TERN PLC

ANNUAL REPORT

Year ended
31 December 2014

Company No. 05131386
(England and Wales)

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 15 Eldon Street London, EC2M 7LD
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 2014

Tern's strategy is to invest in established private software companies operating in the fast growing mobile and cloud sectors. Where necessary we assist with improving the business model, recruiting the management team, and negotiating strategic partnerships. The aim is to exit these investments via trade sales in 12 - 36 months from investment, and reinvest part of the proceeds while returning surplus cash to shareholders.

Our investment portfolio now includes shareholdings in Cryptosoft Ltd, Flexiant Corporation Ltd,, Push Technology Ltd, and Seal Software Group Ltd.

During the year these companies have performed well, making good progress against their development strategies.

The markets for cloud and mobile are growing strongly as mobile changes how people work and behave. As a result the global markets are featuring a growing trend for large multi-national organisations to acquire new players. Yahoo, IBM, Oracle, Microsoft and Salesforce are amongst the large corporations to make strategic acquisitions in 2014. This gives us confidence that we will attract acquisitive interest in our investee companies.

This has been the first full year with the new management team in place. It has been our objective to operate with low overheads whilst the business gains momentum, increases in scale and starts generating income and capital. In keeping with this, the operating and non-executive Directors have taken no remuneration since the reorganisation of Tern in August 2013. As a result, Tern has incurred modest operating expenses during the year and will continue to focus on the prudent use of its operating capital.

To date, Tern's executive directors have invested £600,000 in the Company to enable it to make its initial investments and acquire Cryptosoft Limited. There is c. £300,000 shown as loans in note 20, and this is expected to be converted by the Directors into equity as soon as practically possible. In addition to the Directors' investment, the Company raised further funds as follows:

- £85,000 in a placing at 1.25 pence per share in September.
- £378,000 in a placing at 3 pence per share in November, plus a warrant exerciseable within three years to subscribe for 1 share for each 10 shares bought in the placing at 3p per share; and,
- £294,500 in a placing at a price of 9p per share in December.

The proceeds from these fund raises will be used to facilitate further investments in accordance with the Company's investing policy, and to provide additional finance for the existing portfolio.

The financial position of the Company has strengthened over the year as measured by:

Year ended 31 December	2014	2013
Total assets	£1,367,308	£297,729
Net assets	£943,631	£24,683
Net assets per share	2.09 pence	0.23 pence

The Company now has exposure to several interesting investments and is reviewing a pipeline of excellent opportunities. We have plans to investigate further investments during the year, and continue to work closely with our investee companies to support software sales into new markets, particular in the US, and identify trade sales.

Angus Forrest
Chairman
Date: 9 February 2015

INVESTMENT REPORT
FOR THE YEAR ENDED 31 DECEMBER 2014

The Company's current investment portfolio consists of the following investments, all of which are unquoted:

Cryptosoft Limited

Activity: Data Security software

Equity ownership: 100% 'A' Shares Cost: £332,026 Valuation: £332,026
Valuation is based on cost, which is taken as Fair Value

Cryptosoft is a specialist data security business. It has developed innovative authentication and encryption software, which is hardware and software agnostic, that encrypts data flows. It is easy to deploy and scaleable whilst being transparent to users.

The software has been proven over the past three years in the enterprise market where it is in daily use within several large multinational organisations and it is a critical integrated OEM component to large application software vendors and bespoke enterprise applications via partners.

A new version of Cryptosoft is under development for launch in the short term. This is expected to be the first security software platform designed specifically for use in the rapidly growing cloud, mobile networks, machine-2-machine (M2M) and internet of things (IoT) sectors.

There is a second class of shares, 'B' shares, which are owned by employees and are non-voting. They are entitled to 25% of the net proceeds in the event of a sale of Cryptosoft Ltd.

