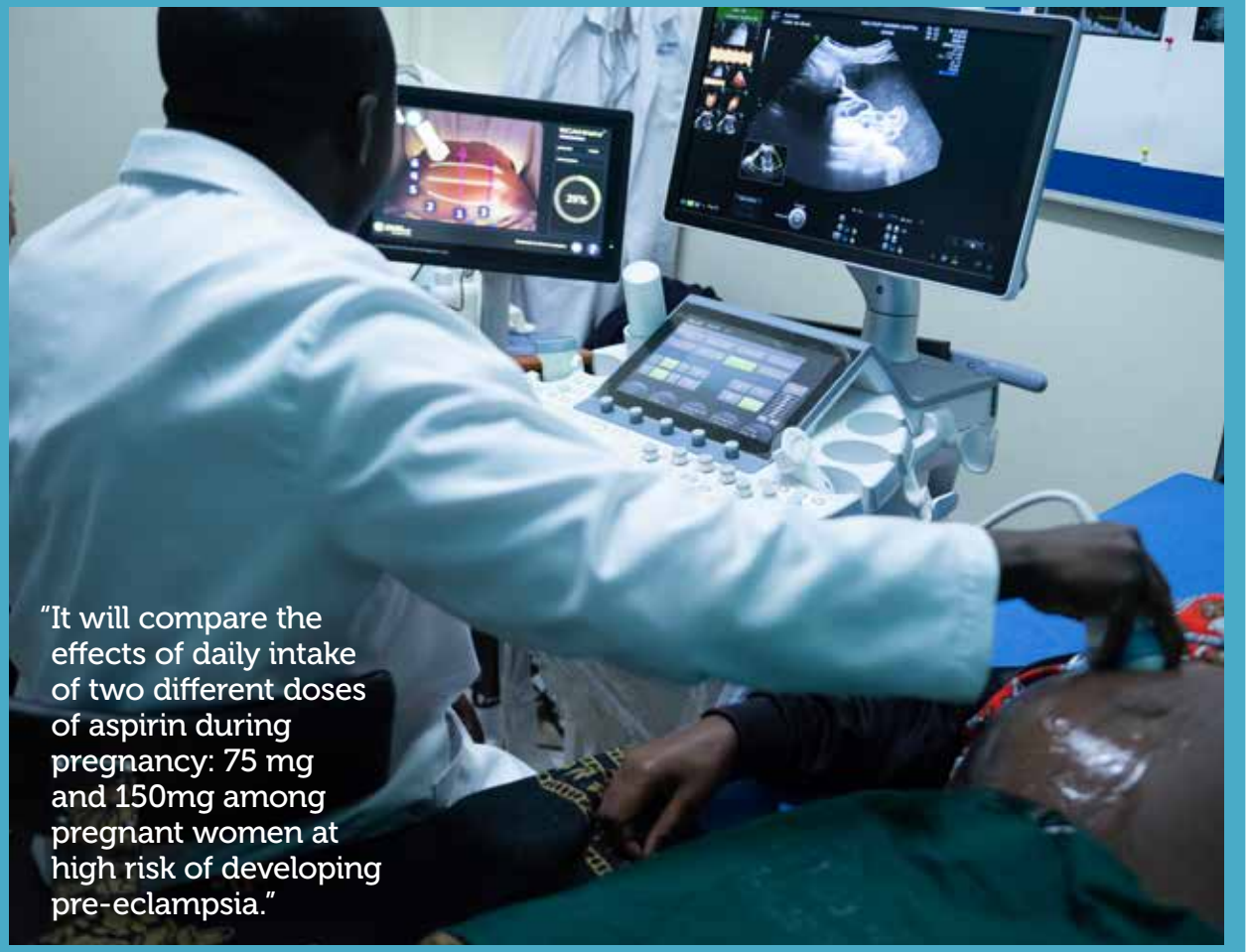
Conducted in Kenya, Ghana and South Africa, the trial is funded by the Bill & Melinda Gates Foundation and led by the international NGO Concept Foundation*. It will compare the effects of daily intake of two different doses of aspirin during pregnancy: 75mg and 150mg among pregnant women at high risk of developing pre-eclampsia. It aims to advance evidence on pre-eclampsia prevention and inform policies so that women who are treated with aspirin to prevent pre-eclampsia receive a dose that is both effective and safe.

Having an accurate gestational age is important in the prevention of pre-eclampsia for two reasons. Firstly, the risk of the condition depends on a number of clinical factors which change with gestational age. Secondly, the prophylactic effect of aspirin depends on when it is first administered within the pregnancy. However, accurate determination of fetal age is difficult in LMICs as it must be measured by trained sonographers, and very few front-line healthcare workers have the necessary skills.

The clinical trial sites conducting risk screening will use our ScanNav FetalCheck software to enable frontline healthcare professionals, with no prior experience of ultrasound, to quickly estimate gestational age.

The software uses artificial intelligence (AI) to estimate the gestational age without requiring the sonographer to take precise biometry measurements. As well as allowing any healthcare professional to make the measurement, the technology also reduces equipment cost and speeds up the scan without compromising accuracy**.

Our aim is to roll out the technology in primary care settings in both LMICs and in high-income countries (HICs) by allowing the age of the fetus to be assessed in a primary care setting where women need it. This will not only help reduce the incidence of pre-eclampsia but can also improve the management of other pregnancy-related conditions that affect mother and fetus.



* The project is conducted in collaboration between Concept Foundation, Burnet Institute, University of Ghana, University of Nairobi, University of Cape Town, Nossal Institute for Global Health – University of Melbourne, Tommy's National Centre for Maternity Improvement, and Intelligent Ultrasound, with the generous financial support of Bill & Melinda Gates Foundation.

** ScanNav FetalCheck is currently not licensed for clinical use. Validation studies are in progress.

Environmental, Social and Governance continued
> Governance

	2023	2022
Governance		
Female representation on the Board	**38%**	30%
Independent Board members	**50%**	50%
CEO cash compensation (vs. UK median earnings)	**5.9 x**	6.1 x
Highest to lowest pay ratio	**9.0 x**	12.1 x
CEO & Chairperson role split	**Yes**	Yes
Adheres to relevant corporate governance code	**Yes**	Yes
ESG meetings held	**10**	10
Whistleblowing reports	**0**	0
Political campaigns, lobbying or think tanks	**0**	0

Highlights from 2023
- Improved the framework of KPIs across the Group.
- Zero reported incidents of bribery, corruption or fraud.
- Reduced the size of the Board from nine Directors to eight.
- Conducted company-wide training on bribery and corruption, mental health and wellbeing, unconscious bias and health and safety at work.
- 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.

Goals for 2024
- Continue on our path to meeting the full requirements of the QCA Corporate Governance Code

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:

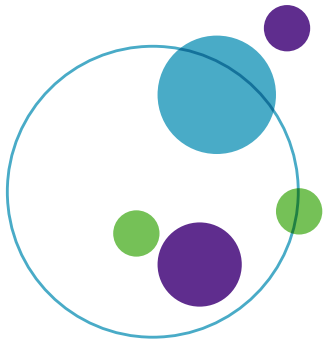
- annual election of all Directors by majority vote;
- 100% committee independence;
- oversight of corporate responsibility and ESG matters;
- 50% of Directors are independent.

Oversight and Management of ESG
The ESG Working Group meets on a monthly basis, is chaired by the CEO and comprises – three Executive Directors, two Non-executive Directors and three staff representatives.

S172 Statement

Strong relationships with our stakeholders

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 benefitting 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	Page
The likely consequences of any decision in the long-term	Our business model	13
	Our strategy	14
The interests of the Company's employees	Section 172 Report	26
	Social section within the ESG Report	23
The need to foster the Company's business relationships with suppliers, customers and other stakeholders	Section 172 Report	26
The impact of the Company's operations on the community and the environment	Environmental section within our ESG Report	21
The desirability of the Company maintaining a reputation for high standards of business conduct	Governance	41
	Risk management	30
	Our business model	13
The need to act fairly between members of the Company	Corporate Governance Report	44

S172 Statement continued

Healthcare professionals
We engage with the healthcare professionals who use our products to ensure the products meet their needs
Material issues and topics
– 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 a new product and upgrades to an 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
2023 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 and topics
– 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
2023 outcomes
– Annual product planning meeting discussing each of the 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

Direct enablers who help us to deliver

Impact on decisions made in 2023

An example of how the Board has considered and responded to stakeholder needs in 2023 are as follows:

Driving uptake of ScanNav Anatomy PNB (PNB) in the clinical setting

In order to support the uptake of PNB in the clinical setting, the Board needed to address the current challenges:

- The user needs and barriers to Ultrasound Guided Regional Anaesthesia (UGRA) delivery.
- Appropriateness and adequacy of sales resources.
- Key differences in the North America (NA) market and how this impacts strategy and activities.
- How we can utilise medical experts to support medical education activity and peer-to-peer learning initiatives.

A number of key changes have been made in 2023 as a result of the above review which the Board expects to drive revenue growth in this product:

- Additional and focused sales resource in NA.
- Appointment of clinical advisor to support Key Opinion Leader (KOL) identification and development, development and delivery of clinical data and delivery of Medical Education Programme.
- Delivery of peer-to-peer medical education programme, delivering a comprehensive Regional Anaesthesia (RA) education in partnership with clinical experts and educational institutions.
- Expansion of our online educational offering to support novice and less experienced users in developing their knowledge prior to delivering UGRA.
- Needs and evidence-based sell with support materials designed to facilitate discussion and address challenges in training and adopting UGRA within an institution.

S172 Statement continued

Employees

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

Our employees 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 and topics

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

How we engage

- Weekly 'all staff' meeting with dialogue between the CEO and all employees enables employees to freely ask questions
- Annual 'all 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
- Regular employee updates to increase understanding of vision, strategy, performance and priorities

2023 outcomes

- In June we held an annual employee offsite engagement event
- In H2 we conducted an anonymous 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

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

We give high priority to communicating effectively with our shareholders on strategy, governance and financial and operational performance

Material issues and topics

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

How we engage

- A wide range of communication channels are used, including in-person meetings, videos, podcasts and online access to written training.
- 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 as required
- Videos and presentations on the Company website from investor relations events
- Investor roadshows and technology open days

2023 outcomes

- The Board reviews the feedback received from shareholders following investor roadshows
- We held a technology open day in our Cardiff office to demonstrate our products to shareholders in April 2023

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 and topics

- Maintaining security of supply of key components
- Competitiveness of component pricing and monitoring of cost inflation
- Research and development investment to resolve any component problems
- Approval of large purchase order requests in line with approval limits
- Ensure compliance with our ESG framework

How we engage

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

2023 outcomes

- Minimised component price and supply increases
- Renegotiated payment terms with some key suppliers
- Conducted a shipping tender process
- Agreed new call-off schedule for certain key components to match sales demand

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 and topics

- Pricing and commercial terms
- Review of impact of regional market developments
- 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 implementers
- Continual commercial dialogue with partners
- Ongoing reseller product training
- Regular meetings to review performance and feedback from the market

2023 outcomes

- Review of regional performance to understand in detail the issues and any remedial actions required. In 2023 these included:
- Improve the product knowledge through better training
- Understand the regional pricing pressures
- Ensure the products address competitive offerings for the regional market

Community & environment

We aim to build a profitable and sustainable business that delivers our vision of enabling ultrasound for everyone

To continue to make improvements to reduce the environmental impact of our products, operations and practices

Material issues and topics

- 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

2023 outcomes

- See our ESG Report for full details. Highlights included:
- Reduced our carbon emissions by 7% in 2023
- Offset our total emissions in Gold Standard VAR projects
- First summer intern programme started in August
- Our ScanNav Fetalcheck software used in largest African trial led by Bill & Melinda Gates Foundation

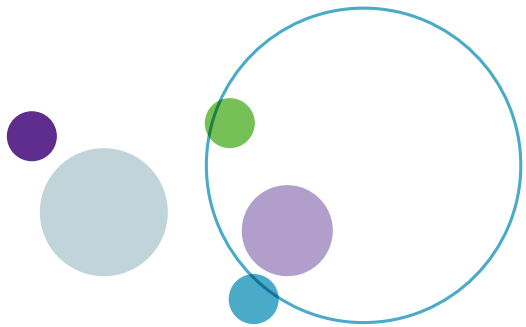
Other stakeholders

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.

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

These 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 considers 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

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 rescored (mitigated score) to ascertain the net exposure.

The assessment of impact multiplied by 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 tolerable/acceptable 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. ESG and climate change risk remain an emerging risk as it is a complex and dynamic risk that will continue to evolve over time.

