Company No. 05131386
(England and Wales)

TERN PLC

(formerly Silvermere Energy plc)

ANNUAL REPORT

Year ended
31 December 2013

CONTENTS

COMPANY INFORMATION

DIRECTORS:	Angus Forrest (Executive Director) Michael Clark (Executive Director) Bruce Leith (Executive Director) Laurence Read (Non-executive Director) Albert Sisto (Executive Director)
REGISTERED OFFICE:	9 Catherine Place London SW1E 6DX
SECRETARY:	Mrs P A Keith
COMPANY'S REGISTERED NUMBER	5131386
AUDITORS:	Jeffreys Henry LLP Finsgate 5-7 Cranwood Street London EC1V 9EE
NOMINATED ADVISOR AND JOINT BROKER:	W H Ireland 24 Martin Lane London EC4R 0DR
JOINT BROKER	Peterhouse Corporate Finance Limited 31 Lombard Street London, EC3V 9BQ
REGISTRARS	Share Registrars Limited Suite E, First Floor 9 Lion and Lamb Yard Farnham Surrey GU9 7LL
BANKERS	Handelsbanken 5th Floor 13 Charles II Street London SW1Y 4QU

CHAIRMAN'S STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2013

These are the first accounts for Tern plc since its restructuring and reorganisation commenced in August 2013.

The Company now offers investors a quoted platform to invest in developing private IT companies predominantly operating in the cloud and mobile sectors. Tern has an entirely new Board of experienced industry professionals who have injected new funds in the Company. We completed our restructuring and reorganisation in December 2013.

Tern is focussed on delivering short term, venture capital-type returns for investors by building a portfolio of investments in the IT sector. We are targeting established businesses that have proven technologies incorporating their own IP, strong customer bases and growing revenue streams. Our aim is to then exit these portfolio companies within 12-36 months via a trade sale or IPO. We will use the proceeds from realisations to invest in new opportunities, and return surplus cash to shareholders.

The Company is concentrating on cloud and mobile technologies as these sectors are directly benefitting from changes in the way people are using technology at home and work. Several factors contribute to the opportunity that Tern is exploiting to create value:

- New ways of working – Cloud and Mobile
- New ways of charging and systems – micropayments enable new business models Software as a Service (SaaS) and Infrastructure as a Service (IaaS)
- Increasingly global markets
- New legislative drivers for security

Tern plans to make both passive and active investments. Passive investments will typically be made in companies with an established customer base that require capital to finance hyper-growth. Active investments will be made in companies that can benefit from Tern's expertise in commercialising IT and public markets in order to accelerate and realise value creation. We aim to do this by providing experience, consultancy and contacts in order to strengthen marketing and distribution initiatives.

Tern announced its first transaction in November 2013 with its £100,000 investment for 1% of Flexiant Limited. Flexiant is a creator and vendor of cloud orchestration software, and is a passive investment. Flexiant's software enables service providers to respond quickly to market opportunities and develop, launch and manage cloud-based services and metering and billing products, quickly and easily. Flexiant now makes sales globally and trades worldwide. Flexiant won a Gartner Cool Vendor Award in 2013.

Tern has built a pipeline of advanced IT investment opportunities and expects to announce further developments through 2014.

A great deal has been achieved in the four months since Tern was launched with the CVA started and completed, a capital structure reorganisation finalised, overheads reduced and the Company evaluating new investments.

I would like to thank my fellow directors, all shareholders and our advisers for their contribution.

Angus Forrest
Chairman
Date: 12 February 2014

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

BUSINESS REVIEW

Following the disposal of its oil and gas assets and the Company Voluntary Arrangement entered into in August 2013, the Company has repositioned itself as a quoted platform to invest in, and develop, private IT companies predominantly in the cloud and mobile sectors.

The net assets of the Company at 31 December 2013 totalled £24,683 (2012: net liabilities of £909,922). The net assets per ordinary share as at 31 December 2013 were 0.23p (2012: net liabilities per ordinary share of 62.24p).

A more detailed review of the activity and progress of the business, including the portfolio of investments, is contained in the Chairman's Statement on page 3.

COMPANY VOLUNTARY ARRANGEMENT

Following the general meeting held on 16 August 2013 The Company entered into a voluntary arrangement with its creditors, which was successfully completed on 27 December 2013. As agreed at the meeting on 16 August 69,090,144 shares (equivalent to 3,454,507 shares post consolidation) were issued in settlement of creditors' claims, and there was a resulting exceptional credit to the income statement of £1,005,209.

FUTURE DEVELOPMENTS

As explained in the Chairman's statement the Company has built a pipeline of advanced IT investment opportunities and expects to announce further developments through 2014.

KEY PERFORMANCE INDICATORS

Whilst the Company currently has limited investments in quoted or unquoted companies, as referred to above, the Company's principal activity is that of investing in companies. Accordingly the Company's Key Performance Indicators (KPI) are the return on investments and the net assets position of the Company including net assets per share. These indicators are monitored closely by the Board and the details of performance against these are given below.

- The return on investments: At the year end the one investment, Flexiant Ltd, was performing as expected.
- The net assets position of the Company including net assets per share: 2013: net assets per share of 0.23p; (2012: net liabilities per share of 62.24p).

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's policy in respect of financial instruments and its risk profile is set out in Note 2 to the financial statements

PRINCIPAL BUSINESS RISKS AND UNCERTAINTIES

The management of the business and the nature of the Company's strategy are subject to a number of risks. The Directors have set out below the principal risks facing the business. Where possible, processes are in place to monitor and mitigate such risks. The Company operates a system of internal control and risk management in order to provide assurance that the Board is managing risk whilst achieving its business objectives. No system can fully eliminate risk and, therefore, the understanding of operational risk is central to the management process.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013

To enable shareholders to appreciate what the business considers are the main operational risks, they are briefly outlined below:

	Risk	Potential impact	Strategy
Investment risk	An investment fails to perform as anticipated	• Investment may require additional finance • Inability to create maximum value timeously • Difficulty in realising investment	The Company will build a portfolio of investments to insulate itself against poor performance of any one. It monitors performance of each investment regularly.
Liquidity	The Company is unable to raise new funds	May have a detrimental effect on the Company's ability to cover administration and other costs	The Company will maintain sufficient cash balance to finance itself for a prudent period

ASSESSMENT OF BUSINESS RISK
The Board regularly reviews operating and strategic risks. The Company's operating procedures include a system for reporting financial and non-financial information to the Board including:

- reports from management with a review of the business at each Board meeting, focusing on any new decisions/risks arising;
- reports on the performance of investments;
- reports on selection criteria of new investments;
- discussion with senior personnel; and
- consideration of reports prepared by third parties.