For more information visit: www.cryptosoft.com

Flexiant Corporation Limited

Activity: Cloud Orchestration software

Equity ownership: <1% Cost: £100,000 Valuation: £200,000
Valuation is based on the price of shares in the most recent fund raise, which is taken as Fair Value

Flexiant has developed a software platform for cloud management. Flexiant Cloud Orchestrator is an easy to use solution for MSPs (Managed Service Providers) to manage cloud infrastructure, create and deliver differentiated services and for metering and billing. With Flexiant, MSPs target market through innovation, compete more effectively by developing unique, differentiated services, generate more revenue, and accelerate growth. Flexiant's partners include Dell, Arrow Electronics and Parallels.

In 2014 Flexiant announced:

New partnerships with Arrow Electronics Inc and Parallels Inc

Flexiant acquired Tapp multi-cloud software in May

New products including: updated cloud orchestration; product integration with Parallels and new multi-cloud management software

For more information visit: www.flexiant .com

INVESTMENT REPORT
FOR THE YEAR ENDED 31 DECEMBER 2014

Push Technology Limited

Activity: Data distribution software

Equity ownership: <1% Cost: £49,952 Valuation: £49,952
Valuation is based on cost, which is taken as Fair Value

Push Technology solves the complexity around data distribution by removing redundant data to offer organisations intelligent delivery of real-time data to any device regardless of connectivity or location. The Company's robust and innovative flagship communication platform, Diffusion™ helps to reduce infrastructure requirements while delivering high performance and scalable services to any Internet connected device.

Push Technology works with organisations in the e-gaming, financial services, telecommunications, media and broadcast and transportation sectors to optimise data, mobile application performance, Web scale and data acceleration. Delivering data that's live to the millisecond, Push Technology ensures that businesses can deliver engaging real time customer experiences to drive revenues, increase competitiveness, develop new business models to reduce network strain and recover costs and also elevate consumer engagement across multiple channels in real time. IBM's Bluemix product incorporates a Push component.

Customers include Betfair, Lloyds Bank, Racing Post, Sportingbet, Tradition and William Hill.

For more information visit: www.pushtechnology.com.

Seal Software Group Limited

Activity: Database Analytics and Search software

Equity ownership: <1% Cost: £50,000 Valuation: £50,000
Valuation is based on cost which is taken as Fair Value

Seal specialises in writing software which performs complex analysis of contractual data. Seal Software is specifically designed to locate contractual documents and extract and present key contractual information related to language, clauses, clause combinations, and the key contextual metadata held within them.

Seal Software interfaces with Salesforce.com's CRM products to allow contract discovery and contractual information to be obtained in Salesforce. Also, Seal provides a portfolio of professional consulting and implementation services that enable customers to maximise the benefits of Seal Software.

Customers include IBM, Lexis Nexis, Thomson Reuters, Old Mutual, Deutsche Bank, Centrica and many other multi-national organisations.

For more information visit: www.seal-software.com

STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2014

BUSINESS REVIEW

The Company is positioned as a quoted platform to invest in, and develop, private IT companies predominantly in the cloud and mobile sectors.

A more detailed review of the activity and progress of the business, including the portfolio of investments, is contained in the Chairman's Statement and Investment Report on pages 3-5.

FUTURE DEVELOPMENTS

As explained in the Chairman's statement the Company has begun to build a portfolio of investments and a pipeline of advanced IT investment opportunities. It expects to announce further developments through 2015.

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: Flexiant Ltd, the only investment to be held for more than 12 months has been revalued in line with IFRS to a level consistent with a recent fund raising.
- The net assets of the Company at 31 December 2014 totalled £943,631 (2013: £24,683). The net assets per ordinary share as at 31 December 2014 were 2.09p (2013: 0.23p).

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's policy in respect of financial instruments and 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 2014

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 is building a portfolio of investments to insulate itself against poor performance of any one. It monitors the 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 May adversely affect returns of investee companies if they need to raise further funds	The Company will maintain sufficient cash balance to finance itself for a prudent period, or ensure that it has access to funds.

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
9 February 2015

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

The directors present their annual report and the audited financial statements of Tern plc (the "Company") for the year ended 31 December 2014.

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.

PRINCIPAL ACTIVITIES

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 15.

The loss for the year was £53,695 (2013: £235,955 profit).

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.

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.

