cloudtag®

CloudTag Inc.

Annual Report and Accounts

For the year ended 30 September 2015

Corporate Advisers

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

Directors:
A Reeves
A Ben-Haim
(appointed 8 January 2015)
J Wakely
(appointed 17 July 2015)
G Bereika
(appointed 1 December 2015)
M Hirschfield
(resigned 17 July 2015)
A Jackson
(resigned 10 February 2015)
G Bodhi
(resigned 3 December 2014)

Secretary:
Collas Crill Corporate
Services Limited
Walkers House
Mary Street
George Town
Grand Cayman

Nominated adviser:
Cairn Financial Advisers LLP
61 Cheapside
London EC2V 6AX

Registrars:
Computershare Investor
Services (Cayman) Limited
Windward 1
Regatta Office Park
West Bay Road
Grand Cayman KY1-1103
Cayman Islands

Solicitors:
Mishcon de Reya
Africa House
70 Kingsway
London WC2B 6AH

Broker:
Whitman Howard Limited
1, Connaught House
1-3 Mount St
London W1K 3NB

Auditor:
Hazlewoods LLP
Windsor House
Bayshill Road
Cheltenham
GL50 3AT

Contents

Chairman's Statement	02 – 03
Strategic Report	04 – 12
Report of the Directors	13 – 14
Corporate Governance	15
Report on Remuneration	16 – 17
Report of the Independent Auditor	18
Principal Accounting Policies	19 – 23
Consolidated Statement of Comprehensive Income	24
Consolidated Statement of Changes in Equity	25
Consolidated Statement of Financial Position	26
Consolidated Cash Flow Statement	27
Notes to the Financial Statements	28 – 41
Notice of Annual General Meeting	42 – 44

Chairman's Statement

Overview

The year to 30 September 2015 has been an exciting and transformational period in CloudTag's history. The Group has made significant progress by adhering to the enhanced strategy as set out by our Chief Executive, Amit Ben-Haim, since his appointment as Chief Executive of CloudTag in February 2015. Amit not only has a proven background as a successful and inventive entrepreneur, but also has crucial knowledge and experience in science, clinical cardiology and engineering. This has allowed him not only to devise an ambitious business strategy, but also to challenge and drive CloudTag's technical teams across the Group to deliver his vision for the product set.

Amit's impact and the implementation of his approach has yielded a number of key achievements during the period and beyond, culminating in CloudTag launching its first commercial product to market, the CloudTag Track™, at the Consumer Electronics Show (CES), Las Vegas, in January 2016. We believe that CloudTag is now in a strong position to build on these foundations as we work to capitalise on the opportunities afforded to us by our unique and potentially disruptive technology. CloudTag has come a very long way and the Group is now almost unrecognisable from where we were 12-18 months ago.

When I reported to shareholders a year ago, I anticipated that Amit would oversee the finalisation of our wearable technology, prepare our hardware for mass production and secure strategic technological and commercial partnerships in our target markets. I am very pleased to report that Amit, supported by the dedicated and talented employees across the Group, has surpassed against these ambitious goals in a period of just nine months, and set CloudTag on a path to sustainable future success in the growing health, wellbeing and fitness B2B2C and B2B markets.

As the wearables market becomes flooded with broadly similar products attempting to appeal to all consumers, success will depend on product differentiation and customer satisfaction. CloudTag is the first wearable device to focus its offering clearly on the weight-loss market, arguably the largest niche market within wearables. It is also the first time consumers have been offered access to a wearable which allows them to set a weight loss goal and target date with the whole system then building a personalised plan to achieve their goals, during which the "machine learning" aspects built into the system finds out more about the user and makes constant adjustments to help keep them on track.

The heart of our product

Our technology's heritage in medical-grade design gives our product range levels of accuracy which the Directors believe will be the highest in the wearable devices market, a major competitive advantage in a sector in which the accuracy, and consequently, efficacy of some of our competitors' offerings have recently been called into question.

CloudTag's offering is demonstrably different from our competitors: the capabilities of our hardware, coupled with our intuitive and effective software packages, allows us to provide convenient, tailored fitness programmes for our end customers, with the added comfort that their bio-telemetry is being measured and reported to the highest possible standards and stored securely in the Company's Cloud platform.

For the last 12 months the Company has focused on bringing the development of its proprietary intellectual property in-house by building an experienced and well qualified team of engineers and technical staff. This proprietary IP is protected by three patents pending, along with design patent (USA) and design registration (EU), which incorporate the unique contactless sensors and the innovative design of the product's chest attachment.

A new focus

Our technology platform is transferrable and has a great many different potential applications, but Amit's business model is now focused on delivery of a world-class product with clearly defined, achievable routes to market. We will, of course, continue to examine further applications and markets for our proprietary technologies, however any pursuit of these additional opportunities will utilise separate resources and structures so as not to divert our attention from the key Group objectives.

Our core focus on consumer markets is via a distributor model initially in the UK, Germany and the rest of Europe

Chairman's Statement

(with other EU territories to follow), but establishing a presence in the massive United States market will also be a key focus for us in the near future. Meanwhile, our sales to B2B markets are initially focused on health insurers, mobile telecommunications and corporate wellness programmes. Additional B2B sales methodologies for generating large volume orders are also being investigated by the business development team.

Financial performance

In the year to 30 September 2015, the Group recorded a loss before tax of £1,989,000 (30 September 2014: £1,290,000), and a loss after tax of £1,864,000 (30 September 2014: £1,035,000). This includes non-recurring costs associated with product development. Share based payments (a non-cash item) amounted to a charge of £430,000, compared with a gain of £169,000 in the previous year. The gain in the year to 30 September 2014 of £169,000 related to the reversal of the charge made in the previous year in respect of certain options where it was concluded that it was unlikely that the options would vest.

An important feature of this reporting period has been that development costs increased from £629,000 to £698,000, reflecting our commitment to launching our first product into the market post the period end. Administrative expenses marginally increased, up from £830,000 to £846,000 which included the increased costs of recruitment, business development activities and preparation for the launch of the product at CES 2016. This movement in development costs is indicative of the ongoing strategy and focus which Amit has put in place.

The Company has also benefitted from Amit's fundraising activities during the period and post period end. Together with our convertible debt facility the Board is now confident that it has sufficient funding in place to achieve our immediate commercialisation goals, however we will continue to examine options for future funding where it will aid in and accelerate our development.

Dividend

The Directors do not recommend the payment of a dividend at this stage in the Group's development but will review this position as we continue to grow. At this point in the Company's development, the Board will look to invest capital in areas designed to achieve our plan for growth, although clearly this matter is kept under review. It is the Board's intention to operate a progressive dividend policy as and when it is appropriate and sensible for the Group to do so.

Outlook

We believe CloudTag is now well advanced in developing a market leading proprietary technology together with a complete, well-considered product offering and management expertise to bring our innovative and unique products to market. We believe we have made excellent progress in the period under review and I would like to take this opportunity to thank Amit and our dedicated team across the Group for their tireless work in delivering these achievements.

The business now has solid financial foundations and we have been successful to date in raising the funding needed allowing us to execute our strategy for growth. More funding may be required before breakeven but we hope that the achievement of our key milestones should facilitate this.

All our employees are aligned and committed to continuing this momentum in future reporting periods and we look forward to delivering further value for our shareholders and customers with enthusiasm and confidence.

Anthony Reeves
Chairman

22 March 2016

Chief Executive's Review

Introduction

When I was appointed as Chief Executive of CloudTag in February 2015, I was initially very impressed to find a highly accurate sensing technology platform with undoubted potential to make a large impact in a number of different markets. I quickly set about identifying the markets and applications most likely to bring successful commercialisation and sustainable revenues for the Group and I was tasked with developing a viable strategy to exploit these opportunities.

In order to prepare our technology for market, the hardware needed to be packaged with the correct software to design a complete and viable system. I then set clear objectives for the product's design. It had to be the most accurate device, include associated smart device apps and Cloud storage elements for the user and be embedded with cutting-edge technologies that capitalise on the power of 'machine learning'. Our product also had to be elegantly designed, simple to use and available at a competitive price point, making it as attractive as possible to a mass market. During the period excellent progress was made in assembling all of these component factors. As an important part of the process, the Company has also significantly bolstered its intellectual property and brought all core skillsets in-house.

In April 2015, I set for the Company a very ambitious goal of creating our first commercial product by 6 January 2016, in time for launch at the Consumer Electronics Show ("CES") in Las Vegas. Our teams rose to my challenge and worked tirelessly throughout the year to make sure that this target was met. The feedback we received from the show was extraordinarily encouraging – a great reward for the significant effort and dedication we showed during the development phase and a strong validation of the refined strategy for the Company's first product.

Quickly following CES on the 25 January 2016, I secured the first commercial contract for the Company with an EMEA distribution deal which will potentially generate sales of $5.2 million. The distributor, Second Chance Limited, has a network of over 7,500 stores with a focus on the UK and the core European countries of Germany, France, Spain and Italy.