Risk categories

The risks are split into four broad categories:

- Strategic
- Commercial and Operational
- Financial
- Compliance

Risk Management continued

Risk appetite

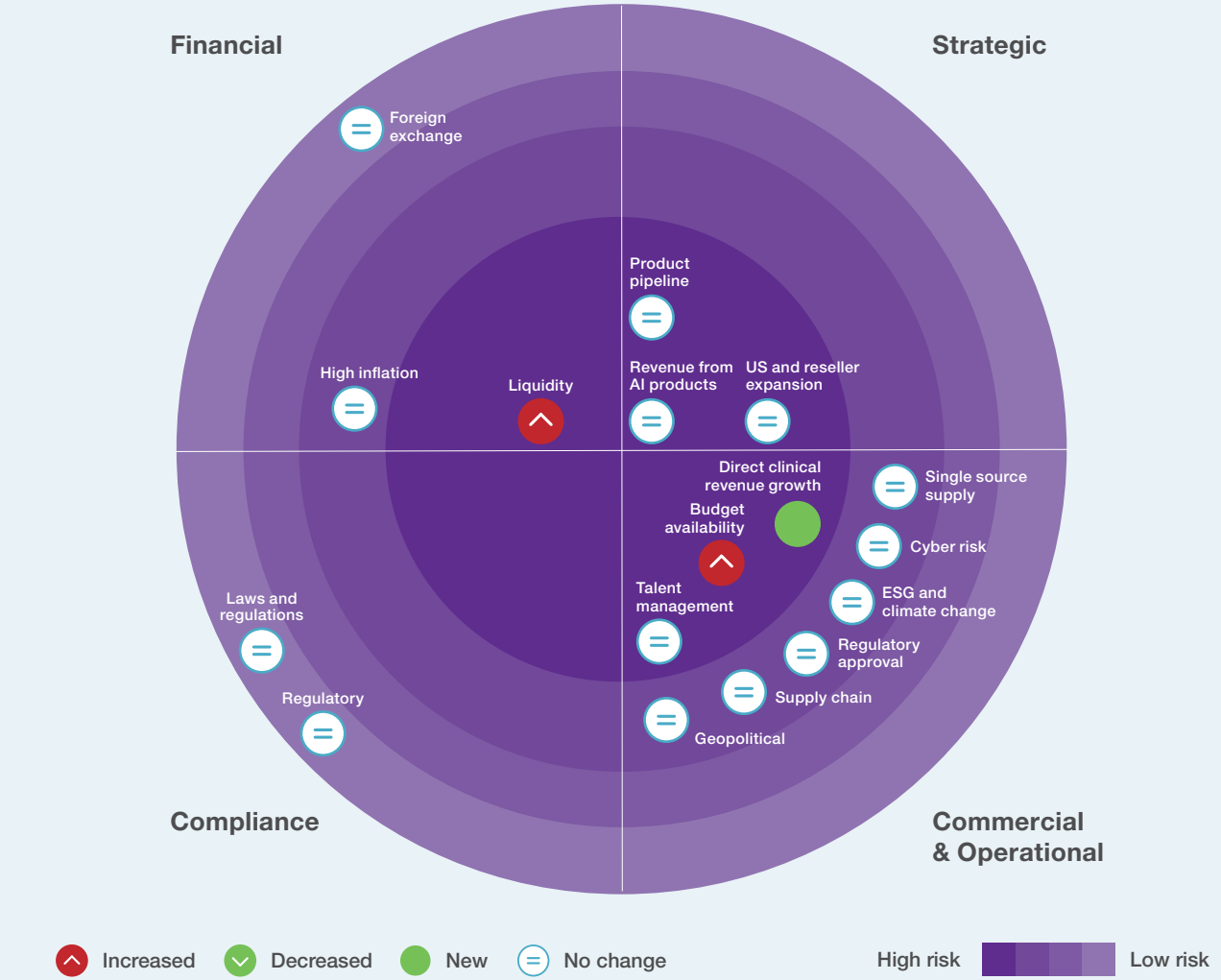
Risk appetite is the level of risk that an organisation or individual is willing to accept in pursuit of its objectives. It represents the amount and type of risk that an entity is prepared to seek, tolerate, or take on. No risk exists in isolation from others and risk management is about finding the right balance between risks and opportunities to act in the best interests of stakeholders.

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

Heat map of principal risks

During the year, the Audit and Risk Committee 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 principal risks are not intended to be an exhaustive list of all the risks the Group faces but 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 or our assessment of these risks may need to change.

Principal risk heat map



Principal Risks

Risk	Risk description	Impact	Key mitigating actions	Change from 2022	Link to strategy
Strategic risks					
Product pipeline	Risk that product pipeline cannot support required revenue growth: – Wrong product or product extensions – New competitive technology – Correct route to market not selected – Market takes longer to understand product benefits – 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	Monitoring and forecasting of revenues by product by region Review of feedback from customers taken into account in the ongoing development of our products Regular review of new competitive products and technology	=	
Revenue from AI products	Risk that we do not achieve material revenues from our GE HealthCare agreement, as there are many factors outside our control: – 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 SonoLyst software is now standard on Voluson Expert 22 and 20 ultrasound machines	=	
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	Additional resource has been put in place in the US to achieve growth Improved marketing campaigns aligned to the strategy Maintain close working relationship with our resellers Increased online training to resellers provided to ensure optimum product knowledge	=	

Change key

Increased Decreased New No change

Link to strategic pillars

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Principal Risks continued

Risk	Risk description	Impact	Key mitigating actions	Change from 2022	Link to strategy
Commercial & Operational risks					
Regulatory approval	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 The requirements of regulators continue to evolve and potentially may increase the regulatory burden for our products	Higher costs of development 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	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	=	
Geopolitical	Geopolitical and other unexpected events affecting our ability to operate or sell such as a global pandemic or war	Inability to access hospitals to demo products leading to reduced revenues in regions affected Could potentially impact on the supply chain in terms of availability of supply or cost increases which impact profitability	Installation of web demonstration rooms in both the UK and US offices to enable remote selling. Back-up supplier contingency plans where feasible Keep informed of global events and economic conditions in the territories we operate to ensure risks are monitored accordingly	=	
Supply chain	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	Significant business disruption leading to being unable to fulfil orders and demand resulting in loss of revenue	The Group has effective supply chain management Seek to maintain appropriate buffer stock levels of key components to minimise risk Business interruption (BI) insurance is procured to transfer an element of the financial risk	=	
Budget availability	Reduced availability of public sector training budgets for ultrasound training equipment	Slower than anticipated revenue growth and, depending on severity this can impact liquidity, path to profitability and the Company value	Experienced sales managers who monitor the availability of public sector budgets and communicate this through sales review meetings on a regular basis The Classroom to Clinic strategy aims to move the Group away from a dependency on training budgets	^	
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	=	

Change key

^ Increased v Decreased New = No change

Link to strategic pillars

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Principal Risks continued

Risk	Risk description	Impact	Key mitigating actions	Change from 2022	Link to strategy
Commercial & Operational risks continued					
Cyber risk	Increased levels of cyber-crime represent a threat to the Group and may lead to business disruption or loss of data	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 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	The Group has invested in the protection of its data and IT systems from the threat of cyber-attack Cyber security policies and procedures exist to minimise this risk, including preventative and detective controls 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 Proactive and reactive security controls are implemented, including up-to-date anti-virus software, network/system monitoring and regular penetration testing to identify vulnerabilities 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 The Group also has in place cyber insurance, providing coverage and protection against a range of cyber-related security threats to enable the Group to transfer an element of financial risk and liability	=	

Change key

Increased Decreased New No change

Link to strategic pillars

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Principal Risks continued

Risk	Risk description	Impact	Key mitigating actions	Change from 2022	Link to strategy
Commercial & Operational risks continued					
Talent management	Recruitment of expertise in relation to machine-learning, industrial software development experience and product management continues to be highly competitive Our ability to attract, develop and retain a diverse range of skilled people is critical if we are to compete and grow effectively	The loss of key employees could potentially weaken the Group's operational and management capabilities, potentially impeding its ability to grow Loss of continuity/loss of knowledge as a result of employee turnover, potentially leading to operational inefficiencies Potential lack of required skills and expertise to support the continued growth of the business, its systems, procedures, and processes	The Group maintains a competitive remuneration package to retain existing employees and attract high quality applicants for new roles These include: – 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	=	
Direct clinical revenue growth	The risk that increasing revenues from selling clinical products into a clinical setting is unsuccessful	Slower than anticipated revenue growth and depending on severity this can impact liquidity, path to profitability and the Company value	A comprehensive review considered and sought to address the challenges with selling new Clinical AI products in a clinical market, including: – Additional and focused sales, clinical advisor resources and improved sales support materials – Medical education programmes planned in 2024 in partnership with clinical experts and educational institutions – Improved platform and educational support content	New	
Single-source supply	The risk that reliance on a single supplier for a key component creates a vulnerability	Potential point of failure that can result in an inability to supply specific products Increased cost of supply and exposure to cost increases	There is dual-source supply for key components wherever possible. Where a single supplier exists mitigating actions include: – Forward ordering and holding sufficient buffer inventory – Business interruption insurance in place – Working closely with suppliers	=	

Change key

Increased Decreased New No change

Link to strategic pillars

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Principal Risks continued

Risk	Risk description	Impact	Key mitigating actions	Change from 2022	Link to strategy
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 sell or restructure the business	Post year-end a £2m overdraft facility was agreed with HSBC Group cash forecasts are prepared as part of the annual budget and actuals are monitored against these balances on a monthly basis Cash reforecasts are produced on a periodic basis throughout the year See the 'going concern' statement on page 56	Increased	Make ultrasound easier to learn Make ultrasound simpler to use
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	The current split of the Group has provided a natural hedge over the past few years, but this is reviewed annually. The Group would consider using foreign currency hedging instruments to mitigate the impact of unhedged currency fluctuations if required	No change	Make ultrasound easier to learn Make ultrasound simpler to use
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 customers, where possible, in an annual pricing review	No change	Make ultrasound simpler to use

Change key

Increased Decreased New No change

Link to strategic pillars

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Principal Risks continued

Risk	Risk description	Impact	Key mitigating actions	Change from 2022	Link to strategy
Compliance Risks					
Regulatory compliance	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 We need to comply with ongoing regulatory requirements, such as to maintain a QMS, for which we are subject to periodic inspections (scheduled and unscheduled), restrictions in relation to promotional materials and post-market safety surveillance programmes	Non-compliance with product classification regulations/registration requirements may result in products having to be withdrawn from the market, with a consequential loss of sales Losing the ISO13485 accreditation would impact regulatory approval	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	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 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	Bribery, anti-slavery, and corruption all carry their own penalties, and risk of reputational damage Breaches of taxation rules also carry a risk of interest and penalties becoming payable Breaches of AIM rules can lead to penalties	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 in progress 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	=	

Change key

Increased Decreased New No change

Link to strategic pillars

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Financial review

Positive momentum

Summary financial performance

£m (unless otherwise stated)	2023	2022	Change (%)
Revenue	**11.17**	10.10	+11
Gross profit (restated*)	**6.84**	6.08	+13
Gross profit margin (%) (restated*)	**61%**	60%	+1
Expensed R&D	**(1.15)**	(1.69)	-32
Administrative expenses (restated*)	**(8.72)**	(8.07)	+8
Operating loss	**(3.02)**	(3.67)	-18
Loss after taxation	**(2.58)**	(2.98)	-13
Gross R&D costs	**(2.96)**	(3.20)	-8
Net cash used in operating activities	**(1.71)**	(0.68)	+150
Cash and cash equivalents	**3.03**	7.17	-58

Helen Jones
Chief Financial Officer

Income statement

Revenue

The Group delivered overall growth in revenues of 11% in 2023 to £11.2m (2022: £10.1m) with Clinical AI revenues experiencing 203% growth from 2022 and Simulation revenues declining slightly by 3%.

Simulation

£m	2023	2022	Change (%)	2022**	Change (%)
UK	**2.36**	4.91	-52	3.01	-22
North America	**4.51**	2.78	+62	2.78	+62
Rest of the World	**2.27**	1.74	+31	1.74	+31
	9.14	9.43	-3	7.53	+21

Simulation revenues reduced by 3% in 2023, although 2022 revenues included £1.9m of 'one-off' revenue from a national NHS England echocardiography ultrasound training programme. Excluding this exceptional one-off revenue, simulation revenue on a like-for-like basis increased by 21% in 2023.