Angus Forrest
Director
12 February 2014

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

The directors present their annual report and the audited financial statements of Tern plc (the "Company") for the year ended 31 December 2013.

The Company is registered as a Public Limited Company (plc). The Company's shares of 0.02p each are traded on AIM of the London Stock Exchange.

Following the general meeting held on 16 August 2013 the name of the Company was changed from Silvermere Energy Plc to Tern plc.

PRINCIPAL ACTIVITIES

The principal activity of the Company was as an investor in oil and gas assets until July 2013, when the oil and gas assets and liabilities were sold. Since then the principal activity of the Company is investing in unquoted and quoted companies to achieve capital growth.

RESULTS AND DIVIDENDS

The results for the period are shown in the income statement on page 13.

The profit for the year was £235,955 (2012: £5,017,268 loss).

The directors do not recommend payment of a dividend.

EVENTS AFTER THE REPORTING PERIOD

There have been no significant post year end events.

POLITICAL AND CHARITABLE CONTRIBUTIONS

No political or charitable donations were made during the period.

POLICY ON PAYMENT TO SUPPLIERS

It is the policy of the Company in respect of all its suppliers, where reasonably practicable, to settle the terms of payment with those suppliers when agreeing the terms of each transaction, to ensure that those suppliers are made aware of the terms of payment and to abide by these terms.

At 31 December 2013, the Company had an average of 25 days purchases owed to trade creditors (2012: 60 days).

CONTROL PROCEDURES

Operational procedures have been developed for each of the Company's operating businesses that embody key controls over relevant areas. The implications of changes in law and regulations are taken into account by the Company.

The Board has considered the need for an internal audit function but has decided that this is not justified at present given the size of the Company. However, it will keep the decision under review on an annual basis at least.

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013

DIRECTORS AND DIRECTORS' INTERESTS

The directors who held office during the year and their interests in the ordinary shares of the Company and the warrants issued by the Company are as follows:

		At 31 December 2013		At 31 December 2012	
		Ordinary shares	Warrants	Ordinary shares	Warrants
A G P Forrest	(appointed 16 August 2013)	545,000	–	–	–
M J Clark	(appointed 4 November 2013)	545,000	–	–	–
A Kerr	(appointed 4 November 2013)	–	–	–	–
B H Leith	(appointed 16 August 2013)	2,173,900	–	–	–
L Read	(appointed 16 August 2013)	–	–	–	–
F H Moxon	(resigned 16 August 2013)	–	–	7,200	7,200
A J Morrison	(resigned 16 August 2013)	–	–	10,578	4,978
S J Dalby	(resigned 16 August 2013)	–	–	732	–

On 4 February 2014, Albert Sisto was appointed as a director and Alastair Kerr resigned as a director.

The interests of the directors in options granted by the Company are disclosed under the "Report on Directors Remuneration".

SIGNIFICANT SHAREHOLDINGS

As at 10 February 2013, the Company had been notified of the following beneficially held significant interests (as defined in the AIM Rules):

	Number of Ordinary Shares	Percentage of Issued Shares Held
B H Leith	2,173,900	19.9%
M J Clark	545,000	5.0%
A G P Forrest	545,000	5.0%

GOING CONCERN

The financial statements have been prepared on the going concern basis because, as set out in detail in Note 1.3, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

STATEMENT OF DIRECTORS RESPONSIBILITIES

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the financial statements in accordance with International Reporting Standards (IFRS) as adopted for use in the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the company financial statements have been prepared in accordance with IFRS as adopted by the European Union subject to any material departures disclosed and explained in the financial statements.
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DISCLOSURE OF INFORMATION

In the case of each person who was a director at the time this report was approved:

- so far as that director is aware there is no relevant available information of which the Company's auditors are unaware: and
- that director has taken all steps that the director ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors were aware of that information.

PUBLICATION OF ACCOUNTS ON THE COMPANY WEBSITE

Financial statements are published on the Company's website. The maintenance and integrity of the website is the responsibility of the directors. The directors' responsibility also extends to the financial statements contained therein.

INDEPENDENT AUDITORS

A resolution to re-appoint Jeffreys Henry LLP, as auditors will be put to the members at the annual general meeting.

Signed on behalf of the board

Angus Forrest
Director
12 February 2014

CORPORATE GOVERNANCE AND COMPLIANCE

FOR THE YEAR ENDED 31 DECEMBER 2013

The Company's shares are traded on AIM and, accordingly, compliance with the revised UK Corporate Governance Code is not mandatory. However, the Company has sought to comply with a number of the provisions of the Code in so far as it considers them to be appropriate for a company of this size and nature. The Board is accountable to the Company's shareholders for good corporate governance. This report and the Remuneration Report describe how the Company applies the provisions of good corporate governance.

DIRECTORS

The Company supports the concept of effective Board leadership and control of the Company. The Board is responsible for approving Company policy and strategy. All Directors have access to advice from the Company Secretary and independent professionals at the Company's expense.

The Board consists of four Executive Directors and one Non-executive Director. The Non-executive Director is independent of management and any business or other relationship which could interfere with the exercise of his independent judgement.

The Board members are listed on page 2.

RELATIONS WITH SHAREHOLDERS

The Company values the views of its shareholders and recognises their interest in the Company's strategy and performance, Board membership and quality of management. It therefore encourages shareholders to offer their views.

The Company's website (www.ternplc.com) maintains up to date newsflow for shareholders and other interested parties.

The AGM provides an opportunity for shareholders, particularly private investors, to question the Board on issues arising.

The notice convening the AGM is the notice of the meeting sent to shareholders with this report. A separate motion will be put to the meeting on each substantial issue.

APPOINTMENT OF DIRECTORS

The Board deals with all matters relating to the appointment of Directors including determining the specification, identifying suitable candidates and selection of the appointee. No separate Nominations Committee has been formed.

Throughout the year the Articles of Association have required each Director to seek re-election after no more than three years in office. Therefore the Board considers it inappropriate that Non-executive Directors be appointed for a fixed term as recommended by the Code.