The contract demonstrates an immediate appetite for our unique and well-positioned product and we continue to enjoy further, growing interest. This was a significant milestone for the Company and one which further strengthens our position as we come to produce the product in significant volumes later this year.

These achievements are however, just the beginning and everyone at CloudTag knows that we must maintain this level of commitment, to drive our business forward and get our technology into the hands of the consumers and businesses that need it.

I am pleased to report that following all our hard work, we are well on our way to executing this refined strategy and can now go into that strategy in more depth and operational detail.

Strategic overview

Product Development and Manufacturing

The Company has completed the development of the product achieving design finalisations for the device, the unique attachment accessories and the electronics. In parallel with the hardware development, the software, including the new smart device app, cloud infrastructure and the algorithms to power the unique dynamically changing exercise programmes were completed to schedule. Working devices with the embedded algorithms measuring the full electrocardiogram (ECG), calculating energy expenditure and automatically identifying the various activity types, have all been integrated with the mobile/tablet application and the Cloud architecture. We are now looking to optimise further the firmware to extend battery life (currently seven days on one charge). All first level production tooling is in place and all production files are with our manufacturer in the Far East. CloudTag and its manufacturing partners are therefore primed to meet increasing demand. It is the Company's stated goal to achieve the best quality possible for its products whilst having a clear view on keeping the bill of materials (unit cost) as low as possible and ensuring the security of our algorithms and software.

Product Testing and Validation

Accuracy is the key differentiator for CloudTag and we are very pleased with the results generated from the proprietary algorithms. We have been working with Essex University's Sport and Performance Unit to conduct third party independent validation tests of the wearable device and algorithms against the industry gold standard ECG and calorimetry equipment. These independent user tests have shown extremely positive results with energy expenditure (calorie burn) tracking between 91% and 99% from the gold standard at rest, running and walking activities (using CPX measured indirect calorimetry) and Heart Rate is tracking between 98% and 99% for 60 second intervals against a clinical ECG machine during rest, running and walking activities. Further user tests are being conducted with Essex University to test the full system architecture and the end user experience.

Intellectual property and our design partners

The Company is proceeding with patent applications which were submitted toward the end of the last calendar year, specifically concerning the unique, in-house-designed sensors and signal processing algorithm for both the hardware and software of the sensors as well as the innovative sensor's design and mechanical body attachment. Further registered design patent applications were submitted in January 2016. This is in addition to the exclusive worldwide license to CloudTag's algorithms developed by our design shareholder, Imec and the IP around source code to the mobile application, Cloud analytics and user dynamic feedback loop.

The IP portfolio and exclusive agreements with shareholders that we have in place are not the only barriers to entry for the competition. CloudTag also possesses a wealth of engineering know-how developed within the Company over the last nine months.

A further barrier to entry is CloudTag's development of a complete system based on psychology and sociology, which empowers the user to reach their fitness goals. We refer to this approach as 'the user journey' and it uniquely motivates each user, but in an unobtrusive and minimally invasive manner.

Due to these factors, the Directors are satisfied that CloudTag's unique position in the market can be maintained as we grow.

One product set, multiple markets – CloudTag Track™ and the beatSMART™ Clip

After nine months of preparation, we introduced our first complete commercial product to the ambitious schedule I set out in April 2015. The CloudTag Track™ and its associated smart device app range, provide innovative, personalised, weight-loss and fitness programmes based on the latest clinical-grade, wearable fitness monitoring technology. This is the first wearable that allows the user to select a weight loss goal and target date and builds a personalised plan to reach the objective. Its continual assessment, together with personalised nutrition and fitness progress updates with motivation and guidance via the app, empowers users to stay on track to achieve their individual chosen goals.

Our device has the unique selling points:

- Accuracy – CloudTag Track™ uses state-of-the-art sensing and signal processing technology to generate clinical-grade electrocardiograms (ECGs) which provides a significantly more accurate assessment than any other fitness monitoring technologies currently available in the world.
- Personalisation & Goal Driven – Our system uses intelligent machine learning techniques to personalise the algorithms to the user. The system then dynamically adjusts the user journey delivered through the app to deliver results by a set target date and chosen measurement (weight in kg or lbs) by the user.
- Heritage – CloudTag's algorithms are founded on ten years of medical research and have been through rigorous assurance processes. The Directors believe that this medical heritage gives CloudTag the position as the most accurate device on the market, delivering 'close-to-clinical' data as standard.
- Dual Mode – The CloudTag Track™ is usually worn on the wrist, but is moved closer to the user's heart in the beatSMART™ Clip during exercise to boost sensitivity and accuracy.

- Smart Charging – The beatSMART™ Clip is a SMART charger so the CloudTag Track™ charges when placed in the clip during exercise.

Data Science and Privacy

In the development of our Cloud platform I have implemented a clear strategy to ensure that user data security and privacy is of paramount importance and in addition to this, any insights generated from the data science activities must only be used to deliver further value to our end users. We are also actively seeking strategic partnerships to integrate with our Cloud offering to allow the exchange of data (only once we have received the user's expressed permission) where we see value being added to the end user, be it in quality of life or financial incentives derived from their data – to give just one example, the sharing of private consumer data with their medical insurance provider, could help reduce their premiums.

Market opportunity

The current wearable fitness tracker market is substantial and continues to grow:

- 2014 saw sales of 25.3 million wearable devices, while in 2015 these increased to 72.5 million*
- Industry analysts project this to continue, reaching 228.3 million devices sold in the year 2020*
- Fitness trackers still have the lion's share of the wearables market, accounting for 51 million (approximately 70 percent) of 2015's device sales*
- 71 percent of US adults said they would use a health tracking device if it was clinically accurate, according to a survey of 1,011 US adults between December 10 and 13 last year**
- There was a 118% rise in sales of wearable tech (3 million devices in UK) during 2015
- By 2019 the global wearables market is expected to be worth $25 billion***
- Market landscape shows a reduction in sales for the top two brands, still their year on year growth for the last five years was 77%; whereas newcomers managed to grow their business by as much as 124% year on year.

* Source: Research and Markets Ltd. – Global Wearable Electronics Market Analysis – Forecast (2014-2020)

** Source: Mobile Health News – Survey (2 February 2016)

*** Source: CSS Insight – Global Forecast for Wearable Devices 2016

Target markets

Our focus is now firmly on two main target markets where we believe our products can reach wide-scale adoption most quickly.

B2B2C– utilising established distribution partners to market and retail our products to consumers

Our strategy and distributor model is focused on the following target demographics:

- Consumer impulse purchase price bracket – targeted RRP of $90-$100
- Initial product targeted to body mass weight loss which is by far the largest market segment within the health and wellness segment.

Routes to market

In order to minimise the capital expenditure requirement to CloudTag and associated risk to the Group, we have chosen to partner with established distribution organisations and retailers in key geographies.

Our 'perfect-fit' distribution deal is exemplified in the agreement signed in January 2016 with Second Chance Ltd, one of Europe's leading sporting goods retailers, with 25 years' experience in the market and a network of retailers comprising some 7,500 stores. A further notable feature of this agreement was that it contained a minimum requirement in terms of the number of units Second Chance is to purchase from CloudTag during the calendar year 2016, amounting to $5.2 million if the contract is fully satisfied. We will continue to explore further beneficial distribution relationships of this kind both within the EU and our key market, the US.

B2B

We have identified the following three key markets within our B2B segment. Below is a matrix outlining these and the benefits we believe we can bring to each market in more detail:

	Corporate Wellness	Health insurance	Mobile Telecommunications
Intention:	Integration of CloudTag Track and app into existing or new corporate wellness initiatives	Provision of CloudTag Track and app to existing and new policy holders	Integration of CloudTag Track and app to new and existing contracts
Key outcomes:	• Increased employee productivity • Improving employee health status – leading to improved health, decreased risk of disease and a longer life • Improved employee retention and acquisition • Reduced staff absenteeism • Reduction in corporate health insurance premiums	• Customer retention • Increased accuracy of policy premiums through generation of accurate user activity data • Value add to existing policy holders • Driving new customer acquisition through differentiation of the insurance product/services	• Customer retention – value add to existing contracts and early upgrade opportunities • New revenue stream – product sale and in-app purchase revenue shares • New customer acquisition through product/service differentiation • Increased brand engagement

Geographic focus

Whilst we are pleased to report early traction has been achieved in European markets, we believe the United States will form the largest and most important market to CloudTag going forward.

In the coming months we will seek to establish a growing presence in the US and identify and sign agreements with the most reputable distribution partners across this important geography.

Review of the period

Operational

The focus of this financial year was on assembling the correct component factors involved in the development and subsequent launch of our first product, identifying clearly defined markets to target and addressing viable routes to penetrate each market. Many of the period's developmental achievements have already been discussed earlier in this report, but there were also some additional noteworthy achievements during the year.