It was encouraging that North American revenues grew 62% in 2023 after significant investment in resource and marketing over the past two years. Despite the strengthening of sterling against the US dollar in 2023 the region saw good growth in sales across all products, in particular Babyworks, the newest product in the range.

Revenues increased by a third from the reseller network outside of the UK and North America to £2.27m (2022: £1.74m). Although some countries such as China and Australia performed below expectation, we started to see strong sales in the last quarter of the year which is expected to continue into 2024.

UK revenues declined by 52% in 2023, partly due to the one-off large NHS order in the prior year and also due to a reduction in NHS general training budgets with funding diverted to other priority areas.

Clinical AI

£m	2023	2022	Change (%)
UK	**0.41**	0.24	+72
North America	**0.31**	0.16	+96
Rest of the World	**1.31**	0.27	+382
	2.03	0.67	+203

** Adjusted on a 'like-for-like' basis
* 2022 restated for a reclassification of labour and distribution costs – see page 68 for details

Financial review continued

Clinical AI revenues trebled in 2023 to £2.03m (2022: £0.67m), with positive growth in sales from NeedleTrainer (NT) and 'Classroom to Clinic' NT products (C2C), SonoLyst royalty income as well as revenues relating to the ScanNav Fetal check studies (see the case study on page 24).

Gross profit

Gross profit increased by 13% to £6.84m (2022 restated*: £6.08m) directly associated with higher revenues. Average gross margin also improved by 1% to 61% (2022*: 60%).

Simulation gross margin % in 2023 of 60% remained the same as in 2022 with a more favourable product mix, offset by a lower proportion of revenue coming from direct sales in the UK and North America (75% in 2023 versus 82% in 2022).

Clinical AI gross margin improved to 68% (2022: 58%) with the prior year margin impacted by the cost of a component upgrade to the NeedleTrainer demonstration units.

Administrative expenses

£m	2023	*Restated 2022	Change (%)
Sales, marketing and distribution	**3.77**	3.56	+6
Other general and administrative	**3.10**	2.74	+13
Other non-cash costs:			
Share-based payment charges	**0.24**	0.38	-36
Depreciation and amortisation	**1.61**	1.38	+17
	8.72	8.07	+8

Administrative expenses increased by 9% to £8.72m (2022 restated: £8.07m) with salary increases, higher sales and exhibition-related distribution costs and insurance costs in the US as well as general higher inflationary increases impacting other administrative costs.

Amortisation charges increased by £0.2m reflecting the higher capitalised development costs in 2022 and 2023.

Share-based payment charges reduced by 36% to £0.24m (2022: £0.38m) with historical share option charges being fully recognised in the prior year as well as increased forfeiture rates.

Operating loss

The operating loss decreased by 18% to £3.02m (2022: £3.67m) driven partly by the 13% increase in gross profit and higher capitalised R&D costs.

Research and development (R&D) costs

£m	2023	2022	Change (%)
R&D			
– Expensed	**1.15**	1.69	-32
– Capitalised	**1.81**	1.51	+20
	2.96	3.20	-8
Simulation	**0.91**	1.24	-27
Clinical AI	**2.05**	1.96	+5

The Group incurred lower R&D expenditure in 2023 of £2.96m (2022: £3.20m). The simulation R&D team was largely focused on continuing to enhance the BabyWorks functionality as well as the development of the new version of BodyWorks. Lower external development costs resulted in a 27% reduction in R&D spend on simulation products.

The Clinical AI R&D team continued to make further improvements to NeedleTrainer, developed ScanNav FetalCheck and started the first phase of ScanNav Liver. R&D expenditure relating to clinical AI products remained broadly flat year-on-year at £2.05m (2022: £1.96m).

*2022 restated for a reclassification of labour and distribution costs – see page 68 for details

Financial review continued

Taxation

The total tax credit in 2023 was £0.44m (2022: £0.72m). 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. The credit is £0.28m lower than in 2022 due to the changes in the SME R&D tax credit legislation which came into effect from 1 April 2023 where the enhanced deduction for SMEs reduced from 130% to 86%, and the amount of tax credit reduced from 14.5% down to 10%.

As at 31 December 2023, the Group had cumulative gross UK tax losses of approximately £20.02m (31 December 2022: £18.81m) for which the Group continues to hold a cautious view, and consequently chooses to not recognise those losses as a deferred tax asset.

Balance sheet and working capital

Net assets at 31 December 2023 were £9.74m (31 December 2022: £12.2m).

Intangible assets of £4.10m increased by £0.82m, with £1.81m of R&D costs capitalised in 2023 (2022: £1.49m), offset by a £0.99m amortisation charge. Capitalised R&D costs were higher in the year despite lower R&D spend due to more expenditure meeting the criteria for capitalisation in 2023.

Working capital reduced by £3.16m to £5.07m at 31 December 2023 (31 December 2022: £8.23m) with cash and cash equivalents decreasing by £4.14m, offset by higher trade and other receivables of £1.37m due to a higher proportion of orders being received in November and December compared to the prior year. Inventory of £1.45m was lower by £0.15m (2022: £1.60m) following a review during the year to reduce the inventory of certain raw material components.

Included within current assets is the R&D tax credit receivable of £0.46m (31 December 2022: £0.71m). This is £0.25m lower than as at 31 December 2022 due to the changes in the SME R&D tax credit legislation from 1 April 2023.

During the year £1.81m (2022: £1.47m) of product development costs were capitalised within intangible assets, with more development cost meeting the criteria for capitalisation in 2023 compared to the prior year.

Current liabilities were £3.27m (31 December 2022: £3.28m), with trade payables of £1.23m (31 December 2022: £1.36m) and accruals of £1.12m (31 December 2022: £0.97m) largely relating to sales-based royalties payable, sales commissions and annual bonuses. Lease liabilities of £0.69m (31 December 2022: £0.49m) increased in the year following the expansion of the warehouse facility in Caerphilly in August 2023 as well as a move to a new office in North America.

Deferred income at 31 December 2023 was £0.57m (31 December 2022: £0.55m) 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.

The share-based payment reserve increased by £0.24m to £2.00m (31 December 2022: £1.75m) due to the share-based payment charge of £0.25m for the year.

Cash flow

The Group reported cash and cash equivalents of £3.03m at 31 December 2023 (31 December 2022: £7.17m), a decrease of £4.14m.

£m	2023	2022
Operating	**(1.71)**	(0.69)
Investing	**(2.12)**	(1.82)
Financing	**(0.24)**	4.55
Exchange (gains)/losses	**(0.07)**	0.18
(Decrease)/increase in cash and cash equivalents	**(4.14)**	2.22

Operating cash outflows increased by £1.02m in 2023 despite reduced operating cash outflows of £0.79m. These were offset by adverse movements in working capital of £1.24m (2022: £0.26m) particularly due to timing of invoicing impacting trade and other receivables as well as lower R&D tax credits received in the year of £0.69m (2022: £0.96m).

The net cash outflow arising from investing activities was £2.12m (2022: £1.82m) relating to capitalised R&D expenditure of £1.81m (2022: £1.47m) and £0.33m (2022: £0.38m) of property, plant and equipment, the majority of which relates to the capitalisation of sales demonstration equipment.

The net cash outflow from financing activities was £0.27m (2022: £4.55m inflow), mainly relating to lease payments of £0.21m and the associated interest. The prior year included the net funds received following the share placing in November 2022.

Going concern

In undertaking a 'going concern' review, the Directors have reviewed three financial projections to 31 December 2025 based on the existing base budget, a flexed, more conservative version of the base budget and a reforecast based on current trading; these all 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.

Post year-end, the Company secured access to a £2m overdraft facility with HSBC which provides additional liquidity to support the Company's working capital needs but is scheduled for review within 12 months of signing the financial statements. If the Group subsequently becomes reliant on the availability of the facility to meet its short term liquidity needs, a failure to renew or extend the facility could impact its ability to continue as a going concern. Additionally, if the Group's performance does not meet that projected and available facilities are insufficient to meet its liquidity needs then the Group may need to find alternative sources of finance. These circumstances represent a material uncertainty that may cast significant doubt upon the Group's and the Company's ability to continue as a going concern.

Notwithstanding the uncertainties around timing and magnitude of future cashflows, the Directors believe existing cash reserves, expected cash flows from operating activities as well as the availability of the overdraft facility if required, are sufficient to meet the Group and Company's obligations as they fall due for at least the next twelve months from the date of approval of these financial statements.

The Directors have therefore concluded that it is appropriate to prepare the Group and Company financial statements on a going concern basis and do not include any adjustments that would result if the Group or the Company was unable to continue as a going concern.

Helen Jones
Chief Financial Officer

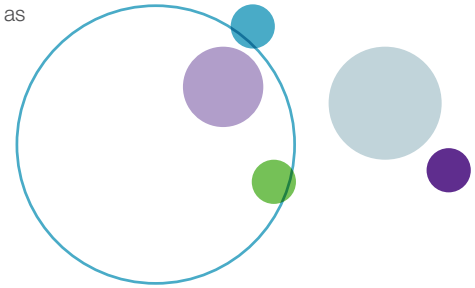
30 April 2024

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 40.

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 30 April 2024 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, fundraising 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 a NED with i2L Ltd. He is currently a NED of Cambridge Cognition Plc. He attends relevant events to keep his skills up to date.

Helen Jones
Chief Financial Officer

Appointed: 2020

Experience

After graduating with BSc(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 keeps her skills up to date and most recently the ICAEW's global leadership Financial Talent Executive Network programme.

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 an experienced software engineer 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.

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 became CEO of Clean Power Ltd and in 2023 joined Greater Manchester Business Growth Hub as a Commercialisation Specialist supporting growing businesses. 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.

Independent ● **Executive Directors** ● **Committees** Remuneration ● Nomination ● Audit and Risk ● ESG ● **Chairman** ●

Board of Directors continued

Ingeborg Øie
Non-executive Director

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, Chief Strategy Officer and CFO of digital health company Huma and currently CFO of Agreena. She was also a non-executive director of formerly listed Georgia Healthcare Group, the largest healthcare services provider in Georgia.

Michèle Lesieur
Non-executive Director

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 Intrasense, a listed software medtech company and non-executive director of Prodways Group, a listed 3D printing company.

Christian Guttmann
Non-executive Director

Appointed: 2022

Experience
Christian joined the Board on 15 August 2022. Dr Guttmann 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.

Ian Whittaker
Chief Operating Officer

Appointed: 2016

Retired: 21 June 2023

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.

Chairman's Introduction

Riccardo Pigliucci
Chair of the Board

Dear Shareholder

On behalf of the Board, I am pleased to present the Corporate Governance Report for the year ended 31 December 2023. 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 2023.

Changes to 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 did not seek re-election to the Board of Directors at the 2023 AGM in June 2023 and retired 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 2023 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 18. 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

30 April 2024

Corporate Governance Report

Riccardo Pigliucci
Chair of the Board

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 49 to 55. The ESG Report is on page 18. 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 meetings are conducted either in-person or on Microsoft Teams. 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.

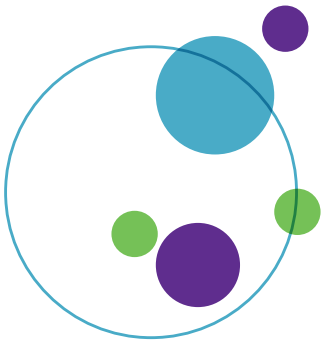
The Non-executive Directors communicate directly with Executive Directors between formal Board meetings as required and the Non-executive Directors meet the Chair without the Executive Directors present at least once a year.