ACCOUNTABILITY AND AUDIT

The Board as a whole endeavours to present a balanced and understandable assessment of the Company's position and prospects in all reports as well as in the information required to be presented by statutory requirements. No separate Audit Committee has been formed.

INTERNAL CONTROL

The Board is responsible for maintaining a sound system of internal control to safeguard shareholders' investments and the Company's assets and for reviewing its effectiveness. Such a system is designed to manage, but not eliminate, the risk of failure to achieve business objectives. There are inherent limitations in any control system and accordingly even the most effective systems can provide only reasonable, and not absolute, assurance against material misstatement or loss.

Angus Forrest
12 February 2014

REPORT ON DIRECTORS' REMUNERATION

FOR THE YEAR ENDED 31 DECEMBER 2013

The Board submits its Directors' Remuneration Report for the year ended 31 December 2013.

REMUNERATION POLICY

The policy of the Board is to provide executive remuneration packages designed to attract, motivate and retain Directors of the calibre necessary to maintain the Company's position as a market leader 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. Due to the Board's current size it does not have a Remuneration Committee.

The current Directors have not been paid for the period to 31 December 2013. There will be three main elements of the Directors' remuneration package being basic annual salary, performance related bonus and share option incentives.

All Director's salaries are reviewed annually by the Board. In deciding upon appropriate levels of remuneration the Board believes that the Company should offer average levels of base pay reflecting individual responsibilities compared to similar jobs in comparable companies.

DIRECTORS' EMOLUMENTS

The remuneration of each Director, excluding share options awards, during the year ended 31 December 2013 is detailed in the table below:

	Salary and fees £	Pension payments £	Other benefits £	Annual bonuses £	2013 Total £	2012 Total £
FH Moxon	27,000	–	–	–	27,000	80,762
AJG Morrison	57,930	5,250	–	–	63,180	191,228
SJ Dalby	14,000	–	–	–	14,000	24,000
BGA Evers	–	–	–	–	–	10,000
	98,930	5,250	–	–	104,180	305,990

£55,250 of the directors' total remuneration was paid in cash and the balance was settled in shares as part of the CVA.

None of the directors appointed during the year received any remuneration.

DIRECTORS' EMOLUMENTS

All the previous Directors' share options lapsed following their resignation from the Board. None of the current Directors have any share options.

Laurence Read
12 February 2014

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

We have audited the financial statements of Tern plc for the year ended 31 December 2013, which comprises the income statement and statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows, and the related notes on pages 17 to 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' 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 directors and auditor

As explained more fully in the Director's Responsibilities Statements set out on page 8 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 financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This included an assessment of: whether the accounting policies are appropriate to the company'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 financial statements.

In addition we read all financial and non-financial information in the Chairman's Statement, Strategic Report, Directors Report and Statement of Corporate Governance to identify material inconsistencies with the audited financial statements. 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 Company's affairs as at 31 December 2013 and of the Company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRS's as adopted by the European Union and as applies in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been properly prepared in accordance with the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- The information given in the Strategic Report and Director's Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of director's remunerations specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

David Warren (Senior Statutory Auditor)
For and on behalf of Jeffreys Henry LLP
Chartered Accountants
Statutory Auditors
Finsgate
5-7Cranwood Street
London
EC1V 9EE

Date: 12 February 2014

INCOME STATEMENT
AND STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 £	2012* £
Administration costs		(534,183)	(715,727)
Exceptional items	5	1,005,209	–
Loss from subsidiary operations disposed of	10	(106,500)	(4,111,394)
Operating profit/(loss)	7	364,526	(4,827,121)
Finance costs	8	(128,571)	(190,147)
Profit/(loss) before tax		235,955	(5,017,268)
Tax	9	–	–
Profit/(Loss) for the period		235,955	(5,017,268)

Since there is no other comprehensive income, the loss for the period is the same as the total comprehensive income for the period.

**EARNINGS PER SHARE:	11		
Basic earnings per share		5.0 pence	(399.5 pence)
Fully diluted earnings per share		3.8 pence	(399.5 pence)

*The comparative results of the Company for 2012 only reflect the results of the Company as it is no longer required to present a consolidated income statement.

**The comparative figures for earnings per share for 2012 have been adjusted to reflect the unconsolidated results of the Company and the share consolidation in October 2013.

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

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	Notes	2013 £	2012 £
ASSETS			
NON-CURRENT ASSETS			
Investments available for sale	12	100,000	–
Investment in subsidiary undertaking	13	–	207,771
		100,000	207,771
CURRENT ASSETS			
Trade and other receivables	14	50,912	84,640
Cash and cash equivalents	15	146,817	19,248
		197,729	103,888
TOTAL ASSETS		297,729	311,659
EQUITY AND LIABILITIES			
Share capital	16	1,303,746	1,296,607
Share premium	16	6,646,376	6,004,030
Loan note equity reserve		29,341	25,274
Share option and warrant reserve		797,773	795,699
Retained earnings		(8,752,553)	(9,013,782)
		24,683	(892,172)
CURRENT LIABILITIES			
Trade and other payables	17	118,293	1,175,399
TOTAL CURRENT LIABILITIES		118,293	1,175,399
NON-CURRENT LIABILITIES			
Borrowings	18	154,753	28,432
TOTAL NON-CURRENT LIABILITIES		154,753	28,432
TOTAL LIABILITIES		273,046	1,203,831
TOTAL EQUITY AND LIABILITIES		297,729	311,659

The financial statements were approved and authorised for issue by the Board of Directors on 12 February 2014 and were signed on its behalf by:

Angus Forrest
Director

Company number 05131386

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	Share capital £	Share premium £	Loan note equity reserve £	Option and warrant reserve £	Retained earnings £	Total equity £
Balance at 31 December 2011	1,287,815	5,179,647	25,274	839,274	(3,996,514)	3,335,496
Total comprehensive income	–	–	–	–	(5,017,268)	(5,017,268)
Transactions with owners						
Issue of share capital and warrants	8,792	760,198	–	–	–	768,990
Exercise of warrants	–	64,185	–	(64,185)	–	–
Share based payments	–	–	–	20,610	–	20,610
Balance at 31 December 2012	1,296,607	6,004,030	25,274	795,699	(9,013,782)	(892,172)
Total comprehensive income	–	–	–	–	235,955	235,955
Transactions with owners						
Issue of share capital	7,139	692,096	–	–	–	699,235
Share issue costs	–	(49,750)	–	–	–	(49,750)
Transfer on redemption of convertible loan notes	–	–	(25,274)	–	25,274	–
Issue of convertible loan notes	–	–	29,341	–	–	29,341
Share based payments	–	–	–	2,074	–	2,074
Balance at 31 December 2013	1,303,746	6,646,376	29,341	797,773	(8,752,553)	24,683

SHARE CAPITAL
The amount subscribed for shares at nominal value.