GOING CONCERN

The financial statements have been prepared on the going concern basis because, as set out in detail in Note 1.4, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

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 2014 Ordinary shares	At 31 December 2013 Ordinary shares
A G P Forrest		4,216,289	545,000
M J Clark		4,216,289	545,000
A Kerr	(resigned 4 February 2014)	–	–
B H Leith		2,173,900	2,173,900
L Read		–	–
A E Sisto	(appointed 4 February 2014)	2,400,000	–

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

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2014

SIGNIFICANT SHAREHOLDINGS

As at 6 February 2015, the Company had been notified of the following shareholdings of 3% or more of the share capital

	Number of Ordinary Shares	Percentage of Issued Shares Held
Hargreave Hale Ltd	7,950,000	17.6%
M J Clark	4,216,289	9.3%
A G P Forrest	4,216,289	9.3%
A E Sisto	2,400,000	5.3%
B H Leith	2,173,900	4.8%
S Crooks	2,060,290	4.5%
J Penney	1,922,096	4.2%

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.

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2014

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
9 February 2015

CORPORATE GOVERNANCE AND COMPLIANCE

FOR THE YEAR ENDED 31 DECEMBER 2014

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. A fuller version is available on the Company's website (www.ternplc.com) under Rule 26.

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
9 February 2015

REPORT ON DIRECTORS' REMUNERATION

FOR THE YEAR ENDED 31 DECEMBER 2014

The Board submits its Directors' Remuneration Report for the year ended 31 December 2014.

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 manage the Company 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 received no remuneration since they were appointed to the Board. There will be three main elements of the Directors' remuneration package being basic annual salary, performance related bonus and share option incentives.

All Directors' salaries are reviewed annually by the Board.

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 £	2014 Total £	2013 Total £
A G P Forrest	–	–	–	–	–	–
M Clark	–	–	–	–	–	–
B H Leith	–	–	–	–	–	–
L Read	–	–	–	–	–	–
A E Sisto	–	–	–	–	–	–
Previous directors						
F H Moxon	–	–	–	–	–	27,000
A J G Morrison	–	–	–	–	–	63,180
S J Dalby	–	–	–	–	–	14,000
	–	–	–	–	–	104,180

None of the current directors received any remuneration either in 2013 or 2014.

£55,250 of the previous directors' total remuneration in 2013 was paid in cash and the balance was settled in shares as part of the CVA.

DIRECTORS' SHARE OPTIONS

None of the Directors have any share options.

Laurence Read
9 February 2015

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

We have audited the financial statements of Tern plc for the year ended 31 December 2014, 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 15 to 34. 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 9 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 and to identify and 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 Company's affairs as at 31 December 2014 and of the Company's loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRS's as adopted by the European Union; and
- the financial statements have been properly prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS regulation.

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 2014

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
5-7 Cranwood Street
London
EC1V 9EE

Date: 9 February 2015

INCOME STATEMENT
AND STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 £	2013 £
Turnover		41,000	–
Movement in fair value of investments		100,000	–
Gross profit		141,000	–
Administration costs		(161,654)	(534,183)
Exceptional item	5	–	1,005,209
Loss arising on disposal of subsidiary operations	10	–	(106,500)
Operating (loss)/profit	7	(20,654)	364,526
Finance income		105	–
Finance costs	8	(33,146)	(128,571)
(Loss)/profit before tax		(53,695)	235,955
Tax	9	–	–
(Loss)/profit for the period		(53,695)	235,955

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

	Notes	2014	2013
EARNINGS PER SHARE:	11		
Basic (loss)/profit per share		(0.3 pence)	5.0 pence
Fully diluted (loss)/profit per share		(0.3 pence)	3.8 pence