Corporate Governance Report continued

Attendance at Board and Committee meetings during 2023

	Board meeting	Audit and Risk Committee	Remuneration Committee	Nomination Committee	ESG Committee
Number of meetings in 2023	12	3	4	4	10
Chair	RP	IO	ML	ML	SG
Current Directors					
Riccardo Pigliucci	12	n/a	n/a	4	n/a
Stuart Gall	12	n/a	n/a	n/a	10
Helen Jones	12	n/a	n/a	n/a	10
Nicholas Sleep	12	n/a	n/a	n/a	10
Nick Avis	11	n/a	3	3	10
Ingeborg Øie	12	3	4	4	9
Michèle Lesieur	11	3	4	4	n/a
Christian Guttmann	10	2	n/a	n/a	n/a
Ian Whittaker[1]	12	n/a	n/a	n/a	n/a

[1] Retired from the Board on 21 June 2023 but continued to attend until 31 December 2023



Key activities for the Board and Committees in 2023

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
2024 Budget	Presentation of the budget from the CFO, review of supporting budget paper and budget approval
2023 Reforecast	Presentation of the 2023 reforecast in July
Fundraising	Review of equity and debt fundraising requirements as appropriate
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 2024 salary proposals and 2024 Annual Incentive Scheme; and monitoring of the 2023 Annual Incentive Scheme, objectives and targets, terms of reference
Audit and Risk Committee	Review 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	2023 ESG objectives, review of 2022 ESG Report, ESG survey review, review of ESG initiative progress during the year

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/

Corporate Governance Report continued

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 13 Strategy: page 14
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 Cavendish and TB Cardew. 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 report: page 28
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 stakeholders. 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 13
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 30
5 Maintaining the Board as a well-functioning, balanced team led by the Chairman	The Board comprises the independent Non-executive Chairman, three Executive Directors and four Non-executive Directors The Board considers that Michèle Lesieur, Christian Guttmann 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 Although Riccardo Pigliucci 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 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 We also hold an annual strategy meeting. Each Non-executive Director continues to demonstrate that they have sufficient time to devote to our business 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	Biographies of the Directors: page 41 Key corporate governance changes in the year: page 43 Audit and Risk Committee Report: page 50 Nomination Committee Report: page 49 Remuneration Committee Report: page 52

Corporate Governance Report continued

Principle	Commentary	Further information
6 Ensuring that between them the Directors have the necessary up-to-date experience, skills and capabilities	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 The Board includes some diversity in terms of the background and gender of each Director 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 Each new Director undertakes an induction programme to strengthen their understanding of the business	Nomination Committee Report: page 49 Biographies of the Directors: page 41
7 Evaluating Board performance based on clear and relevant objectives, seeking continuous improvement	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 Agreed objectives and targets are set each year for the Executive Directors and performance measured against these metrics Over the past three years 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	Key corporate governance changes in the year: page 43
8 Promoting a corporate culture based on ethical values and behaviours	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 recognised and respected. A summary of the policy is set out below: *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* *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*	See Section 172: page 28 Business model: page 13
9 Maintaining governance structures and processes that are fit for purpose and support good decision-making by the Board	The Board has established four Committees to discharge its roles and responsibilities: an Audit and Risk Committee, a Remuneration Committee, a Nomination Committee and an ESG 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 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	Audit and Risk Committee Report: page 50 Remuneration Committee Report: page 49 Nomination Committee Report: page 52
10 Communicating how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	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 Cavendish	See the Section 172 Report which details our engagement with shareholders: page 28 Audit and Risk Committee Report: page 50 Nomination Committee Report: page 49 Remuneration Committee Report: page 52

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 matters by emailing intelligentultrasound@tbcardew.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 2023 for either the Board or the individual committees. Due to the significant changes in the Board since then we have allowed the new Board members to settle into their roles before embarking on an evaluation exercise.

Riccardo Pigliucci
Chair of the Board

30 April 2024

Nomination Committee Report

Michèle Lesieur
Chair of the Nomination Committee

Composition of the Committee

Member	Attendance
Michèle Lesieur (Chair)	4
Riccardo Pigliucci	4
Ingeborg Øie	4
Nick Avis	3

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 report on its activities during the year.

Responsibilities

The main responsibilities are set out in its terms of reference, which are available on the Group's website: www.intelligentultrasound.com/directors-and-committees/

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 NEDs, and to advise the Board on matters of corporate governance relating to the appointment and reappointment 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 four times in 2023.

As outlined in the report last year, since 2021 the Committee has been responsible for the search for additional and replacement Non-executive Directors to join the Board with the aim of building a more diverse skills matrix appropriate for the Board's size and strategy. During 2023, the Committee largely focused on the search for a senior Non-executive Director to join the Board in 2024. The Committee met potential candidates but no decision has been taken in 2023. In addition, at the 2023 AGM Ian Whittaker retired from the Board but continued in his COO role until 31 December 2023. The Committee agreed his role and responsibilities would be combined with those of the CEO Stuart Gall in 2024.

An external consultant was used as an adviser to the Board to conduct the search for these appointments.

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.

Michèle Lesieur
Chair of the Nomination Committee

30 April 2024

Audit and Risk Committee Report

Ingeborg Øie
Chair of the Audit and Risk Committee

Composition of the Committee

Member	Attendance
Ingeborg Øie (Chair)	3
Christian Guttmann	2
Michèle Lesieur	3

Dear Shareholder

I am pleased to present this report, which is my second as Chair of the Audit & Risk Committee (the Committee), and in the following pages I aim to share insights into the activities undertaken or overseen by the Committee during the year.

Role of the Committee

The Committee oversees the Group's financial reporting process and risk management process on behalf of the Board of Directors, and in accordance with the Terms of Reference, which have been reviewed in the year.

The Committee is responsible on behalf of the Board for:

- monitoring the integrity of the financial statements and overseeing the financial reporting process
- reviewing the effectiveness of the Group's systems of risk management and internal control
- approving the appointment, reappointment, remuneration and removal of the external auditor, as well as overseeing the external auditor's independence and effectiveness in delivering a quality audit. The Group's auditor CLA Evelyn Partners Limited (Evelyn) were appointed in 2022

The Terms of Reference can also be found on the Group website: www.intelligentultrasound.com/directors-and-committees/

Committee focus in FY2023

The Committee met three times this year. As Committee Chair, I met with the Evelyn audit partner to discuss planning, updates on audit findings and timelines. Having an open dialogue is also important to ensure that the Committee takes into account the feedback and external perspective of the auditors. I also met with management as appropriate ahead of meetings to discuss specific items of focus to report to the Committee. After each meeting, I also reported back to the Board on the Committee's activities, the main issues discussed and matters of relevance.

Each year Committee reviews its cycle of work for the year ahead and sets 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.

Financial reporting

The Directors have 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.

Significant matters and how these were addressed

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 a detailed review of the scenarios, combined with the £2m overdraft facility agreed with HSBC post year end, the Committee recommended that the Board adopt the going concern basis in preparing these financial statements as the Committee believes that this overdraft facility, combined with existing cash reserves and expected cash flows from operating activities, are sufficient to meet the Group and Company's obligations as they fall due for at least the next 12 months from the date of approval of these financial statements. If the Group subsequently becomes reliant on the availability of the facility to meet its short-term liquidity needs, a failure to renew or extend the facility could impact its ability to continue as a going concern.

Audit and Risk Committee Report continued

Additionally, if the Group's performance does not meet that projected, and available facilities are insufficient to meet its liquidity needs, then the Group may need to find alternative sources of finance. These circumstances represent a material uncertainty that may cast significant doubt upon the Group's and the Company's ability to continue as a going concern.

Notwithstanding the uncertainties around timing and magnitude of future cashflows, the Directors believe existing cash reserves, expected cash flows from operating activities as well as the availability of the overdraft facility if required, are sufficient to meet the Group and Company's obligations as they fall due for at least the next 12 months from the date of approval of these financial statements.

The Directors have therefore concluded that it is appropriate to prepare the Group and Company financial statements on a going concern basis. The financial statements do not include any adjustments that would result if the Group or the Company was unable to continue as a going concern.

ii) Intangible asset impairment

The Committee considered the carrying value of intangible assets in the 2023 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.

The Committee received further updates from management regarding continued improvements to the impairment review process and assessment of going concern. The Committee is pleased to see a strengthened process.

External audit

The Committee reviewed and agreed the audit scope and plan for the FY23 audit and subsequently met with the external auditor on 4 April 2024 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 Group's financial reporting.

The Committee agreed that:

- the audit contributed to the integrity of the Group's financial reporting
- the relationship between Evelyn and both the Committee and management continues to be effective
- Evelyn demonstrated an appropriate degree of professional scepticism and deployed a team with the required level of skill and expertise to enable an effective audit
- the audit strategy and plan was appropriately scoped, communicated and executed
- Evelyn continues to be independent and recommended to the Board that the reappointment of Evelyn, as our external auditor, be put to our shareholders for approval at the 2024 AGM (this was subsequently approved by the Board)

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 2023 concluded this was still appropriate. In addition, the Committee reviewed and discussed together with management the effectiveness of the Group's internal control over financial reporting and the significant improvements that continue to be made.

Risk management and internal controls system

The Group has continued to enhance and further embed its framework of risk management, controls and assurance for dealing with its landscape of risks. An update on actions arising from the November 2022 detailed review was provided to the Committee in August and a detailed review of the risk register was undertaken by this Committee on the Board's behalf in November. The Committee agreed with management any actions required to manage or mitigate these risks effectively.

A separate detailed review of the information security risk management process was also undertaken during the year and, following this, the Committee was satisfied that the Group has adequate information risk management processes and controls in place.

Other activities

At the August 2023 meeting, the Committee reviewed and approved the policy on non-audit services, ensuring compliance with the QCA guidance.

Approval of the financial statements

The Committee has concluded that it has acted in accordance with its Terms of Reference. At the meeting in April 2024 the 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 Annual Report and Accounts; it reached the conclusion and advised the Board that it considered the 2023 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 Committee and signed on its behalf by:

Ingeborg Øie
Chair of the Audit & Risk Committee

30 April 2024

Remuneration Committee Report

Michèle Lesieur
Chair of the Remuneration Committee

Composition of the Committee

Member	Attendance
Michèle Lesieur	4
Ingeborg Øie	4
Nick Avis	3

Dear Shareholder

On behalf of the Board, I am pleased to present the Report of the Remuneration Committee for the year ended 31 December 2023.

This report sets out the Company's remuneration practices and how they align the interests of the executive team with those of the 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 three 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: www.intelligentultrasound.com/directors-and-committees/

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

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.

Remuneration Committee Report continued

Directors' remuneration (audited)

The Directors' remuneration for the year ended 31 December 2023 was:

	Salaries & fees £'000	Accrued AIS £'000	Pension £'000	Car allowance £'000	Other benefits £'000	Total 2023 £'000	Total 2022 £'000
Current Directors							
Nick Avis	25	–	–	–	–	**25**	25
Stuart Gall	206	19	21	14	2	**262**	294
Christian Guttmann	25	–	–	–	–	**25**	10
Helen Jones	127	13	11	–	1	**152**	168
Michèle Lesieur	30	–	–	–	–	**30**	25
Ingeborg Øie	30	–	–	–	–	**30**	25
Riccardo Pigliucci	60	–	–	–	–	**60**	60
Nicholas Sleep	196	20	20	–	1	**237**	257
Former Directors							
Ian Whittaker[1]	78	8	8	–	8	**102**	212
Nazar Amso	–	–	–	–	–	**–**	12
David Baynes	–	–	–	–	–	**–**	10
Andrew Barker	–	–	–	–	–	**–**	30
Total	777	60	60	14	12	**923**	1,128

1 Retired 21 June 2023

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) 2024 Annual Incentive Scheme

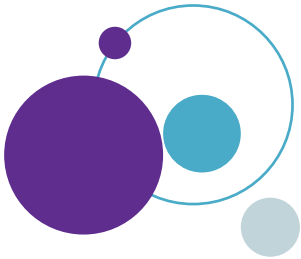
The Chief Executive can earn up to a maximum of 35% of his base salary on the successful achievement of the following:

– 35% based on hitting Group revenue and cash targets.

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

– 35% based on hitting Group revenue and cash targets.

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



Remuneration Committee Report continued

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:

– 28% based on hitting Group revenue, EBITDA-adjusted and cash targets, and 7% 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.

Directors and their interests

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

	At 31 December 2023 No.	% of issued Ordinary share capital	At 31 December 2022 No.	% of issued Ordinary share capital
Current Directors				
Stuart Gall	1,491,042	0.46%	1,491,042	0.46%
Nicholas Sleep	583,871	0.18%	583,871	0.18%
Helen Jones	149,292	0.05%	149,292	0.05%
Nick Avis	407,754	0.12%	407,754	0.12%
Riccardo Pigliucci	117,648	0.04%	117,648	0.04%
Ingeborg Øie	216,216	0.07%	216,216	0.07%
Michèle Lesieur	–	–	–	–
Christian Guttmann	–	–	–	–
Former Directors				
Ian Whittaker[1]	532,253	0.16%	532,253	0.16%

1 Retired 21 June 2023

Parties related to Professor Nick Avis hold 141,177 shares representing 0.04% (2022: 0.05%) of the issued share capital.