SHARE PREMIUM
This represents the excess of the amount subscribed for share capital over the nominal value of the respective shares net of share issue expenses.

LOAN NOTE EQUITY RESERVE
This represents the equity component of convertible loans issued

OPTION AND WARRANT RESERVE
This represents the calculated value of the options and warrants issued

RETAINED EARNINGS
Cumulative loss of the Company.

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 £	2012 £
OPERATING ACTIVITIES			
Net cash used in operations	21	(320,548)	(290,634)
INVESTING ACTIVITIES			
Purchase of investments		(100,000)	–
Investment in joint venture		–	–
Investment in subsidiary undertaking		(120,487)	(537,510)
Net cash used in investing activities		(220,487)	(537,510)
FINANCING ACTIVITIES			
Net proceeds on issues of shares		518,354	645,040
Share issue expenses		(49,750)	–
Proceeds from issue of convertible loan notes		200,000	–
Net cash from financing activities		668,604	645,040
Increase/(Decrease) in cash and cash equivalents		127,569	(183,104)
Cash and cash equivalents at beginning of year		19,248	202,352
Cash and cash equivalents at end of year		146,817	19,248

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. ACCOUNTING POLICIES

The summary accounting policies adopted in the preparation of these financial statements are set out below.

1.1 GENERAL INFORMATION

Tern plc is currently an investment company in private IT companies, predominantly in the cloud and mobile sectors.

The Company is a public limited company with its shares traded on AIM, a market of that name operated by the London Stock Exchange and incorporated in England and Wales.

The address of its registered office is 9 Catherine Place, London, SW1E 6DX. Items included in the financial statements of the Company are measured in Pound Sterling which is the Company's presentational and functional currency.

1.2 BASIS OF PREPARATION

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union (EU) and therefore the financial statements comply with Article 4 of the EU IAS Regulation.

IFRS is subject to amendment and interpretation by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) and there is an ongoing process of review and endorsement by the European Commission. The financial statements have been prepared on the basis of the recognition and measurement principles of IFRS that were applicable at 31 December 2013.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies set out below have been consistently applied to all periods presented, except where stated.

1.3 GOING CONCERN

The financial statements have been prepared on the going concern basis.

In determining the appropriate basis of preparation of the financial statements, the Directors have considered whether the Company can continue in operational existence for the foreseeable future. The Company has cash resources of £146,817 and net current assets of £79,436, and the Directors have indicated that in respect of the convertible shareholder loans which, if not converted, are due for repayment on 1 January 2015 they will agree to extend the repayment date. In addition the Directors plan to raise further funds during the period to provide for working capital requirements and to facilitate the implementation of their investing strategy. They have prepared cash flow forecasts through to 31 March 2015, which show that the Company will have sufficient available cash resources to provide for its future requirements. In preparing their forecasts they have given due regard to the risks and uncertainties affecting the business as set out in the Strategic Report and the liquidity risk disclosed in note 2.1, and they have made the following key assumptions:

- that additional funds will be raised
- that no new investment will be undertaken by the Company unless sufficient additional funding is in place
- that overhead expenses will be restricted to the minimum level necessary to maintain the Company's quotation on AIM until additional finance is raised

On this basis, the Directors have a reasonable expectation that the Company has adequate resources to continue operating for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. ACCOUNTING POLICIES (continued)

1.4 STATEMENT OF COMPLIANCE

Issued International Financial Reporting Standards (IFRS's) and Interpretations(IFRICS) relevant to Group operations

There are no IFRS or IFRIC interpretations that are effective for the first time in this financial period that would be expected to have a material impact on the Company.

Standards, interpretations and amendments to published standards that are not yet effective

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

1.5 FOREIGN CURRENCIES

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in the net profit or loss for the period.

1.6 TAXATION

The charge for current tax is based on the results for the period as adjusted for items which are non-assessable or disallowed. It is calculated using rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interest in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the rates that are expected to apply when the asset or liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. ACCOUNTING POLICIES (continued)

1.7 FINANCIAL ASSETS

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, held to maturity, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial instrument was acquired. Management determines the classification of its financial instruments at initial recognition and re-evaluates this designation at each financial period end.

When financial assets are recognised initially, they are measured at fair value, being the transaction price plus directly attributable transaction costs.

Available for sale investments

Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

Investments classified as available for sale are measured at subsequent reporting dates at fair value. Fair value is defined as the price at which an orderly transaction would take place between market participants at the reporting date and is therefore an estimate and as such requires the use of judgement. Where possible fair value is based upon observable market prices, such as listed equity markets or reported merger and acquisition transactions. Alternative bases of valuation may include contracted proceeds or best estimate thereof, implied valuation from further investment and long-term cash flows discounted at a rate which is tested against market data. Gains and losses arising from changes in fair value are recognised directly in other comprehensive income, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is included in the net profit or loss for the period. Impairment losses recognised in the income statement for equity investments classified as available-for-sale are not subsequently reversed through the income statement.

The Company determines the fair value of its Investments based on the following hierarchy:

LEVEL 1 – Where financial instruments are traded in active financial markets, fair value is determined by reference to the appropriate quoted market price at the reporting date. Active markets are those in which transactions occur in significant frequency and volume to provide pricing information on an on-going basis.

LEVEL 2 – If there is no active market, fair value is established using valuation techniques, including discounted cash flow models. The inputs to these models are taken from observable market data including recent arm's length market transactions, and comparisons to the current fair value of similar instruments; but where this is not feasible, inputs such as liquidity risk, credit risk and volatility are used.

LEVEL 3 – Valuations in this level are those with inputs that are not based on observable market data.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit or loss or available-for-sale. Such assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process,

1.8 IMPAIRMENT OF FINANCIAL ASSETS

Available-for-sale financial assets

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost and its fair value is transferred from equity to the Income statement. Any reversal of an impairment of an equity instrument classified as available-for-sale is not recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. ACCOUNTING POLICIES (continued)

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced, with the amount of the loss recognised in administration costs.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment charge was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

1.9 TRADE RECEIVABLES

Trade receivables are recognised initially at fair value less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

1.10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried in the balance sheet at cost. Cash and cash equivalents comprise cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

1.11 TRADE PAYABLES

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

1.12 EQUITY INSTRUMENTS

Equity instruments are recorded at the proceeds received net of direct issue costs.