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

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

	Notes	2014 £	2013 £
ASSETS			
NON-CURRENT ASSETS			
Investments held for trading	12	631,978	100,000
Investment in subsidiary undertaking	13	–	–
		631,978	100,000
CURRENT ASSETS			
Trade and other receivables	14	301,056	50,912
Cash and cash equivalents	15	434,274	146,817
		735,330	197,729
TOTAL ASSETS		1,367,308	297,729
EQUITY AND LIABILITIES			
Share capital	16	1,310,613	1,303,746
Share premium	16	7,563,193	6,646,376
Loan note equity reserve		53,624	29,341
Share option and warrant reserve		797,773	797,773
Retained earnings		(8,781,572)	(8,752,553)
		943,631	24,683
CURRENT LIABILITIES			
Trade and other payables	17	162,763	118,293
TOTAL CURRENT LIABILITIES		162,763	118,293
NON-CURRENT LIABILITIES			
Borrowings	18	260,914	154,753
TOTAL NON-CURRENT LIABILITIES		260,914	154,753
TOTAL LIABILITIES		423,677	273,046
TOTAL EQUITY AND LIABILITIES		1,367,308	297,729

The financial statements were approved and authorised for issue by the Board of Directors on 9 February 2015 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 2014

	Share capital	Share premium	Loan note equity reserve	Option and warrant reserve	Retained earnings	Total equity
	£	£	£	£	£	£
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
Total comprehensive income	–	–	–	–	(53,695)	(53,695)
Transactions with owners						
Issue of share capital	6,867	952,685	–	–	–	959,552
Share issue costs	–	(35,868)	–	–	–	(35,868)
Transfer on conversion of convertible loan notes	–	–	(24,676)	–	24,676	–
Issue of convertible loan notes	–	–	48,959	–	–	48,959
Balance at 31 December 2014	1,310,613	7,563,193	53,624	797,773	(8,781,572)	943,631

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.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 £	2013 £
OPERATING ACTIVITIES			
Net cash used in operations	21	(326,328)	(320,548)
INVESTING ACTIVITIES			
Purchase of investments		(407,952)	(100,000)
Investment in joint venture		–	–
Investment in subsidiary undertaking		–	(120,487)
Net cash used in investing activities		(407,952)	(220,487)
FINANCING ACTIVITIES			
Net proceeds on issues of shares		757,500	518,354
Share issue expenses		(35,868)	(49,750)
Proceeds from issue of convertible loan notes		300,000	200,000
Interest received		105	–
Net cash from financing activities		1,021,737	668,604
Increase in cash and cash equivalents		287,457	127,569
Cash and cash equivalents at beginning of year		146,817	19,248
Cash and cash equivalents at end of year		434,274	146,817

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 2014

1. ACCOUNTING POLICIES

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

1.1 GENERAL INFORMATION

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

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

The address of Tern's 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 2014.

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 CHANGE OF ACCOUNTING POLICY

The Company has adopted "Investment Entities (Amendments to IFRS 10, IFRS 12, and IAS 27)" issued by the International Accounting Standards Board in October 2012 and effective for accounting periods beginning on or after 1 January 2014. The effect of this accounting policy change is that the Company's investments which previously were all classified and designated as available for sale are classified as held for trading and designated as at fair value through profit or loss. As a result unrealised fair value gains on investments are disclosed in the income statement rather than in other comprehensive income.

No adjustments to the income statement or statement of financial position for 2013 have been required in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' as a result of the change in accounting policy.

Under IFRS 10 the investments held by the Company, which otherwise would either be accounted for as associated undertakings or consolidated as subsidiary undertakings, have been classified as investment entities. As a result they are not accounted for as associates or consolidated as subsidiaries, and are instead held at fair value.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. ACCOUNTING POLICIES (continued)

1.4 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 £434,274 and net current assets of £572,567, and the Directors have indicated that in respect of the convertible shareholder loans which, if not converted, are due for repayment on 1 January 2016 they will agree to extend the repayment date. They have prepared cash flow forecasts through to 31 March 2016, 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 assumption that:

- no new investment will be undertaken by the Company unless sufficient funding is in place

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.

1.5 STATEMENT OF COMPLIANCE

Issued International Financial Reporting Standards (IFRS) 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.

1.6 REVENUE

Revenue is recognised, as amounts are invoiced, earned and become payable, with adjustment for any amount that is considered uncollectable. In the event that revenues are invoiced for services to be rendered in respect of a future period, the revenues are apportioned.

1.7 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 2014

1. ACCOUNTING POLICIES (continued)

1.8 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.