Directors' interests in share options

At 31 December 2023 the following options had been granted to the Directors and remain current and unexercised:

	Option exercise price (pence)	At 1 January 2023 No.	Granted during year No.	Lapsed during year No.	At 31 December 2023 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	15.25	1,087,498	–	–	**1,087,498**	21 December 2030
Stuart Gall	9.60	–	1,031,750	–	**1,031,750**	21 December 2033
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	15.25	1,033,711	–	–	**1,033,711**	21 December 2030
Nicholas Sleep	9.60	–	980,725	–	**980,725**	21 December 2033
Helen Jones	12.00	1,000,000	–	–	**1,000,000**	24 April 2030
Helen Jones	15.25	662,266	–	–	**662,266**	21 December 2030
Helen Jones	9.60	–	636,540	–	**636,540**	21 December 2033
Non–executive Directors						
Nick Avis	42.50	40,000	–	–	**40,000**	30 June 2024
Riccardo Pigliucci	19.00	216,000	–	(216,000)	**–**	1 May 2023
Riccardo Pigliucci	42.50	80,000	–	–	**80,000**	30 June 2024
Former Directors						
Ian Whittaker[1]	20.50	200,000	–	–	**200,000**	4 April 2027
Ian Whittaker[1]	11.25	1,000,000	–	–	**1,000,000**	29 May 2028
Ian Whittaker[1]	15.25	824,790	–	–	**824,790**	21 December 2030
		11,306,265	**2,649,015**	**(752,000)**	**13,203,280**	

1 Retired 21 June 2023

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

Remuneration Committee Report continued

M&A bonus arrangement

The Remuneration Committee provides incentives 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 in issue at the time of the M&A Bonus agreement in December 2020.

Post-year end the Board approved, following a recommendation from the Committee, to amend the terms of the M&A Bonus so that the starting threshold price per share paid by an acquirer is adjusted to reflect the movement in the FTSE AIM All-Share Index since the date of the initial grant of the M&A Bonus.

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-sized-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 2024 AGM to answer any questions about the Group's senior management remuneration policies and practices.

Approval

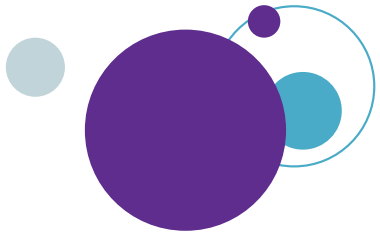
This report was reviewed and approved by the Remuneration Committee and signed on its behalf by:

Michèle Lesieur
Chair of the Remuneration Committee

30 April 2024

Directors' Report

The Directors present their report and audited consolidated financial statements of Intelligent Ultrasound Group plc (the Company and the Group) for the year ended 31 December 2023.



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 (2022 £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 £2.90m (2022: £3.20m) on research and development activities of which £1.15m (2022: £1.69m) was expensed and £1.75m (2022: £1.51m) was capitalised as an intangible asset.

Going concern

In undertaking a going concern review, the Directors have reviewed three financial projections to 31 December 2025 based on the existing base budget, a flexed, more conservative version of the base budget and a reforecast based on current trading, all 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. Post year-end, the Company secured access to a £2m overdraft facility with HSBC which provides additional liquidity to support the Company's working capital needs but is scheduled for review within 12 months of signing the financial statements. If the Group subsequently becomes reliant on the availability of the facility to meet its short-term liquidity needs, a failure to renew or extend the facility could impact its ability to continue as a going concern. Additionally, if the Group's performance does not meet that projected and available facilities are insufficient to meet its liquidity needs then the Group may need to find alternative sources of finance. These circumstances represent a material uncertainty that may cast significant doubt upon the Group's and the Company's ability to continue as a going concern.

Notwithstanding the uncertainties around timing and magnitude of future cashflows, the Directors believe existing cash reserves, expected cash flows from operating activities as well as the availability of the overdraft facility if required, are sufficient to meet the Group and Company's obligations as they fall due for at least the next 12 months from the date of approval of these financial statements.

The Directors have therefore concluded that it is appropriate to prepare the Group and Company financial statements on a going concern basis. The financial statements do not include any adjustments that would result if the Group or the Company was unable to continue as a going concern.

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
- Ingeborg Øie
- Michèle Lesieur
- Nicholas Avis
- Christian Guttmann

Former Directors

- Ian Whittaker (retired 21 June 2023)

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

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 Directors 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.

Substantial shareholdings
The following shareholders held 3% or more of the issued share capital of the Company as at 31 March 2024:

Shareholder	Number of shares	% of issued capital (as at date of notification)
IP Group plc	67,858,641	20.76
Parkwalk Advisors	35,965,600	11.00
Octopus Investments	35,847,252	10.97
Polar Capital	27,263,236	8.34
Amati Global Investors	22,025,000	6.74
Canaccord Genuity Wealth Management	13,771,400	4.21
Brett Sheradon Gordon	12,172,500	3.72
Herald Investment Management	11,448,900	3.50
Dowgate Capital	10,314,372	3.16
Rathbones	9,878,158	3.02

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

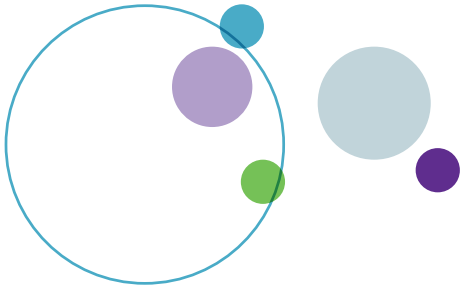
By order of the Board

Helen Jones
Chief Financial Officer and Company Secretary

30 April 2024

Statement of Director's 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
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

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

The Directors are also responsible for ensuring that they meet their responsibilities under the AIM Rules.

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

30 April 2024

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 2023 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 and as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 2023 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements 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. An additional dormant component has also been subject to audit work.

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	As the business continues to grow there has been significant capitalisation of costs relating to intangible assets within the two subsidiaries Medaphor Limited (Simulation) and Intelligent Ultrasound Limited (Clinical AI). 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. 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.	The main procedures performed on the recognition and valuation assessments, including areas where we challenged management were as follows: – 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 use of valuations specialists to assess 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. 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.	The main procedures performed on the valuation of investments and recoverability of intercompany receivables, including areas where we challenged management were as follows: – 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 use of valuations specialists to assess 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 management's 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 & Simulation divisions used for the recoverability of intangible assets, investment value and intercompany receivables

We draw attention to note 4 and note 16 in the financial statements concerning key estimation uncertainty, and specifically, the forecast sales of Clinical AI & Simulation products used in assessing the recoverability of £4.10m of intangible asset on the Groups statement of financial position; and £6.57m of investment value and £20.79m of intercompany receivables on the statement of financial position of the Company.

As described in note 4 the recoverability of these assets is dependent on sales of Clinical AI & Simulation products being delivered and cash collected, the timing and actuality of which is not certain. The financial statements do not reflect any impairments that may be required if the above Group assets totalling £4.10m or the above Company assets totalling £27.36m 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 £223,400. This has been determined with reference to the benchmark of the Group's revenue, 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 revenue 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 £223,399. 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 £178,720, 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 being 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 including considering experience from previous audits. It was set at 80% to reflect the fact that few misstatements were expected in the current period; and also considered areas of judgements and estimation uncertainty.

Performance materiality for the Parent Company financial statements was set at £178,720, 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 also considered areas of judgements and estimation uncertainty.

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

Material uncertainty relating to going concern

We draw your attention to note 3 to the financial statements which explains that the Company is reliant on achieving forecasts, and thereby potentially on banking facilities, which are due for renewal within 12 months of the signing of these accounts or securing additional funding.

Although the Directors have prepared cash-flow projections to support their decision to use the going concern basis, it is important to note that the timing and magnitude of future cash flows remain uncertain.

As stated in note 3, these conditions indicate that a material uncertainty exists which may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Notwithstanding the above, 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 2024 and 2025;
- Considering historical trading performance by comparing recent growth rates of both revenue and operating 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 2024 financial period so far;
- 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 reassessing headroom after sensitivity.

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 58, 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.

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

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.

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's structure and reporting lines, any litigation or claims would come to the Directors' attention 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 UK-adopted international accounting standards in respect of the preparation and presentation of the financial statements.
- AIM rules and the UK Market Abuse Regulation.
- UK taxation law.
- Regulatory approval for clinical products.

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 identify any potential legal issues which may indicate instances of non-compliance.
- Inspected regulatory approval documentation from the FDA and CE to ensure only approved products are capitalised.

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

30 April 2024

Group Statement of Profit and Loss and Other Comprehensive Income

For the year ended 31 December 2023

Continuing operations	Note	2023 £'000	Restated 2022 £'000
Revenue	5	**11,173**	10,100
Cost of sales		**(4,334)**	(4,024)
Gross profit		**6,839**	6,076
Other income	6	**9**	8
Administrative expenses		**(9,868)**	(9,756)
Operating loss	7	**(3,020)**	(3,672)
Finance income	8	**26**	1
Finance costs	8	**(29)**	(31)
Loss before taxation		**(3,023)**	(3,702)
Taxation	9	**441**	718
Loss attributable to the equity shareholders of the parent		**(2,582)**	(2,984)
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Exchange (loss)/gain arising on translation of foreign operations		**(90)**	238
Other comprehensive (loss)/gain for the period		**(90)**	238
Total comprehensive loss attributable to the equity shareholders of the parent		**(2,672)**	(2,746)
Loss per ordinary share attributable to the equity shareholders of the parent			
Basic and diluted (pence)	11	**(0.79)**	(1.08)

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

See note 3 for details of the restatement as a result of a change in accounting policy

Group and Company Statements of Financial Position

As at 31 December 2023

	Note	Group 2023 £'000	Group 2022 £'000	Company 2023 £'000	Company 2022 £'000
Non-current assets					
Intangible assets	12	**4,095**	3,272	**–**	–
Property, plant and equipment	13	**1,293**	1,174	**245**	388
Investments in subsidiaries	14	**–**	–	**6,569**	6,328
Trade and other receivables	16	**61**	61	**20,848**	11,849
		5,449	4,507	**27,662**	18,565
Current assets					
Inventories	15	**1,450**	1,603	**–**	–
Trade and other receivables	16	**3,398**	2,025	**260**	192
Current tax asset		**462**	713	**–**	–
Cash and cash equivalents	17	**3,031**	7,166	**82**	5,027
		8,342	11,507	**342**	5,219
Total assets		**13,790**	16,014	**28,004**	23,784
Current liabilities					
Trade and other payables	18	**(2,698)**	(2,732)	**(333)**	(445)
Deferred income	19	**(294)**	(337)	**–**	–
Lease liabilities	13	**(244)**	(188)	**(150)**	(118)
Provisions	20	**(35)**	(22)	**–**	–
		(3,271)	(3,279)	**(483)**	(563)
Non-current liabilities					
Deferred income	19	**(272)**	(209)	**–**	–
Lease liabilities	13	**(446)**	(298)	**(112)**	(263)
Other payables	18	**(65)**	(65)	**(65)**	(65)
		(783)	(572)	**(177)**	(328)
Total liabilities		**(4,054)**	(3,851)	**(660)**	(891)
Net assets		**9,736**	12,163	**27,344**	22,893
Equity					
Share capital	22	**3,269**	3,269	**3,269**	3,269
Share premium		**30,207**	30,207	**30,207**	30,207
Accumulated losses		**(32,533)**	(29,951)	**(12,761)**	(16,967)
Share-based payment reserve		**1,998**	1,753	**1,916**	1,671
Merger reserve		**6,538**	6,538	**4,548**	4,548
Foreign exchange reserve		**92**	182	–	–
Other reserves		**165**	165	**165**	165
		9,736	12,163	**27,344**	22,893

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 gain of £4.2m (2022: loss of £4.5m).