1.13 CONVERTIBLE LOANS

Convertible loans are accounted for as compound instruments. The fair value of the liability portion of the convertible loan notes is determined using a market interest rate for an equivalent non-convertible loan note. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the loan notes. The remainder of the proceeds is allocated to the conversion option, which is recognised and included in shareholders' equity, net of tax effects, and is not subsequently re-measured.

1.14 SHARE BASED PAYMENTS

All share based payments are accounted for in accordance with IFRS 2 – "Share-based payments". The Company issues equity-settled share based payments in the form of share options to certain directors and employees. Equity settled share based payments are measured at fair value at the date of grant. The fair value determined at the grant date of equity-settled share based payments is expensed on a straight line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

Fair value is estimated using the Black-Scholes valuation model. The expected life used in the model has been adjusted, on the basis of management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations. At each balance sheet date, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to retained earnings.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

2. FINANCIAL RISK MANAGEMENT

The Company uses a limited number of financial instruments, comprising cash, short-term deposits, loans and overdrafts and various items such as trade receivables and payables, which arise directly from operations. The Company does not trade in financial instruments.

2.1 FINANCIAL RISK FACTORS

The Company's financial instruments comprise its investment portfolio, cash balances, debtors and creditors that arise directly from its operations and derivative instruments. The Company is exposed to market risk through the use of financial instruments and specifically to liquidity risk, market price risk and credit risk, which result from the Company's operating activities.

The Board's policy for managing these risks is summarised below.

Liquidity risk

The Company makes investments for the long term. Accordingly the Company rarely trades investments in the short term. Whilst the Company has no listed investments at present, if it holds such investments these may be sold to meet the Company's funding requirements. However, the market in small capitalised companies can be illiquid. Any unlisted investments in the portfolio are normally subject to greater liquidity risk. This risk is taken into account by the Directors when arriving at the valuation of these assets.

As the Company has no significant interest bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

The following table shows the contractual maturities of the Company's financial liabilities, including repayments of both principal and interest where applicable.

As at 31 December 2013	Trade and other Payables	Convertible Loans	Total
	£	£	£
6 months or less	36,133	–	36,133
1 to 2 years	–	178,426	178,426
Total contractual cash flows	36,133	178,426	214,559

Market price risk

When the Company owns quoted investments it will be exposed to market price risk as shown by movements in the value of its equity investments. Any such risk will be regularly monitored by the Directors.

Credit risk

The Company's primary credit risk arises from cash and cash equivalents and deposits with banks and other financial institutions. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

2.2 CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders, benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company monitors capital on the basis of carrying amount of equity, less cash and cash equivalents as presented on the face of the Statement of Financial Position. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

2.3 FAIR VALUE ESTIMATION

The nominal value less impairment provision of trade receivables and payables is assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

3. 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.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

Income taxes

Judgement is required in determining the Company's provision for income tax. Where the final tax outcome is different from the amounts that were initially recorded, the differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Company uses its judgement to make assumptions that are mainly based on market conditions existing at each balance sheet date.

Share based payments

The calculation of the fair value of equity-settled share based awards and the resulting charge to the statement of comprehensive income requires assumptions to be made regarding future events and market conditions. These assumptions include the future volatility of the Company's share price. These assumptions are then applied to a recognised valuation model in order to calculate the fair value of the awards. Details of these assumptions are set out in Note 19.

4. SEGMENTAL REPORTING

Until the disposal of the Company's oil and gas production operations that was its single business segment. Subsequently the Company's single business segment has been investing in unquoted and quoted companies to achieve capital growth, and on that basis the directors do not consider that the expense of preparing a segmental analysis is justified.

5. EXCEPTIONAL ITEMS

	2013 £	2012 £
Credit arising on CVA (see note below)	1,005,209	–
	1,005,209	–

Note - In August 2013 the Company entered a Company Voluntary Arrangement ("CVA"). It was agreed that the equivalent of 3,454,507 shares of 0.02p post the November 2013 share consolidation would be issued in settlement of all amounts claimed in the CVA. The CVA was completed on 27 December2013.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

6. STAFF COSTS

Staff costs for the Company during the period, including directors	2013 £	2012 £
Wages and salaries	98,930	295,792
Compensation for loss of office	–	2,000
Pension payments	5,250	7,500
Other benefits	–	698
Share based payment expense	–	20,610
Social security costs	10,237	17,662
Total staff costs	114,417	344,262

The average number of people (including executive directors) employed by the Company during the period was:

	2013 No	2012 No
Head office and administration	2	2
Total staff	2	2

DIRECTORS' AND REMUNERATION

Other than directors the Company had no employees. Total remuneration paid to directors during the period was as follows:

	2013 £	2012 £
Directors' remuneration		
- Salaries and benefits	104,180	305,990
- Consultancy fees	–	–
Total directors' remuneration	104,180	305,990
Total emoluments of the highest paid director were	63,180	191,228

A summary of remuneration paid to each director, including pension payments, is included in the Report on Directors' remuneration (page 10).

7. OPERATING PROFIT/(LOSS)

	2013 £	2012 £
Profit/(loss) from operations has been arrived at after charging:		
Remuneration of directors and staff	104,180	305,990
Share-based payment expense	2,704	20,610
Provision for doubtful debts	80,000	155,845
Auditor's remuneration		
- Audit services	12,000	14,000
- Other services	–	–

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

8. FINANCE COSTS

	2013 £	2012 £
Interest charge in respect of convertible loan notes	128,571	190,147
	128,571	190,147

£122,503 of this charge relates to loan notes converted to equity in the CVA.

9. TAXATION

	2013 £	2012 £
Current tax	–	–
Under/(over) provision from prior period	–	–
Taxation attributable to the Company	–	–

Domestic income tax is calculated at 20% (2012: 20%) of the estimated assessable profit for the period. The charge for the period can be reconciled to the profit per the income statement as follows:

	2013 £	2012 £
Profit/(Loss) before tax	235,955	(5,035,018)
Tax at the domestic income tax rate	47,191	(1,007,004)
Expenses not deductible for tax purposes	11,050	60,020
Brought forward tax losses used	(58,241)	–
Unutilised tax losses	–	946,984
Tax (credit)/expense	–	–

The Company has unutilised losses of approximately £5,200,000 (2012: £5,500,000). The Company has not recognised a deferred tax asset in respect of these losses as there is insufficient evidence of future taxable profits.