Investments held for trading

All investments determined upon initial recognition as held at fair value through profit or loss were designated as investments held for trading. Investment transactions are accounted for on a trade date basis. Asset sales are recognised at the trade date of the disposal. Assets are sold at their fair value, which comprises the proceeds of sale less any transaction cost. The fair value of the financial instruments in the balance sheet is based on the quoted bid price at the balance sheet date, with no deduction for any estimated future selling cost. Unquoted investments are valued by the directors using primary valuation techniques such as recent transactions, last price and net asset value. Changes in the fair value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the statement of comprehensive income as “Net gains on investments”. Investments are initially measured at fair value plus incidental acquisition costs. Subsequently, they are measured at fair value in accordance with IAS 39. This is either the bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted.

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 the Income Statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process,

1.9 IMPAIRMENT OF FINANCIAL ASSETS

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

1. ACCOUNTING POLICIES (continued)

1.9 IMPAIRMENT OF FINANCIAL ASSETS (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.

1.10 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.

1.11 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.

1.12 TRADE PAYABLES

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

1.13 EQUITY INSTRUMENTS

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

1.14 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.

1.15 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 2014

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 in private companies for the Medium term. The Company manages this risk by holding cash to support its investments and for working capital. The Company has no borrowings, save loans from the directors. Whilst the Company has no quoted investments at present, if it holds such investments these may be sold to meet the Company's funding requirements..

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 2014	Trade and other Payables	Convertible Loans	Total
	£	£	£
6 months or less	116,755	–	116,755
1 to 2 years	–	260,914	260,914
Total contractual cash flows	116,755	260,914	277,669

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 2014

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 Company holds investments that have been designated as held for trading on initial recognition. Where practicable the Company determines the fair value of these financial instruments that are not quoted (Level 3), using the most recent bid price at which a transaction has been carried out. These techniques are significantly affected by certain key assumptions, such as market liquidity. Other valuation methodologies such as discounted cash flow analysis assess estimates of future cash flows and it is important to recognise that in that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realised immediately.

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

The accounting policy for identifying segments is based on internal management reporting information that is regularly reviewed by the chief operating decision maker, which is identified as the Board of Directors.

In identifying its operating segments, management generally follows the Company's service lines which represent the main products and services provided by the Company. The Directors believe that the Company's continuing investment operations comprise one segment.

5. EXCEPTIONAL ITEM

	2014 £	2013 £
Credit arising on CVA (see note below)	–	1,005,209
	–	1,005,209

Note - Until August 2013 the Company operated as an oil and gas investment company, these interests were sold in August 2013, and it entered a Company Voluntary Arrangement ("CVA"), as part of a reorganisation to become an IT investment company, run by new directors. 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 December 2013.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

6. STAFF COSTS

Staff costs for the Company during the period, including directors	2014 £	2013 £
Wages and salaries	–	98,930
Compensation for loss of office	–	–
Pension payments	–	5,250
Other benefits	–	–
Share based payment expense	–	–
Social security costs	–	10,237
Total staff costs	–	114,417

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

	2014 No	2013 No
Head office and administration	4	2
Total staff	4	2

DIRECTORS' AND REMUNERATION

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

	2014 £	2013 £
Directors' remuneration		
- Salaries and benefits	–	104,180
- Consultancy fees	–	–
Total directors' remuneration	–	104,180
Total emoluments of the highest paid director were	–	63,180

A summary of remuneration paid to each director, including pension payments, is included in the Report on Directors' remuneration (page 12).