These financial statements were approved and authorised for issue by the Board of Directors on 30 April 2024 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 2023

	Note	Share capital £'000	Share premium £'000	Accumulated losses £'000	Share-based payment reserve £'000	Merger reserve £'000	Foreign exchange reserve £'000	Other reserves £'000	Total equity £'000
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
Loss for the year		–	–	(2,582)	–	–	–	–	(2,582)
Other comprehensive expense		–	–	–	–	–	(90)	–	(90)
Total comprehensive loss for the year		–	–	(2,582)	–	–	(90)	–	(2,672)
Transactions with owners, recorded directly in equity									
Cost of share-based awards	23	–	–	–	245	–	–	–	245
As at 31 December 2023		**3,269**	**30,207**	**(32,533)**	**1,998**	**6,538**	**92**	**165**	**9,736**

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 2023

	Note	Share capital £'000	Share premium £'000	Accumulated losses £'000	Share-based payment reserve £'000	Merger reserve £'000	Other reserves £'000	Total equity £'000
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
Gain for the year		–	–	4,206	–	–	–	4,206
Total comprehensive income for the year		–	–	4,206	–	–	–	4,206
Transactions with owners, recorded directly in equity								
Cost of share-based awards	23	–	–	–	245	–	–	245
As at 31 December 2023		**3,269**	**30,207**	**(12,761)**	**1,916**	**4,548**	**165**	**27,344**

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 2023

	Note	Group 2023 £'000	Group 2022 £'000	Company 2023 £'000	Company 2022 £'000
Cash flows from operating activities					
(Loss)/profit before taxation		**(3,023)**	(3,702)	**4,206**	(4,532)
Depreciation	7	**629**	604	**143**	143
Amortisation of intangible assets	7	**986**	780	–	–
Credit loss allowance on intercompany receivables		–	–	(4,920)	3,744
Finance costs/(income)	8	**3**	30	**(10)**	21
Share-based payment charge	10	**245**	380	**4**	4
Operating cash flows before movement in working capital		**(1,160)**	(1,908)	**(577)**	(620)
Decrease/(increase) in inventories	15	**151**	(404)	–	–
(Increase)/decrease in trade and other receivables	16	**(1,413)**	739	**(69)**	40
Increase/(decrease) in trade and other payables	16	**7**	(70)	**(112)**	101
Increase in provisions	20	**13**	–	–	–
Cash used in operations		**(2,402)**	(1,643)	**(758)**	(479)
Income taxes received	9	**691**	959	–	–
Net cash used in operating activities		**(1,711)**	(684)	**(758)**	(479)
Cash flows from investing activities					
Purchase of property, plant and equipment		**(338)**	(357)	–	–
(Increase) in intercompany loans		–	–	**(4,079)**	(652)
Internally generated intangible assets	12	**(1,809)**	(1,467)	–	–
Interest received	8	**26**	1	**26**	1
Net cash used in investing activities		**(2,121)**	(1,823)	**(4,053)**	(651)
Cash flows from financing activities					
Proceeds from issue of new shares	22	–	5,200	–	5,200
Share issue costs	22	–	(390)	–	(390)
Principal elements of lease payments	13	**(207)**	(231)	**(118)**	(138)
Interest paid	8	**(29)**	(31)	**(15)**	(22)
Net cash (used in) generated by financing activities		**(236)**	4,548	**(134)**	4,650
Net (decrease)/increase in cash and cash equivalents		**(4,068)**	2,041	**(4,945)**	3,520
Cash and cash equivalents at beginning of year	17	**7,166**	4,950	**5,027**	1,507
Exchange (gains)/losses on cash and cash equivalents		**(67)**	175	–	–
Cash and cash equivalents at end of year		**3,031**	7,166	**82**	5,027

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

Notes to the Financial Statements

For the year ended 31 December 2023

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

- 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)

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 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)

Mandatorily effective for periods beginning on or after 1 January 2025.

- Lack of Exchangeability (Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates)

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. Accounting policies

Basis of preparation

Compliance with IFRS

The Group and Company financial statements have been prepared in accordance UK-adopted international accounting standards.

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.

Restatement

In 2023 there was a change in accounting policy to recognise distribution costs and warehouse labour within cost of sales instead of administrative expenses to more accurately reflect the direct costs associated with generating revenue.

For comparative purposes the 2022 income statement has been restated below.

	As previously reported	Reclassification	As restated
	2022 £'000	2022 £'000	2022 £'000
Revenue	10,100	–	10,100
Cost of sales	(3,766)	**(258)**	(4,024)
Gross profit	**6,334**	**(258)**	**6,076**
Other income	8	–	8
Administrative expenses	(10,014)	**258**	(9,756)
Operating loss	(3,672)	–	(3,672)

Notes to the Financial Statements continued

For the year ended 31 December 2023

3. Accounting policies continued

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.

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 three financial projections to 31 December 2025 based on the existing base budget, a flexed, more conservative version of the base budget and a reforecast based on current trading; all 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. Post year-end, the Company secured access to a £2m overdraft facility with HSBC which provides additional liquidity to support the Company's working capital needs but is scheduled for review within 12 months of signing the financial statements. If the Group subsequently becomes reliant on the availability of the facility to meet its short term liquidity needs, a failure to renew or extend the facility could impact its ability to continue as a going concern. Additionally, if the Group's performance does not meet that projected and available facilities are insufficient to meet its liquidity needs then the Group may need to find alternative sources of finance. These circumstances represent a material uncertainty that may cast significant doubt upon the Group's and the Company's ability to continue as a going concern.

Notwithstanding the uncertainties around timing and magnitude of future cashflows, the Directors believe existing cash reserves, expected cash flows from operating activities as well as the availability of the overdraft facility if required, are sufficient to meet the Group and Company's obligations as they fall due for at least the next twelve months from the date of approval of these financial statements.

The Directors have therefore concluded that it is appropriate to prepare the Group and Company financial statements on a going concern basis. The financial statements do not include any adjustments that would result if the Group or the Company was unable to continue as a going concern.

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 circumstances 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.

Notes to the Financial Statements continued

For the year ended 31 December 2023

3. Accounting policies continued

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 standalone selling prices.

i) Revenue from the sale of systems

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.

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 three months and the remaining balance spent on a straight-line basis over the remaining nine 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, ongoing 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 ongoing 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.

Revenue is recognised over time for certain contracts if any of the three criteria are met:

- the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;
- the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the entity's performance does not create an asset with an alternative use to the entity, and the entity has an enforceable right to payment for performance completed to date.

The contracts for the purchase of ScanNav FetalCheck systems funded by the Bill & Melinda Gates foundation and led by Concept Foundation met the three criteria above and therefore the revenue associated with this contract is recognised as the costs are incurred to create the assets based on the output method which involves measuring the value of the goods or services transferred to date. The transaction price is allocated to the performance obligation based on the percentage of completion.

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 standalone selling price) for each product or service sold (including installation and training, extended warranties, Cloud access, ongoing 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.

Notes to the Financial Statements continued

For the year ended 31 December 2023

3. Accounting policies continued

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.

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.

Notes to the Financial Statements continued

For the year ended 31 December 2023

3. Accounting policies continued

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.

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 to 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 the RV of all internally developed intangible assets to be zero.

Notes to the Financial Statements continued

For the year ended 31 December 2023

3. Accounting policies continued

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.

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 intangible 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.

Notes to the Financial Statements continued

For the year ended 31 December 2023

3. Accounting policies continued

Leases

The Group leases various property and motor vehicles. Rental contracts are typically made for fixed periods of two to five 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.

Any change in the terms and conditions of a lease agreement subsequent to its commencement date that results in a change in the scope of the lease, the lease consideration, or both will be identified as a lease modification. The Group will assess each lease modification to determine whether it represents a separate lease, a termination of the existing lease, or a continuation of the existing lease with revised terms. If a lease modification results in the addition of a distinct asset or a distinct lease component, the modification will be treated as a separate lease if it meets the criteria for lease classification under IFRS 16. If a lease modification effectively terminates the existing lease and creates a new lease, the Group will account for the termination and the new lease separately. Any difference between the carrying amount of the lease liability for the terminated lease and the consideration paid or payable for the termination will be recognised in the income statement. If a lease modification does not result in the addition of a distinct asset or a distinct lease component and does not effectively terminate the existing lease, it will be accounted for as a continuation of the existing lease with revised terms. The carrying amount of the lease liability will be adjusted to reflect the revised lease payments based on the updated lease term and consideration.

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 remeasurement 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.

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

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment 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.

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.

Notes to the Financial Statements continued

For the year ended 31 December 2023

3. Accounting policies continued

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.

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.

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. 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.

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.

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.

Notes to the Financial Statements continued

For the year ended 31 December 2023

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 2023 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 involving estimation uncertainty (see (ii)), made by management which have the most significant effect on the amounts recognised in the financial statements.

Capitalisation of internally generated intangible assets

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 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 asset's 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 forecasted revenues and the associated future cash collection on the basis that these are relatively new products which have no extensive history of sales upon which to base the forecasts.

During the period ended 31 December 2023, the Clinical AI-related and Simulation assets with a carrying value of £2.1m and £2.0 respectively 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. In the scenario that Clinical AI revenues only grow by 22.7% year on year in the value in use calculation, this would result in full impairment of the carrying value of the asset by £2.1m. If simulation revenue decreased by 50% over the five years used in the value-in-use calculation for Simulation assets there would still be adequate headroom.

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 £20.8m (2022: £11.8m) – see Note 16 for the movements in the loss allowances in 2023 and reasonable sensitivities applied.

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 recoverability of the investments is dependent on future revenues and associated cash collection of Simulation and Clinical AI products, the timing and value of which can be uncertain and require a level of management estimation. The most sensitive estimate is in relation to future revenues for new products which have no extensive history of sales upon which to base the forecasts.

The value in use assessments determined that the £6.57m of investments held by the Company did not require impairment. Additionally, after applying reasonable sensitivities to the expected revenue growth rates, this conclusion remained unchanged.

Notes to the Financial Statements continued

For the year ended 31 December 2023

5. Operating segments

Operating segments reflect the way in which information is presented to and reviewed by the Chief Operating Decision Maker (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

2023	Simulation £'000	Clinical AI £'000	Total £'000
Revenue	**9,144**	**2,029**	**11,173**
Cost of sales	**(3,838)**	**(496)**	**(4,334)**
Gross profit	**5,306**	**1,533**	**6,839**

2022*	Simulation £'000	Clinical AI £'000	Total £'000
Revenue	9,432	668	10,100
Cost of sales*	(3,742)	(282)	(4,024)
Gross profit*	5,690	386	6,076

* See note 3 for details of the 2022 restatement

Revenue by destination of external customer

	2023 £'000	2022 £'000
United Kingdom	**2,769**	5,145
North America (USA & Canada)	**4,828**	2,943
Rest of World	**3,576**	2,012
	11,173	10,100
Timing of revenue recognition		
At a point in time	**10,674**	9,591
Over time	**499**	509

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:

	2023 £'000	2022 £'000
USA	**4,201**	2,808

The Group had no customers who accounted for more than 10% of the Group revenue for the year ended 31 December 2023 or 2022.

Other segment information

	Depreciation and amortisation		Additions to non-current assets	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Simulation	**1,037**	942	**1,509**	1,258
Clinical AI	**434**	299	**990**	605
Central	**144**	143	**–**	–
	1,615	1,384	**2,499**	1,863

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 at 31 December 2023 was £0.19m (2022: £0.03m).

6. Other income

	2023 £'000	2022 £'000
Other income	**9**	8

Other income includes employee contributions towards Company cars.

Notes to the Financial Statements continued

For the year ended 31 December 2023

7. Operating loss

	2023 £'000	2022 £'000
Operating loss is stated after charging/(crediting):		
Raw materials and consumables used	**3,405**	2,960
Depreciation		
Right-of-use assets	**247**	223
Other assets	**382**	381
Amortisation of intangible assets	**986**	780
Staff costs (note 10)	**5,150**	5,647
Exchange gain/(loss)	**78**	(75)
Auditor's remuneration		
Audit of Group financial statements	**57**	47
Audit of Company and subsidiaries	**60**	58
Review of interim accounts	**5**	5
R&D Cost		
– Expensed	**1,161**	1,695
– Amortised	**847**	641

Staff and other development costs of £1.75m not included in the operating loss have been capitalised as intangible assets during the year (2022: £1.49m).

8. Finance income and costs

	2023 £'000	2022 £'000
Finance income		
Interest income from bank deposits	**(26)**	(1)
Finance costs		
Interest on lease liabilities	**29**	31
	3	30

9. Taxation

i) Analysis of income tax credit in the year

	2023 £'000	2022 £'000
Current tax		
R&D tax credit	**(460)**	(711)
R&D tax credit relating to prior periods	**19**	(7)
	(441)	(718)
Deferred tax		
Origination and reversal of timing differences	**–**	–
Effect of tax rate change on opening balance	**–**	–
Income tax credit	**(441)**	(718)

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 2023 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 (2022: loss) and therefore has not recognised all of the deferred tax asset arising due to uncertainty over the timing of future profit.

	2023 £'000	2022 £'000
Loss before taxation	**(3,023)**	(3,702)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 23.52% (2022: 19%)	**(711)**	(703)
Effects of:		
Fixed asset differences	**9**	(18)
Expenses not deductible/income not taxable	**85**	101
Differences between R&D expenditure credit (SME Scheme) and capitalised revenue expenditure	**19**	(329)
Adjustments in respect of prior periods	**(15)**	(7)
Remeasurement of deferred tax for changes in tax rates	**1**	–
Movement in deferred tax not recognised	**157**	(9)
Additional deduction for R&D expenditure	**(492)**	–
Surrender of tax losses for R&D tax credit refund	**506**	247
Income tax credit	**(441)**	(718)

Notes to the Financial Statements continued

For the year ended 31 December 2023

9. Taxation continued

iii) Deferred tax

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

Group

	Unrecognised		Recognised	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Accelerated capital allowances	–	–	**(195)**	(190)
Intangible assets	–	–	**(938)**	(727)
Provisions	–	–	**4**	3
Tax losses	**5,008**	4,805	**1,129**	914
Total asset	**5,008**	4,805	**–**	–

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	727	(3)	(914)	–
Charged/(credited) to income statement	5	187	(1)	(215)	
As at 31 December	195	938	(4)	(1,129)	–

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.