10. LOSS FROM SUBSIDIARY OPERATIONS DISPOSED OF

In August the Group disposed of its subsidiary and the assets and liabilities associated with its oil and gas exploration and production operations. (see Note 13)

The results of the operations, associated with its subsidiary company activities, and the loss on disposal included in the income statement are as follows:

	2013 £	2012 £
Administration expenses	(25,720)	(261,394)
Provision for impairment	–	(3,850,000)
Loss before tax	(25,720)	(4,111,394)
Tax	–	–
Loss after tax	(25,720)	(4,111,394)
Assets disposed of	(238,610)	–
Liabilities disposed of	157,830	–
Loss on disposal of discontinued operations	(80,780)	–
Overall loss attributable to subsidiary operations disposed of	(106,500)	(4,111,394)

11. EARNINGS PER SHARE

	2013 £	2012 £
Profit/(loss) for the purposes of basic and fully diluted earnings per share	235,955	(5,017,268)

	2013 Number	2012 Number
Weighted average number of ordinary shares (see note 1 below):		
For calculation of basic earnings per share	4,679,305	1,255,879
For calculation of fully diluted earnings per share (see note 2 below)	6,119,657	1,255,879

	2013	2012
Earnings per share (see note 1 below):		
Basic profit/(loss) per share	5.0 pence	(399.5 pence)
Fully diluted profit/(loss) per share (see note 2 below)	3.8 pence	(399.5 pence)

Note 1. The comparative number of shares and earnings per share for 2012 have been adjusted to reflect the share consolidation in October 2013.

Note 2. The fully diluted loss per share for 2012 is the same as the basic loss per share as the loss for the year has an anti-dilutive effect.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

12. INVESTMENTS AVAILABLE FOR SALE

	2013	2012
	£	£
Purchase of investments	100,000	–
Balance at end of year	100,000	–

The investment held by the company is a Level 3 investment as defined in Note 1.7

13. INVESTMENT IN SUBSIDIARY UNDERTAKING

In August 2013 the Company entered into an agreement to sell its subsidiary company, Silvermere Energy LLC, in which all the Group's oil and gas assets are held, to the operator in full and final settlement of all monies owed between the parties and of any future liabilities. (see Note 10)

	2013	2012
	£	£
Balance at start of period	207,771	3,255,033
Payments to the operator of the JOA on behalf of Silvermere Energy LLC	120,487	537,510
Amount due under the JOA at start of year	(247,478)	–
Amount due under the JOA at date of disposal	157,830	–
Amount due under the JOA at year end	–	247,478
Management charge	–	17,750
Disposal of subsidiary undertaking	(238,610)	–
Investment in subsidiary undertaking at 31 December at cost	–	4,057,771
Provision for impairment	–	(3,850,000)
	–	207,771

14. TRADE AND OTHER RECEIVABLES

	2013	2012
	£	£
Other debtors	33,486	33,274
Prepaid expenses	17,426	51,366
Total	50,912	84,640

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

The other classes within trade and other receivables do not contain impaired assets.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

15. CASH AND CASH EQUIVALENTS

	2013	2012
	£	£
Cash at bank and on hand	146,817	19,248

16. ISSUED SHARE CAPITAL

	Number of shares	Nominal value	Share premium
	No.	£	£
ISSUED AND FULLY PAID:			
At 31 December 2012			
Ordinary shares of £0.001	29,239,356	29,239	
Deferred shares of £29.999	42,247	1,267,368	
		1,296,607	6,004,030
Ordinary shares issued for cash	5,305,716	5,306	366,094
Share issue expenses			(22,750)
		1,301,913	6,347,374
Share reorganisation:			
Ordinary shares of £0.00001	34,545,072	345	
Deferred shares of £29.999	42,247	1,267,368	
Deferred shares of £0.00099	34,545,072	34,200	
		1,301,913	6,347,374
Ordinary shares issued for cash	76,683,029	767	143,633
Ordinary shares issued in settlement of CVA liabilities	69,090,144	691	158,216
Share issue expenses			(27,000)
		1,303,371	6,622,223
Share consolidation:			
Ordinary shares of £0.0002	9,015,950	1,803	
Deferred shares of £29.999	42,247	1,267,368	
Deferred shares of £0.00099	34,545,072	34,200	
		1,303,371	6,622,223
Ordinary shares issued on conversion of loan stock	1,090,000	218	21,756
Ordinary shares issued for cash	785,750	157	2,397
		1,303,746	6,646,376
At 31 December 2013			
Ordinary shares of £0.0002	10,891,700	2,178	
Deferred shares of £29.999	42,247	1,267,368	
Deferred shares of £0.00099	34,545,072	34,200	
		1,303,746	6,646,376

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

16. ISSUED SHARE CAPITAL (continued)

On 23 January 2013, 5,305,716 ordinary shares were issued for cash at 7p per share as a result of a private placing.

As a result of a share reorganisation approved by the shareholders on 16 August 2013, each ordinary share of 0.1p was split into one new ordinary share of 0.001p and one deferred share 0.099p.

On 19 August 2013, 46,521,739 new ordinary shares were issued for cash at 0.23p per share as a result of a private placing; also on that date 30,161,290 shares were issued for cash at 00.124p per share and it was agreed that a total of 69,090,144 shares would be issued in settlement of the CVA liabilities.

On 29 October 2013, the ordinary shares were consolidated on the basis of one new ordinary share of 0.02p for every 20 existing ordinary shares of 0.001p.

On 4 November 2013, 1,090,000 ordinary shares of 0.02p were issued at 2.016p per share on the conversion of loan stock, and on the same date 785,750 ordinary shares were issued at 0.325p in settlement of professional fees.

17. TRADE AND OTHER PAYABLES

	2013 £	2012 £
Trade payables	36,133	402,881
Other payables	–	13,699
Other taxes and social security	–	22,131
Accruals	82,160	106,015
Borrowings (see Note 18)	–	630,673
Total	118,293	1,175,399

The directors consider that the carrying amount of trade payables approximates to their fair value.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

18. BORROWINGS

On 23 March 2010, £81,647 convertible loan notes were issued with a final repayment date of 23 March 2015 (the "2015 Loan Notes"). The 2015 Loan Notes are interest free and unsecured. £40,515 of the 2015 loan notes were converted into shares in October 2011 and the balance of the loan notes are subject to the terms of the CVA approved by the creditors and shareholders on 16 August 2013.