7. OPERATING (LOSS)/PROFIT

	2014 £	2013 £
(Loss)/profit from operations has been arrived at after charging:		
Remuneration of directors and staff	–	104,180
Share-based payment expense	–	2,704
Provision for doubtful debts	–	80,000
Auditor's remuneration		
- Audit services	12,000	12,000

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

8. FINANCE COSTS

	2014 £	2013 £
Interest charge in respect of shareholder convertible loan notes	33,146	6,068
Interest charge in respect of other convertible loan notes	–	122,503
	33,146	128,571

9. TAXATION

	2014 £	2013 £
Current tax	–	–
Under/(over) provision from prior period	–	–
Taxation attributable to the Company	–	–

Domestic income tax is calculated at 20% (2013: 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:

	2014 £	2013 £
Profit/(Loss) before tax	(53,695)	235,955
Tax at the domestic income tax rate	(10,739)	47,191
Expenses not deductible for tax purposes	1,507	11,050
Brought forward tax losses used	–	(58,241)
Unutilised tax losses	9,232	–
Tax (credit)/expense	–	–

The Company has unutilised losses of approximately £5,240,000 (2013: £5,200,000). The Company has not recognised a deferred tax asset in respect of these losses as there is insufficient evidence of future taxable profits.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

10. LOSS ARISING ON DISPOSAL OF SUBSIDIARY OPERATIONS

In August 2013 the Company 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:

	2014	2013
	£	£
Administration expenses	–	(25,720)
Provision for impairment	–	–
Loss before tax	–	(25,720)
Tax	–	–
Loss after tax	–	(25,720)
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)

11. EARNINGS PER SHARE

	2014	2013
	£	£
(Loss)/profit for the purposes of basic and fully diluted earnings per share	(53,695)	235,955

	2014	2013
	Number	Number
Weighted average number of ordinary shares:		
For calculation of basic earnings per share	16,142,804	4,679,305
For calculation of fully diluted earnings per share (see note below)	16,142,804	6,119,657

	2013	2013
Earnings per share:		
Basic (loss)/profit per share	(0.3 pence)	5.0 pence
Fully diluted (loss)/profit per share (see note below)	(0.3 pence)	3.8 pence

Note. The fully diluted loss per share for 2014 is the same as the basic loss per share as the loss for the year has an anti-dilutive effect on earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

12. INVESTMENTS HELD FOR TRADING

	2014 £	2013 £
Cost of investments brought forward	100,000	–
Additions	431,978	100,000
Cost of investments carried forward	531,978	100,000
Fair value adjustment to investments	100,000	–
Fair value of investments carried forward	631,978	100,000

All the investments held by the company are Level 3 investments as defined in Note 1.8

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)

	2014 £	2013 £
Investment in subsidiary undertaking brought forward	–	207,771
Payments to the operator of the JOA on behalf of Silvermere Energy LLC	–	120,487
Amount due under the JOA at start of year	–	(247,478)
Amount due under the JOA at date of disposal	–	157,830
Disposal of subsidiary undertaking	–	(238,610)
Investment in subsidiary undertaking carried forward	–	–

14. TRADE AND OTHER RECEIVABLES

	2014 £	2013 £
Other receivables (see note below)	284,170	33,486
Prepaid expenses	16,886	17,426
Total	301,056	50,912

Note: Other receivables includes an amount of £278,350 held in an escrow account in respect of share subscriptions which was transferred to the Company on 5 January 2015.

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 2014

15. CASH AND CASH EQUIVALENTS

	2014	2013
	£	£
Cash at bank and on hand	434,274	146,817

16. ISSUED SHARE CAPITAL

	Number of shares	Nominal value	Share premium
	No.	£	£
ISSUED AND FULLY PAID:			
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
Ordinary shares issued for cash	22,672,222	4,534	752,966
Ordinary shares issued as consideration for acquisition of Cryptosoft Ltd	1,922,066	385	23,641
Ordinary shares issued on conversion of loan stock	9,742,539	1,948	176,078
Share issue expenses			(35,868)
		1,310,613	7,563,193
At 31 December 2014			
Ordinary shares of £0.0002	45,228,527	9,045	
Deferred shares of £29.999	42,247	1,267,368	
Deferred shares of £0.00099	34,545,072	34,200	
		1,310,613	7,563,193

On 15 September 2014, 1,922,066 ordinary shares of 0.02p were issued at 1.25p as consideration for the acquisition of the equity of Cryptosoft Limited.