Strategic partnership with Adience

In June 2015, we signed a license with Adience, a mobile analytics and commerce ecosystem with a user base of more than 80 million mobile consumers and growing rapidly month on month. Under the revenue share license, CloudTag has access to the Adience technology, leveraging modern machine learning and deep learning algorithms, which, through analysing users on more than 1,000 different data points, are able to create rich and precise user profiles to identify high value and engaged user demographics. CloudTag has access to Adience's 80 million user base for direct user acquisition of these high value demographics. This technology has been integrated into CloudTag's mobile/tablet apps, currently available on both iOS and Android platforms.

Board and senior management

Key appointments were made during the period to complement the experience and expertise already within CloudTag and each new member of our team is already delivering material improvements in their respective areas of the business.

Appointed Group Finance Director

In July 2015 Mr John Wakely was appointed to the Board as Finance Director, bringing with him a wealth of experience in financial structuring and tax planning with large international companies. John served from January 2002 to December 2013 as Executive Vice President of Stolt-Nielsen Limited (NO:SNI), a world leading integrated transportation, storage and distribution service provider for chemicals and other bulk liquid products with a market capitalisation of US$1.1 billion. John was responsible for tax planning, internal audit and legal structure. Previously John was employed by BP International in various accounting roles and is a member of the Chartered Institute of Management Accountants.

Appointed Group Chief Technology Officer (non Board appointment)

In April 2015 we welcomed Alon Moss to the Group as Chief Technology Officer (CTO). Alon is an accomplished and visionary CTO with extensive global experience. He has led business development, product development and day-to-day operations at several electronics and software providers, specialising in communications, large-scale sensor networks, Internet of things (IoT) and special-purpose sensors and technology for defence, transport and the oil & gas industries. Alon is an expert software and electronics engineer with over 20 years of combined hands-on and management experience. He is a specialist in the introduction of innovative products from concept to market and products under his leadership have generated revenues of more than US$200 million. Alon has built global partnerships and global distribution networks, leading international multi-site teams of up to 100 people. He has created successful new products for globally leading companies such as Comverse, Inc. (NASDAQ:CNSI), Mer Group (TASE: CMER) and Orpak Systems Limited. His academic qualifications include a BSc in Computer Engineering – a combined degree in Computer Science and Electronics Engineering.

Enhanced In-House Technical Expertise

The Company has also grown its technical capabilities by opening a new CloudTag office in the greater London area in Q2 2015. We have subsequently built a team of more than 12 full time engineers, five contractors as well as more than 30 directly involved team members of 3rd party shareholder partners. The in-house skill sets now include: embedded systems architecture, sensor development, embedded software, mobile and cloud software, electrode, mechanical engineering, mechatronics, sensor systems integration, garment mechanical engineering and synthetic and bio-inspired adhesion engineers.

We are pleased to report that all core skills needed for the success of our product are now in-house.

Business risks

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

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

In order to mitigate these risks the Company maintains regular dialogue with its existing investors and the wider financial community regarding the possibility of providing additional funding as and when required. The Company's Chief Executive applies dynamic management tools to reduce both technological and financial risks on a daily basis and maintains systems commensurate with the current stage of the business. Strategies have been put in place for further appropriate systems and management tools for when revenue streams commence later in 2016.

Progress to Mass Manufacture & Commercial Launch

CloudTag continues to progress the wearable device to mass manufacture and commercial launch. The completion of these steps to mass manufacture may take longer than the Directors currently anticipate and/or issues may arise during the process which may delay launch of the products, however the products have been batch produced with the manufacturer in the Far East and therefore this risk has been reduced. The products have been tested for the core target markets, namely the UK, USA and Germany, however they may need additional testing in order to be sold in certain non-core markets.

Reliance on third-party contractors

The Company has brought much of the core technical know-how, research, development and commercialisation of the product in-house and appointed an experienced Chief Technology Officer in early 2015 and dynamic Chief Operating Officer to mitigate any risks related to the reliance of third party contractors. Further mitigation was brought about through the creation of a dedicated Research and Performance Unit for all product development activities. Finally key strategic third party suppliers were identified and brought in as equity partners in the Company, therefore aligning all parties interests in delivering a successful product.

However, the Group does rely on certain third party contractors to manufacture, assemble and test its products and its failure to successfully manage relationships with these contractors could in turn damage CloudTag's relationships with customers, decrease anticipated sales and limit growth. The Company maintains good relationships with developers through regular contact. It also reviews alternative supply arrangements to ensure that the Company has a second supplier should any issues arise.

Legal and contractual risks

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

Impact of negative press

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

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

In order to manage our reputation, raise the profile of CloudTag's products and its capabilities and enhance our communication with existing and potential shareholders, we have appointed professional and highly respected organisations to work with us in these respective fields. In the consumer PR space, we have appointed Kwittken and in the Financial and Corporate PR and Investor Relations fields we have appointed Tavistock.

Product liability

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

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

Competition/competing technology

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

This risk is mitigated by the large barriers to entry to competitors looking to develop similar technology. This includes, but is not limited to, the large intellectual property estate, namely the 10 years of research and development to which the Company has an exclusive world wide perpetual license and the filing of a number of patents covering the unique, in-house- designed sensors and signal processing algorithms for both the hardware and software of the sensors, the innovative sensors design and the mechanical body attachment. Further protection is afforded by the highly skilled technical development team led by a globally experienced and proven Chief Technology Officer to develop cutting edge and innovative technologies.

Across the Group, CloudTag has the talent, imagination, expertise, tenacity and shared focus needed to excel in our chosen markets. Given our relative size and close control of operations, development and costs, we believe that CloudTag has an agility and a focus which sets us apart from the rest. We intend to leverage these attributes to be quicker in design, development, reacting to consumer needs and in establishing the relationships with businesses and distributors needed to succeed. We have a simple but effective management structure, allowing each of the team direct access to me, with efficient communication across all levels of the Group. This structure facilitates swift action, as can be evidenced by the rapid progress we have made since my appointment.

Economic climate

The trading activities of the Group will, to a certain extent, be dependent on the economic environment. This risk is mitigated by the size and growth indictors of the wearable technology market. At present the market is one of the fastest growing technology markets in history and is predicted to reach $25 billion by 2019. Consumer focus is health and fitness with an expanding demographic with disposable income.

Financial risk management objectives and policies

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

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

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

Cash flow risks

The Group seeks to manage risks to ensure sufficient liquidity is available to meet foreseeable needs by investing cash assets safely and profitably. The Directors prepare rolling cash flow forecasts and seek to identify the need and raise additional funding whenever a shortfall in facilities is forecast. As evidenced during the financial year and post year end the Company's Chief Executive has been able to raise additional funds as and when required. Further information on going concern is given below.

Currency risks

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

Going concern

At 30 September 2015 the Group held cash balances of £16,000. Since the year end the Group has signed a draw down facility for convertible loan notes for £1,250,000, (including £300,000 which relates to the conversion of the loan repayable on demand outstanding at 30 September 2015), and raised £983,400 from the issue of shares.

The Directors have prepared a detailed cash flow forecast for the period ending 31 March 2017. The forecasts include only device sales committed under the distribution agreement with Second Chance Limited announced on 25 January and a conservative level of app sales and other income. The forecast shows that the Company will have sufficient facilities to enable it to trade in this scenario.

The Directors are confident that they will achieve these conservative sales targets, but as they are not guaranteed, have also prepared a further forecast showing reduced revenue and a reduction in costs, and a forecast with no revenue which identifies unavoidable third party running costs of the Group only.

All of the forecasts demonstrate that the Group will have sufficient cash resources (with the new facilities referred to above) available to allow it to continue in business for a period of at least twelve months from the date of approval of these financial statements. Accordingly, the accounts have been prepared on a going concern basis.

Post Period End

We were pleased to see the momentum generated during the reporting period continue beyond the financial year end, as we announced further significant progress:

Exclusive agreement with Imec

In October 2015, we were pleased to announce that we had entered into a licencing agreement with our shareholder Imec International in which Imec granted the Company an exclusive worldwide commercial licence to the unique algorithms developed for CloudTag and used in the Company's hardware devices. This was strategically very important in safeguarding the uniqueness of our technology as we look toward growing sales globally.

Strengthened Relationship with Preciousbluedot

Preciousbluedot our shareholder is the developer of CloudTag's unique user interfaces and mobiles apps and have been a long-standing strategic partner for CloudTag. The relationship was further strengthened as Preciousbluedot have agreed to settle historical fees through the acceptance of Warrants in the company.

Appointment of Non-Executive Director

In December 2015, CloudTag appointed Dr Gerald Bereika to the Board as a non-executive director. Dr Bereika has more than 35 years' experience in the planning, delivery and senior management of social and health care services in both the USA and the UK. In the USA, he served as Vice president for The Mentor Group, a leading national health and social care company. Dr Bereika holds a Ph.D. in Clinical Psychology and prior to his appointment to the board, has been instrumental in the development and integration of the user journey with CloudTag's development team.

Dr Bereika's clinical experience of behavioural change – and the psychology behind change – has been hugely beneficial in creating a personalised user journey that supports transformation and long-term success.