On 1 July 2011, a £750,000 convertible term loan was issued (the "Term Loan") divided into two separate tranches of £375,000 each ("Loan A" and "Loan B"). On the re-admission of the Company's shares to AIM, Loan A loan notes automatically converted into ordinary shares at 22.5p per share. The Loan B notes are subject to the terms of the CVA approved by the creditors and shareholders on 16 August 2013.

On 16 August 2013 the Company entered into an agreement for the issue of £200,000 convertible loan notes (the "Shareholder Loans") repayable on 1 January 2015 if not converted prior to that date. The Shareholder Loans are interest free and unsecured and may be converted at 2.016p per share at any time prior to the redemption date. The ordinary shares to be issued on conversion (assuming full conversion) would amount to 9,920,634 ordinary shares. On 4 November 2013, £21,974 of the Shareholder Loans was converted into 1,090,000 ordinary shares.

The net proceeds from the issue of the 2015 Loan Notes and the Shareholder Loans have been split between the liability element and an equity component, representing the fair value of the embedded option to convert the liability into equity of the Company.

	Shareholder Loans £	2015 Loan Notes £	Term Loan £	Total borrowings £
Liability at 31 December 2012	–	28,432	630,673	659,105
Convertible loan notes issued	200,000	–	–	200,000
Equity component of loan notes issued	(29,341)	–	–	(29,341)
Loan notes converted	(21,974)	–	–	(21,974)
Interest charge	6,068	3,176	119,327	128,571
Settled through the CVA	–	(31,608)	(750,000)	(781,608)
Liability at 31 December 2013	154,753	–	–	154,753

LOAN MATURITY ANALYSIS	2013 £	2012 £
Current liabilities - Less than one year	–	630,673
Non-current liabilities - More than one year, but not more than five years	154,753	28,432
	154,753	659,105

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

19. WARRANTS AND OPTIONS

WARRANTS

On 19 August 2013, a warrant was issued to a professional adviser in lieu of fees, over 1.5% of the Company's share capital from time to time, exercisable at 4.6p per share at any time within 3 years of the date of issue. At 31 December 2013, 1.5% of the share capital of the Company represented 163,375 shares.

The estimated fair value of the options granted was calculated by applying the Black-Scholes option pricing model. The assumptions used in the calculation were as follows:

Share price at date of grant	4.6 pence
Exercise price	4.6 pence
Expected volatility	50%
Expected dividend	Nil
Contractual life	3 years from vesting date
Risk free rate	2.5%
Estimated fair value of each warrant	1.66 pence

A total share based payment charge of £2,704 has been expensed in the year in respect of the warrants issued.

The number of warrants outstanding at 31 December 2013 was as follows:

Date of issue	At 31 Dec 2012	Issued	Exercised	Lapsed	At 31 Dec 2013	Exercise Price per share	Exercisable on or before
26.05.11	108,810	–	–	108,810	–	600p	26.05.13
31.08.11	298,189	–	–	298,189	–	600p	31.08.13
26.09.11	3,182	–	–	3,182	–	600p	31.08.13
04.11.11	11,520	–	–	11,520	–	600p	31.08.13
31.08.11	33,800	–	–	33,800	–	600p	31.08.13
31.08.11	5,000	–	–	–	5,000	600p	31.08.14
15.04.12	25,714	–	–	25,714	–	600p	31.08.13
16.08.13	–	163,375	–	–	163,375	4.6p	16.08.16
	486,215	163,375	–	481,215	168,375		

OPTIONS

The following table is a summary of the options outstanding at 31 December 2013

Date of grant	At 31 Dec 2012	Granted	Exercised	Forfeited/ Lapsed	At 31 Dec 2013	Exercise Price per share	Exercisable on or before
19.08.11	35,000	–	–	(35,000)	–	500p	19.08.14
20.02.12	20,000	–	–	(20,000)	–	500p	20.02.16
	55,000	–	–	(55,000)	–		

The number of warrants and options outstanding, and their exercise prices have been adjusted to reflect the share consolidation in the year

20. RELATED PARTY TRANSACTIONS

In the year to 31 December 2013, £25,000 was charged by Talisman Ventures Limited for work in respect of the restructuring of the Company. Angus Forrest is a director and controlling shareholder of Talisman Ventures Limited. At the year end, £25,000 was owed to Talisman Ventures Limited.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

21. CASH FLOW FROM OPERATIONS

	2013	2012
	£	£
Profit/(loss) for the year	235,955	(5,017,268)
Adjustments for items not included in cash flow:		
Share-based payment expense	2,074	20,610
Shares issued in settlement of fees and remuneration	–	123,950
Loss on disposal of subsidiary undertaking	80,780	–
Finance expense	128,571	190,147
Credit arising on CVA	(1,005,209)	–
Impairment expense	–	3,850,000
Group management charge	–	(17,750)
Operating cash flows before movements in working capital	(557,829)	(850,311)
Adjustments for changes in working capital:		
Decrease in trade and other receivables	33,728	368,072
Increase in trade and other payables	203,553	191,605
Cash used in operations	(320,548)	(290,634)

22. OPERATING LEASE COMMITMENTS

	Year to 31 Dec 2013	Year to 31 Dec 2012
	£	£
Minimum lease payments under operating leases recognised as an expense in the period	27,254	46,800

At the period end date, the Group had outstanding commitments for future minimum lease payments under non-cancellable leases which fall due as follows:

	31 Dec 2013	31 Dec 2012
	£	£
Land and Buildings:		
Within one year	–	20,700
	–	20,700

23. EVENTS AFTER THE REPORTING PERIOD

There have been no significant post year end events.