Company

	Unrecognised		Recognised	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Tax losses	**953**	**755**	**–**	**–**
Total asset	**953**	755	**–**	–

10. Employees

	2023 No.	2022 No.
The average monthly number of persons (including Executive Directors) employed by the Group was:		
Research and development	**27**	30
Production	**6**	4
Sales, marketing and distribution	**19**	17
Management and administration	**15**	14
	67	65

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).

	2023 No.	2022 No.
The average monthly number of Non-executive Directors employed by the Company was:	**5**	6

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

	2023 £'000	2022 £'000
Wages and salaries	**5,595**	5,510
Social security costs	**552**	526
Pensions	**164**	131
Share-based payments	**245**	380
Total employed staff costs	**6,556**	6,547
Staff costs capitalised	**(1,406)**	(900)
Staff costs included under administrative expenses	**5,150**	5,647

Notes to the Financial Statements continued

For the year ended 31 December 2023

10. Employees continued

Key management for the Group is considered to be the Board of Directors of the Group. This includes Ian Whittaker's full costs for the year, he was employed in his COO role until the end of the year but retired as a Director on the 21 June 2023.

	2023 £'000	2022 £'000
Short-term employee benefits	**941**	1,062
Post-employment benefits	**67**	67
Share-based payments	**31**	153
	1,025	1,282

Directors' remuneration comprises the following:

	2023 £'000	2022 £'000
Salaries and fees (including estimated value of other benefits)	**862**	1,052
Fees paid to third parties in respect of services provided by Directors	**–**	10
Directors' pension costs	**59**	66

No Directors are accruing benefits under Company-defined contribution pension schemes (2022: None). Each Executive Director is entitled to a 10% pension allowance.

	2023 £'000	2022 £'000
This remuneration includes the following amounts in respect of the highest paid Director:		
Salaries and fees (including estimated value of other benefits)	**241**	274
Pension costs	**21**	20

The highest paid Director held 1,491,042 (2022: 1,491,042) shares at the year-end and share options in the Company totalling 4,880,248 (2022: 4,116,498). None of the Directors exercised any of their share options during the year (2022: None).

Further details of Directors' fees and salaries, bonuses, pensions and share options are given in pages 52 to 55 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:

	2023 £'000	2022 £'000
Loss after taxation	**(2,582)**	(2,984)

Number of Ordinary shares of 1p each	2023 No.	2022 No.
Basic and diluted weighted average number of Ordinary shares	**326,869,921**	275,274,014
Basic and diluted loss pence per share	**(0.79)**	(1.08)

At 31 December 2023 and 2022 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		
	Goodwill £'000	Intellectual property £'000	Brand £'000	Capitalised development costs £'000	Software licences £'000	Total £'000
Cost						
At 1 January 2022	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
Additions	–	–	–	1,809	–	1,809
At 31 December 2023	**3,328**	**3,038**	**133**	**8,095**	**25**	**14,619**
Amortisation/impairment						
At 1 January 2022	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
Charge for year	–	139	–	847	–	986
At 31 December 2023	**3,328**	**2,518**	**133**	**4,520**	**25**	**10,524**
Net book value						
At 31 December 2023	**–**	**520**	**–**	**3,575**	**–**	**4,095**
At 31 December 2022	–	659	–	2,613	–	3,272
At 1 January 2022	–	798	–	1,760	–	2,558

Notes to the Financial Statements continued

For the year ended 31 December 2023

12. Intangible assets continued

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 ten 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:

– £0.52m (2022: £0.66m) in relation to the acquisition of IUL with a remaining amortisation period of 2.75 years as at 31 December 2023.

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 asset's 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 2023, the Clinical AI and Simulation assets of £2.1m and £2.0m 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 21% reduction in the budgeted revenue over the five years used in the value-in-use calculation for Clinical AI assets would result in full impairment of the carrying value of the asset
– If the Simulation revenue decreased by 50% over the five years used in the value-in-use calculation for Simulation assets there would still be adequate headroom.

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 2022	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
Additions	–	6	331	353	690
Disposals	–	(1)	(20)	(219)	(240)
Foreign exchange	–	–	(1)	(8)	(9)
At 31 December 2023	**70**	**52**	**2,043**	**1,224**	**3,389**
Depreciation					
At 1 January 2022	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
Charge for year	17	10	355	247	629
Disposals	–	–	(12)	(219)	(231)
Lease modifications	–	–	–	(70)	(70)
Foreign exchange	–	–	(1)	(5)	(6)
At 31 December 2023	**61**	**39**	**1,435**	**561**	**2,096**
Net book value					
At 31 December 2023	**9**	**13**	**608**	**663**	**1,293**
At 31 December 2022	26	18	640	490	1,174
At 1 January 2022	43	25	648	684	1,400

Total depreciation expense of £0.63m (2022: £0.60m) has been charged to administrative expenses in the income statement. The addition of £0.35m to the right-of-use assets relate to a new IUNA office lease and a new lease for our build operations in Caerphilly.

The disposal of the right-to-use asset in 2023 relates to the disposal of the former IUNA office lease and a Company vehicle.

Plant and machinery additions include new demonstration units issued from stock.

Notes to the Financial Statements continued

For the year ended 31 December 2023

13. Property, plant & equipment continued

ii) Company

	Right-of-use assets £'000
Cost	
At 1 January 2022 and 2023	718
Additions	–
At 31 December 2022 and 2023	**718**
Depreciation	
At 1 January 2022	186
Charge for year	144
At 31 December 2022	330
Charge for year	143
At 31 December 2023	**473**
Net book value	
At 31 December 2023	**245**
At 31 December 2022	388
At 1 January 2022	532

iii) Leases

The balance sheet shows the following amounts relating to leases:

	Group		Company	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Right-of-use assets				
Premises	**577**	462	**245**	388
Vehicles	**86**	28	**–**	–
	663	490	**245**	388

Maturity analysis of lease liabilities:

	Group		Company	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Year 1	**271**	205	**160**	133
Year 2	**218**	195	**114**	160
Year 3	**100**	117	**–**	114
Year 4	**98**	–	**–**	–
Year 5	**61**	–	**–**	–
	748	517	**274**	407
Less: unearned interest	**(58)**	(31)	**(11)**	(26)
	690	486	**263**	381
Analysed as:				
Current	**244**	188	**151**	118
Non-current	**446**	298	**112**	263
	690	486	**263**	381

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

	Group		Company	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
At 1 January	**486**	670	**381**	519
Non-cash changes:				
New leases	**353**	41	**–**	–
Interest on lease liability	**29**	31	**15**	22
Lease modifications	**61**	–	**–**	–
Foreign exchange	**(3)**	6	**–**	–
Cash changes:				
Interest paid	**(29)**	(31)	**(15)**	(22)
Principal repaid	**(207)**	(231)	**(118)**	(138)
At 31 December	**690**	486	**263**	381

Leases are the only liability arising from financing activities.

In accordance with IFRS 16, a £61k lease modification has been recognised during the year to reflect the expansion of the warehouse facility in Caerphilly.

Notes to the Financial Statements continued

For the year ended 31 December 2023

13. Property, plant & equipment continued

The following amounts relating to leases are recognised in profit and loss in the year to 31 December 2023:

	2023 £'000	2022 £'000
Short-term or low-value expense	**3**	2
Depreciation expense on right-of use-assets – property	**215**	208
Depreciation expense on right-of-use-assets – vehicles	**32**	15
Interest expense on lease liabilities	**29**	31
	279	256

Cash outflows from short-term or low-value leases are £0.003m (2022: £0.002m).

14. Investments in subsidiaries

	Company	
	2023 £'000	2022 £'000
At 1 January	**6,328**	5,951
Equity settled share options granted to employees of subsidiaries	**241**	377
At 31 December	**6,569**	6,328

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 is 1111 Alderman Drive, Alpharetta, Georgia 30005.

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 investments in subsidiaries are assessed annually to determine if there is any indication that any of the investments might be impaired. At the 2023 year-end, it was identified that each subsidiary had not achieved its budget for the year and therefore a value-in-use calculation was performed for each investment and compared against the carrying value.

- For IUL its recoverable amount indicated that no impairment of the carrying value of the investments of £3.2m was required
- For IUNA its recoverable amount indicated that no changes were required to the brought-forward impairment provision of £2.2m
- For Med its recoverable amount indicated that no changes were required to the brought-forward impairment provision of £4.4m

The recoverable amount was determined based on a value-in-use calculation which requires the use of assumptions. 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. Estimates have been based on management's conservative view of market demand by region for the products.

The key assumptions used in the DCF projections are as follows:

- Sales growth after year 3: 5%
- Long term growth rate: 2%
- Pre-tax discount rate: 14.9%

Notes to the Financial Statements continued

For the year ended 31 December 2023

15. Inventories

	Group	
	2023 £'000	2022 £'000
Raw materials	**1,136**	1,543
Work in progress	**209**	14
Finished goods	**105**	46
	1,450	1,603

The costs of individual items of inventory are determined using a weighted average cost. Inventories recognised as an expense during the year ended 31 December 2023 amounted to £3.41m (2022: £2.96m). These were included in 'cost of sales'. The above figures include a provision for obsolete stock of £Nil (2022: £Nil).

Inventory written off in the year, included within 'cost of sales', totalled £0.02m (2022: £0.15m).

Inventories of £1.5m (2022: £1.6m) are expected to be recovered within 12 months.

16. Trade and other receivables

i) Included within non-current assets

	Group		Company	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Financial assets at amortised cost	**61**	61	**61**	61
Amounts owed by subsidiary undertakings	**–**	**–**	**20,787**	11,788
	61	61	**20,848**	11,849

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	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Trade receivables	**2,457**	1,356	**–**	**–**
Other receivables	**23**	69	**–**	**–**
VAT and other sales taxes	**172**	88	**170**	86
Prepayments	**746**	512	**90**	106
	3,398	2,025	**260**	192

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 £0.087m (2022: £0.052m). The movement in the impairment allowance is included in Administrative Expenses in profit and loss.

At 31 December 2023 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	–	–	–	10%	15%
Customer profile B	–	–	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 2023 £'000
Gross carrying amount	**1,691**	**163**	**120**	**194**	**376**	**2,544**
Loss allowance	**–**	**(2)**	**(4)**	**(16)**	**(65)**	**(87)**
Trade receivables – net	**1,691**	**161**	**116**	**178**	**311**	**2,457**

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

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

Notes to the Financial Statements continued

For the year ended 31 December 2023

16. Trade and other receivables continued

ii) Included within current assets continued

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	251	1,408
Loss allowance	–	(6)	(3)	(4)	(39)	(52)
Trade receivables – net	576	466	91	11	212	1,356

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	
	2023 £'000	2022 £'000
At 1 January	**52**	24
Increase in loss allowance	**35**	28
At 31 December	**87**	52

There are no trade receivables within the Company.

Company

Impairment allowance in respect of receivables from subsidiary undertakings.

	Company	
	2023 £'000	2022 £'000
At 1 January	**10,715**	6,971
Increase in loss allowance	**3,549**	3,744
Reversal of loss allowance	**(8,469)**	–
At 31 December	**5,795**	10,715

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

		2023			2022		
	Risk category	Carrying value £'000	Loss allowance £'000	Net £'000	Carrying value £'000	Loss allowance £'000	Net £'000
Med	In default	**22,330**	**(1,635)**	**20,695**	18,777	(10,104)	8,673
IUNA	In default	**36**	–	**36**	19	–	19
IUL	In default	**4,216**	**(4,160)**	**56**	3,707	(611)	3,096
At 31 December		**26,582**	**(5,795)**	**20,787**	22,503	(10,715)	11,788

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.

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.

Notes to the Financial Statements continued

For the year ended 31 December 2023

16. Trade and other receivables continued

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 £1.2m.

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 £0.50m.

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 £0.38m.

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 £0.62m.

Amounts due from IUL

Given the full impairment of the intercompany loan to IUL, no further sensitivity analysis has been performed as this would not affect the loss allowance.