Appointment of Global Brand Ambassador

Also in December 2015, we were pleased to announce that Jessie Pavelka (www.jessiepavelka.com) was appointed as the global brand ambassador for CloudTag. Jessie is one of the most well-known faces in training and weight loss in both the USA and UK. He was a featured trainer on one of the most watched weight loss and fitness TV programmes in the USA: 'The Biggest Loser', with viewing figures ranging from 5.5 to 10.5 million while in the UK he presented the Sky TV documentaries 'Obese: A Year to Save my Life' and 'Fat: The Fight of my Life' and led the ITV Good Morning Britain campaign 'Sugar Free GMB'. He has built a Facebook following of more than 500,000 and Twitter following of more than 90,000 as his global profile continues to grow. Jessie is also an ambassador for Cancer Research's 2015 Race for Life, a new UK National Schools programme 'The Sports Challenge' and he also acts as Patron for obesity charity HOOP (UK). Jessie was present throughout the CloudTag Track™ product launch at CES in January 2016 and the Company also plans to release a CloudTag app featuring his specific programmes. In keeping with our strategy to align all partners with CloudTag, the agreement is focused heavily on remuneration through sales delivered by Jessie and a modest monthly payment.

First Product Launch

On 6 January 2016, as planned, the Company was proud to launch its first product at the Consumer Electronics Show (CES) in Las Vegas. The product was exceptionally well-received at the CES, many discussions are ongoing with potential partners and customers and our first significant distribution deal was subsequently signed.

During and post launch the Company enjoyed very favourable press coverage, which clearly differentiated our product from the crowd.

In the second part of January 2016 CloudTag took part in the ISPO Exhibition in Munich, the world's largest trade fair for sporting goods and sportswear. We displayed our product and it was very well received, generating four days of back-to-back meetings with some of the best-known and largest department stores, retail chains and online retailers across Europe, all of whom are interested in stocking CloudTag's products during 2016.

Distribution agreement signed

Following the great reception we enjoyed at the CES, in January this year we were delighted to announce that CloudTag had signed a distribution agreement with Second Chance Limited for a minimum of US$5.2 million of device sales for the CloudTag Track™ and beatSmart Clip. Under the terms of the agreement, Second Chance has agreed to purchase a minimum number of units of the Company's product at a fixed price by 31 December 2016, equivalent to US$5.2 million revenue in 2016. These units will be distributed to Second Chance's network of retailers who have over 7,500 stores, with an emphasis on UK and further sales in mainland Europe. Second Chance has obligations to place minimum orders during each quarter in 2016. CloudTag has agreed to grant exclusivity to Second Chance over certain retailers and territories in the EMEA region, subject to Second Chance meeting these required minimum orders.

Second Chance is one of Europe's leading sporting goods distributors with over 25 years' experience, specialising in the distribution of sports related technology and accessories to Europe, the Middle East and Africa (EMEA) in addition to providing sales acceleration, brand management, marketing and PR to support new products and drive product awareness.

We were delighted to see such interest and traction for our product so quickly after launch and we believe this demonstrates the quality and marketability of our offering.

Summary

I am extremely proud of the progress we have made throughout the financial year 2015 and recognise the immense effort it has taken from our dedicated employees across the Group in achieving so much in a comparatively short time.

We have only just begun to seize the opportunities which lie ahead for our unique technology and we are wholly committed to maintaining this energy and momentum as we continue to grow.

CloudTag has developed soundly, and recently launched what we believe will be the leading product in our market, with capabilities which simply cannot be found anywhere else. It is now up to us to ensure that this product is adopted on as wide a scale as possible, to grow revenues and generate value for our loyal shareholders.

Target markets have been clearly defined and focused upon, ambitious but achievable strategies are in place to vigorously pursue those target markets and the Company has the financial foundations in place to achieve its goals. Our enhanced strategy is already beginning to bear fruit.

All of the hard work undertaken during this transformative period has given us an excellent platform for growth and put the Group in pole position to meet its full potential.

We therefore look forward to a bright future with renewed confidence.

Amit Ben-Haim
Chief Executive Officer

22 March 2016

Report of the Directors

Domicile and principal place of business

Cloudtag Inc. is domiciled in the Cayman Islands and is managed and controlled in Switzerland. Post year end on the 19 November 2015 CloudTag Inc. opened a UK branch who's principal place of business is in the UK. Cloudtag Active Ltd. is domiciled in the UK and its principal place of business is the United Kingdom.

Directors

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

A Reeves
A Ben-Haim (appointed 08/01/2015)
J Wakely (appointed 17/07/2015)
M Hirschfield (resigned 17/07/2015)
A Jackson (resigned 10/02/2015)
G Bodhi (resigned 03/12/2014)

Substantial shareholdings

The only interests in excess of 3% of the issued share capital of the Company which have been notified as at 21 March 2016 were as follows:

	Ordinary shares of 0.25p each Number	Percentage of capital %
Spreadex Limited	50,341,747	19.30
Osuna Limited	30,975,000	11.88
Charles Stanley & Co Limited	26,511,765	10.17
Killik & Co	18,917,475	7.25
Mr Mike Hirschfield	14,620,834	5.61
Secure Nominees Limited	13,387,770	5.13
Biad Holding Limited	10,000,000	3.83
Mr Amit Ben-Haim	9,403,282	3.61

Financial risk management objectives and policies

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

Directors' responsibilities

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

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

In so far as the Directors are aware:

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

Report of the Directors

continued

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

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

Auditor

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

On behalf of the board

Anthony Reeves
Chairman

22 March 2016

Corporate Governance

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

The Board consists of a non-executive Chairman, Anthony Reeves and a Chief Executive Director, Amit Ben-Haim, who holds the key operational position in the Group, and two non-executive directors, John Wakely and Gerald Bereika, who together all bring a breadth of experience and knowledge.

Relations with shareholders

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

Internal control

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

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

The Remuneration Committee, comprising of Anthony Reeves, Gerald Bereika and John Wakely, has as its remit the determination and review of, amongst others, the remuneration of executives on the Board and any share incentive plans of the Company. A separate report on remuneration is contained on pages 16-17.

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

cloudtag®

Report on Remuneration

Directors' remuneration

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

Policy on executive Directors' remuneration

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

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

The remuneration of the Directors was as follows:

	A Reeves £	A Jackson (resigned 10 February 2015) £	M Hirschfield (resigned 17 July 2015) £	G Bodhi (resigned 3 December 2014) £	J Wakely (appointed 17 July 2015) £	A Ben Haim (appointed 8 January 2015) £	Total £
Short-term employment benefits:							
Year to 30 September 2015							
Salary and fees	36,166	63,008	25,000	–	–	59,857	184,031
Salary and fees payable in shares	–	20,000	–	–	7,496	46,827	74,323
Compensation for loss of office payable in shares	–	–	36,000	–	–	–	36,000
Pension scheme contributions	–	(10,000)	–	–	–	–	(10,000)
Share based payments	6,591	25,513	–	–	–	–	32,104
Total	42,757	98,521	61,000	–	7,496	106,684	316,458
Employers NI	–	–	4,200	–	–	–	4,200
Year to 30 September 2014							
Salary and fees	30,000	97,666	24,000	22,800		–	174,466
Pension scheme contributions	–	4,667	–	–		–	4,667
Total	30,000	102,333	24,000	22,800	–	–	179,133
Employers NI	–	2,760	–	–	–	–	2,760

The £36,166 (2014: £30,000) fees to A Reeves were paid to Spur Lodge Limited, a company beneficially owned by A Reeves.

The £83,008 (2014: £Nil) fees to A Jackson were paid to AJScot LLC.

The company has reversed the accrual previously made for unpaid pension contributions of £10,000 (2014: £4,677 accrued) to the personal pension scheme of A Jackson since his resignation as these are no longer payable.

Report on Remuneration

continued

During the year options and warrants with an estimated value of £44,231 and £15,592 were issued to A Jackson and A Reeves respectively with de facto market based vesting conditions. The estimated value of the options and warrants attributable to the current financial year is reflected in the table above.

Mr Hirschfield was paid £36,000 in shares in compensation of loss of office, being equal to 12 months fees. In addition to the fees above, the Company was charged £9,000 (year ended 30 September 2014: £12,000) by Kitwell Consultants Limited, a company beneficially owned by Mr Hirschfield, for Company Secretarial and administrative services.

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

Bonuses

No amounts are payable for bonuses in respect of the year ended 30 September 2015 or the year ended 30 September 2014.

Notice periods

The Directors' service agreements all have three month rolling notice periods.

Share option incentives

At 30 September 2015 the following share options and warrants were held by the Directors.

	Date of grant	Exercise price	Number of options	Number of warrants
A Reeves	19 March 2013	20p	250,000	–
A Reeves	8 January 2015	6p	–	250,000
A Reeves	8 January 2015	8p	–	250,000
A Reeves	8 January 2015	10p	–	250,000
A Reeves	8 January 2015	12p	–	250,000

The share options and warrants for Mr Reeves are exercisable immediately.

All options and warrants lapse after ten years.