NOTICE OF 2014 ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2014 Annual General Meeting of the Company will be held at 10.00 am on 12 March 2014 at the offices of W H Ireland, 24 Martin Lane, London, EC4R 0DR for the following purposes:

ORDINARY BUSINESS

To consider, and if thought fit, to pass the following resolutions as ordinary resolutions:

1. To receive and adopt the Company's annual accounts for the financial year ended 31 December 2013, together with the Directors' Report and Auditors' Report on those accounts;
2. To re-appoint Jeffreys Henry LLP as auditors to hold office from the conclusion of the meeting to the conclusion of the next meeting at which the accounts are laid before the Company at a remuneration to be determined by the Directors.
3. Mr Angus Forrest, retires by rotation, having consented to be considered for re-appointment, be and is hereby re-appointed as a director under that article.
4. Mr Michael Clark, to the extent he has been appointed as a director of the company since the date of the last annual general meeting, becomes subject to retirement by rotation in accordance with article 85 of the company's articles of association and, having consented to be considered for re-appointment, be and is hereby re-appointed as a director under that article.
5. Mr Al Sisto, to the extent he has been appointed as a director of the company since the date of the last annual general meeting, becomes subject to retirement by rotation in accordance with article 85 of the company's articles of association and, having consented to be considered for re-appointment, be and is hereby re-appointed as a director under that article.

SPECIAL BUSINESS

To consider, and if thought fit, to pass the following resolutions, of which resolution 6 will be proposed as an ordinary resolution and resolution 7 will be proposed as a special resolution:

6. That for the purpose of section 551 of the Companies Act 2006 (the Act) the Directors of the Company be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot equity securities (within the meaning of Section 560 of the Act) up to an aggregate nominal amount of £50,000 provided that this authority shall expire (unless previously renewed, varied or revoked by the Company in general meeting) at the conclusion of the next annual general meeting of the Company, save that the Company may before such expiry make an offer or agreement which would or might require relevant equity securities to be allotted after such expiry and the board may allot relevant equity securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

   This authority is in substitution for all subsisting authorities previously conferred upon the Directors for the purposes of section 551 of the Act, without prejudice to any allotments made pursuant to the terms of such authorities.

7. That, subject to the passing of resolution 6 above, the Directors of the Company be and are hereby empowered pursuant to section 570 of the Act to allot equity securities (within the meaning of section 560 of the Act) pursuant to the authority conferred by resolution 6 above as if section 561 of the Act did not apply to any such allotment provided that the power conferred by this resolution shall be limited to:

   7.1 the allotment of equity securities for cash in connection with an issue or offer of equity securities (including, without limitation, under a rights issue, open offer or similar arrangement) to holders of equity securities in proportion (as nearly as may be practicable) to their respective holdings of equity securities subject only to such exclusions or other arrangements as the board may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange in any territory; and

   7.2 the allotment (otherwise than pursuant to sub-paragraph 7.1 of this resolution (7) of equity securities up to an aggregate nominal value of £50,000.

   The power conferred by this resolution 7 shall expire (unless previously renewed, revoked or varied by the Company in general meeting), at such time as the general authority conferred on the board by resolution 6 above expires, except that the Company may at any time before such expiry make any offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors of the Company may allot or sell equity securities for cash in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

8. That the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 693(4) of the 2006 Act) of its Ordinary Shares provided that:-

   8.1 the maximum number of Ordinary Shares authorised to be purchased is 10 per cent. of the entire issued share capital of the Company;

   8.2 the minimum price which may be paid for an Ordinary Share is £0.0002

NOTICE OF 2014 ANNUAL GENERAL MEETING

8.3 the maximum price which may be paid for an Ordinary Share is an amount equal to 105 per cent of the average of the middle-market prices shown in the quotation for an Ordinary Share as derived from the Stock Exchange Alternative Trading Service of the Stock Exchange for the 5 business days immediately preceding the day on which the Ordinary Share is purchased.

8.4 the authority hereby conferred shall expire on the earlier of the date falling 15 months after the Annual General Meeting or on the conclusion of the next annual general meeting of the Company to be held in 2015; and

8.5 the Company may make a contract to purchase its Ordinary Shares under the authority hereby conferred prior to the expiry of such authority, which contract will or may be executed wholly or partly after the expiry of such contract.

By Order of the Board
Philippa Keith, Company Secretary
Dated 12 February 2014

Notes to the AGM notice

1. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001 and by paragraph 18(c) of The Companies Act (Consequential Amendments) (Uncertificated Securities) Order 2009, only those members entered on the Company's register of members not later than 10.00am on Monday 10 March 2014, or if the meeting is adjourned, Shareholders entered on the Company's register of members not later than 2 days before the time fixed for the adjourned meeting (excluding non-business days) shall be entitled to attend and vote at the meeting.
2. A member of the Company entitled to attend and vote at this meeting is entitled to appoint a proxy (or proxies) to attend, speak and vote in his place. A proxy need not be a member of the Company. You can only appoint a proxy using the procedures set out in these notes and the notes to the Form of Proxy.
3. To be effective, the Form of Proxy must be deposited at the office of the Company's registrars, Share Registrars Limited, Suite 6, First Floor, 9 Lion & Lamb Yard, Farnham, Surrey, GU9 7LL so as to be received not later than 10am on Monday 10 March 2014, or if the meeting is adjourned, not later than 48 hours before the time fixed for the adjourned meeting.
4. To change your proxy instructions simply submit a new proxy appointment using the methods set out above and in the notes to the Form of Proxy. Note that the cut-off times for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

   Where you have appointed a proxy and would like to change the instructions, please contact the Company's registrars, Share Registrars Limited, Suite 6, First Floor, 9 Lion & Lamb Yard, Farnham, Surrey, GU9 7LL.
5. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to the Company's registrars, Share Registrars Limited, Suite 6, First Floor, 9 Lion & Lamb Yard, Farnham, Surrey, GU9 7LL. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

   In either case, the revocation notice must be received by the Company's registrars, Share Registrars Limited, Suite 6, First Floor, 9 Lion & Lamb Yard, Farnham, Surrey, GU9 7LL no later than 10.00am on Monday 10 March 2014.

   If you attempt to revoke your proxy appointment but the revocation is received after the time specified above, then your proxy appointment will remain valid.

   Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.
6. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising 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.

   In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by our agent Share Registrars (ID 7RA36) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. 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. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

   CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo 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 action as shall be 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.
7. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, in order to be able to attend and vote at the AGM or any adjourned meeting, (and also for the purposes of calculating how many votes a person may cast), a person must have his/her name entered on the register of members of the Company by 10.00 on Monday 10 March 2014 (or 12 noon on the date two days before any adjourned meeting, excluding non-business days). Changes to entries on the register of members after 10.00 on Monday 10 March 2014 or, if the Annual General Meeting is adjourned, less than 48 hours before the time appointed for the adjourned meeting (excluding non-business days), shall be disregarded in determining the rights of any person to attend or vote at the meeting.