17. Cash and cash equivalents

	Group		Company	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Cash at bank and on hand	**3,031**	7,166	**82**	5,027

18. Trade and other payables

	Group		Company	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Current liabilities				
Trade payables	**1,235**	1,359	**170**	230
Taxation and social security	**235**	397	**–**	–
Other payables	**103**	5	**–**	–
Accruals	**1,125**	971	**163**	215
	2,698	2,732	**333**	445
Non-current liabilities				
Other payables	**65**	65	**65**	65
	2,763	2,797	**398**	510

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

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

19. Deferred income

	Group	
	2023 £'000	2022 £'000
Deferred income expected to be recognised		
Within one year – included in current liabilities	**294**	337
In the second to fifth years inclusive – included in non-current liabilities	**272**	209
	566	546

Deferred revenue released to the income statement in 2023 is £0.5m (2022: £0.21m).

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.

Notes to the Financial Statements continued

For the year ended 31 December 2023

20. Provisions

	Group	
	2023 £'000	2022 £'000
At 1 January	**22**	22
Provision made in the year	**13**	–
At 31 December	**35**	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.

21. Non-current liabilities – deferred taxation

	Group	
	2023 £'000	2022 £'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

	2023		2022	
Authorised, allotted, issued and fully paid	**Number**	**£'000**	**Number**	**£'000**
Ordinary shares of 1p each				
Balance at 1 January	**326,869,921**	**3,269**	270,653,485	2,707
Shares issued for cash	**–**	**–**	56,216,436	562
At 31 December	**326,869,921**	**3,269**	326,869,921	3,269

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

Date	Number of shares	Nominal value £'000	Premium £'000
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.

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:

	2023		2022	
	Number of options	**Weighted average exercise price (pence)**	**Number of options**	**Weighted average exercise price (pence)**
At 1 January	**24,326,323**	**15.05**	23,816,323	15.28
Granted	**10,799,347**	**9.81**	1,650,000	14.30
Forfeited	**(2,824,058)**	**(16.29)**	(1,140,000)	(18.82)
At 31 December	**32,301,612**	**13.19**	24,326,323	15.05
Vested and exercisable at 31 December	**10,389,265**	**16.88**	6,839,710	15.87

No share options were exercised in the year.

2,824,058 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 2023

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	2022	Granted	Forfeited	2023	Expiry (years)	Risk-free rate of return %	Expected volatility %	Vested	Notes
Unapproved schemes										
19.00	15/08/2014	216,000	–	(216,000)	**–**	10	1.79	35	–	Fully vested
42.50	30/06/2014	200,000	–	–	**200,000**	10	2.815	35	200,000	Fully vested
16.22	06/10/2017	133,920	–	–	**133,920**	10	1.41	35	133,920	Fully vested
12.75	06/10/2017	500,000	–	–	**500,000**	10	1.41	35	500,000	Fully vested
12.50	19/01/2018	600,000	–	–	**600,000**	10	1.409	37	–	(iii)
11.25	29/05/2018	2,709,040	–	–	**2,709,040**	10	1.339	38.9	–	–
7.75	20/12/2018	150,000	–	–	**150,000**	10	1.285	58	150,000	Fully vested
8.00	18/01/2019	150,000	–	–	**150,000**	10	1.38	46.6	150,000	Fully vested
11.00	09/08/2019	150,000	–	(50,000)	**100,000**	10	0.54	61.9	100,000	Fully vested
15.25	21/12/2020	3,054,292	–	(50,000)	**3,004,292**	10	0.24	75.3	3,004,292	Fully vested
EMI schemes										
16.51	15/08/2014	644,000	–	(536,000)	**108,000**	10	1.79	35	108,000	Fully vested
42.50	30/06/2014	904,000	–	(200,000)	**704,000**	10	2.815	35	528,000	(i)
50.00	15/08/2014	23,529	–	(23,529)	**–**	10	2.508	35	–	Fully vested
51.50	01/01/2016	20,000	–	–	**20,000**	10	2.009	17	20,000	Fully vested
42.50	18/08/2016	20,000	–	–	**20,000**	10	0.687	22	20,000	Fully vested
29.00	21/12/2016	60,000	–	–	**60,000**	10	1.44	32	60,000	Fully vested
20.50	04/04/2017	200,000	–	–	**200,000**	10	1.071	32	60,000	(ii)
16.22	06/10/2017	317,835	–	–	**317,835**	10	1.41	35	317,835	Fully vested
12.50	19/01/2018	1,800,000	–	(100,000)	**1,700,000**	10	1.408	37	–	(iii)
11.25	29/05/2018	3,332,960	–	(1,000,000)	**2,332,960**	10	1.339	38.9	–	(iv)
8.00	18/01/2019	220,000	–	–	**220,000**	10	1.38	46.6	220,000	Fully vested
11.00	09/08/2019	50,000	–	–	**50,000**	10	0.54	61.9	50,000	Fully vested
12.00	24/04/2020	1,300,000	–	–	**1,300,000**	10	0.3	75.7	–	(iv)
15.00	23/10/2020	863,529	–	(23,529)	**840,000**	10	0.33	76.4	840,000	Fully vested
15.25	21/12/2020	4,202,218	–	(275,000)	**3,927,218**	10	0.24	75.3	3,927,218	Fully vested
16.51	02/12/2021	1,105,000	–	–	**1,105,000**	10	0.8	69.2	–	(vii)
14.30	15/06/2022	1,400,000	–	(350,000)	**1,050,000**	10	2.45	67.62	–	(v)
11.25	26/05/2023	–	300,000	–	**300,000**	10	4.28	60	–	(v)
11.25	26/05/2023	–	1,050,000	–	**1,050,000**	10	4.28	60	–	(v)
9.60	21/12/2023	–	3,365,362	–	**3,365,362**	10	3.56	60	–	(vi)
9.60	21/12/2023	–	6,083,985	–	**6,083,985**	10	3.56	60	–	(vi)
Total	–	24,326,323	10,799,347	(2,824,058)	**32,301,612**	–	–	–	10,389,265	–

Notes to the Financial Statements continued

For the year ended 31 December 2023

23. Share-based payments continued

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 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 £0.245m to the statement of comprehensive income in respect of share-based payments for the financial year ended 31 December 2023 (2022: £0.38m).

The weighted average remaining life of all share options outstanding at 31 December 2023 is seven years and 0 months (2022: four years and two months).

Vesting conditions:

I. 176,000 of these options will vest when the Group achieves breakeven EBITDA 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. 1,413,924 of these options vest when the Company's share price reaches 25p; 585,702 vest when the share price reaches 37.5p and 333,335 vest when the share price reaches 50p.

V. These options vest three years from grant date.

VI. These options vest equally in three tranches over a three-year period.

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:

	2023		2022	
	Number of options	Weighted average exercise price (pence)	Number of options	Weighted average exercise price (pence)
At 1 January	**1,316,000**	**18.30**	1,681,000	20.33
Granted	**400,000**	**9.60**	–	–
Forfeited or Lapsed	**(216,000)**	**(19.00)**	(365,000)	27.63
At 31 December	**1,500,000**	**15.88**	1,316,000	18.3
Vested and exercisable at 31 December	**1,100,000**	**18.16**	1,199,920	18.6

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.

400,000 options were granted, and 216,000 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 2023

23. Share-based payments continued

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.

Option exercise price (pence)	Grant date	2022	Granted	Forfeited	2023	Expiry (years)	Risk-free rate of return %	Expected volatility %	Vested	Notes
Unapproved schemes										
19.00	15/08/2014	216,000	–	(216,000)	**–**	10	1.79	35	–	Forfeited
42.50	30/06/2014	200,000	–	–	**200,000**	10	2.815	35	200,000	Fully vested
16.22	06/10/2017	133,920	–	–	**133,920**	10	1.41	35	133,920	Fully vested
12.75	06/10/2017	500,000	–	–	**500,000**	10	1.41	35	500,000	Fully vested
7.75	20/12/2018	150,000	–	–	**150,000**	10	1.285	58	150,000	Fully vested
15.25	21/12/2020	116,080	–	–	**116,080**	10	0.24	75.3	116,080	Fully vested
EMI schemes										
9.60	21/12/2023	–	400,000	–	**400,000**	10	3.56	60	–	(i)
Total	–	1,316,000	400,000	(216,000)	**1,500,000**	–	–	–	1,100,000	–

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 £0.004m to the statement of comprehensive income in respect of share-based payments for the financial year ended 31 December 2023 (2022: £0.003m).

The weighted average remaining life of all share options outstanding at 31 December 2023 is five years and four months (2022: four years and two months).

Vesting conditions

(i) These options vest equally in 3 tranches over a 3 year period.

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 2023 totalled £26.58m (2022: £22.59m). The gross amounts owed by the Company at 31 December 2023 totalled £nil (2022: £nil).

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 in 2022 is disclosed below.

Notes to the Financial Statements continued

For the year ended 31 December 2023

24. Related-party transactions continued

Company	2023 £'000	2022 £'000
Med (working capital)	**3,700**	833
Med (recharges, e.g. Director fees, VAT and insurance refunds)	**(147)**	(525)
IUNA (working capital)	**–**	–
IUNA (expenses)	**17**	19
IUL (working capital)	**506**	235
IUL (expenses)	**3**	90
IPG (expenses)	**–**	6

Group	2023 £'000	2022 £'000
AMSOL (goods and services sold)	**–**	(3)
IPG (expenses)	**36**	6

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	2023 £'000	2022 £'000
Med	**20,695**	8,673
IUL	**56**	3,096
IUNA	**36**	19
Net amount owed by subsidiaries (after credit losses)	**20,787**	11,788

Group	2023 £'000	2022 £'000
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.

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 2023 totalling £5.80m (2022: £10.38m) were credit impaired. See note 16 for the movement in the expected credit loss in the year.

Notes to the Financial Statements continued

For the year ended 31 December 2023

25. Financial instruments continued

ii) Financial instruments by category – Group

Financial assets

	2023 £'000	2022 £'000
Financial assets measured at amortised cost		
Trade and other receivables: non-current	**61**	61
Trade and other receivables: current	**2,629**	1,425
	2,690	1,486
Cash and cash equivalents	**3,031**	7,166
Total financial assets	**5,721**	8,652
Financial liabilities measured at amortised cost		
Trade payables	**1,235**	1,356
Accruals	**799**	557
Non-current liabilities – other payables	**65**	65
Lease liabilities: current	**244**	184
Lease liabilities: non-current	**446**	298
Total financial liabilities	**2,789**	2,460

iii) Financial instruments by category – Company

Financial assets

	2023 £'000	2022 £'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	**20,787**	11,788
	20,848	11,849
Cash and cash equivalents	**82**	5,027
Total financial assets	**20,930**	16,876

Financial liabilities

	2023 £'000	2022 £'000
Financial liabilities measured at amortised cost		
Trade payables	**170**	230
Amounts owed to subsidiary undertakings	**–**	–
Accruals	**163**	215
Other payables: non-current	**65**	65
Lease liabilities: current	**151**	118
Lease liabilities: non-current	**112**	263
Total financial liabilities	**661**	891

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.

Notes to the Financial Statements continued

For the year ended 31 December 2023

25. Financial instruments continued

iv) Currency denomination

Financial assets and liabilities are denominated in the following currencies:

Financial assets

	Group		Company	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Trade and other receivables				
Sterling	**1,341**	558	**20,848**	11,849
US dollar	**972**	852	**–**	–
Canadian dollar	**83**	54	**–**	–
Euro	**294**	22	**–**	–
	2,690	1,486	**20,848**	11,849
Cash and cash equivalents				
Sterling	**536**	5,757	**80**	5,025
US dollar	**2,033**	738	**2**	2
Canadian dollar	**19**	25	**–**	–
Swiss franc	**1**	9	**–**	–
Euro	**442**	637	**–**	–
	3,031	7,166	**82**	5,027
Total financial assets	**5,721**	8,652	**20,930**	16,876

Financial liabilities

	Group		Company	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Trade payables				
Sterling	**2,606**	2,099	**661**	891
US dollar	**106**	289	**–**	–
Euro	**22**	71	**–**	–
Swiss franc	**55**	1	**–**	–
Total financial liabilities	**2,789**	2,460	**661**	891

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	
	2023 £'000	2022 £'000
US dollar	**264**	129
Canadian dollar	**9**	42
Euro	**65**	10
Swiss franc	**(5)**	–

26. Events after the reporting period

Post year end, the Company secured access to a £2 million overdraft facility with HSBC which provides additional liquidity to support the Company's working capital needs but is scheduled for review within 12 months of signing the financial statements.

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 2023 or 31 December 2022.

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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