The highest and lowest share price for the year was 4.625p and 1.875p respectively. The share price at 30 September 2015 was 2.125p.

cloudtag®

Report of the Independent Auditor

to the members of CloudTag Inc.

We have audited the group financial statements of CloudTag Inc. for the year ended 30 September 2015, which comprise the Principal Accounting Policies, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Financial Position, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

Respective responsibilities of the Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on pages 13-14, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion;

- the financial statements give a true and fair view of the state of the group's affairs as at 30 September 2015 and of its loss for the year then ended, and
- the financial statements have been properly prepared in accordance with IFRSs adopted by the European Union.

Hazlewoods LLP
Registered Auditors, Chartered Accountants
Cheltenham
United Kingdom

22 March 2016

cloudtag®

Principal Accounting Policies

1. Basis of Preparation

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

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

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

(a) Measurement basis

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

(b) Going concern

At 30 September 2015 the Group held cash balances of £26,000. Since the year end the Group has signed a draw down facility for convertible loan notes for £1,250,000, (including £300,000 which relates to the conversion of the loan repayable on demand outstanding at 30 September 2015), and raised £983,400 from the issue of shares.

The Directors have prepared a detailed cash flow forecast for the period ending 31 March 2017. The forecasts include only device sales committed under the distribution agreement with Second Chance Limited announced on 25 January and a conservative level of app sales and other income. The forecast shows that the Company will have sufficient facilities to enable it to trade in this scenario.

The Directors are confident that they will achieve these conservative sales targets, but as they are not guaranteed, have also prepared a further forecast showing reduced revenue and a reduction in costs, and a forecast with no revenue which identifies unavoidable third party running costs of the Group only.

All of the forecasts demonstrate that the Group will have sufficient cash resources (with the new facilities referred to above) available to allow it to continue in business for a period of at least twelve months from the date of approval of these financial statements. Accordingly, the accounts have been prepared on a going concern basis.

(c) Basis of consolidation

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

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

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

(d) Adoption of new or amended IFRS

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

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

- IFRS 9 Financial Instruments (IASB effective date 1 January 2018)
- IFRS 14 Regulatory Deferral Accounts (effective 1 January 2016)
- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018)
- IFRS 16 Leases (effective 1 January 2019)
- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19) (IASB effective date 1 July 2014) (Endorsed)
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (IASB effective date 1 January 2016) (Endorsed)
- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (IASB effective date 1 January 2016) (Endorsed)
- Annual Improvements to IFRSs 2012-2014 Cycle (effective 1 January 2016) (Endorsed)
- Amendments to IAS 16 and IAS 41: Bearer Plants (effective 1 January 2016) (Endorsed)
- Amendments to IAS 27: Equity Method in Separate Financial Statements (effective 1 January 2016) (Endorsed)
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (effective 1 January 2016)
- Disclosure Initiative: Amendments to IAS 1 Presentation of Financial Statements (effective 1 January 2016) (Endorsed)
- Disclosure Initiative: Amendments to IAS 7 Statement of Cash Flows (effective 1 January 2017)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (effective 1 January 2016)
- Amendments to IAS 12: Recognition of Deferred Tax assets for Unrealised Losses (effective 1 January 2017)

(e) Taxation

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

Principal Accounting Policies

continued

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

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

(f) Research and development

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

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

(b) it is technically feasible;

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

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

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

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

(g) Financial assets

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

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

(h) Cash and cash equivalents

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

Principal Accounting Policies

continued

(i) Equity

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

(j) Financial liabilities

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

(k) Share based payments

Options

The Group issues equity-settled share-based payments to certain employees (including directors). Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, together with a corresponding increase in equity, based upon the Group's estimate of the shares that will eventually vest.

Fair value is measured using the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

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

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

(l) Fees settled in shares

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

(m) Foreign currencies

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

(n) Segmental reporting

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

2. Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

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

Development costs

In applying the Group's accounting policies, the directors have made a key accounting judgement regarding whether to capitalise development costs. To this point, development costs have not been capitalised owing to the early stage of the business's development and the view that, at this stage, the directors do not consider that all of the conditions have been met as set out in the accounting policy on page 21. The Board will continue to keep this treatment under review and when the development project is at the stage where these conditions are met, future development costs will be capitalised and amortised in line with the prescribed accounting policy.

Share based payments

In assessing the fair value of the share options granted the directors have made a number of assumptions. The directors have applied a Black-Scholes valuation model in determining the value of the share options and warrants. The directors do not consider that the impact of incorporating the market conditions has a material impact on the fair value. The directors have also made assumptions in respect of when options will vest based on the best estimate of when performance conditions will be met and in the financial year ended 30 September 2015 assumed that de facto market based performance conditions will be met over various periods of 12, 24 or 36 months dependent on the exercise price of the options.

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

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

Consolidated Statement of Comprehensive Income

	Note	Year ended 30 September 2015 £000	Year ended 30 September 2014 £000
Administrative expenses			
Options and warrants issued in payment of remuneration and services	8	**(430)**	169
Research and development costs		**(698)**	(629)
Other administrative expenses	1	**(846)**	(830)
Total administrative expenses		**(1,974)**	(1,290)
Loss from operations		**(1,974)**	(1,290)
Finance cost		**(15)**	–
Loss before taxation		**(1,989)**	(1,290)
Taxation	2	**125**	255
Loss after taxation and loss attributable to the equity holders of the Company and total comprehensive income for the period		**(1,864)**	(1,035)
Loss per share			
Total basic and diluted (pence per share)	3	**(1.06)**	(0.69)

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

Consolidated Statement of Changes in Equity

	Share capital £000	Share premium £000	Convertible loan Notes £000	Retained earnings £000	Total equity £000
Balance at 1 October 2013	148	3,202	–	(3,283)	67
Issue of share capital	6	527	–	–	533
Share issue costs	–	(10)	–	–	(10)
Transactions with owners	6	517	–	–	523
Share based payments	–	–	–	(169)	(169)
Loss for the period	–	–	–	(1,035)	(1,035)
Balance at 30 September 2014	154	3,719	–	(4,487)	(614)
Issue of convertible loan notes	–	–	1,050	–	1,050
Conversion of convertible loan notes	34	816	(850)	–	–
Issue of share capital	17	554	–	–	571
Share issue costs	–	(268)	–	–	(268)
Transfer to retained earnings	–	–	–	–	–
Transactions with owners	51	1,102	200	–	1,353
Options and warrants issued in payment of remuneration and services	–	–	–	430	430
Suppliers paid in warrants				34	34
Loss for the period	–	–	–	(1,864)	(1,864)
Balance at 30 September 2015	205	4,821	200	(5,887)	(661)

Note 11 gives further details on each of the equity categories.

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

cloudtag®

Consolidated Statement of Financial Position

	Notes	30 September 2015 £000	30 September 2014 £000
Assets			
Fixed assets			
Property, plant and equipment	4	**1**	2
Current			
Trade and other receivables	5	**143**	264
Cash and cash equivalents		**16**	25
Total current assets		**159**	289
Total assets		**160**	291
Liabilities			
Current			
Trade and other payables	6	**521**	905
Loan repayable on demand	7	**300**	–
Total current liabilities and total liabilities		**821**	905
Equity			
Issued share capital	9	**205**	154
Share premium		**4,821**	3,719
Convertible loans	10	**200**	–
Retained earnings		**(5,887)**	(4,487)
Equity attributable to owners of the company		**(661)**	(614)
Total equity and total liabilities		**160**	291

The consolidated financial statements were approved by the Board on 22 March 2016.

A Ben-Haim
Director

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

Consolidated Cash Flow Statement

	Notes	Year ended 30 September 2015 £000	Year ended 30 September 2014 £000
Operating activities			
Loss after tax		**(1,864)**	(1,035)
Share based payments		**430**	(169)
Depreciation		**1**	1
Finance cost		**15**	–
Income tax credit to profit or loss		**(125)**	(255)
Fees paid in shares	8	**207**	33
Increase in trade and other receivables		**(9)**	(4)
(Decrease)/increase in trade and other payables		**(187)**	410
Net cash outflow from operating activities		**(1,532)**	(1,019)
Income tax receipts		**255**	–
Net cash outflow from operating activities after taxation		**(1,277)**	(1,019)
Cash flows from investing activities			
Purchase of property, plant and equipment		**–**	(2)
Net cash outflow from financing activities		**–**	(2)
Financing activities			
Proceeds from issue of share capital		**–**	500
Equity shares and convertible loans issued		**983**	(10)
Other loans advanced		**300**	–
Finance cost		**(15)**	–
Net cash inflow from financing activities		**1,268**	490
Net change in cash and cash equivalents		**(9)**	(531)
Cash and cash equivalents at beginning of period		**25**	556
Cash and cash equivalents at end of period		**16**	25

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

Notes to the Financial Statements

1 Revenue, Loss Before Taxation and Segmental Information

Revenue and loss before taxation

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

The loss before taxation is stated after charging:

	Year ended 30 September 2015 £000	Year ended 30 September 2014 £000
Wages and salaries	**593**	139
Exchange differences	**(4)**	(16)
Operating lease rentals: land and buildings	**43**	–
Fees payable to the Company's auditor for the audit of the Company financial statements	**17**	17
Fees payable to the Company's auditor for other services	**16**	21

Segmental information

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

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

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

In respect of the non-current assets all (2014: all) arise in the UK.