On 17 September 2014, 6,800,000 ordinary shares of 0.02p were issued at 1.25p per share for cash as the result of a private placing, raising £85,000 before expenses. On the same date 3,294,126 ordinary shares of 0.02p were issued to directors of the Company on the conversion of loan stock; of the shares issued 2,400,000 were issued at 1.25p per share and 894,126 shares were issued at 2.016p per share.

On 25 November 2014, 12,600,000 ordinary shares of 0.02p were issued at 3p per share for cash as the result of a private placing, raising £378,000 before expenses. On the same date 4,464,287 ordinary shares of 0.02p were issued to directors of the Company on the conversion of loan stock at 2.016p per share.

On 24 December 2014, 3,272,222 ordinary shares of 0.02p were issued at 9p per share for cash as the result of a private placing, raising £294,500 before expenses. On the same date 1,984,126 ordinary shares of 0.02p were issued to directors of the Company on the conversion of loan stock at 2.016p per share.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

17. TRADE AND OTHER PAYABLES

	2014 £	2013 £
Trade payables	16,755	36,133
Amount to be invested in Cryptosoft	100,000	-
Accruals	46,008	82,160
Total	162,763	118,293

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

18. BORROWINGS

SHAREHOLDER LOANS

On 16 August 2013 the Company entered into an agreement for the issue of £200,000 convertible loan notes 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. During 2014, £148,026 was converted into 7,342,834 ordinary shares. In December 2014 the repayment date for the balance of the loan outstanding was extended to 1 January 2016.

On 30 July 2014 the Company issued a convertible loan note for £100,000, interest free and repayable on 1 January 2016. The loan is convertible at 1.25p per share at any time prior to the redemption date. The ordinary shares to be issued on conversion (assuming full conversion) would amount to 8,000,000 ordinary shares. On 17 September 2014, £30,000 of the loan was converted into 2,400,000 shares.

On 17 September 2014 the Company issued £200,000 convertible loan notes, interest free and repayable on 1 January 2016. The loan is convertible at 1.25p per share at any time prior to the redemption date. The ordinary shares to be issued on conversion (assuming full conversion) would amount to 16,000,000 ordinary shares.

The net proceeds from the issue of 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.

	2014 £	2013 £
Liability brought forward	154,753	–
Convertible loan notes issued	300,000	200,000
Equity component of loan notes issued	(46,223)	(29,341)
Adjustment to equity component on extension of convertible loan	(2,736)	–
Loan notes converted	(178,026)	(21,974)
Interest charge	33,146	6,068
Liability at 31 December 2014	260,914	154,753

LOAN MATURITY ANALYSIS	2014 £	2013 £
Non-current liabilities - More than one year, but not more than five years	260,914	154,753
	260,914	154,753

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

18. BORROWINGS (continued)

OTHER CONVERTIBLE LOANS

	2014 £	2013 £
Liability brought forward	–	659,105
Interest charge	–	122,503
Settled through the CVA	–	(781,608)
Liability carried forward	–	–

19. WARRANTS

WARRANTS

On 19 August 2013, a warrant was issued to a professional adviser as part of their 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, which increased by 515,052 shares to 678,427 shares at 31 December 2014. It has been agreed that no further warrants will be issued pursuant to this agreement.

On 15 September 2014, 396,302 warrants were issued to the vendor of Cryptosoft Ltd, exercisable at any time prior to 12 September 2017. 198,151 of the warrants are exercisable at 2p per share and 198,151 are exercisable at 4p per share. The estimated fair value of these warrants at the date of issue is not considered material.

On 25 November 2014, 1,260,000 warrants were issued on a one for ten basis to subscribers to the placing for 12,600,000 shares at 3p per share on that date. The warrants are exercisable at 3p per share at any time prior to 3 December 2017.

The estimated fair value of the warrants issued in 2013 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 was expensed in 2013 in respect of the warrants issued.