2 Taxation

There is a tax credit for enhanced UK research and development tax relief for the year of £125,000 (year ended 30 September 2014: £255,000 of which £127,000 relates to expenditure incurred in previous years).

Unrelieved tax losses in the UK of approximately £2,398,000 (2014: £1,607,000) remain available to offset against future taxable trading profits. The unprovided deferred tax asset at 30 September 2015 is £480,000 (2014: £321,000) which has not been provided on the grounds that it is uncertain when or in what tax jurisdiction taxable profits will be generated by the Group to utilise the losses of the UK subsidiary.

2 Taxation continued

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

	Year ended 30 September 2015 £000	Year ended 30 September 2014 £000
Loss for the period before taxation	**(1,989)**	(1,290)
	(1,989)	(1,290)
Tax rate	**21.0%**	22.0%
Expected tax credit	**(418)**	(284)
Non UK losses not available for relief	**82**	72
Share based charge/(credit) not taxable	**91**	(37)
Difference between research and development tax credit received and losses surrendered	**(41)**	(30)
Expenses that are not tax deductible	**–**	5
Deferred tax asset not recognised on unutilised losses	**161**	146
Prior Year adjustment	**–**	(127)
Tax credit for the Year	**(125)**	(255)

3 Loss Per Share

	Year ended 30 September 2015	Year ended 30 September 2014
Loss on ordinary activities after tax (£000)	**(1,864)**	(1,035)
Weighted average number of shares for calculating basic loss per share	**176,281,283**	150,696,507
Basic and diluted loss per share (pence)	**(1.06)**	(0.69)

There are 5,700,000 share options and 42,683,334 warrants as detailed in note 8. Their effect is anti-dilutive, but are potentially dilutive against future profits. Additionally there is an amount of £7,496 accrued in respect of J Wakely fees which is due to be paid in shares at the share price at the time of issue. The number of shares this equates to is therefore variable but had these shares been issued on 30 September 2015, this would have equated to 352,753 shares at 2.125p each.

Since the year end a further 55,776,515 shares have been issued whose impact is potentially dilutive.

4 Property, Plant and Equipment

	Computer Equipment £000	Total £000
Cost		
At 1 October 2013	1	1
Additions	2	2
At 30 September 2014	3	3
Additions	–	–
Cost at 30 September 2015	**3**	**3**
Depreciation		
At 1 October 2013	–	–
Charge for the Year	1	1
At 30 September 2014	1	1
Charge for the Year	1	1
At 30 September 2015	**2**	**2**
Net book value		
At 30 September 2015	**1**	**1**
At 30 September 2014	2	2
At 1 October 2013	1	1

5 Trade and Other Receivables

	30 September 2015 £000	30 September 2014 £000
Prepayments	**9**	4
Income tax repayment	**125**	255
Other receivables	**9**	5
Total	**143**	264

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

All receivables have been reviewed for indicators of impairment based on the age of the balances outstanding and the credit worthiness of the third parties from which these balances are due.

6 Trade and Other Payables

	30 September 2015 £000	30 September 2014 £000
Trade payables	**348**	672
Tax and social security	**15**	6
Other payables	**1**	40
Accruals	**157**	187
	521	905

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

7 Loan Repayable on Demand

During the year the company received £300,000 net of fees in respect of loans. No loan agreement was signed during the year in respect of these and they have therefore been classified as being due within one year. These were later included in the facility announced on 15 January 2016 as detailed in the post balance sheet events.

8 Share Based Payments

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

8 Share Based Payments continued

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

First exercise date (when vesting conditions are met)	Grant date	Assumed vesting period	Exercise price £	Fair value £	30 September 2015 Number	30 September 2014 Number
20 March 2013	20 March 2013	6 months	0.2	0.116299	500,000	500,000
On launch of product if by 20 March 2014	20 March 2013	12 months	0.2	0.116299	–	1,100,000
On launch of product if by 20 March 2014	20 March 2013	12 months	0.25	0.106651	–	200,000
On launch of product if by 20 March 2014	20 March 2013	12 months	0.3	0.098623	–	166,666
Turnover exceeds £750,000 in a month and share price exceeds 40p for 5 consecutive days	20 March 2013	24 months	0.2	0.116299	–	1,100,000
Turnover exceeds £750,000 in a month and share price exceeds 40p for 5 consecutive days	20 March 2013	24 months	0.25	0.106651	–	200,000
Turnover exceeds £750,000 in a month and share price exceeds 40p for 5 consecutive days	20 March 2013	24 months	0.3	0.098623	–	166,666
Turnover exceeds £1,500,000 in a month and share price exceeds 60p for 5 consecutive days	20 March 2013	36 months	0.2	0.116299	–	750,000
Turnover exceeds £1,500,000 in a month and share price exceeds 60p for 5 consecutive days	20 March 2013	36 months	0.25	0.106651	–	200,000
Turnover exceeds £1,500,000 in a month and share price exceeds 60p for 5 consecutive days	20 March 2013	36 months	0.3	0.098623	–	166,666
8 January 2015	8 January 2015	12 months	0.06	0.019042	1,925,000	–
8 January 2015	8 January 2015	24 months	0.08	0.016343	1,925,000	–
8 January 2015	8 January 2015	36 months	0.1	0.014298	675,000	–
8 January 2015	8 January 2015	48 months	0.12	0.012686	675,000	–
					5,700,000	**4,549,998**

At 30 September 2015, 5,700,000 options were exercisable.

8 Share Based Payments continued

Details of the movement in the share options outstanding during the year are as follows:

	30 September 2015		30 September 2014	
	Number	WAEP £	Number	WAEP £
Outstanding at the beginning of the period	**4,549,998**	**0.2176**	4,549,998	0.2176
Forfeited or surrendered	**(6,549,998)**	**0.1779**	–	–
Issued on 8 January 2015	**7,700,000**	**0.0632**	–	–
Outstanding at the end of the period	**5,700,000**	**0.0967**	4,549,998	0.2176

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

	8 January 2015	20 March 2013
Risk free rate	1.50%	0.50%
Share price volatility	46%	50%
Expected life	Between 1 and 4 Years	Between 6 months and 3 Years
Share price at date of grant	£0.04	£0.20

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

Expected volatility was determined by calculating the historical volatility of the share price of the Company. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The costs charged to profit and loss in respect of these options was £43,000 in the current year.

The Directors reconsidered the assumptions used in calculating the share based payments for options issued in 2013 and considered that there was little likelihood that the options granted with vesting conditions would vest, and since the end of the financial year the options were waived to the extent that they had not already lapsed. Therefore the charge of £169,000 relating to these options in the year to 30 September 2013 was reversed in the year to 30 September 2014.

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

8 Share Based Payments continued

Warrants

On 31 March 2014, 412,500 ordinary shares of 0.1p were issued at 8p in payment of fees totalling £33,000. On 31 March 2014, 6,250,000 ordinary shares 0.01p were placed at 8p raising total proceeds of £500,000 before expenses. Each Ordinary Share issued for cash on 31 March 2014 had a three-year warrant attached to it which is exercisable at 8 pence. The warrants will not be admitted to trading on AIM. There were 6,250,000 warrants outstanding at 30 September 2014 at a weighted average exercise price of 8p and a weighted average remaining contractual life of 2.59 years. These warrants fall outside the scope of IFRS2 as they have been issued to shareholders in their capacity as shareholders and have therefore not been treated as share based payments.

On 4 December 2014, the Company announced that it has granted to Golden Bridge Services Limited conditional warrants to subscribe for up to 22,000,000 new Ordinary Shares at a subscription price of 4.25p per share ("Warrant Shares"). The conditions are either (i) the introduction by GBSL, within 150 days, of one or more investor(s) investing together not less than £500,000 in the Company, such new investment being on equal or better terms to the Company than the convertible Loan Note issue; or (ii) the introduction of a strategic partner; that means a strategic partner concluding a transaction, acquisition or collaboration with the Company, such party being a hardware, software or sports and fitness company which has mutual business interests with the Company's business operations and which brings either significant strategic advantages to the Company or which has a platform (being any, some or all of a website, app or e-commerce platform) with not less than 30 million unique users. On 29 April 2015, with the introduction of Adience, the Board decided that the conditions had been met and the warrants became exercisable. The fair value of the services received is considered to be comparable to the fair value of the warrants issued. These have been valued using the Black-Scholes valuation model.

On 12 January 2015, the Company announced that it had granted a total of 3,000,000 warrants over new ordinary shares to certain Directors and employees.

On 29 September 2015, the Company announced that it had granted 11,433,334 warrants over new ordinary shares to Precious Blue Dot Limited in payment of outstanding fees for services. These warrants were valued at the value of the services provided, being £34,000.

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

	30 September 2015		30 September 2014	
	Number	WAEP £	Number	WAEP £
Outstanding at the beginning of the period	**6,250,000**	**0.08**	–	–
Issued on 1 May 2014	–		6,250,000	0.08
Issued on 4 December 2014	**22,000,000**	**0.0425**	–	–
Issued on 8 January 2015	**3,000,000**	**0.09**	–	–
Issued on 29 September 2015	**11,433,334**	**0.03**	–	–
Outstanding at the end of the period	**42,683,334**	**0.048**	6,250,000	0.08

8 Share Based Payments continued

The warrants have the following exercise prices and fair values at the date of grant:

First exercise date (when vesting conditions are met)	Grant date	Assumed vesting period	Exercise price £	Fair value £	30 September 2015 Number	30 September 2014 Number
1 May 2014	1 May 2014	–	0.08	–	6,250,000	6,250,000
29 April 2015	4 December 2014	5 months	0.0425	0.01667	22,000,000	–
8 January 2015	8 January 2015	12 months	0.06	0.019042	750,000	–
8 January 2015	8 January 2015	24 months	0.08	0.016343	750,000	–
8 January 2015	8 January 2015	36 months	0.1	0.014298	750,000	–
8 January 2015	8 January 2015	48 months	0.12	0.012686	750,000	–
29 September 2015	29 September 2015	1 month	0.03	–	11,433,334	–
					42,683,334	**6,250,000**

For those warrants granted to employees and directors where IFRS 2 "Share-Based Payment" is applicable, the fair values were calculated using the Black-Scholes model. The inputs into the model were as follows:

	29 April 2015	8 January 2015
Risk free rate	1.50%	1.50%
Share price volatility	50.66%	46.30%
Expected life	6 months	Between 1 and 4 Years
Share price at date of grant	£0.0313	£0.04

The Group recognised a charge of £386,000 (year ended 30 September 2014: £6,000) relating to these equity-settled share-based payment transactions during the period.

The total charge to the profit and loss in respect of options and warrants in exchange for services during the year was:

	30 September 2015 £000	30 September 2014 £000
Options	**44**	(169)
Warrants	**420**	–
	464	(169)

In addition liabilities of £571,000 were settled by issue of shares including £113,000 included as liabilities for services supplied at 30 September 2014 and including £250,000 in respect of commission paid to Amit Ben-Haim relating to the issue of convertible loan notes prior to his appointment to the Board.

9 Share Capital

	30 September 2015 £000	30 September 2014 £000
Authorised	**1,000**	1,000
	£000	**£000**
Allotted, issued and fully paid		
205,002,214 ordinary shares of 0.1p (30 September 2014: 154,437,500)	**205**	154

The movement in the share capital is as follows:

	Price £	Number	Nominal amount £000	Share premium £000
As at 1 October 2013	–	147,775,000	148	3,202
Share placing	0.08	6,250,000	6	494
Placing costs		–	–	(10)
Share based payment		–	–	–
Fees paid in shares	0.08	412,500	–	33
At 30 September 2014		**154,437,500**	**154**	**3,719**
Loan conversion	0.025	34,000,000	34	816
Placing costs		–	–	(268)
Fees paid in shares	0.0375	11,463,336	11	419
Fees paid in shares	0.0358	546,831	1	19
Fees paid in shares	0.031	285,000	–	9
Fees paid in shares	0.03	1,869,918	2	54
Fees paid in shares	0.0225	1,600,000	2	34
Fees paid in shares	0.025	560,000	1	13
Fees paid in shares	0.0251	239,629	–	6
At 30 September 2015		**205,002,214**	**205**	**4,821**

On 4 December 2014, 1,250,000 ordinary shares of 0.1p were issued at 3.75p in payment of fees totalling £46,875. On 17 December 2014, 3,546,669 ordinary shares of 0.1p were issued at 3.75p in payment of fees totalling £133,000. On 23 December 2014, 6,666,667 ordinary shares of 0.1p were issued at 3.75p in payment of fees totalling £250,000. On 17 April 2015, 546,831 ordinary shares of 0.1p were issued at 3.58p in payment of fees totalling £19,577. On 17 April 2015, 285,000 ordinary shares of 0.1p were issued at 3.10p in payment of fees totalling £8,835. On 29 May 2015, 34,000,000 ordinary shares of 0.1p were issued at 2.5p in repayment of convertible loans totalling £850,000. On 29 May 2015, 1,869,918 ordinary shares of 0.1p were issued at 3.00p in payment of fees totalling £56,097. On 17 July 2015, 1,600,000 ordinary shares of 0.1p were issued at 2.25p in payment of fees totalling £36,000. On 29 September 2015, 560,000 ordinary shares of 0.1p were issued at 2.50p in payment of fees totalling £14,000. On 29 September 2015, 239,629 ordinary shares of 0.1p were issued at 2.51p in payment of fees totalling £6,020.

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

Notes to the Financial Statements

continued

10 Convertible Loans

During the year the company received £1,050,000 net of fees in respect of convertible loans under the agreement announced on 4 December 2014.

The initial £800,000 loan notes were issued on 4 December 2014 and further £100,000 loan notes issued on 15 December 2014 were convertible under the following terms:

(i) at the holder's option at a conversion price which is fixed at 3.75 pence of indebtedness per one Ordinary Share or (ii) at the Company's option at a conversion price which is fixed at 3.75 pence of indebtedness per 1.5 Ordinary Shares (equivalent to 2.5 pence of indebtedness per one Ordinary Share).

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

Of the £900,000 loan notes issued in December 2014, £850,000 was converted into shares on 29 May 2015 at 2.5p per Ordinary shares. A further £150,000 of loan notes was issued on 27 August 2015.

As the loan notes are convertible for a fixed number of shares at the option of the company, they are considered to be equity instruments and have therefore been treated as equity in the financial statements.

11 Equity

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

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

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

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

12 Contingent Assets and Liabilities

The Company's subsidiary company is currently involved in litigation with one of its suppliers, which is claiming €290,000 (£215,022) against the Company for services supplied. The directors have included €150,000 (£111,218) as a provision for this in the accounts which they consider to be prudent. There is therefore a contingent liability of €140,000 (£103,804).

At 30 September 2014 the total potential liability was €290,000 (£226,509), the provision €150,000 (£117,160), and the contingent liability €140,000 (£109,349).

The Company is robustly defending this claim as it considers the services delivered were unsatisfactory.

13 Capital Commitments

There were no capital commitments at 30 September 2015 or at 30 September 2014.

14 Financial Instruments

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

Financial assets by category

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

	30 September 2015			30 September 2014		
	Loans and receivables £000	Non financial assets £000	Statement of Financial Position total £000	Loans and receivables £000	Non financial assets £000	Statement of Financial Position total £000
Cash	**16**	**–**	**16**	25	–	25
Prepayments	**–**	**9**	**9**	–	4	4
Tax receivable	**–**	**125**	**125**	–	255	255
Other receivables	**9**	**–**	**9**	5	–	5
Total	**25**	**134**	**159**	30	259	289

Financial liabilities by category

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

	30 September 2015			30 September 2014		
	Other financial liabilities at amortised cost £000	Liabilities not within the scope of IAS 39 £000	Total £000	Other financial liabilities at amortised cost £000	Liabilities not within the scope of IAS 39 £000	Total £000
Trade payables	**348**	**–**	**348**	672	–	672
Taxes and Social security	**–**	**15**	**15**	–	6	6
Other payables	**1**	**–**	**1**	40	–	40
Loans	**300**	**–**	**300**	–	–	–
Accruals	**157**	**–**	**157**	187	–	187
Total	**806**	**15**	**821**	899	6	905

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

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

Credit risk

The Group's principal financial assets are cash balances and other receivables. Cash at bank is all held with highly rated banks the suitability of which are periodically reviewed.

14 Financial Instruments continued

Liquidity risks

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

15 Related Party Transactions

Corvus Capital Ltd, a major shareholder in CloudTag Inc. charged the Group £8,165 for the year ended 30 September 2015 in respect of consultancy fees and telephone costs recharged (year ended 30 September 2014: £4,297 in respect of telephone costs).

Kitwell Consultants Limited, a shareholder in CloudTag Inc. and a company owned by M Hirschfield, a former director of CloudTag Inc. and CloudTag Active Limited charged the Group £9,000 for the year ended 30 September 2015 for secretarial fees and expenses (year ended 30 September 2014: £12,000). At 30 September 2015 £Nil was owed to Kitwell Consultants Limited in respect of secretarial fees (30 September 2014 £6,400).

A Jackson, a director of Cloudtag Inc and Cloudtag Active Ltd was reimbursed £12,939 in expenses during the year (30 September 2014: £60,505). A Ben-Haim, a director of Cloudtag Inc. was reimbursed £16,610 in expenses during the year (30 September 2014: £Nil). At 30 September 2015 £316 was owed to Mr Ben-Haim (2013: £Nil). A Reeves, a director of Cloudtag Inc. was reimbursed £1,179 in expenses during the year (30 September 2014: £Nil).