The number of warrants outstanding at 31 December 2014 was as follows:

Date of issue	At 31 Dec 2013	Issued	Exercised	Lapsed	At 31 Dec 2014	Exercise Price per share	Exercisable on or before
31.08.11	5,000	–	–	5,000	–	600p	31.08.14
16.08.13	163,375	515,052	–	–	678,427	4.6p	16.08.16
12.09.14	–	198,151	–	–	198,151	2.0p	12.09.17
12.09.14	–	198,151	–	–	198,151	4.0p	12.09.17
25.11.14	–	1,260,000	–	–	1,260,000	3.0p	3.12.17
	168,375	2,171,354	–	5,000	2,334,729		

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

20. RELATED PARTY TRANSACTIONS

At the year-end £25,000 was owed to Talisman Ventures Limited in respect of amounts invoiced to the Company in 2013. Angus Forrest is a director and controlling shareholder of Talisman Ventures Limited.

In August 2013 £200,000 was advanced, interest free, to the Company by the Directors by way of convertible loans. A further £300,000 was advanced by the Directors by way of interest free convertible loans in 2014. At 31 December 2014 the balance of loans unconverted was £260,914, plus an additional £39,086 relating to equity (2013: £178,026)

Cryptosoft Limited, a company in which Tern has a controlling shareholding, is also considered a related party. During the year Tern invoiced Cryptosoft £36,000 (2013: £nil) in respect of management services and expenses. At the year-end Tern was owed £nil by Cryptosoft.

21. CASH FLOW FROM OPERATIONS

	2014 £	2013 £
(Loss)/profit for the year	(53,695)	235,955
Adjustments for items not included in cash flow:		
Movement in fair value of investments	(100,000)	–
Share-based payment expense	–	2,074
Shares issued in settlement of fees and remuneration	–	–
Loss on disposal of subsidiary undertaking	–	80,780
Finance expense	33,146	128,571
Finance income	(105)	–
Credit arising on CVA	–	(1,005,209)
Operating cash flows before movements in working capital	(120,654)	(557,829)
Adjustments for changes in working capital:		
Decrease in trade and other receivables	(250,144)	33,728
Increase in trade and other payables	44,470	203,553
Cash used in operations	(326,328)	(320,548)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

22. OPERATING LEASE COMMITMENTS

	Year to 31 Dec 2014	Year to 31 Dec 2013
	£	£
Minimum lease payments under operating leases recognised as an expense in the period	18,221	27,254

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 2014	31 Dec 2013
	£	£
Land and Buildings:		
Within one year	–	–
	–	–

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

23. FINANCIAL INSTRUMENTS

The Group uses financial instruments, other than derivatives, comprising cash to provide funding for the Group's operations.

CATEGORIES OF FINANCIAL INSTRUMENTS

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:

	2014	2013
	£	£
FINANCIAL ASSETS:		
Cash and bank balances	434,274	146,817
Loans and receivables	278,350	–
Investments held for trading	631,978	100,000

FINANCIAL LIABILITIES AT AMORTISED COST:

The IAS 39 categories of financial liabilities included in the statement of financial position and the headings in which they are included are as follows:

	2014	2013
	£	£
Trade and other payables	116,755	36,133
Borrowings	260,914	154,753

24. EVENTS AFTER THE REPORTING PERIOD

There have been no significant post year end events.

NOTICE OF 2015 ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2015 Annual General Meeting of the Company will be held at 2.00 pm on 16 March 2015 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 2014, 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 Bruce Leith, retires by rotation, in accordance with the Articles of Association of the Company, having consented to be considered for re-election, be and is hereby re-elected as a director.

SPECIAL BUSINESS

To consider, and if thought fit, to pass the following resolutions, of which resolution 4 will be proposed as an ordinary resolution and resolution 5 and resolution 6 will be proposed as special resolutions:

4. 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.

5. That, subject to the passing of resolution 4 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 4 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:

   5.1 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

   5.2 the allotment (otherwise than pursuant to sub-paragraph 5.1 of this resolution (5) of equity securities up to an aggregate nominal value of £50,000.

   The power conferred by this resolution 5 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 4 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.

6. 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:-

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

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

   6.3 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.

NOTICE OF 2015 ANNUAL GENERAL MEETING

6.4 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 2016; and

6.5 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 9 February 2015

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 2.00 pm on Thursday 12 March 2015, 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 2.00 pm on Thursday 12 March 2015, 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 2.00 pm on Thursday 12 March 2015.

   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.