SB Corporate Finance Limited, a company of which A Ben-Haim, a director of Cloudtag Inc., is a director and shareholder, charged the Group £30,600 in respect of office rent and £43,206 in respect of financial and advisory services (30 September 2014: £Nil).

At 30 September 2015 the following amounts were outstanding for fees payable to directors of Cloudtag Inc. and Cloudtag Active Limited, A Reeves £Nil (30 September 2014: £17,500), J Wakely £7,496 (30 September 2014: £Nil), M Hirschfield £Nil (30 September 2014: £23,000), A Jackson £Nil (30 September 2014: £86,833), G Bodhi £Nil (30 September 2014: £22,800) and P Georgiou £8,000 (30 September 2014: £16,000). The amount due to J Wakely of £7,496 is due to be paid in shares.

At 30 September 2015 the Group owed £Nil to Lee Musgrave, a former director of Cloudtag Active Limited, in respect of expenses, (30 September 2014: £424). Mr Musgrave was paid fees of £8,000 fees and £Nil expenses during the year ended 30 September 2015 (30 September 2014: £12,000 fees and £1,791 expenses).

Pantelis Georgiou agreed to a settlement figure of his outstanding fees and £8,000 of accrued fees were credited to the profit and loss during the year ended 30 September 2015, as a director of Cloudtag Active Limited (30 September 2014: £12,000).

Key management personnel are considered to be the directors, and information is disclosed in the remuneration report on pages 16-17 in respect of their remuneration.

16 Employee Remuneration

Employee benefits expense

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

	2015 £000	2014 £000
Wages and salaries	**503**	349
Social security	**27**	17
Share based payments	**63**	(227)
	593	139

Average monthly number of employees

	2015 No.	2014 No.
Directors	**3**	6
Other	**6**	4
	9	10

17 Principal Subsidiary Undertaking

Name	Principal activity	Place of incorporation
Cloudtag Active Limited	Personal monitoring to the health, wellbeing and fitness markets.	UK

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

The subsidiary Company's activities have been funded by loans from its parent company, CloudTag Inc. At 30 September 2015 the aggregate amounts loaned to the Company amounted to £3,071,195 (2014: £1,916,381). These amounts together with any other obligations and liabilities to CloudTag Inc. have been secured by a fixed and floating charge over the assets of the Company dated 11 October 2012.

18 Capital Management

The Group's capital management objectives are:

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

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

19 Post Balance Sheet Events

On 30 October 2015 the Company announced that it has issued 1,906,556 ordinary shares of 0.1p to Imec International in payment of €60,000 licence fee.

On 31 December 2015 the Company announced that it has issued 1,188,117 ordinary shares of 0.1p at 2.38p each in payment of fees and 2,282,353 ordinary shares of 0.1p at 2.125p in settlement of fees.

On 15 January 2016, the Company announced that it had signed a £1.25m unsecured draw down facility with some parts being convertible loan facility with Hector Limited ("Lender"), a private equity company specialising in hi-tech SME's (the "Facility"). Funds drawn down from the Facility will be used for purchase order funding with manufacturers and B2B partnerships in 2016 and for general working capital purposes. £300,000 advanced by the Lender at 30 September 2015 and included in liabilities at that date has been incorporated within this facility.

The Lender may elect at its discretion to convert any tranche of drawn funds into new ordinary shares in the Company at a price of 2.25 pence per share, conditional on the Company having sufficient authority from shareholders to issue such number of new ordinary shares.

On 15 January 2016, the company announced that it had issued 2,500,000 ordinary shares at 0.1p at a price of 2.125p in settlement of fees.

On 21 January 2016, the company announced that it had raised £250,000 pursuant to a subscription by new investors for 11,764,706 new ordinary shares of 0.1p at a price of 2.125 pence per share.

On 29 February 2016, the company announced that it had raised £215,000 pursuant to a subscription by Spreadex Limited for 11,684,783 new ordinary shares of 0.1p at a price of 1.84 pence per share.

Also on 29 February 2016, the company announced that it had issued 7,250,000 new ordinary shares of 0.1p at a price of 1.675 pence per share in settlement of fees due to a third party consultant ("Fee Shares") for business development activities in the UK and Europe.

On 7 March 2016, the Company announced that it had issued 2,600,000 new ordinary shares of 0.1p at a price of 2.5p raising £65,000.

On 16 March 2016, the Company announced that it had issued 7,600,000 new ordinary shares of 0.1p at a price of 3p raising £228,000.

On 21 March 2016, the Company announced that it had issued 7,000,000 new ordinary shares of 0.1p at a price of 3.22p raising £225,400.

Notice of Annual General Meeting

Notice is hereby given that the 2016 annual general meeting of CloudTag Inc. (the "Company") will be held at the office of Collas Crill, 40 Don Street, St Helier, Jersey, JE1 4XD on 26th April 2016 at 2:30pm to consider and, if thought fit, to pass the following resolutions:

Ordinary Resolutions

1. To receive the annual report and financial statements for the year ended 30 September 2015, together with the reports of the directors and auditors.

2. To re-elect Anthony Reeves as a director who is retiring in accordance with article 154 of the articles of association of the Company (the "Articles") and who being eligible offers himself for re-election.

3. To re-elect Amit Ben-Haim as a director who is retiring in accordance with article 154 of the articles of association of the Company (the "Articles") and who being eligible offers himself for re-election.

4. To re-elect John Wakely as a director who is retiring, having been appointed since the last general meeting of the Company, and who being eligible offers himself for re-election.

5. To re-elect Dr Gerald Bereika as a director who is retiring, having been appointed since the last general meeting of the Company, and who being eligible offers himself for re-election.

6. To authorise the Board of directors to appoint Hazlewoods LLP as auditor to the Company and to authorise the directors to determine their remuneration.

7. That the directors are authorised to disapply the pre-emption rights set out in article 17 of the Articles and provided that the authority is limited to:

   a. the allotment of equity securities for cash up to an aggregate nominal value of £70,000, to provide funding for future business activities;

   b. the allotment of equity securities in relation to the potential conversion of the convertible facility entered into in January 2016 and convertible loans issued in 2015 up to an aggregate nominal amount of £70,000.00;

   c. the allotment of equity securities up to an aggregate nominal amount of £35,000.00 for the payment of fees to directors, employees and certain third party contractors over the next 12 months pursuant to their agreements with the Company;

   d. the allotment of equity securities pursuant to the exercise of warrants granted by the Company from time to time up to an aggregate nominal value of £80,000.00;

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

   f. the allotment of equity securities for cash, otherwise than in accordance with paragraphs 5(a), 5(b), 5(c), 5(d) and 5(e), up to an aggregate nominal amount of £26,077.87 being 10% of the Company's issued share capital at the date of this notice.

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

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

By order of the Board

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

30 March 2016

Notes

1. All shareholders who wish to attend and vote at the meeting must be entered on the Company's register of members no later than **5:00 p.m.** on **22 April 2016** or 48 hours before the time of any adjourned meeting. Changes to entries on the register after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.

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

3. To be effective, a completed and signed proxy (and any power of attorney or other authority under which it is signed) must be delivered to Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol BS99 6ZY by no later than **2.30 p.m.** on **22 April 2016** or 48 hours before the time fixed for any adjourned meeting. You may also deliver by hand to Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol BS99 6ZY during normal business hours. Completion of a form of proxy will not prevent a member from attending and voting in person.

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

5. In the case of holders of depositary interests representing ordinary shares in the Company, a form of instruction must be completed in order to appoint Computershare Company Nominees Limited, as custodian, to vote on the holder's behalf at the meeting or, if the meeting is adjourned, at the adjourned meeting. To be effective, a completed and signed form of instruction (and any power of attorney or other authority under which it is signed) must be delivered to the Company's transfer agent, Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol BS99 6YZ by no later than **2.30 p.m.** on **21 April 2016** or 72 hours before the time fixed for any adjourned meeting.

Notice of Annual General Meeting

continued

6. The completion and return of the form of instruction will not preclude a holder from attending the meeting and voting in person. Should the holder, or a representative of that holder, wish to attend the meeting and/or vote at the meeting, they must notify the custodian in writing or email !UKALLDITeam@computershare.co.uk by no later than **2.30 p.m.** on **21 April 2016** or 72 hours before the time fixed for any adjourned meeting.

7. Entitlement to attend and vote at the meeting and the number of votes which may be cast thereat will be determined by reference to the Depositary Interest Register at close of business on **21 April 2016**. Changes to the entries on the Depositary Interest Register after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting.

8. As at 29 March 2016 (being the last business day prior to the publication of this notice), the Company's issued share capital comprised 264,266,964 ordinary shares of £0.001 each. The Company does not hold any shares in treasury and each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 29 March 2016 (being the last business day prior to the publication of this notice), is 264,266,964.

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

10. In order for a voting instruction made by means of CREST to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (EUI) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID: 3RA50) by **2.30 p.m.** on **21 April 2016**. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

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

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

Printed by Michael Searle & Son Limited

cloudtag®